

## December 12<sup>th</sup>, 2018 Sample Current Affairs

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## **1. RBI-government issues are not over: The Modi government can and should do better in managing its relationships with institutions such as RBI**

- Is this the first time that an RBI Governor has resigned in the context of conflict with the government?
- Now that Governor Urjit Patel has resigned, who is in charge at the Reserve Bank?
- When and how will the process of appointment of the new Governor start?
- What will be the likely impact on the markets, and on the larger economy?

### **GS paper 3 ( Indian economy )**

In this video, you can find detailed answers for all the above questions.

The above article has been retrieved from:

N.A. ( 2018, December , 12). RBI-government issues are not over. Hindustan Times. Retrieved from <https://www.hindustantimes.com/editorials/rbi-government-issues-are-not-over/story-hcrwUIVv9p25RJLtMbsTMM.html>

### **What is the context about?**

Reserve Bank of India (RBI) Governor Urjit Patel has resigned citing personal reasons, although the real reason for his exit is no secret.

The resignation comes four days ahead of a key RBI board meeting during which the government and the central bank were expected to discuss their differences.

**Is this the first time that an RBI Governor has resigned in the context of conflict with the government?**

Not quite — even though the earlier situations arose several decades ago. The first Governor, Sir Osborne Smith, who took over on April 1, 1935, left office on June 30, 1937, before completing his term of three and a half years, apparently following differences with the Government's Member, Finance.

**Now that Governor Urjit Patel has resigned, who is in charge at the Reserve Bank?**

- ❑ Section 7(2) of the RBI Act says “the general superintendence and direction of the affairs and business of the Bank shall be entrusted to a Central Board of Directors which may exercise all powers and do all acts and things which may be exercised or done by the Bank”.

**When and how will the process of appointment of the new Governor start?**

- ❑ Unlike in the UK, Canada, and some other Western jurisdictions, there is no formal search process to select the RBI Governor. There is no formal call for applications, and the Prime Minister and Finance

Minister have traditionally chosen from names on a shortlist.

**What will be the likely impact on the markets, and on the larger economy?**

- ❑ In the near term, the financial markets are bound to be impacted. Indian markets had closed for the day when the news of Patel's resignation came.
- ❑ The uncertainty at the RBI and monetary management policies will weigh on the minds of market participants — especially in the bond markets, but also in equities, on foreign investors who have bet on Indian stocks, and on corporate offerings.
- ❑ This would mean a hit on sentiment and possibly higher cost of borrowings in the near term, and difficulties in raising funds from the capital market.