

Reserve Bank of India**India's central bank governor Urjit Patel resigns amid tense stand-off**

Reserve Bank of India head has been at odds with the government over its independence



Urjit Patel cited 'personal reasons' for his decision to quit as central bank governor © Bloomberg

Amy Kazmin in New Delhi and Simon Mundy in Mumbai DECEMBER 10, 2018

The head of India's central bank resigned on Monday in the midst of a bruising battle with the prime minister over the institution's independence and the direction of the country's financial sector.

Urjit Patel's exit comes just days ahead of what was likely to be a contentious meeting of the Reserve Bank of India's governing board, where Prime Minister Narendra Modi's demands for looser financial and monetary policies were scheduled for debate.

Tensions between the RBI and Mr Modi have been rising for months over the central bank's hawkish monetary policy, use of its mounting reserves and the tough measures taken to clean up bad loans at India's state-run banks.

Mr Modi has been accused of demanding that the RBI ease back on its crackdown out of fear it will hit economic growth during his drive for re-election, particularly as liquidity in non-bank lenders [has dried up](#) after a series of defaults at IL&FS, a high-profile finance and infrastructure group.

At a 10-hour board meeting last month, Mr Patel made a number of [concessions](#) under intense pressure from government nominees, including promising to review restrictions on new lending by banks that already have high levels of bad debt. Pressure on the [RBI](#) was expected to continue at Friday's meeting.

In a [statement](#) on the RBI website, Mr Patel cited “personal reasons” for his decision to step down. He is the second central bank chief in a row to depart unceremoniously, having taken over in September 2016 after the government failed to extend Raghuram Rajan’s tenure. Mr Patel’s departure is effective immediately.

“I don’t think he wanted to go down in history as somebody on whose watch the RBI was put through an unreasonable wringer,” said Rajeev Malik, a strategist at River Valley Asset Management.

Mr Rajan, whose outspokenness while in office annoyed the government, urged New Delhi to tread cautiously and “act appropriately” after his successor’s departure.

The resignation is “a statement of dissent and therefore the government has to be very careful in dealing with it, to ensure the credibility of the institution is preserved”, he told Indian television.

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But some analysts said it may be too late to maintain the RBI’s independence, arguing that Mr Patel’s resignation was a signal that Mr Modi had won the

battle for control.

“By forcing Mr Patel’s hand, the government has now made it clear who runs the show,” said Eswar Prasad, a professor at Cornell University, adding that the move marks “the culmination of the government’s taking the hammer to a cherished and widely respected institution”.

The Indian rupee fell more than 1.8 per cent against the dollar in the immediate aftermath of Mr Patel’s resignation.

Analysts warned of a further sell-off unless the government moved quickly to restore investor faith in the central bank, particularly with the results of three closely watched state elections coming out this week. The state polls are seen as a dress rehearsal for next year’s general elections.

“In the next 24 hours, New Delhi will have to step up and play a stellar role to reinforce market confidence in the RBI,” said Saurabh Mukherjea, founder of Marcellus Investment Managers. “We’ve got a tense geopolitical situation, difficult assembly election results [on Tuesday] and still a very fragile shadow banking sector.

“The fact that Mr Patel is the second governor to depart under the rule of this government is not something foreign and domestic investors will take lightly,” he added. “The RBI’s future hangs in the balance.”

Analysts said the longer-term impact would depend on who the government chooses to replace Mr Patel. The government, which appears to have been caught off-guard by the timing of Mr Patel’s

departure, has given no hint of a likely successor.

“If it is perceived to be somebody who is pliable . . . investors — and Indians in general — have a lot to worry about,” said Mr Malik.

Tensions between Mr Patel and the government surfaced after the discovery this year of an alleged \$2bn bank fraud at state-owned Punjab National Bank.

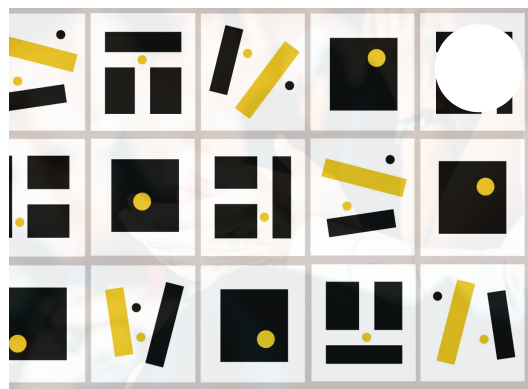
Those tensions intensified in October when Viral Acharya, Mr Patel's deputy, made an impassioned speech focusing on the need to maintain central bank independence.

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