



Never waste a good crisis

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Never waste a good crisis-The situation created by Urjit Patel's resignation should be used to push through much-needed reforms

- Among the quintessential traits of a central banker is to be unpredictable in action so that the markets can be kept guessing.
- Urjit Patel exhibited this quality in ample measure when he announced his decision to walk out of his job as Governor of the Reserve Bank of India (RBI).
- He had chaired the Monetary Policy Committee meeting just last week and also a meeting of the Board for Financial Supervision that discussed the issue of Prompt and Corrective Action on some banks.

Governance issue

- Given that Dr. Patel has not offered any clues in his resignation letter, we can only speculate.
- The one important issue that remained on the table after the November board meeting was of the central bank's governance and autonomy.
- Interestingly, in the days following the meeting, there were reports of how the Centre was planning to push for board committees that would supervise specific areas of the central bank's operations.
- Such a move would have compromised the Governor's position and curtailed his operational freedom.
- It is not as if RBI Governors have never had serious run-ins with the government before.
- But they were always handled quietly behind the scenes and the only way that the public ever got to know of these episodes was when RBI Governors wrote memoirs.
- This time was different though.

Ill-advised escalation

- The main point of friction between the two — on monetary policy — was also addressed through the introduction of the Monetary Policy

Committee two years ago by amending the RBI Act.

- In effect, an important thread in the relationship was institutionalised and the personal element was taken out, precisely to avoid situations such as the current one.
- It is true that the Centre has been more assertive in its relationship with the RBI in recent times, but it has some genuine grievances such as on the issue of providing liquidity for non-banking finance companies and a less stringent capital norms regime for banks.
- As the political executive, the Centre obviously feels that it is responsible for ensuring that there is no freeze in the credit markets.
- The central bank, however, is more conservative.
- Added to this is the Centre's grouse that the RBI was found wanting in its supervision role.
- The outgoing Governor's resignation has trained the spotlight so sharply on the festering issues between the RBI and the Centre that it is extremely difficult for his successor, Shaktikanta Das, to act on any of them in favour of the latter, even if it is merited.

The road ahead

- The crisis points to several reforms that are needed in the RBI and changes in its equation with the Centre.
- Not just this, the personal element in decision-making in the RBI has to be taken out and replaced by an institutional mechanism, much like the MPC did in the case of monetary policy.
- The reference of the reserves sharing issue to a committee is one such idea where there will be little scope for the Governor to act on his own just as the government too cannot exert pressure on him.

