

# RBI fears special window for NBFCs may open door to misuse

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Written by [George Mathew](#) | Mumbai | Updated: November 1, 2018 7:04:26 am



The Finance Ministry statement follows its note to RBI Governor Urjit Patel citing its special powers over RBI under Section 7 (Express photo by Prashant Nadkar)

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The Reserve Bank of India, under pressure from the government to open a special liquidity window for non-banking financial companies (NBFCs) and housing finance companies, may have balked at such a move on fears that such a facility was open to misuse, sources said.

Once such a special window is opened, the RBI will have to provide liquidity to all companies approaching the central bank for funds. “There’s adequate liquidity available for the sector through normal channels. But we won’t be able to prevent companies as it is difficult to distinguish between the asset quality of NBFCs government sought the central bank’s views on the formula for calculation of its reserves and the consequent surplus transfer to the Centre to partly address the issue of liquidity shortage in financial markets.

The Finance Ministry statement follows its note to RBI Governor Urjit Patel citing its special powers over RBI under Section 7. “The autonomy for the Central Bank, within the framework of the RBI Act, is an essential and accepted governance requirement. Governments in India have nurtured and respected this. Both the Government and the Central Bank, in their functioning, have to be guided by public interest and the requirements of the Indian economy,” said the statement.

### **Explained | Section 7 of RBI Act: Never used in past, what powers does it give govt?**

The BSE Sensex, in the green during early trade, made significant gains after the Ministry announcement to close 550 points or 1.6 per cent higher at 34,442 on Wednesday. The RBI board is set to meet on November 19, 2018.

The Ministry statement made no reference to Section 7 of the RBI Act, which has never been invoked before. Section 7(1) of the RBI Act states: “The Central Government may from time to time give such directions to the Bank as it may, after consultation with the Governor of the Bank, consider necessary in the public interest.” This is seen as impinging upon the RBI’s autonomy and undermining the authority of the Governor.

The Ministry said that in its consultations, it places assessment on issues and presents possible solutions.

“For the purpose, extensive consultations on several issues take place between the Government and the RBI from time to time. This is equally true of all other regulators. Government of India has never made public the subject matter of those consultations,” it said.

“Only the final decisions taken are communicated. The Government, through these consultations, places its assessment on issues and suggests possible solutions. The Government will continue to do so,” it said.

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Tension between the Finance Ministry and the RBI flared up after RBI Deputy Governor Viral Acharya said in a lecture delivered last Friday that undermining the central bank’s independence could be “potentially catastrophic.” Acharya warned that “governments that do not respect central bank 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 institution”.

Jaitley had, on Tuesday, blamed the RBI for looking “the other way” when banks indulged in “indiscriminate lending” during 2008-2014, resulting in a “massive build up” of bad loans.

On the current crisis, the government's view is that the RBI's rigid rules have constrained the lending capacity of many state-owned banks and the central bank is unwilling to support the markets, which are gasping for liquidity in the wake of recent defaults in the debt markets.

The finance ministry has been pushing RBI to relax PCA rules, which impose certain operational and lending restrictions on weak banks in order to improve their health. A total of 11 out of the 21 public sector banks are currently under the PCA framework. Earlier this month, Reserve Bank of India Deputy Governor Viral Acharya had argued against any dilution of the PCA norms.

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