



NIKKEI ASIAN REVIEW

[Log in](#) | [Subscribe](#) | [About 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](#)
[Politics & Economy](#) > [Policy & Politics](#)

August 12, 2016 12:30 am JST

Interview

Rajan hits back at critics as he leaves India's central bank

CHAITANYA KALBAG, Contributing writer

"That is a hard standard for anybody's commentary to meet, especially if you have a press which is continuously looking for what they think are slights to the government. It is easy to build on that," he noted as he sought to correct claims that his governorship was one "which has been off the reservation."

"I don't make political comments, I make economic comments. Economic comments can be taken [as] politically based [depending] on who's reading it and how they report it. What I have said is [that] any suggestions I have given to the government on the path of government actions have all been private. I have never publicly said 'you should do this' and 'you should do that.' So in that sense sometimes these speeches [of mine] are reported as 'he's been a vocal critic of the government.' Show me a place where I have criticized the government in any of my speeches," Rajan said.

Rajan's tenure, which began three years ago in September 2013 under the previous Congress government when the rupee was at record lows and confidence in the economy was ebbing, has been a steadying factor for Modi and his economic team. Still, the prime minister, who is known to brook no dissent within his cabinet, will likely look for a new governor who is less of a celebrity and more attuned to the ruling Bharatiya Janata Party.

A number of factors may help Modi and Jaitley steer the economy through the shoals of Rajan's imminent departure. One of the biggest prizes, the goods and services tax, has received parliamentary approval and could herald the creation of a common market for India.

Millions of government employees are about to receive sizeable salary increases, which will fuel consumer spending as India's festival season begins. The first good monsoon in three years promises a revival in rural demand. Industrial output is starting to rise from a long slumber. Global oil prices are still low, reducing India's current account deficit. The rupee and

Latest headlines

China offensive part 2: Japan Inc. targets savvy consumers

Chinese execs tend to lean on hyperbole for growth

JAL defends Hawaii with gourmet meal, new seating

New policies accelerate India's road development

China's reckoning with zombie steelmakers long overdue

[more](#)

Follow Nikkei Asian Review

Like 172K

The best content posted

Follow @NAR

The latest headlines tweeted

Editor's picks

Despite 'Pokemon Go' craze, watchers wonder: Whither Nintendo?



Manipur embodies concerns of minorities in India's northeast



New Zealand home prices prompt calls for immigration cut



China's polluted soil boosts food imports



Thailand to make tourists use traceable SIM cards



stock markets have shrugged off Brexit, or rather the impact of Britain's decision to leave the European Union.

In addition to the passage of GST, the Modi government is liberalizing foreign direct investment rules and bringing the country's poor and unbanked population into the financial system by transferring subsidy payments directly to them. Modi appears to be successfully walking a socialist-populist tightrope midway through his five-year term as he approaches elections in several key Indian states early next year.

At his final bimonthly policy review this on Aug. 9, Rajan chose to leave key interest rates unchanged. But consumer price inflation, which is forecast to have risen to 5.9% in July after 5.77% in June, is nearing close to Rajan's comfort zone of 6% that he expected by March 2017. Worryingly, food price inflation has been climbing inexorably.

Nevertheless, Rajan said inflation can be beaten. "Why are we an exception in terms of beating inflation? If you look at emerging markets around the world - Malaysia, Thailand, Indonesia, the Philippines seem to have relatively low levels of inflation. So if these countries can do it, why can't we? What is so different about us? A country like Vietnam has a pretty high proportion of food in its consumer price index, so we are not the only country to have a high proportion of food in our CPI," he said.

Significantly, his last monetary policy review will also be the final one to be led independently by an RBI governor. One of Rajan's key bequests to his successor is a Monetary Policy Committee that he hammered out after months of closed-door negotiations with the government. The six-member MPC will have three government nominees. Although the governor has a casting vote, the MPC is widely seen as curbing the central bank's independence.

However, Rajan disputed that interpretation. "The governor is independent and the MPC enhances the RBI's independence on monetary policy. The governor can still persuade the members of the MPC to his or her way of thinking. So I'm not sure that the MPC implies the RBI governor has no influence. What it does mean however is that basically the RBI does not determine policy alone but on the basis of a consensus within a committee. So to that extent yes, they've given up a little bit of power, but they gain some because committees are more immune to pressure."

What about the uncompleted Asset Quality Review he launched that brought into the open a mountain of non-performing assets in the banking system? Despite the government's pledge to inject fresh capital into teetering state-owned banks, is a financial crisis imminent?

"I think that is too pessimistic a view," Rajan said. "I think the process is under way, that the culture of forbearance has turned, that the problems are coming out into the open and therefore the solutions are now discussed more

Most read

Exclusive: Toray carbon fiber to carry SpaceX's Mars ambitions

Activist short sellers shaking up Japan's stock market

China up close: Xi Jinping, Li Keqiang take political battle into economic arena

Corporate Asia cashing in on Olympic fever

Thailand gains clout as Southeast Asia's leading investor nation



Financial Results Presentation for FY3/2016

▶ Webcast

Videos



Tibet refugees, a concerned future



Tibet Prime Minister-in-exile on future Dalai Lamas



Baselworld 2016 Luxe Watch Interview [Sponsored]

[more](#)

SAVE 44% ON YOUR SUBSCRIPTION



NIKKEI ASIAN REVIEW [LEARN MORE](#)

openly."

He said dozens of key infrastructure projects paralysed by bad debts may not remain abandoned. "In terms of projects there is discussion now about how we [can] bring in good strong management if the project has been mismanaged. Should we bring in turnaround specialists, should those turnaround specialists come from retired people in the industry? So, creative solutions are emerging. If you see asset sales are now happening, so firms are doing the restructuring."

Rajan laughed off suggestions that he might be in the running to succeed IMF Managing Director Christine Lagarde if she should step down in the wake of a financial ethics case she faces in France. "I am heading towards academia. I think I've done enough administration for a little while and while I like it in reasonable doses, I also want to submerge myself in ideas for a little while," Rajan said.

Chaitanya Kalbag is a former Reuters Asia Editor and Eeditor-in-Chief of the Hindustan Times.

<< First

< Previous 1 **2**

You might also like

It's official: Japan's debt mountain too high

More Chinese ships enter Japanese waters around Senkakus

World Bank unit's wage scandal at Tata tea estates a lesson in due diligence

Malaysian official promises cooperation after US files 1MDB suit

Thai police confirm bomb plot, arrest Chiang Mai man

Recommended by

Related stories

[India's Rajan sticks to his guns as 'inflation warrior' to the end](#)

[India's Rajan calls on government to set up monetary panel soon; holds rate](#)

[Bad loans threaten India's growth](#)

[India's ailing banks getting \\$3.4bn capital injection](#)

[Indian bank mergers loom amid loans clean-up](#)

We recommend

China conducts 'combat patrols' over contested islands

Mahathir calls for street rallies to remove Najib

Abe tells US of Japan's concern about 'no first use' nuke policy

A look at 'Pokemon Go' and how it works

Fate of Japan's emperor rests with the people

From around the web

Make your meetings more productive? Here are 4 tips. #HuddleRoom (Polycom)

Surprise your brother with 5 sweet dishes this Rakhi (MTR Dishcovery)

Can the 15-minute meeting be effective? #HuddleRoom (Polycom)

Get passport in a week by giving four documents (Times of India)

US wants only its snipers on building rooftops, India says 'no' (Times of India)

Recommended by

Follow Nikkei Asian Review

 Like 172K

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