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OPINION | COMMENTARY

Stability at India's Central Bank

By picking Urjit Patel as governor, the government signals continuity with Raghuram Rajan's policies.



Urjit Patel in Mumbai on Aug. 9. PHOTO: REUTERS

By **SADANAND DHUME**

Aug. 21, 2016 12:28 p.m. ET

Months of suspense in India ended Saturday when the government announced that 52-year-old Urjit Patel will replace Raghuram Rajan as Reserve Bank of India governor when Mr. Rajan's term ends next month. Mr. Patel was an RBI deputy governor in charge of monetary policy since 2013.

Against a backdrop of uncertainty in global financial markets, Mr. Patel's appointment is welcome. Widely credited with devising the RBI's inflation-targeting mandate adopted last year, the new governor signals stability and continuity in central-bank policy.

Mr. Patel's impeccable education and professional credentials—including stints at the International Monetary Fund and the Boston Consulting Group—will quell concerns that the Modi government intended to replace the highly regarded Mr. Rajan with a pliant bureaucrat, a state-owned-bank head or a proponent of so-called Hindu economics.

The new governor's appointment is a clear defeat for the crackpot nativist wing of the ruling Bharatiya Janata Party, which had mounted

a campaign against Mr. Rajan for the high crime of being “mentally not fully Indian” on account of his years spent studying and working in the U.S. By picking Mr. Patel—effectively a member of the same globalized elite as Mr. Rajan—Prime Minister Narendra Modi and Finance Minister Arun Jaitley have made it clear that they see international credentials as an asset, not a liability.

Mr. Patel's appointment won't quiet all criticism of the government for failing to give Mr. Rajan a two-year extension to serve out a customary five-year term. In June, following a series of ugly personal attacks by BJP member of Parliament Subramanian Swamy, Mr. Rajan announced that he wouldn't seek an extension and would instead return to teaching at the University of Chicago.

By forfeiting Mr. Rajan's services, India has lost an official whose personal stature amplified its voice in global decision making. Neither Western policy makers nor the global financial press will likely pay nearly as much heed to the relatively low-profile Mr. Patel's concerns as they did to Mr. Rajan, who had previously served as the IMF's chief economist.

In terms of domestic politics, Mr. Patel will be closely watched to see if he softens his predecessor's push to force state-owned banks, which account for 70% of India's banking system, to get tough with politically well-connected businessmen who have large outstanding loans.

That Mr. Patel previously worked for Reliance Industries—the \$50.6 billion Indian conglomerate with heavy influence across multiple industries—lays the government open to charges that Mr. Rajan was eased out to placate businessmen angered by his tough approach to nonperforming assets and alleged reluctance to cut interest rates quickly enough.

On the whole, though, these caveats pale before the positive aspects of Mr. Patel's appointment. The new governor's reputation as an inflation hawk—shared with Mr. Rajan—will reassure investors and analysts that RBI policy isn't about to change drastically.

By October, interest rates are scheduled to be determined by a new six-member committee headed by the governor, rather than by the governor alone. A 2014 report by Mr. Patel had recommended this change to mirror the practice in other major economies, such as the U.S.

Moreover, the unassuming Mr. Patel will likely reduce friction between the central bank in Mumbai and the finance ministry in Delhi. Unlike the flamboyant (by central-banker standards) Mr.

Rajan, Mr. Patel is expected to keep his head down and focus on his job.

Nobody expects the new governor to emulate Mr. Rajan by holding forth in lectures on the importance of freedom of expression or the perils of a national fetish for strongmen. Though Mr. Rajan's comments on these issues were perfectly innocuous, the media often interpreted them as veiled digs at Mr. Modi.

In a broader sense, the appointment matters most for the message it sends to the BJP nativists, as Mr. Patel appears to be quite the opposite of the homegrown rustic preferred by this faction.

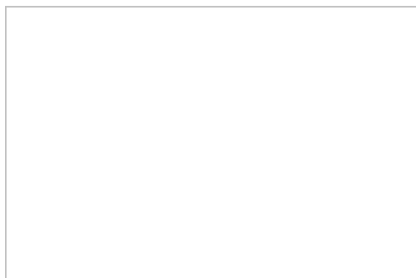
Born a Kenyan national, Mr. Patel only acquired Indian citizenship before becoming an RBI deputy governor three years ago. Unlike Mr. Rajan, whose undergraduate education was in India, Mr. Patel was educated entirely in the West. He holds a doctorate in economics from Yale and a master of philosophy from Oxford. Besides working at the IMF, Mr. Patel has also been a nonresident fellow at the Brookings Institution in Washington.

Mr. Patel's globe-trotting past is hardly unusual. The American economist Stanley Fischer was born in Northern Rhodesia (now Zambia) and headed Israel's central bank before becoming a vice chairman of the U.S. Federal Reserve two years ago. Canadian Mark Carney serves as governor of the Bank of England.

For India this is good news. Mr. Patel's appointment shows that when it comes to serious economic decisions—as opposed to noise on Twitter—the nativist view counts for relatively little in Mr. Modi's dispensation. The prime minister may have flubbed things with Mr. Rajan, but he has managed to recover smartly enough with Mr. Patel.

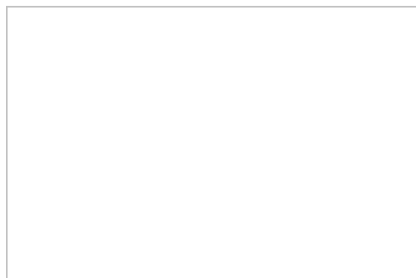
Mr. Dhume is a resident fellow at the American Enterprise Institute and a columnist for WSJ.com.

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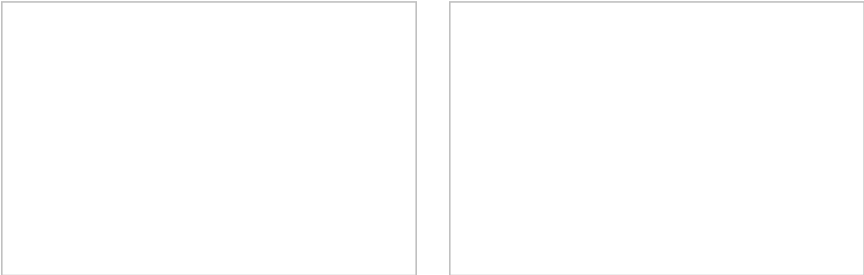


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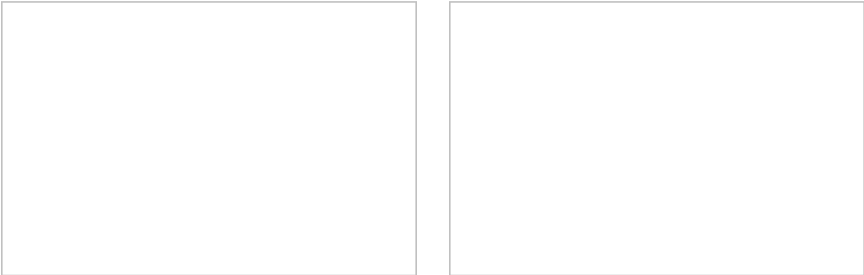


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