

Deputy head of India's central bank quits, adding to independence concerns

MUMBAI: Reserve Bank of India (RBI) Deputy Governor Viral Acharya has resigned six months before the scheduled end of his term in office citing personal reasons, the central bank said on Monday, adding to concerns about the independence of the central bank.

Acharya's departure is not surprising as he had previously clashed with Modi's government over an erosion of the central bank's independence.

His resignation is likely to make the RBI more dovish over monetary policy and more willing to cut interest rates, economists said. Acharya, who is in charge of departments that look at monetary policy and exchange rate markets, had been regarded as more of an inflation hawk.

Acharya submitted his resignation letter a few weeks ago saying he was unable to continue his term beyond July 23 due to unavoidable personal circumstances, the RBI said in a release.

He will return to the New York University Stern School of Business in August instead of February next year, the Business Standard newspaper said.

His resignation has been talked about as a possibility ever since former governor Urjit Patel suddenly resigned in early December.

Acharya blew the lid off the tensions between Modi's government and the RBI in a scathing speech last October.

Staunchly defending the need for central bank independence, Acharya made public disputes with the government over issues ranging from lending curbs, more cash availability to non-banking finance companies (NBFCs), and who controls the RBI's reserves.

In a separate development, a panel deciding how much of the central bank's so-called "excess funds" should go to the government further delayed submitting its report as a senior government official, who is on the panel, disagreed with its proposals, sources said on Monday.

Inflation, fiscal concerns

Acharya was the third key senior central bank official under the Modi government to resign, following the departures of former RBI governors Raghuram Rajan in 2016 and Urjit Patel in December 2018.

Economists said that while the economy's current weakness does warrant monetary and fiscal stimulus, lack of an inflation-fighting focus on the central bank's monetary policy committee could be a concern going ahead.

“The risks of undermining the central bank’s independence are potentially catastrophic,” Acharya had said in his October speech, adding that rash moves could trigger a “crisis of confidence in capital markets”.

The minutes of the RBI’s June monetary policy committee meeting released last week showed a clear change in focus towards faltering growth amid largely muted inflation.

With Acharya gone from the committee, analysts now suggest there will likely be no voice of dissent against further interest rate cuts.

“His resignation means the MPC is likely to take an even more dovish tilt. Over the near term, that probably seals the deal on another rate cut in August, while further cuts beyond this are a growing possibility,” Shilan Shah, senior India economist at Capital Economics, said in a note.

After the third straight 25 basis points cut in interest rates in June, the RBI was expected to keep rates on hold at least until the end of next year, a Reuters poll in late May had predicted.

Those expectations are however set to change following the change in the central bank’s stance to accommodative earlier in June.

Reuters