

The Economist

The Reserve Bank of India

India appoints a new central-bank governor

Urjit Patel will succeed Raghuram Rajan

Aug 20th 2016 | MUMBAI



AS MUCH as the financial markets they seek to influence, central banks need the confidence of investors to function. So uncertainty over their leadership and questions about their independence are seldom welcome. On August 20th Narendra Modi, India's prime minister, belatedly appointed a new head of the Reserve Bank of India (RBI), nine weeks after Raghuram Rajan, the respected incumbent, surprised everyone by announcing he wouldn't stay on the job for a second term (as most of his predecessors had) after his three-year term expires on September 4th.

The new governor is Urjit Patel, a former management consultant and corporate adviser, who has served since 2013 as one of four RBI deputy governors. Mr Patel is thought to be of similar ilk to his current boss. That is reassuring for investors still baffled as to why Mr Rajan, a former IMF chief economist with a good record as head of the RBI, was effectively sacked by Mr Modi.

Mr Patel's remit at the RBI has been to help shape monetary policy. The newish inflation-targeting framework, which has been successful in stemming rising prices (helped by outside factors such as falling oil prices), is as much his as Mr Rajan's. So is the incoming arrangement, whereby interest rates will be set by a panel comprising government and RBI appointees rather than the RBI's boss being in sole charge. Though he lacks the stature of Mr Rajan, which probably helped fend off inevitable calls for lower interest-rates from ministers and industrialists, Mr Patel is seen as just as hawkish as the outgoing governor. His appointment should alleviate fears that Mr Rajan's exit was a ploy by Mr Modi to hobble a fiercely independent central bank.

But the RBI's remit is far larger than just monetary policy. Most notably, it regulates India's banks, most of which are publicly owned and struggling with dud loans they extended in a mini credit boom to industry and infrastructure companies five years ago. Mr Rajan had forced the banks to recognise the holes in their balance-sheets, indirectly taking on the tycoons who had benefited from the largesse of compliant bank bosses. Plenty suspect it was that stance (along with a tendency for speaking his mind on politically-sensitive subjects) which led to Mr Rajan's ousting.

The new man's take on bank regulation is not known. Beyond the usual waystations for central-bank governors—Yale, Oxford, a period spent at the IMF—Mr Patel has spent some time as an executive at Reliance Industries. The group, headed by Mukesh Ambani, India's richest man, is active in lots of industries (from petrochemicals to telecoms) where connections to government matter. That will give Mr Patel a different perspective from that of his immediate predecessor, who is returning to his academic perch at the University of Chicago.

Some of the sensible stuff enacted in recent years, such as making it much easier for newcomers to obtain banking licences, will surely stay in place. But whether Mr Patel keeps the same amount of pressure on the banks will be a vital test of the early stages of his three-year mandate. Many hope the new governor will simply be a clone of the incumbent. But that would raise questions as to why Mr Modi didn't just stick with the original.