

NIKKEI ASIAN REVIEW

Sort by Region

Search articles

Search companies

| Home | Politics & Economy | Business | Markets | Tech & Science | Viewpoints | Life & Arts | Features | Japan Update | Print Edition |

Viewpoints > Viewpoints

August 24, 2016 3:45 pm JST

Commentary

Chaitanya Kalbag -- RBI's Patel: an insider, a hawk, an enigma

Indeed, a committee headed by Patel himself in January 2014 made three far-reaching recommendations that seem certain to haunt him. First, it suggested a shift to the consumer price index as the base metric, instead of the outdated and misleading wholesale price index. Second, it called for inflation targeting, and Rajan and Modi agreed to a range of 4% CPI plus or minus two percentage points. Third, it took away the RBI governor's sole discretion on interest-rate changes, paving the way for a new six-member Monetary Policy Committee, with three members from the RBI and three nominated by the government.

Patel walks into office after CPI inflation crossed the RBI's danger line to 6.07% in July, fueled by high food prices that may be mitigated by a bountiful monsoon. To add to his challenges, the MPC will likely be finalized in September, meaning he will not have the autonomy Rajan enjoyed at the next planned policy review on Oct. 4.

The other big challenge facing Patel will be the non-performing asset crisis dragging down India's banks. Here again, the Asset Quality Review that Rajan launched last year has exposed the scale of the debt held by some of India's biggest companies and is forcing several of them to start selling off stressed assets. Rajan lanced the boil. What will Patel do to stanch the outpouring of poisoned balance sheets?

Urjit, Patel's first name, means "energized" in Sanskrit, and fittingly, the new chief is an expert on energy and infrastructure at BCG. Between 1997 and 2006 he helped set up and then joined the board of the state-backed Infrastructure Development Finance Corporation. Interestingly, IDFC was granted a banking license in July 2015, but Reliance, which was given a payment-bank license in August last year, has yet to start one. Payment banks are stripped-down banks that accept smaller deposits and allow mobile-phone transfers but do not offer loans -- effectively covering the "last mile" for India's unbanked poor.

Latest headlines

Malaysia July inflation at 1.1% rises at slowest pace in more than a year

China Traditional Chinese Medicine shares rebound

Mobile payment rides tourism wave from China to Japan

China's state construction giants to merge

Investors pile into CAR after auto rental company's strong half

more



Follow Nikkei Asian Review

Like 173K

The best content posted

Follow @NAR

The latest headlines tweeted

Most read

Store wars: The battle for the Chinese market

Japan eyes fiercer fighter jets to counter China

Not all iPhones to have OLED screens until 2018, says analyst

Exclusive: Japan's Renesas in talks to buy US chipmaker Intersil for \$3bn

Tokyo Olympic medals to be made from e-waste

Editor's picks

High-end iPhone to have Samsung-like curved OLED display in 2017: source



Tokyo Olympic medals to be made from e-waste



In May this year, the RBI published guidelines for issuing new universal banking licences and specifically excluded "large industrial or business houses", limiting them to only 10% of equity in a new bank. This effectively bars Reliance, which is known to be keen on adding banking to its petrochemicals, telephony and consumer retail businesses. How Patel manages his old connection to Reliance will be closely watched. Reliance wields huge influence. "You can check out of Reliance but you can never leave," one official said, referring to the group's impressive roster of top-dollar talent and the power of its alumni network.

It is also unclear whether Patel will continue on another powerful committee set up to review India's Fiscal Responsibility and Budget Management Act, which committed governments to limiting the central budget's fiscal deficit to 3% of GDP. Jaitley has brought the deficit down to 3.9% in 2015-16 and pledged to achieve 3.5% this fiscal year. The new panel has been charged with examining a deficit range, which could offer a spendthrift government more wiggle room.

Here, Patel's past conservatism on fiscal responsibility would have held back too much generosity. In collaboration with his Yale PhD adviser, Willem Buiter, now Citigroup's global chief economist, Patel wrote a number of significant papers with titles like the seminal "Debt, Deficits and Inflation: An Application to the Public Finances of India" (National Bureau of Economic Research, 1990) and "Fiscal Rules in India: Are They Effective?" (NBER, 2010).

