

Indian Central Banker Ranges Far From Monetary Policy to Shape Nation's Debates

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by Sandrine Rastello and Unni Krishnan

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(Bloomberg) -- Indian central bank Governor Raghuram Rajan has plenty of ideas on how Prime Minister Narendra Modi should boost economic growth, and he's not afraid to share them.

Since Modi won elections in May, Rajan has criticized the nations' tycoons, called for direct cash transfers to the poor, urged deregulation of diesel prices and advised against subsidizing exports as part of "Make in India," the prime minister's flagship plan to boost local manufacturing.

"Mr. Rajan is effectively using his position as RBI governor as a bully pulpit to advocate for a broad range of macroeconomic, structural, and governance reforms," Eswar Prasad, who teaches economics at Cornell University in Ithaca, New York, said in an e-mail, referring to the Reserve Bank of India, the central bank's formal name.

Rajan's outspoken approach, which contrasts with that of predecessors groomed in the Indian civil service, is testing the limits of his autonomy in a country where the central bank is not formally independent. His comments have variably been in sync with Modi's plans or perceived as unnecessary meddling, leading to some criticism from other economists.

"The central bank should stick to its area of expertise, that of monetary policy and banking regulation," said N.R. Bhanumurthy, an economist at the government-funded National Institute of Public Finance and Policy in New Delhi. "'Make in India' isn't in his domain or territory and he should avoid commenting."

Inflation Fight

The central bank's spokeswoman Alpana Killawala declined to comment on Rajan's strategy in giving public comments or their impact. Indian Finance Ministry spokesman D.S. Malik didn't answer two calls to his mobile phone.

Rajan, a former International Monetary Fund chief economist whose credentials include his anticipation of a global crisis before the 2008 meltdown, took over the central bank in September 2013. He immediately focused on shoring up the rupee from an all-time low with measures including higher interest rates. He made clear his intent to stem price increases and proposed that the government adopt a formal inflation target.

In December, Rajan resisted calls from Finance Minister Arun Jaitley and other Modi cabinet officials to cut the benchmark interest rate even as inflation eased in line with falling global oil prices. He relented this month in an unscheduled decision after data showed that price increases remained below his target of 6 percent for January 2016.

'Bolder Approach'

"He has rebuilt the central bank's credibility," Shilan Shah, an economist at Capital Economics in London who leads the research group's India publication, said of Rajan. "That goes beyond simply cutting rates at non-scheduled meetings; I think he'll be able to frame the debate more generally as well."

Rajan was appointed to a three-year term by the previous government, eight months before it was voted out of office. Modi, who in May won the biggest Indian mandate in 30 years after promising to jumpstart the economy, will decide whether to extend his term by two years or find a replacement.

While Rajan's predecessor, Duvvuri Subbarao, also gave recommendations to the government, they were largely contained to the central bank's rate reviews and focused mostly on fiscal consolidation. The 1934 Reserve Bank of India Act says the federal government may give direction to the central bank on what it considers the public interest.

"Mr. Rajan is certainly taking a bolder approach than most of his predecessors in pushing for change and reforms in areas that are not directly under the purview of the RBI," said Cornell University's Prasad, who co-wrote papers with Rajan.

'Venal' Politician

In an August speech targeting "crony capitalism," Rajan recommended cash transfers into bank accounts as a way "of liberating the poor from dependency on indifferently delivered public services, and thus indirectly from the venal but effective politician." A month later, he called on Modi to eliminate diesel subsidies as global oil prices plunged.

A November lecture on credit ended in a plea for a "change in mindset, where the willful or non-cooperative defaulter is not lionized as a captain of industry, but justly chastised as a freeloader on the hardworking people of this country."

Those speeches aligned with Modi's mandate to tackle corruption and improve governance. Modi has expanded the use of biometric identity cards to help facilitate cash transfers and scrapped diesel price controls in October. Jaitley this month echoed Rajan's comments on empowering state-run banks.

"In areas related to RBI like banking reforms, he is having an influence," Prasanna Ananthasubramanian, chief economist at ICICI Securities Primary Dealership in Mumbai, said by phone. In other areas, however, "it's hard to tell."

Make in India

In December, Rajan gave his most controversial speech. Titled “Make in India, Largely for India,” it was focused on Modi’s signature “Make in India” initiative, a plan to boost the share of manufacturing in the economy to 25 percent by 2022 from 16 percent.

Rajan cautioned against a China-style, export-led plan that would leave India contending with export champions at a time of weak global demand. He advised producing for local consumption instead, and avoiding any tax sops for specific sectors.

When Jaitley said later that month that it didn’t matter whether “Make in India” was for domestic or foreign consumers, many newspapers said he was rejecting Rajan’s advice. They also saw Jaitley’s reference to high costs of capital hampering manufacturing as a signal to Rajan to lower rates.

Jaitley issued a statement accusing the media of bias, saying his speech contained no references to Rajan or the central bank. At the World Economic Forum in Davos on Jan. 22, Jaitley said India would’ve matched China’s manufacturing prowess if it had adopted some Chinese policies.

In a world of very cautious central bankers, Rajan “has been very straightforward about his opinions and views,” said Sean Yokota, the Singapore-based head of Asian strategy at Skandinaviska Enskilda Banken AB. “It’s refreshing.”

To contact the reporters on this story: Sandrine Rastello in Mumbai at srastello@bloomberg.net; Unni Krishnan in New Delhi at ukrishnan2@bloomberg.net

To contact the editors responsible for this story: Daniel Ten Kate at dtenkate@bloomberg.net Jeanette Rodrigues

