

Roll out agreed steps, govt may insist at RBI board meet today

Will Push For Measures To Ease Liquidity

Sidhartha & Mayur Shetty | TNN

New Delhi/Mumbai: The much-awaited meeting of the Reserve Bank of India board on Monday is likely to see the government insist that the regulator immediately announce implementation of decisions taken at the last meeting to prevent the confrontation from intensifying further.

As reported first by TOI on November 2, RBI, under governor Urjit Patel, shied away from making decisions taken at the October 23 board meeting public, even though they had been agreed upon. People close to the situation indicated that at Monday's meeting the two government representatives on the board will want RBI to announce the agreement that had been reached on easing credit flow to micro, small and medium enterprises (MSMEs), a revamped prompt corrective action (PCA) framework for

weak banks, and alignment of capital norms for Indian lenders in line with international standards instead of making them more stringent. The government sees these as crucial steps to ensure more lending.

"The government will want the meeting to start from where it ended last month," a senior official in the North Block told TOI. The Centre also plans to use the platform to seek steps to ease the liquidity pressure on non-banking finance companies (NBFCs), which have been grappling

FIVE FLASHPOINTS

1 EASIER FUND FLOW TO NBFCs:

Govt keen on steps to make sufficient money available to NBFCs, whose operations have been hit by IL&FS default. RBI says cash crunch has eased

2 MORE FUNDS TO SMALL BUSINESSES: FinMin seeking more loans, easier norms for small businesses, RBI has so far been reluctant to lend a helping hand

3 GOING EASY ON WEAK BANKS: RBI had tightened norms under Prompt Corrective Action that restrict lending and expansion of weak banks. Govt wants rules to be



ARUN JAITLEY



URJIT PATEL

aligned to global norms to ensure that credit flow is not hit

4 ADEQUACY OF RBI RESERVES:

Govt believes RBI keeps more reserves than most other central banks and wants discussion on the "right level". RBI unwilling to let the Centre tap its corpus for pre-poll spending

5 ROLE OF BOARD: Govt wants decision-making to be driven

by board as RBI brass is seen to be unresponsive. Central bank management believes monetary policy and financial sector regulation is best left to experts

“November 19 will be a day of reckoning for central bank independence and the Indian economy...Govt is determined to 'capture' RBI... — P CHIDAMBARAM

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RBI May Ease Restrictions Placed on Weaker Banks

OCT 25, 2018

Tensions between Patel-led RBI, govt coming to a head?

BREWING FOR OVER A YEAR

OCT 29, 2018

Will govt invoke Sec 7 for 1st time if RBI logjam persists?

Is Said To Have Referred To The Law Recently

OCT 31, 2018

with fund-raising problems since IL&FS began defaulting on debt repayment.

The crucial meeting that comes in the backdrop of a threat to invoke the never-used Section 7 of the RBI Act, allowing the Centre to issue directions, is being closely watched after the rift between the RBI and the finance ministry spilled out into the open last month (first reported by TOI). Just before that, in a speech, RBI deputy governor Viral Acharya had cited Argentina's example and suggested that undermi-

ning a central bank's independence could be "catastrophic". Many, including RBI sympathisers, believe that Acharya's statement was unduly aggressive.

The statement came after an uncharacteristically long board meeting, where the government's demand for addressing several of its concerns were not addressed. As reported by TOI on October 31, the government had sought consultations with the RBI on three issues, in what was seen as a precursor to invoking Section 7. This is seen as the real flash-

point given that the finance ministry and RBI were not on the same page on several issues for over a year.

For the central bank, the government's ultimate weapon, Section 7, has emerged as a red line. People with knowledge of RBI's thinking said that resorting to the section would worsen the stand-off between the central bank and government and deepen the crisis if Monday's board meeting is held under the cloud of Section 7.

► Fear of Patel quitting, P 17

Fear of Patel, 2 DGs quitting may temper govt aggression

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New Delhi/Mumbai: The government's aggression with regard to RBI may be tempered by the apprehension that the governor and two of his deputies may opt to leave if pushed too hard and create an international perception.


RBI representatives are expected to impress upon its 18-member board that the stress in certain sectors is not for want of liquidity but has more to do with a crisis of confidence among lenders and the absorptive capacity of small businesses. The central bank is likely to ballast its argument of liquidity being available by highlighting that large redemptions of short-term NBFC debt have taken place in November without any major default.