In January 2012, a year before he joined the RBI, Patel and Gangadhar Darbha wrote a paper for the U.S.-based Brookings Institution that heavily criticized India's inflation-fighting policies. As recently as six months ago, he and Amartya Lahiri wrote a thoughtful RBI paper entitled "Challenges of Effective Monetary Policy in Emerging Economies."

So it is clear that over the next three years India's central bank will be steered by a fiscal and monetary taskmaster who is very academic, even doctrinaire. Patel is a loner and close associates say he can be aloof and even acerbic. His credentials are nevertheless impeccable.

Different style

In style and background, Patel is a striking contrast to his predecessor Rajan, a brilliant and flamboyant financial and macroeconomic specialist and teacher. A former IMF chief economist, he was educated at India's best engineering and management schools and earned his doctorate at MIT Sloan. Patel, just a year younger, is a Kenya-born Gujarati and the son of a Nairobi businessman. A naturalized Indian citizen, he had an elite international education at the London School of Economics and Oxford University, and earned his doctorate at Yale University.

At Yale, the formidable economist Buiter was clearly a huge influence on

China up close: The motives behind China's latest maritime provocations



Japan eyes fiercer fighter jets to counter China



Philippine mining turmoil drives nickel prices



Videos



Tibet refugees, a concerned future



Tibet Prime Minister-in-exile on future Dalai Lamas



Baselworld 2016 Luxe Watch Interview [Sponsored]

more



You might also like

China courts India over South China Sea

Commentary: Thitinan Pongsudhirak -- The conundrum of Thailand's resounding referendum result

China conducts 'combat patrols' over contested islands

At Yale, the formidable economist Buiter was clearly a huge influence on Patel. Buiter, a merciless critic of misguided monetary policy and a fiscal conservative like Patel, has a lengthy curriculum vitae featuring his prolific academic writing and a long string of prestigious appointments.

Buiter has warned that the global economy is sliding into a prolonged recession, marked by negative real interest rates and disincentives for savings. Indeed, from a perspective that Patel undoubtedly shares, the world is deglobalizing, protectionism is rising, and factors like China's slowdown, depressed commodity prices and subdued trade are possibly horsemen of a new apocalypse. How masterfully will the new RBI governor ride the steed of Indian policymaking?

Chaitanya Kalbag is a former Reuters Asia editor and editor-in-chief of the Hindustan Times.

With party watching, Xi in no position to bend to US pressure

Commentary: Emma Allen -- Raising Indonesian labor productivity

Recommended by

<< First

< Previous 1 **2**

Related stories

India shares fall, banks slip after Patel named new RBI head
Modi handpicks monetary policy hawk to succeed Rajan

We recommend

Japan Inc. distancing itself from China, looking to India, ASEAN for growth

China-built structure in East China Sea has radar unit

Chinese ships sail by Senkakus for third straight day

Commentary: Dale W. Jorgenson -- The more global value chains expand, the more the TPP makes sense

Commentary: Nehginpao Kipgen -- Myanmar and China, an improbable courtship

From around the web

6 Ways Trump Became a Billionaire (And You Can Too!) (Newsmax.com)

quattro ensures driving becomes a pleasure, in every condition.
#LandOfquattro (Audi India)


Top 10 Richest Countries In The World (VIEW NIGERIA)

Understanding SIP in 4 easy steps! (UTI India)

Melania Trump Facing Another PR Mess (Newser)

Recommended by

Follow Nikkei Asian Review

 Like 173K The best content posted

Follow @NAR The latest headlines tweeted

NIKKEI
ASIAN REVIEW



About Nikkei Asian Review | Site map | Help | Contact us | Terms of use | Copyright | Privacy & cookie policy | Advertising | Announcements

Copyright © 2016 Nikkei Inc. All rights reserved.

Mobile site | Japanese | Chinese