

India replaces central bank chief amid slower growth

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India's government has appointed a new central bank governor, after a sharp decline in economic growth and accelerating inflation dented the outlook for the world's most populous country.

Shaktikanta Das, the head of the Reserve Bank of India, has been replaced by revenue secretary Sanjay Malhotra, who will start a three-year tenure this week, according to a government notification released yesterday.

Some economists said the departure of the relatively hawkish Das could pave the way for interest rate cuts early next year.

Data published late last month showed India's GDP growth fell to 5.4 per cent in the three months to September — its slowest in almost two years. Before that, Indian media were reporting that Das was expected to secure an extension to his six-year term.

Praised for his steady hand on the currency and on regulation of India's financial industry, Das had been criticised by ministers over the RBI's resistance to cutting interest rates amid rising inflation, which breached the central bank's 6 per cent upper target band in October.

As India's economy showed signs of weakening, finance minister Nirmala Sitharaman last month voiced concern over high borrowing costs.

The government was "clearly trying to pin the blame for slowing economic growth" on the central bank, said Eswar Prasad, professor of economics at Cornell University.

"This is an unfortunate and unwarranted action by the government that diminishes the independence of the RBI and will hamper its effectiveness in meeting its inflation target," Prasad added.

"The credibility of the RBI is particularly important for managing the balancing act of cooling off inflation without damaging growth."

Shilan Shah, deputy emerging markets economist at Capital Economics, said the announcement was a surprise. "The appointment of Mr Malhotra could set a new direction for the RBI."