Source : www.thehindu.com Date : 2018-11-01

TUSSLE FOR POWER: WHAT'S THE RBI-GOVERNMENT STAND-OFF?

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Banking, NPAs and RBI

The Reserve Bank of India. File | Photo Credit: The Hindu

One, the Reserve Bank of India wants more powers over regulating public sector banks (PSBs). Two, it feels that the government should not dictate the quantum of its surplus that can be paid as annual dividend. And three, it is miffed that the Centre has suggested a separate payments regulator.

Slammed for poor regulation following the fraud at Punjab National Bank, RBI Governor Urjit Patel told a parliamentary panel in June that it does not have enough powers over PSBs. But the RBI does have nominee directors on bank boards. It leads physical inspection at banks and financial audits. It has also orchestrated mergers between banks whenever a bank has been on the verge of collapse (for instance, Global Trust Bank merged with Oriental Bank of Commerce). So, the RBI does have adequate control over PSBs but may not be exercising it fully.

The RBI earns income from lending to commercial banks and from purchase and sale of government securities. It also has a surplus seigniorage (the difference between the value of notes that it prints and the cost of printing and distributing them). After setting aside an amount for contingency and asset development, the RBI transfers the surplus to the government. In 2016, that amount was 65,876 crore; this dropped to 30,659 crore in 2017. This year, it paid 50,000 crore to the government. One view is that if the RBI dips further into its reserves to pay the Centre, this would weaken its balance sheet. On the other hand, the RBI is accountable to the government. Plus, globally, central banks do transfer surplus reserves to their governments.

As payment systems fall under monetary policy, a separate payments regulator is unwarranted.

The RBI’s circular on February 12 stressed assets recognition as a sore point. The regulator scrapped all the past restructuring mechanisms and said that if a borrower delayed payment for even one day, he should be dragged to an insolvency court and the asset classified as a non-performing asset (NPA).

The Centre sees the prompt corrective action (PCA) framework by the RBI, which restricts weak banks from lending, as contributing to the liquidity crisis. It also wanted special dispensation by the RBI to help non-banking finance companies (NBFCs) apart from relaxed norms for lending to micro, small and medium enterprises.

Mr. Patel calls the circular as “Samudra Manthan” (when you churn the ocean, it is unavoidable that some poison will precede the nectar). Bankers, industry and the government view the circular as harsh and are unhappy with its timing.

The RBI is right in placing weak banks under the PCA. If anything, the RBI says, it has helped control the problem of bad loans. The government wants the PCA diluted so that bank lending rises, thereby easing the liquidity crisis. The RBI could have heeded the Centre’s signals on easing liquidity through extraordinary measures in addition to routine open market operations. It is a fact that NBFCs, housing finance companies and microfinance institutions are in a spot of bother due to the squeeze on liquidity.

YES | Om RoutrayWomen can expose men and cost them their jobs. Power is a language that men understand om-routrayOm RoutrayJudge Brett Kavanaugh was

Our existing notification subscribers need to choose this option to keep getting the alerts.

END