

# Elephant in trouble

Singapore-based economists and business leaders on what they expect from new Reserve Bank governor to bail out India

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THE Economist magazine's Aug 24 cover pretty much sums up the Indian economic situation today. A visibly-scared Indian elephant, precariously perched on land that is sliding into the muddy river, is pulled down from its position by a giant, mean-looking crocodile that has caught the elephant by its trunk.

This cartoon has a close resemblance to a story from *Srimad Bhagavatam* (aka *Bhagavata Purana* – A Hindu Book Of Eternal Divine Tales) where a crocodile caught the leg of an elephant drinking water from the river. The two then fought fiercely, with the former trying to pull the latter into the water.

At the dawn of India's Independence in August 1947, the rupee was valued at par with the US dollar. In the 66 years since then, this August, the Indian currency was worth just 1/66 of the US currency. On Aug 28, it fell to 68.75. Many economists and commentators called the current Indian economic situation the worst in the last 20 years. The industrial slowdown, consumer price inflation at nearly 10 per cent, the rupee down by 20 per cent for the year and a widening current account deficit support their case.

The new governor of the Reserve Bank of India (equivalent to Singapore's Monetary Authority of

Singapore), Dr Raghuram Rajan, takes office on Sept 5 in tumultuous times. He has been the chief economic adviser to the government of India for the past year. Dr Rajan was chief economist at the International Monetary Fund from 2003 to 2006 and is often credited with having predicted the 2008 global financial crisis.

I spoke to some economists and business leaders in Singapore on what Dr Rajan's priorities should be and this is what they had to say.

Given the recent fall in the rupee's value the executive director and CEO of Ascendas Property Fund Trustee and the trustee-manager of Ascendas India Trust Jonathan Yap wanted Dr Rajan to defend the rupee vigorously at the current levels.

Managing director of Agrocorp International Vijay Iyengar and president (Asia-Pacific) Tata Consultancy Services and chairman of CII-India Business Forum in Singapore Vish Iyer agreed with Mr Yap. All three wanted Dr Rajan to control the rupee's volatility. Mr Yap also wanted him to "stop piecemeal currency control measures".

With inflation up and growth down in the 4-5 per cent range, Mr Iyer wanted him to control inflation, while Mr Iyengar wanted him to reduce interest rates to stimulate business.

Another big concern in the minds of the businessmen here is the hesitancy in introducing bold reforms and the policy flip-flops that plague any at-

Bigburden... Dr Rajan takes office as the governor of the Reserve Bank of India in tumultuous times.

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tempts in that direction. Mr Yap wanted the new RBI governor to "work with other government agencies to introduce bold reforms to attract foreign direct investments".

As a central banker, issuing new bank licences in India will be on the new governor's agenda. Addressing this issue Dr V. Anantha-Nageswaran, inde-



pendent consultant at Vansight Consulting in Singapore, wanted Dr Rajan to "emphasise on the consolidation of the Indian public sector banks, before he hands out new licences".

Dr Anantha-Nageswaran also wanted him to "tell the government to keep its hands off public sector bank managements". Another area he emphasised was to bring down the statutory liquidity ratio

## 10 things new RBI governor should do

1. Defend the rupee at the current level.
2. Reduce interest rates to stimulate business.
3. Balance it with inflation control.
4. Introduce bold reforms to attract foreign direct investments (Work with other government agencies.)
5. Be consistent in policy and execution of policy.
6. Take measures after much deliberation but ensure no backtracking.
7. Consolidate the Indian public sector banks before handing out new licences.
8. Ensure populist considerations do not influence bank lending decisions.
9. Manage communication with external world and various players in the Indian economy.
10. Start addressing the parliament directly at least once a year on the state of the economy and macro-economic policies.

for banks to 50 per cent of the current level, at the minimum with the objective of making the government of India's fiscal policies subject to market scrutiny.

Putting forward an agenda emphasising stability and growth was assistant professor Aurobindo Ghosh, programme director of Master of Science in Financial Economics at Singapore Management University. He said: "I would wish to have Dr Rajan formulate a "new quintuple mandate" for the Reserve Bank of India "... on (1) price stability, (2) low unemployment and (3) inclusive growth with (4) a forward-looking and (5) stable financial institution."

Dr Anantha-Nageswaran wanted him to start the practice of the RBI governor addressing the parliament directly at least once a year on the state of the economy and macro-economic policies in India. While Mr Iyer of TCS wanted Dr Rajan to "manage communication with the external world and various players in the Indian economy".

The Indian government is well known for its populist measures and the enormous subsidies it gives at the central and state levels. Dr Anantha-Nageswaran wanted to ensure that populist considerations do not influence bank lending decisions. But with a general election due before May 2014, he was not very optimistic.

"There is nothing much he can do. RBI is not politically, functionally and constitutionally independent. Second, much of what needs to happen in India are in the realm of fiscal policy and governance," he added.

The tale of the elephant and the crocodile is one of the most celebrated Indian tales of devotion in the face of adversity. In it, one of the Hindu Trinity, Vishnu, comes to the elephant's rescue. It remains to be seen whether Dr Rajan, whose first name Raghuram is one of the over thousand names of Vishnu, will rescue the Indian elephant from its current predicament.

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