

Economics

# Modi Ally Backs Indian Central Bank Chief in Spat With State

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- ▶ Swamy campaigned to oust former central bank chief Rajan
  - ▶ RBI governor is trying to clean up India's banking system
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Subramanian Swamy *Photographer: Prashanth Vishwanathan/Bloomberg*

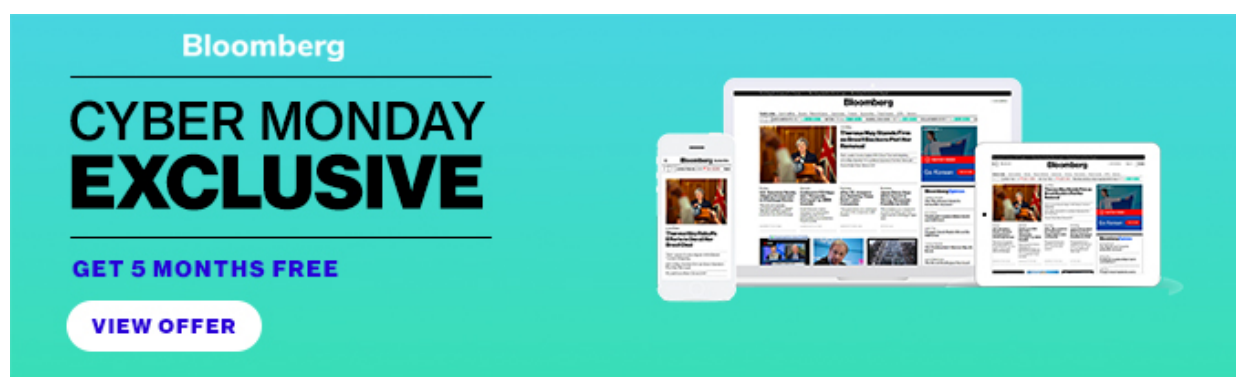
A top ally of Indian Prime Minister Narendra Modi, who was key in a campaign to oust a former central bank chief, has come out in support of Governor Urjit Patel in his current dispute with the government.

Subramanian Swamy -- a member of Modi's ruling party whose criticism of Raghuram Rajan and the absence of any backing from the government contributed to him not seeking a second term as central bank chief in 2016 -- said Patel should remain in his post. That followed a week of

drama as the central bank stands its ground in cleaning up a banking system saddled with bad debt, while the government pushes for easier lending rules for some of the weakest banks.

Swamy said if Patel resigned then it would be a “direct consequence” of Finance Minister Arun Jaitley’s comments effectively blaming the central bank for bad loans.

“Patel is a self-respecting scholar of economics (Ph.D in Banking from Yale),” Swamy said via a Twitter post. “He should be persuaded to stay.”

A promotional banner for Bloomberg's Cyber Monday Exclusive. The background is a solid teal color. On the left, the word "Bloomberg" is written in white at the top. Below it, "CYBER MONDAY" is in a smaller white font, and "EXCLUSIVE" is in a large, bold, black font. Underneath, "GET 5 MONTHS FREE" is written in a smaller white font. At the bottom left, there is a white rounded rectangle with the text "VIEW OFFER" in blue. On the right side of the banner, there are three devices: a smartphone, a laptop, and a tablet, all displaying the Bloomberg news website interface.

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The tweet from the key Rajan-baiter marks the first time a lawmaker formally made a reference to reports that Patel was considering to step down over growing friction with the government. The differences spilled out to the open when Deputy Governor Viral Acharya made a hard-hitting speech last week, in which he warned that toying with the central bank’s independence could lead to dire consequences.

The Finance Ministry said in a statement on Wednesday it respects the autonomy of the Reserve Bank of India. That was after news broke that government officials had written letters to Patel, citing special powers the state has over the central bank, which if invoked, could lead to the government directing the RBI to do its bidding.

## **Not All Agree**

While Swamy backed Patel, others thought the central bank's autonomy has its limits. Modi's adviser Bibek Debroy told the Mint newspaper that the RBI isn't truly independent as monetary policy can't be completely uncoupled from fiscal policy. Industry chambers, including the Confederation of Indian Industries, also urged the central bank to address issues in the financial sector and make adequate liquidity available.

The debate continued on Friday. Economic Affairs Secretary Subhash Chandra Garg said on Twitter the rupee trading below 73 against the dollar, and stocks gaining over 4 percent in the week didn't quite seem like the "wrath of the markets."

That's seen as a reference to Acharya's comments last week that "governments that do not respect central bank independence will sooner or later incur the wrath of financial markets."

## Leading the Battle

Patel was initially seen as being more supportive of Modi's policies, including of a decision to invalidate 86 percent of currency in circulation in 2016.

He is now seen as leading the battle to clean up the banking sector, which has one of the highest stressed-asset ratios in the world. That's riled up some in the political leadership, who want delinquency norms eased for companies and harsh lending strictures imposed on weak state-run banks lifted so that lending can continue growing in an election year.

The governor has held his ground so far, much like Rajan, who served only one term before returning to the University of Chicago.

"Like his predecessors, Patel has deftly navigated the RBI through treacherous economic and political minefields," said Eswar Prasad, who teaches at Cornell University and has worked with both Rajan and Patel. "However, concerted and persistent attacks from the government on different fronts will undercut Patel's effectiveness and that of the central bank, to the detriment of the Indian economy."

*(Updates with finance ministry official's tweet in eighth paragraph.)*

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