

REGULATOR WARNED THAT FAITH IN BANK NOTES WOULD BE LOST

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

Hasmukh Adhia

The RBI, in a letter dated January 30, 2017 and reviewed by *The Hindu*, said the government's proposal to enable scheduled banks to issue electoral bonds would result in multiple, non-sovereign entities being authorised to issue bearer instruments, which was the RBI's preserve.

"Bearer instruments have the potential to become currency and if issued in sizeable quantities can undermine the faith in bank notes issued by the central bank," the RBI letter said.

"Amending Section 31 of the RBI Act would seriously undermine a core principle of central banking legislation and doing so would set a bad precedent." The central bank further said that "there is no special need for, or advantage by" the creation of an "electoral bearer bond."

Revenue Secretary Hasnukh Adhia, in response to the RBI's concerns, said, "It appears to me that the RBI has not understood the proposed mechanism."

He said the central bank's fears about electoral bonds being used as currency were "totally unfounded."

"Also, this advice has come quite late at a time when the Finance Bill is already printed," Mr. Adhia added.

"We may, therefore, go ahead with our proposal."

The Congress called it a "corruption-inducing scheme" and demanded an inquiry on what prompted the Finance Ministry to devise the scheme.

"We demand that the BJP government reveal the names of the entities who have bought bonds and to what extent," Congress MP Rajeev Gowda said at a press conference, demanding that the scheme be scrapped.

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