

After locking horns with the Centre, RBI looking for middle ground on many issues

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Finance Ministry representatives, RBI top-brass initiate parleys ahead of crucial RBI board meeting on Nov 19

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After the stand-off between the government and the RBI came out in the open, the Reserve Bank's central board members are believed to be making efforts to find a middle ground on a host of issues – including those related to tapping the central bank's reserves, relaxing the prompt corrective action (PCA) framework imposed on public sector banks, providing a separate liquidity window to non-banking finance companies, and autonomy – before its crucial upcoming meeting on November 19. Key central board members, especially Finance Ministry representatives and RBI's top-brass, have reportedly initiated parleys, apparently at the behest of the Finance Minister and the PM's Office in the run-up to the meeting.

“Earlier, differences between the government and the RBI used to be resolved behind closed doors. But now this public spat has created an extraordinary situation. This is not good for the than public posturing, is the need of the hour,” said a top banker.

Surplus transfer

According to reports, the government is seeking a surplus transfer of more than a third of the RBI’s ₹9.60-lakh crore worth of reserves to be utilised to recapitalise public-sector banks. These banks come out of the PCA framework and start lending.

Citing the example of Argentina, Viral Acharya, Deputy Governor, has warned that the transfer of excess reserves from the central bank to the government could prove to be catastrophic. He said that to respect the central bank’s independence will sooner or later incur the wrath of financial markets, ignite economic fire, and come to rue the day they undermined an important regulatory tool. Acharya made the point in a recent speech. In a snide allusion to Acharya’s remark, Economic Affairs Secretary Subhash Chandra Garg tweeted on November 2: “Rupee trading at less than 73 to a dollar, Brent crude at \$50 a barrel, and stock markets up by over 4 per cent during the week, and bond yields below 7.8 per cent. Wrath of the markets?”

NS Vishwanathan, Deputy Governor, in a recent speech, warned that any relaxation of prudential capital norms for public-sector banks could result in a reset of their credibility/standing in international markets.

The NBFC sector wants a separate liquidity window opened by the RBI on the lines of what was done in the US, where a troubled asset relief programme (TARP) was unveiled in 2008 for buying illiquid securities.

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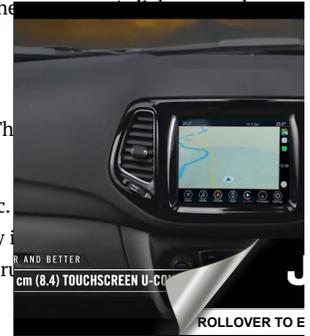


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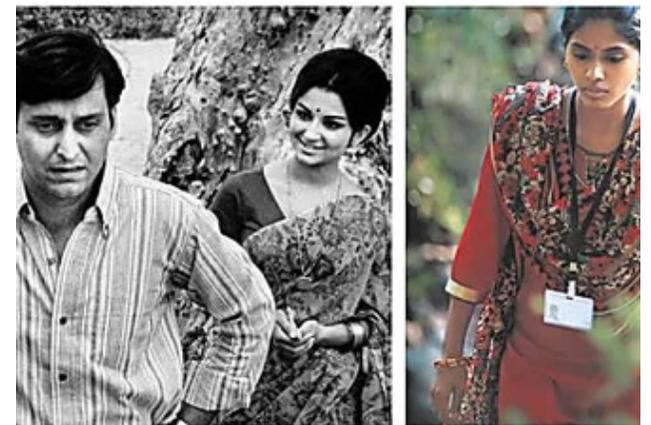
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