

# TRYST WITH ECONOMY

Urijit Patel has taken over the command of Reserve Bank of India at a very crucial point. India's economy is standing at a brink- from where one right step leads to heights of glory and one wrong decision will push it in the abyss of darkness. This vital phase offers great challenges to the new RBI Governor in his tryst with economy

**BY MANSI SHARMA**



**T**hough Urijit Patel isn't a fresher to the dealings of Central Bank with his hands-on experience of working closely with his predecessor as Deputy Governor but his position as the governor of RBI will require much more than just familiarity with the system.

When Raghuram Rajan took the position of RBI governor in September 2013, Indian economy was battered from all sides. Be it the falling rupee, poor growth rate, huge debts, or inflation, the economic instability was hampering the growth of nation substantially. But in an outstanding occupancy of three years, Rajan gave a totally different face to India's economy. Patel has inherited many unfinished tasks and though there aren't many storms ahead to sail through, the new governor will have to maintain the calm of sea to assure a successful term for him.

Raghuram Rajan has passed on the baton to Urijit at a time when India is swiftly moving towards economic excellence. This three year term is going to work as litmus for him, testing his analytical and practical skills. Here are the major challenges that await the new RBI governor.

## **MONETARY-POLICY COMMITTEE**

Urijit Patel has taken charge at the time of a major transition in Central Bank's decision making structure. He is going to be the first governor to share his powers with a six-member monetary-policy committee. Though the MPC will be headed by the governor himself, it will give central government an equal say in the monetary policies as 50% of committee members will be appointed by it. But with the chair of deputy governor being vacant after Urijit's elevation, the government might appoint a pawn of its own ideologies to have an upper hand in decision-making.

This whole scenario will make it difficult for Patel to maintain a stance towards the government as stiff as his antecedent. However Urijit Patel owns a composed demeanor as compared to Rajan's flamboyance and it might make it easier for him to tackle the pressure. But at the same time he might have to reflect the government's wishes through his actions.

## **INFLATION**

One of the chief highlights of Rajan's term as the governor was substantial decline in the consumer inflation from 9.52% in August, 2013 to 5.24% in April, 2016. But, his last paper showed the inflation at a 22 month high of 5.77 percent, much above the 5 percent comfort zone. With government-set target to achieve 4 percent CPI by March 2017, this 'inflation-warrior' has an uphill task ahead of him.

A steady south-west monsoon promising a sound Kharif crop for October season might help the cause for Patel a bit, but the international oil prices are also going to play a major role in inflation targeting. Urijit Patel will have to tie-up his laces to maintain a consistent pattern even in adverse conditions.

**GROWTH**

Government's agenda is very clear. With establishing its economy as the fastest growing in the world, it is not ready to compromise this stance now. Therefore, Patel will have to put major focus on the growth, especially after the quarterly results have reported a slum to 7.1%, well below the aspired 8%. The figures are lowest since April-June Quarter 2014 where the growth rate was 6.7%.

Another challenge will rise from the trade-off between growth and inflation. Despite the substantial economical upsurge, the demand growth is still very slow. Also, the industrial production is not at its best foot and thus exports are gradually declining. Urijit Patel will have to devise a way to stop the pseudo-economic growth and design a healthy and comprehensive one.

He will have to ensure the undisputed flow of credit in various sectors of economy with prime focus on agriculture and Micro, Small, and Medium Enterprises and at the same time keep in check the inflation to

achieve the required growth rate.

**INTEREST RATE**

Raghuram Rajan kept a hawk's vision towards inflation, cutting the interest rate just enough and not more than required. But the government clearly wanted to tame a dove. This very well might have been a reason for the former's fallout with the later but it seems that choosing Urijit Patel is not going to serve the government's purpose either. If sources are to be believed, Urijit Patel might have stricter control over interest rate cut than Rajan.

But now with MPC playing a major role in deciding monetary policies, a war between the dove and hawk is sure to happen.

**BAD LOANS**

Another issue that requires the new governor's immediate attention is the mountain of bad debts which is suppressing the growth rate and timely completion of many projects.

In a quest to appease the government

and glorify their balance sheets, many private as well as state-run banks gave hoards of loans to many industry bigwigs ignoring the quality of resources. This crony capitalism culture resulted in indebting the banks with hoards of non-performing assets.

The NPAs at Indian banks jumped to 7.6% of their total assets in March 2016- six months ago they were 5.1%. An estimated 0.9% increase in bad loans is expected in the upcoming financial year. Raghuram Rajan has set a deadline for March, 2017 for the banks to sanitize their infected balance-sheets. And Patel will have to ensure to meet the closing date with maximum positive results.

**EXCHANGE RATE**

With the crown of being the most stable currency across the globe, rupee has attained the strong position of 67 rupees to a dollar. But the redemption of foreign currency non-resident (FCNR) deposits in September to November period might depreciate the value of rupee pertaining to increased demand of dollar. It is expected that a withdrawal of around \$20 billion will be done from these special FCNR deposits.

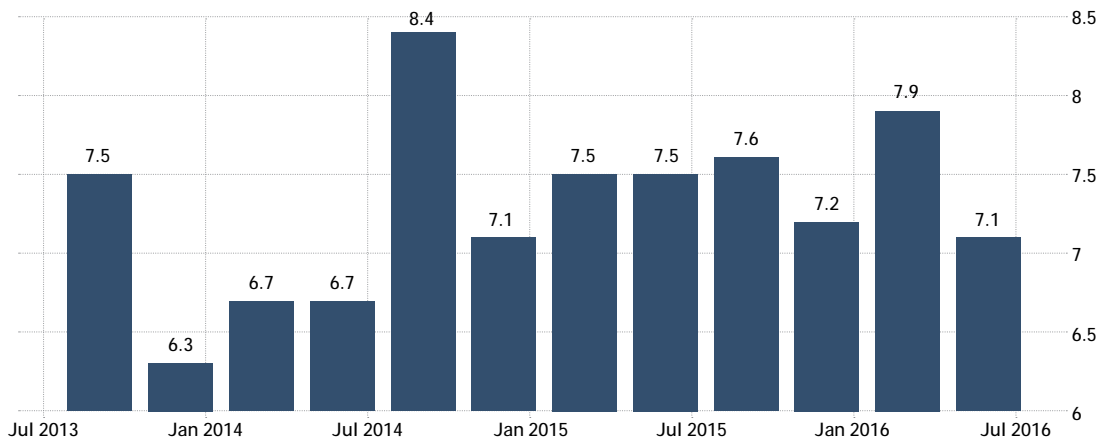
Urijit Patel will have to quickly find ways for dealing with the likely volatility in currency markets and maintaining the rupee at a level between 65 and 70 rupees to the dollar to match up with the government's demand of having a strong currency.

**EN ROUTE GLORY**

Raghuram Rajan has certainly left thriving conditions for Patel to take the economy towards a positive upsurge. But the changing scenarios and government's as well as citizens' expectations are much of a challenge for the new governor. Apart from ensuring a strong economy, maintaining positive relations with the north block and garnering enough support from the south block will be crucial tasks for him as well. He will have to banish the perception of RBI being at odds with the government.

His credentials seem strong enough to raise the legacy of his predecessor to the peak of global scenario, boosting India's stride towards being a superpower.

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