

RBI-Centre Tussle - II

What is the issue?

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The role of the Board of Directors of the RBI and their powers with respect to the RBI Governor has come into focus in the ongoing tussle between the Centre and the Central bank.

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Where does the balance of power lie between the Governor and the board?

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- As per RBI Act, the board is made up of the following members -

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1. The Governor and 4 Deputy Governors
2. 4 directors (one each from the four regional boards of the RBI)
3. 10 directors to be nominated by the Centre
4. 1 government official nominated by the Centre.

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- The RBI Governor draws his powers from Section 7 (3) of the Act, wherein he can exercise all powers and do all things that may be exercised and done by the RBI.
- However, under Section 58, the RBI board can make regulations that will give it the powers to override those of the Governor's.
- This is subject to two important conditions.

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1. The regulations have to be consistent with the provisions of the RBI Act, i.e the board has to act within the framework of the Act.
2. These regulations have to go through an elaborate approval process before they become law (Section 58(4)).

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- The board has to forward the regulations to the Centre, which will have to table them in both Houses of Parliament.
- Members have a period of 30 days within which they can either suggest modifications to the regulations or annul them.
- Also, [Section 7](#) (1) confers powers on the Centre to issue directions to the RBI from time to time in the public interest after consultations with the Governor.
- If this section is invoked, it will become untenable for the Governor to continue in his position.

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Why there was not any tussle before?

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- The RBI Board has always functioned in an advisory role with the understanding that the Governor would consider its advice while making policy decisions.
- The fact is that neither Section 7(1) nor Section 7(3) has been unleashed since the existence of the RBI.
- In the past, disagreements between RBI Governors and governments were sorted out quietly behind the scenes.
- This spirit of accommodation between the RBI and the Centre is absent now.
- It may not be very difficult for the Centre to have its way by using the board's powers to override the.

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- But such a move will not only set a bad precedent but also lead to several ticklish situations.

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- The RBI Board also has several representatives from industry and there will be a conflict of interest if industrialists are members of committees that run the affairs of the monetary authority of the country.

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What should be done?

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- Thus the Centre as the spender and the RBI as the creator of money have to be naturally separated and hence the independence bestowed with RBI has to be maintained.

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- Institutional decision-making autonomy of the RBI is a prerequisite, indeed a necessity for the economic system to function in a sustainable manner.

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- The RBI has put in place a Monetary Policy Committee (MPC) in 2016.

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- Before that, be it a rate cut or a hike in the CRR, it was all about the nod from the governor.

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- However, in MPC, the government not only got a formal voice and vote in the key decision-making of the RBI but also made the RBI accountable to the GOI thereby curtailing the absolute powers of the governor.

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- Thus to end the tussle, the board can be made to discuss and decide on the overall policy direction without getting into operational matters.

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- Instrumentalities of implementation and action should be rest with the RBI management, with sufficient powers to the governor.

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- Also, there is a need to strengthen the governance framework in RBI along with building a layered channel of interaction and communication from below.

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Source: The Hindu, The Indian Express

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