

RBI autonomy is 'essential', says Centre

Finance Ministry statement makes no mention of whether Section 7 of RBI Act has been invoked

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NEW DELHI

The Ministry of Finance has acknowledged that the autonomy of the Reserve Bank of India is an 'essential and accepted governance requirement,' in a statement issued on Wednesday. Significantly, it neither confirmed nor denied that it had issued directives to the central bank under section 7 of the RBI Act.

"The autonomy for the Central Bank, within the framework of the RBI Act, is an essential and accepted governance requirement," the Department of Economic Affairs of the Ministry of Finance said in a statement.

'Nurtured, respected'

"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



- The autonomy for the central bank, within the framework of the RBI Act, is an essential and accepted governance requirement, says the Ministry
- Both the government and the RBI have to be guided by public interest and the requirements of the economy

▪ Government has never made public the subject matter of its consultations. Only the final decisions taken are communicated, the Ministry adds

▪ Centre writes to the RBI on reclassifying NPAs for the power sector, the RBI's dividends to the Centre and seeking dilution of PCA norms to help increase lending to MSMEs

economy. For the purpose, extensive consultations on several issues take place between the Government and the RBI from time to time," the statement added. "This is equally true of all other regulators. Government of India has never made public the subject matter of those consultations. Only the final decisions taken are com-

municated. The Government, through these consultations, places its assessment on issues and suggests possible solutions... [and] will continue to do so."

Later in the day, Finance Minister Arun Jaitley said, "We need not answer more than we have said today. The statement says that the communication between the RBI

and the government are never made public. Only decisions are made public."

While speculation abounded on Wednesday about whether the Centre had invoked section 7 of the RBI Act, which would give the government the ability to direct the central bank's actions, the Finance Ministry remained silent on the issue. The Economic Affairs Secretary too declined comment.

"The Central Government may from time to time give such directions to the Bank as it may, after consultation with the [RBI] Governor, consider necessary in the public interest."

Section 7 of the RBI Act reads. "Subject to any such directions, the general superintendence and direction of the affairs and business of the Bank shall be entrusted to a Central Board of Directors which may exercise all powers and do all acts and

things which may be exercised or done by the Bank."

This Central Board of Directors, as per the Act, comprises a Governor and [not more than four] Deputy Governors to be appointed by the Centre, four Directors to be nominated by the Centre and one government official nominated by the Centre. Giving control of the RBI to its Board of Directors effectively gives control to the Central Government.

Finance Ministry officials said three letters have been sent to the RBI citing Section 7, without actually implementing it. These letters were to do with the Centre's desire for the power sector's non-performing assets to be reclassified, the issue of RBI's dividends to the Centre, and the government's desire for the Prompt Corrective Action norms to be eased so as to increase lending to the MSME sector.