

## Reserve Bank can use own equity to 'recapitalise' public sector banks

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Food for thought Chief Economic Adviser Arvind Subramanian at a press conference in New Delhi KAMAL NARANG

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*More scope for lowering interest rates as inflation is under control, says CEA*

New Delhi, February 26:

The balance sheet of public sector banks and some large corporate houses are stressed because of bad assets, Chief Economic Adviser Arvind Subramanian said.

Terming the situation as “very thorny” Subramanian on Friday said it has to be addressed through a multi-pronged attack that could include bringing the broader public sector balance sheet to help in financing it.

“Conventionally, may be you should sell assets or issue bonds. We make the suggestion that perhaps a part of the assets of the government in certain regulatory institutions, including the Reserve Bank of India can be re-deployed,” Subramanian told media persons.

The Economic Survey, which was tabled in Parliament by Finance Minister Arun Jaitley on Friday, has underlined the twin balance sheet challenge of state-run lenders and some companies and said it needs to be tackled through “the 4 R – recognition, recapitalisation, resolution, and reform”.

Pointing out that the RBI owns 32 per cent of the equity in PSBs, the Survey suggested that the regulator can redeploy its capital as part of recapitalisation efforts.

Subramanian stressed it would be a cooperative effort without undermining the RBI’s authority. Given the low inflation expectation, there is scope for more easing of monetary policy by the central bank, he added.

Subramanian and his team also clarified that the government or the RBI need not devalue the rupee to make exports more competitive.

“The policy of the RBI and the government is to only intervene to manage volatility in the exchange rate,” said KL Prasad, Adviser in the Finance Ministry.

The Survey had suggested that India should respond to the Chinese currency devaluation, adding that a competitive exchange rate could be one of the possibilities.

“The rupee’s value must be fair, avoiding strengthening. This can be achieved through some combination of monetary relaxation, allowing gradual declines in the rupee if capital flows are weak, intervention in foreign exchange markets if inflows are robust, and being cautious about any further opening to inflows that could unduly strengthen the rupee,” it had said.

### Greater crisis

The Survey has, however, warned that large currency devaluation in any systematically important country over the next few years could send the global economy back into a financial crisis.

Likening it to the Great Depression, Subramanian said such a slowdown was quite possible and India must be prepared for it over the next few years.

(This article was published on February 26, 2016)

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