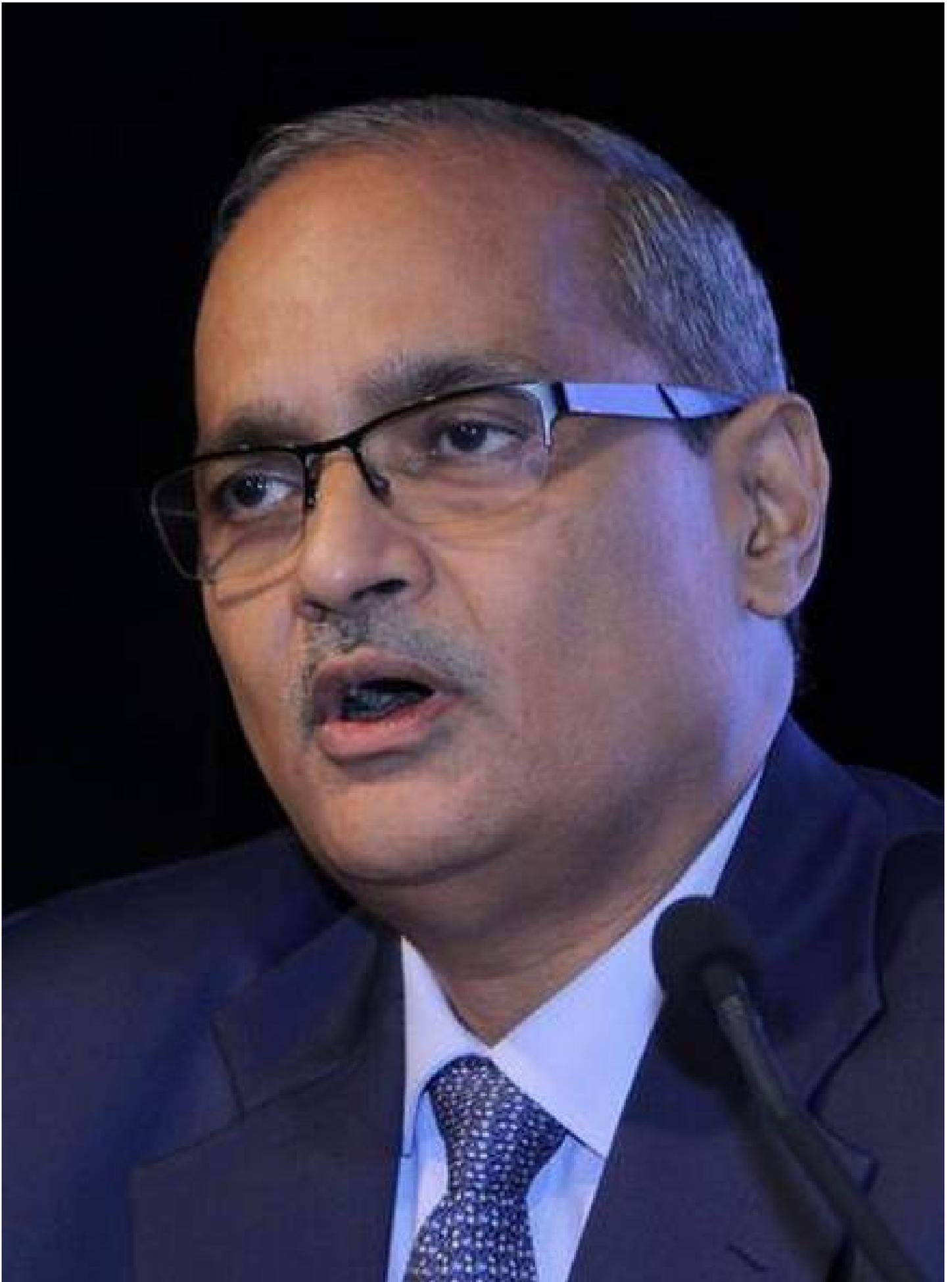




Compromising RBI's autonomy can lead to downgrade of India's ratings, warns JSW chief

SURESH P IYENGAR

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Seshagiri Rao, Joint Managing Director, JSW Steel & Group CFO - File photo

MUMBAI, DECEMBER 12

The government must maintain the autonomy of the RBI as global investors and rating agencies are keenly watching the developments.

Seshagiri Rao, Joint Managing Director, JSW Steel, and a former banker, told *BusinessLine* that any deviation in the autonomy of the RBI could lead to a possible downgrade of the country's ratings and adversely impact the economy, particularly at a time when the US and China are engaged in a bitter trade dispute.

As of now, Rao said it is not clear to rating agencies why Patel has resigned. If institutional independence is not maintained it is a worry for foreign investors and the country, he added.

"I do not think any government can compromise on the independence of an institution like RBI," he said.

Stating that the new RBI Governor has the job cut out for him, Rao said the issue today for the industry are the contradicting views of the RBI on liquidity and the ground reality.

The economy is seeing a slowdown due to liquidity constraints, which is impacting demand and leading to a delay in fresh investments.

While the RBI may be correct in saying that there is ample liquidity with banks, most of the public sector banks are not able to lend as they have been under the prompt corrective action (PCA) framework of the RBI, said Rao.

In April, the central government had allocated capital of ₹52,311 crore to 11 weak banks to maintain their minimum capital requirement, and put them under the PCA framework.

With 11 out of 21 public sector banks placed under the PCA framework, the liquidity with the banks are not percolating to the industry.

Public sector banks, which are outside the purview of the PCA, are not willing to lend due to lack of capital and non-performing asset overhang, he added.

Pumping liquidity into banks for onward lending to the industry is not working out. Both the RBI and the government, which have to provide the capital, should find a mid-path to resolve the liquidity crisis by allowing banks under PCA to lend, said Rao.

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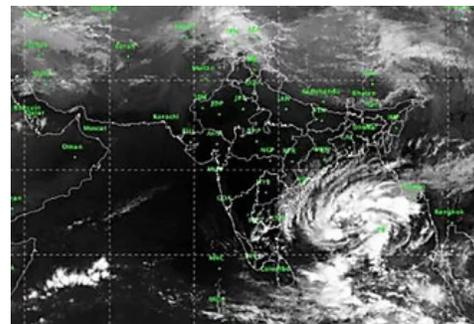
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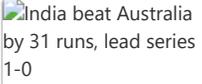
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