

**Are the resignations of Urjit Patel and Viral Acharya apocalypse for the Indian economy?**

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The rift between Reserve Bank of India (RBI) and the Government has become visible in public domain after the speech by Viral Acharya, the Deputy Governor of RBI. While delivering the A.D. Shroff Memorial Lecture in Mumbai on October 26, 2018, Viral Acharya warned Government about the potentially catastrophic effects of undermining the central bank's independence. In his hard-hitting speech, C.V. Starr Professor of Economics Viral Acharya, who is on leave from Stern Business School, New York University said "As many parts of the world today await greater government respect for central bank independence, independent central bankers will remain undeterred. Government that do not respect central bank independence will sooner or later incur the wrath of financial markets, ignite economic fire, and come to rue the day they undermined an important regulatory institution."

Government was unhappy with the speech for publicly talking about the rift fearing it could tarnish the image of country among investors. According to a report published in Reuters, top official expressed their displeasure about speech. According to a report in Livemint, the Union finance minister Arun Jaitley accused the central bank of sleeping on the job for its failure to check indiscriminate lending by public sector banks between 2008 and 2014. DEA Secretary Subhas Chandra Garg taking a dig at Viral Acharya tweeted "Rupee trading at less than 73 to a dollar, Brent crude below \$73 a barrel, markets up by over 4% during the week and bond yields below 7.8%. Wrath of the markets?"

For long, Government pursuing RBI for cut in interest rates. Government wants RBI to relax prompt correction action framework, dilute disclosure norms for defaults, pay higher dividend to the government, and open special refinance window for mutual funds, NBFCs and housing finance companies among other demands. Quoting sources in the government, Financial Express reported that the government is asking the central bank to hand over a part of its surplus reserves and the matter was pending before the board of RBI and expected to be taken up at its next meeting on November 19, 2018.

According to reports published in the Economic Times, Government has sent a number of letters to Governor Urjit Patel exercising powers under Section 7 of the RBI Act on issues. The analysts and major domestic and global think tanks raised concern over curtailment of autonomy. They hold assembly election in five states and general election around corner as reasons for Government's pressure on the RBI and such intervention leads to election bubble in financial markets. Former Reserve Bank of India Governor Raghuram Rajan, who did not seek second term, defended the central bank's call for greater autonomy from the government, saying ultimately the nation stands to benefit from an independent and robust RBI.

S. Gurumurthy, a cooperative banker and government nominee on board of RBI complained about the Viral Acharya's speech to Governor. He also tweeted in July 2018 "Raghuram Rajan destroyed the RBIs independence by making it subservient to global thought rather than pursue India centric solutions. The RBI can't now move away from that line for fear

of going against global financial opinion. RBI has lost its capacity to think for India”.

MoneyLife, the online financial publication headed by famous investigative reporter, Sucheta Dalal reported that Governor Urjit Patel could resign at the central bank’s next board meeting on November 19, as he was tired of the struggle with the government, and it was having a negative impact on his health. Although Patel did not resign after the meeting but put up his paper just days before the meeting of the central bank’s board on December 14. Although, Patel maintained that personal reasons were behind his exit, many at RBI believe that his confrontation with the government and its nominees had reached a point of no return. The Business Today quoted S. Gurumurthy, that he was surprised by Patel’s resignation as the last meeting was very cordial. But Ashwani Mahajan, his successor at Swadeshi Jagran Manch, an affiliate of the Rashtriya Swayamsevak Sangh has welcomed Patel’s exit and said that it was unfortunate that a few individuals had refused to be accountable before the RBI board.

Following the resignation, Shaktikanta Das, a former Economic affairs secretary and career bureaucrat was appointed as Governor. The new RBI Governor who has worked closely with the Government expected to subside the tensions between the government and the RBI. However, protagonist of central bank independence viewed that Das’s appointment will undermine the RBI’s independence. In June, Viral Acharya who created the storm through his speech resigned as a Deputy Governor of the RBI six months ahead of the scheduled end of his term. According a report in Economic Times of India, "Acharya’s discomfiture with the new RBI dispensation under Governor Shaktikanta Das was palpable. At the last money policy review meeting, he had different views on emerging issues driving monetary policy decisions for a second time in a row, making a contrasting assessment of fiscal deficit setting the likely course for interest rates over the next few bimonthly Mint Road conclaves, minutes of RBI’s policy review showed".

The spat between RBI and Government is not new as India witnessed such spats innumerable time. However, market pundits and political analysts are of the view that the independence of RBI is not on par with that of Fed or ECB; and the unprecedented use of Section 7 will dent a blow to whatever autonomy RBI enjoys now. "Resignations of the Reserve Bank of India (RBI) governor and one of the deputy governors over the ongoing confrontation will be catastrophic" Live Mint quoted Indira Rajaraman, a former RBI board member and a noted economist said. Whereas the critiques of such independence especially in Government and influential affiliates of the ruling Party assert that the autonomy of RBI is not absolute and the elected government is supreme and the owner of the surplus of RBI.

The simmering rift between RBI and the Government once again brought the debate of central bank independence.

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Gourishankar S Hiremath of IIT Kharagpur has prepared this case solely as the basis for class discussion. The case was developed from published sources. The case does not intend to serve endorsements of any opinions, data or illustrations. No part of the publication can be stored or used for commercial purpose or publication without permission. Copyright ©Author.