

December 11, 2018

Ex RBI Governor Urjit Patel resigned from his post citing personal reasons.

RBI has been too hawkish in its statements towards the economy and the lenders of the country.

After the appointment of Governor Urjit Patel, the governor hiked interest rates couple of times.

As everywhere in the world the central banks are influenced by their ruling government, RBI too faced the same issue.

There was fear of Asset Liability mismatch (ALM) which would have in particular dented the Housing Finance companies (HFC).

Inflation within the country is low and the crude is also trading at comfortable levels which open scope for rate cut in the next bi-monthly policy.

Does RBI governor's resignation mean a blessing in disguise for the banking sector?

RBI Governor's resignation!

Ex RBI Governor Urjit Patel resigned from his post citing personal reasons. His resignation comes against the backdrop of increasing tensions between the Finance ministry and the Reserve Bank of India. He was hand-picked by the BJP-led government after his predecessor Raghuram Rajan was denied a second-term.

The RBI and the Government at loggerheads.

From past one month the government and the RBI were at loggerheads on whether the RBI has been too hawkish in its statements towards the economy and the lenders of the country. After the appointment of Governor Urjit Patel, the governor hiked interest rates couple of times in a situation which demanded an infusion of liquidity.

Is it a blessing in disguise?

Resignation of Governor Urjit Patel opens room for infusion of liquidity into the systems. The nose diving problems of the PSU Banks and the MSME lending sector required easing of monetary policy as a need of an hour by the central government of India. As everywhere in the world the central banks are influenced by their ruling government, RBI too faced the same issue. The government wanted RBI to utilize its forex reserves of \$ 1.3 bn to aid the ailing banking sector of the country. With tightening of interest rates, NBFCs and banks were finding it difficult to raise funds as a result Net Interest Margins (NIMs) across the financial sector got impacted. There was fear of Asset Liability mismatch (ALM) which would have in particular dented the Housing Finance companies (HFC). With the appointment of new RBI governor there will be a stressing need for the new Governor to maintain easy monetary policy and provide avenues to uplift the financial sector of the economy.

Road ahead

Resignation of the RBI governor does bring cheer to the PSU and the NBFC sector. Inflation within the country is low and the crude is also trading at comfortable levels which opens scope for rate cut in the next bi-monthly policy. As a result good quality PSU banks like SBI, Canara Bank and the entire financial sector can be brought/accumulated on dips.

