

Rifts and conflicts between the 'Mint Street and the North Block' are in the nature of the relationship they share and this has been evident in the past. But in present arrangement these raise a threat to RBI'S autonomy. While the heart of the issue is RBI's denial to give chance to growth on a risk of inflation the other reasons like Public Sector Bank control, Liquidity crunch, disputes over RBI reserves and payment regulations are not to be ignored.

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## Points for the motion :-

- **DEMONITIZATION RELATED MATTERS :-** RBI stated to Bloomberg that the decision to withdraw legal tender was agreed by the RBI board less than 3 hrs before the PM announced it for the public. Also over night declaration of crores of currency as illegal indicates that the government did not pay heed to central bank's suggestions pertaining to the grave problems such a measure could create.
- **RESIGNATION BY URJIT PATEL :-** EX-RBI Governor Urjit Patel resignation is clearly the consequence of the tussle between the GOI and RBI. Although he stated his reasons as being personal but it is deemed that his resignation was much anticipated due to the governments continued interference in RBI matters.
- **SECTION 7 OF RBI ACT :-** There were speculations regarding the exercise of Section 7 which provides government with the power to direct RBI for public interest. With Urjit Patel resignation this enactment seems very much probable. This will undermine the basic purpose of RBI being autonomous.
- **SETTTING UP OF INDEPENDENT PAYMENTS REGULATORY BOARD :-** The government has rejected RBI's proposal to maintain the existing system and has setup an Independent Payment Regulatory Board. The chairperson to this board shall be appointed after the consultation of GOI with the RBI governor in his ex-officio capacity. This clearly indicates how the government has set up a trap to sideline the RBI interference in this Board.
- **DEPUTY GOVERNOR ACHARYA'S SPEECH :-** The central bank feels that it being pushed to the corner with potential government policies and DG Acharya's open criticism of the government is just a reflection of interventions made by government

which curb the independence of RBI.

- **THE IMPORTANCE OF RBI :-** RBI has been an institution which has performed exceedingly well in the past years and despite there being differences there has never been a question about its independence. Thus of the current members on board are speaking up openly about the pressures the it is facing, it should not be considered as not well rooted.
- **STATEMENTS OF PREVIOUS RBI GOVERNORS :-** The former and hugely respected RBI governors including YV Reddy, Raghu Ram Rajan, D Subbarao have always hinted the need for RBI to stay devoid of government interference for nations continued macroeconomic stability.
- **REVALUATION RESERVES ARE NOT FREE RESERVES :-** The major role of RBI pertains to regulation, for this its needs to maintain a healthy balance sheet. What is being perceived as excess capital is actually the gold and currency reserves. Thus revaluation of the foreign assets can not be used as free reserves.

#### Points against the motion :-

- **BLANK INDEPENDENCE CAN NEVER BE PROVIDED :-** The RBI is independent in its operational activities but has to act under the government rules and regulations. Thus the created can never be independent of the creator. The RBI can be autonomous but not omnipotent.
- **THE FIGHT IS BETWEEN THE RBI BOARD :-** A major section of the newly appointed non -permanent members of the RBI are of the view that their is a liquidity crunch and thus a need to increase liquidity. The government is just being framed into the picture. The conflict maybe due to the inconsistency of the Board.
- **RBI's FAILURE TO EXERCISE REQUIRED CONTROL :-** The RBI has failed to exercise required control over the indiscriminate lending by public sector banks during 2008-2014 which calls for government intervention.
- **GOVERNMENT RESPECTS RBI'S AUTONOMY :-** The government has given the statement that it gives due respect to the autonomy of RBI but it has to be guided by the motto of public welfare.
- **SUGGESTION OF CHIEF ECONOMIC ADVISER :-** Arvind Subramaniam's statement also suggests that RBI's excess capital can be used to strengthen the capital of the under-performing commercial banks.
- **PROPOSED CHANGES :-** Changes have been promised by the Finance Ministry to strengthen the Prompt Corrective Action policies for stressed banks.

**Conclusion :-**

Although there is definitely a threat to RBI's autonomy. But to maintain a healthy international relationship and a prospering external trade, it is imperative that the GOI and RBI should settle the matter as both have to work in unison for the economic stability. With the RBI board meeting held on 19 November 2018 the same has been resorted for the greater interest of the economy. The key issues including Capital Requirements of Central bank and the Government ; Financing norms for SME's and laying down of rules for suppressed banks are expected to settle down with the reconciliation of the Government and RBI.

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