

RBI board meet may find common ground on MSME

Central Bank To Address Govt's Concern On Liquidity

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Mumbai:

The Reserve Bank of India (RBI) and the government are likely to find common ground on the issue of relief to micro, small and medium enterprises (MSMEs). There are also indications that the central bank will examine some of the proposals made by the government, thereby staving off invocation of the never-used Section 7 of the RBI Act by the Centre.

According to sources, providing funds to MSMEs is a priority area for the Modi government, given the sector's contribution to employment generation. It is seen as one of the four-five crucial issues in the November 19 meeting of the central board of the RBI.

Several MSMEs are facing stress because of GST and demonetisation. While there have been concerns that the RBI's tough stance on bad loan norms may choke credit to this sector, sources point out that most of the central bank's rules do not apply to this segment and there is a separate relief and rehabilitation framework that allows for restructuring of loans to stressed small borrowers.

"The February 12 circular, which does away with loan restructuring, applies to loan accounts of over Rs 25 crore. Almost all the small businesses are excluded from this circular," said a source. The RBI had in 2016 formulated a package that allows for banks to devise their own restructuring scheme for small businesses and provide additional working capital, if required.

The other issues likely to come up in the board meet include the "ideal level" of capital for the RBI, provision of liquidity to finance companies in the wake of the IL&FS crisis, and allowing weak banks to lend. These topics were discussed in the previous inconclusive board meet on October 23. The meeting was followed by a strong speech by deputy governor Viral Acharya on October 26 where he raised the topic of RBI's independence.

The strain in RBI's relationship with the government became more evident after the government said that it had begun the consultative process with the RBI, which could pave the way for issue of directions from the Centre for the first time under Section 7 of the RBI Act.

On the issue of liquidity to finance companies, the RBI is likely to suggest that funding be routed through banks, which can purchase assets from finance companies. It is also likely that the issue of a capital framework for the RBI will be examined by a panel.

"Unlike commercial banks, which have a fixed formula based on international standards prescribed by Bank for International Settlements (Basel norms), there are no such defined ratios for central banks," said an official. This was because the liabilities of each country were different based on the current account position, net balance of payments and the government fiscal deficit — and all these factors affected stability of financial markets.

Sources also said that the RBI board would not get down to framing regulations. Unlike the US Federal Reserve, the RBI board comprises people from diverse walks of life. While there is a provision in the

RBI Act, 1934 for the board to make rules, the process is an elaborate one and requires the draft to be placed in Parliament. So far, the board has made rules on matters such as currency issue and notes refund, RBI employees provident fund and gratuity. "If government issues a direction under Section 7 of the RBI Act, the central bank will have to act on it and the board does not come into the picture. If the board has to draft regulation, it has to be done under Section 58 of the RBI Act, which is a lengthy route," said a source.

ON THE AGENDA



RBI governor
Urjit Patel

- Relief for MSMEs
- Examine the ideal level of reserves for the RBI
- Liquidity support to financial sector in wake of IL&FS crisis
- Allowing weak banks to lend to some sectors
- Capital requirement of public sector banks

› How much reserves are enough for RBI, [P 16](#)