

Why RBI and government are fighting

When Raghuram Rajan exited the RBI governor's office in September 2016 and Urjit Patel was elevated from the deputy governor's position to the head of the central bank, it was thought that the government-RBI tussle would end. The belief was validated in November 2016 when the demonetisation was announced. RBI under Urjit Patel endorsed demonetisation.

Two years down the line, Urjit Patel's defence of the government has apparently turned into defiance of the government. Urjit Patel was considered the government's blue-eyed boy in the RBI as an answer to his rock star predecessor, who stonewalled all attempts of the government to get the bank regulator toe its line. The government and the RBI are speaking alien languages on the state and direction of Indian economy. On October 26, RBI deputy governor Viral Acharya virtually accused the government of interfering with the working of the central bank. On the other hand, Union Finance Minister Arun Jaitley blamed the RBI for unmanageable figures of stressed assets saying that it failed to check indiscriminate lending between 2008 and 2014 causing NPA crisis in the banking industry.

NPA Trouble

The slugfest between the RBI and the government has come to the fore now but it had been brewing, at least, since February this year, when the central bank issued a non-negotiable bad loan notification. The RBI order reclassified NPAs and set new norms of loan restructuring. A new 180-day deadline was set for declaring a loan as AN NPA. It said that after 180 days, the stressed account must go to the bankruptcy courts for settlement. The government considered the new regulations as very harsh that left public sector banks in the red. As of now,

11 out of 21 PSU banks are under the RBI watch-list. Two of them, Dena Bank and Allahabad Bank, are also facing restrictions on expansion of business.

Nirav Modi-PNB Scam

Around the same time, PNB fraud of nearly Rs 14,000 crore came to the light. Businessmen Nirav Modi and Mehul Choksi are accused of engineering the fraud involving several banks. The government openly criticised the RBI for the PNB scam. The government said that the RBI was lax in supervising the banking operations that resulted in PNB scam. RBI governor Urjit Patel promptly junked the charge saying that the government shields the PSU banks. Patel sought more powers to oversee public sector banks. He said the RBI has more powers over the private sector banks. Interest Rates The government wants the RBI to cut interest rates. It considers this as a necessity to give the much needed impetus to the Indian economy. But the RBI has a different view on the matter. The RBI has not only refused to bring down key interest rates but also raised them, much to the chagrin of the government, which believes that the central bank is pursuing a policy that goes against that of the finance ministry. A similar tussle is being seen in the context of non-banking financial companies (NBFCs). The differences became more pronounced in the aftermath of the Infrastructure Leasing and Financial Services (IL&FS) crisis. The government wanted the RBI to bail out the IL&FS as it defaulted on repayments. But the RBI refused to take the advice and toe the line. The RBI has also opposed the government's persistent demand for greater dividend from banks.

Personality-based confrontations

Two incidents stand out. Nachiket Mor was removed from the RBI board two years ahead of his tenure. The RBI says that he was removed without tending to the courtesy of informing him.

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