

Tensions between Patel-led RBI, government reach boiling point

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In New Delhi and Mumbai's corridors of power and wealth, the growing schism between the government and the Reserve Bank of India (RBI), and particularly its governor Urjit Patel, has been the subject of much talk since the early months of this year. During this time, not only have the two not seen eye-to-eye on a host of issues, there has been an almost complete breakdown in communication between the government and the central bank.

The simmering differences have now come to a head with RBI's deputy governor Viral Acharya – who is widely seen to have been brought in by Patel – clearly hinting at government interference and emphasising the need for autonomy ([TOI had front-paged his remarks in its Saturday print](#)

[edition](#)).

This has triggered fevered speculation about Patel's fate. Not only does he appear highly unlikely to get an extension beyond the three-year term that ends next September, questions have arisen over his continuance. Patel did not respond to a message from TOI.

Some people in the government have gone so far as to say that "even Raghuram Rajan was better than this" -- and Patel's predecessor didn't leave on the best of terms.

In 2018 alone, there have been at least half-a-dozen issues on which the two have taken opposing stands. While the spat

began with the government unhappy with the RBI for not cutting interest rates – and even raising them – it spilled over into regulation, something the central bank believes is its exclusive domain.

RBI's February 12 circular on classification of non-performing assets and norms of loan restructuring was the next flashpoint. The government saw it as overly harsh, and indeed it drove all but two state-run lenders into the red.

COMING TO A HEAD

Mar-Apr 2017: RBI, govt begin sparring over interest rates

Feb 12, 2018: RBI issues circular tightening rules for NPAs

Feb: Centre puts part of blame for Nirav Modi's scam on RBI's supervision

April: RBI seeks more powers to regulate PSBs, govt says

regulator has enough powers

July: Govt pushes for easing rules for so-called weak banks

Aug-Sept: S Gurumurthy, S Marathe appointed on RBI board, Nachiket Mor moved out

Sept-Oct: Tussle over special window for dollar sales to oil companies, funding for NBFCs

Around the same time, as the Nirav Modi fraud broke, the government hit out at RBI on supervision, drawing an almost-

immediate rebuttal with Patel seeking more powers to oversee public sector banks so that they are at par with their private sector peers.

In addition, the government has been insisting that RBI step in to provide relief to non-banking finance companies (NBFCs), which are grappling with a cash crunch after IL&FS defaulted on repayments. The central bank has refused to play ball.

What has also irked the central bank brass is the way in which Nachiket Mor was removed from the RBI board more than two years before his term was to end without formally informing him.

On Monday, the RBI board is slated to meet to discuss several issues in what will be the second such interaction in less than a week. Last week's meeting was stormy by most accounts with recently-nominated director and SJM activist S Gurumurthy seeking RBI's intervention to help small businesses, while government nominees made a detailed presentation on the need to bring capital norms in line with global standards instead of making them stiffer.

In remarks made on Saturday that were seen to be in response to Acharya's, although he didn't name RBI, finance minister Arun Jaitley said regulators need to have wide-ranging high quality discussion with all stakeholders. "I think, for any regulatory mechanism, stakeholder consultation has to be of a very high quality, which will probably lead to a revisiting of traditional thoughts and opinions. And that's why, (when) several regulators now publish their approach papers or tentative drafts, they hold hearings, meet individuals, meet groups of stakeholders together and improve upon what's being said." While the spat began with interest rates, and the government was upset as well for RBI for raising rates, it spilled over into regulation, something that the regulator believes is its exclusive domain.

A separate payments regulator has been another friction point with RBI stating its position publicly on why it did not support the move. In fact, it went to the extent of releasing its dissent note on a separate regulator on its website.