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JOURNALISM OF HOPE
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RBI Rigmarole

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The Reserve Bank of India (RBI) has called its board meeting on November 19. Board meetings do not attract national attention. They were always a routine affair discussing dull agenda. They hardly attract national attention and were never sensational. The scheduled meeting of November 19 has got every potential of becoming an historical meeting in the 85 year history of India's central bank for more than one reason.

Aside from the rumour that the RBI Governor would prefer stepping down as he indicated he has been under stress, affecting his health, the Government of India (GOI) has also held out a threat that it would invoke the never-resorted-to Section 7 of RBI Act of 1935 to show him "who is the boss?"

It is likely, if things come to a head, both Governor Patel and Deputy Governor Acharya may have to resign as the October 26 speech of Deputy Governor, now on RBI's website, which rocked the economy was reported to have been cleared by Governor Patel. That would be "double header".

It would have a catastrophic effect, as the credit rating agency, the Fitch does not want to upgrade the last grading of "BBB-" given 12 years ago in 2006, on the grounds that fiscal position is weak and there are significant risks to India's macroeconomic outlooks. Now they have another reason: incursion into the autonomy. All rating agencies will have to revise their ratings!

The cause of reported ill health is well known. Also the causes, being more than one, of anger of GOI are also well known. The ever vigilant Press, the Fourth Estate in a democracy, an institution, which is independent, and of course the 24 hour round media, the TV are discussing the banking crisis for last three years; and the last 10 month non-stop sliding down of the rupee, which is attributed to falling standards in economic governance including the rising non-performing assets (NPA), or bad loans due to crony capitalism of yesteryears and "sudden disappearance" of well known "alleged defaulter-criminals escaping the country through "undetected channels ".

Rising NPAs

The public sector banks(PSBs), dominating the banking scene to the extent of 70% in terms of share of business with more than 80% of NPA of the entire banking system are responsible for banking crisis. According to Financial Stability Report (RBI 2018), gross NPA of PSBs as percent of gross assets have gone up from 12% as of January 2017 to 14.5% in January of 2018; and it is predicted to hit a higher figure close to 19% in March 2019, if uncontrolled. The *Economic Survey of 2016-17*, authored by Dr Arvin Subramanian, chief economicc advisor to GOI admitted that the ratio of India's bad loans position is the highest amongst the developing countries and with the sole exception of Russia (19%) in the developed world. Certainly it is not a record to be proud of!

The chief economic advisor also saw quickly the emergence of credit crunch developing as the banks were becoming increasingly reluctant hesitant to lend any more and add further to NPAs. He warned of infusion of capital in the sick banks in the public sector. He had a ready solution, as he had eyed the reserves in RBI. He suggested the reserves to be transferred to GOI for helping the sick banks.

This must have been an accepted and usual procedure in a socialistic state: one profit making public sector undertaking helping a loss making PSU. India has already travelled far and further away ever since the mid 1990s when economic reforms were undertaken. Yet the "old good practices" are never forgotten.

PCA Framework

The RBI which has been stung by critics that NPAs should have been dealt better, has introduced prompt corrective action (PCA) measures which laid down strict rules. They raised the bars. They relate to capital regulatory reforms the minimum common equity Tier 1 ratio requirement is 5.5%, as compared to 4.5% under Basel framework. There are other requirements as well. They relate to consumer credit loans and personal credit card loans. They are assigned a maximum of 125% risk weight as compared to 75%.

The GOI wants them all watered down. RBI is adamant. It is argued that in the past poor loan appraisals and weak recovery landed PSBs in trouble. The RBI does not want any repetition of history. Once bitten, twice shy! Claiming credit crunch and ostensibly more worried about upcoming elections, GOI wanted the norms to be relaxed, at least in regard to CET -1 ratio to 4.5% , so Rs 6 laky crore could be made available for overcoming the hurdles to credit flows.

Reserves

Another bone of contention is the reserves. The GOI wants the reserves of RBI, for infusion of capital into the 11 sick PSBs. The reserves are about Rs 9.44 lakh crores, comprising Rs 6.92 lakh crores which are foreign currency assets and gold revaluation, as they vary in value depending on the prevailing rupee exchange rate; and Rs 2.32 lakh crores under the head of contingency fund. These reserves, in general terms are applicable to all countries. They are meant for absorbing any unpredicted monetary losses; to sustain loss of other kinds due to both domestic and external shocks; they serve as a shock absorber in case of political instability and in the most unlikely event of any wayward governments coming into power similar to Zimbabwe‘s Mugabe; they are used for carrying out various functions including maintenance of domestic price stability and stability of the rupee; and above all independence. In the absence of independence, a dependent central bank for funds on government can never be able to say a firm no to "fiscal abuse" when government wants central bank to print money for their annual budget deficits.

The RBI is not willing to give away all capital they have built up over the years to "the hungry government to fund their expenditures". The general unwillingness (opposition would say straight no and the government in power would not like to disturb the apple cart) to privatize PSBs is a major hurdle to nation's progress. That is the albatross around the neck of any government, which would be carried.

So, the Board meeting on November 19 would be historic.

India has improved its ranking in "Ease of Doing Business" only very recently to reach 77th rank by jumping 23 places. Why one would like to erase the good performance record so soon (with 100 steps forward) by going 120 steps backwards**?**

Is it "vinasha kaale viparidha buddhi?" for a Prime Minister who started off well to depart from the antiquated socialistic policies to get out of the morass of poor growth, suddenly switching on gears to go back to those dark days of state-directed destructive policies of smashing institutions, which have proved their worth during the last seven decades?

The Indian bureaucracy, well versed in the art of the possible, knows well how to dodge the issue. They can appoint committees to study how to "water down PCA measures" and "find ways and means" how to share the capital.

If no time limit is fixed, the matter can be indefinitely postponed or shelved forever.

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