The government is, however, unimpressed with the steps taken by the regulator so far and believes that the strain on finance companies is crippling their operations and impacting credit flow to crucial sectors such as construction and small businesses.

Sources suggested that issues related to credit flow to MSMEs and problems related to NBFCs are best left to RBI. On the issue of high reserves, they suggested, a large part of the corpus is notional. It is an issue that has been debated since 1986, when then finance secretary S Venkitaraman was involved in a bitter battle with RBI governor R N Malhotra to seek a higher share of the surplus.

The government has made no secret of its wish that the central bank should be board-run—and has come in for some criticism. According to a former central banker, unlike the US Fed board, the RBI board includes people from

THE CENTRAL BOARD OF DIRECTORS

CURRENT MEMBERS	OFFICIAL	NON-OFFICIAL/OTHERS	
 <ul style="list-style-type: none"> ◀ Urjit R Patel Governor ● N S Vishwanathan* Dy governor ● Viral V Acharya* Dy governor ● B P Kanungo Dy governor ● Mahesh K Jain Dy governor 	<ul style="list-style-type: none"> ▶ Private banker Nachiket Mor's tenure was cut short — nearly a year after he was re-nominated by the govt in Aug 2017 for a second term of 4 years. The govt got on board S Gurumurthy & S K Marathe. The entire RBI board is appointed by the govt under the RBI Act 	<ul style="list-style-type: none"> ● S C Garg* Economic affairs secy ● Rajiv Kumar Financial services secy ● S Gurumurthy* Swadeshi ideologue ● S K Marathe Co-op banker ● P K Mohanty Ex-IAS officer ● Dilip Shanghvi MD, Sun Pharma ● Revathy Iyer Ex-Dy CAG ● Sachin Chaturvedi DG at think tank RIS ● N Chandrasekaran Chairman, Tata Sons ● Bharat Doshi Member, ICAI and ICSI ● Sudhir Mankad Ex-IAS officer ● Ashok Gulati Agricultural economist ● M Sabharwal Chairman, TeamLease 	
*Gone public with their criticisms			
Appointed/nominated for 4 years	OFFICIAL DIRECTORS (Full-time) Governor & not more than 4 dy guvs	NON-OFFICIAL DIRECTORS Govt nominates 10 from various fields & 2 govt officials	OTHERS 4 directors — 1 each from 4 local boards

HOW THE FACE-OFF INTENSIFIED

Mar-Apr 2017 RBI, govt begin sparring over interest rates	Aug 28 Allahabad HC asks govt to consider giving directions to RBI under Section 7 in the case filed by power producers	stating that it is initiating consultation under Section 7
Feb 12, 2018 RBI issues circular tightening rules for NPAs	Aug 29 Despite reservations, RBI transfers surplus of Rs 50,000cr to the govt — 63% more than the previous year to boost govt's revenues	Oct 23 Stormy board meeting where independent members turn vocal in demands for liquidity and support for small businesses
Feb Centre puts part of blame for Nirav Modi's scam on RBI's supervision	Sept-Oct Tussle over special window for dollar sales to oil cos, funding for NBFCs	Oct 26 RBI dy guv Viral Acharya bats for RBI's independence in speech
April RBI seeks more powers to regulate PSBs, govt says regulator has enough powers	Oct Govt issues 3 letters,	Nov 1 Govt confirms TOI's Oct 31 report on initiating consultations over never-used Section 7
July Govt pushes for easing rules for so-called weak banks		
Aug-Sept S Gurumurthy, S Marathe appointed on RBI		

different walks of life. They have included CEOs of highly indebted companies, who should not be allowed to decide on regulation.

While the Centre may not actually use the dreaded Section 7, it wants the board to play a more dominant role as it believes the central bank brass is unresponsive to the needs of the economy and unwilling to engage in discussions with either stakehol-

ders or even senior government officials.

If the Centre decides to issue directions to the central bank, there is no scope for any academic discussion and the RBI would have to implement New Delhi's wishes without going into the niceties of the decision or providing an assessment of the impact.

A veteran central banker said the hitherto unused section should not be invoked by

the government. "It has not been used during war, famine or any economic crisis. There is no reason for it to be used now," he said. Many see this as a clash of personalities. Sources said that issues such as a new capital adequacy framework cannot be decided in a two-hour meeting but will need to be deliberated by a panel of experts who can go into past wisdom on the subject and recommend changes.