Section 7 of the RBI Act

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Why in news?

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The Central government has reportedly initiated steps towards invoking its powers under Section 7 of the RBI Act of 1934.

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What does the section contain?

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- It is a provision under which the government can give directions to the RBI to take certain actions in the public interest.
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- This provision has been built into the law governing not just the RBI but also regulatory bodies in other sectors.
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- Section 7 has two parts - consultation and then issuing a direction to the RBI for taking some action in public interest.
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- Under it, the Central Government may from time to time give such **directions** to the Bank as it may consider necessary in the public interest.
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- This has to be done only after consultation with the Governor of RBI.
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- 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**.
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- The Central Board of Directors in turn will exercise all powers and do all acts and things which may be exercised or done by the Bank.
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- The Central Board of Directors 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.
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- Giving control of the RBI to its Board of Directors effectively gives control to the Central Government.
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- Until now, however, the government has never exercised its powers under Section 7 of the RBI Act.
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What has led to this scenario?

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- The central government issued three letters to the central bank in the last one month for consultation under Section 7 of the RBI Act.
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- The First letter pertained to exemption for power companies from new stressed asset norms.
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- The second one was related to dilute capital threshold norms of the prompt corrective action framework.
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- The third one was pertaining to more capital to the government from the reserves of the central bank.
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- However, RBI has refused to provide any leeway to stressed borrowers or give in to the demand of higher dividend by the government.
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- RBI on its part said that it has responded to all the communications that were sent by the government and has decided to maintain its stance.
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- This made the government to invoke its powers and initiate consultations under Section 7.
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What should be done?

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- While RBI Governors had conflicts with the government earlier too, it had

never reached the extent of initiating consultations under Section 7.
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- Independence to the central bank is granted by the government with a specific purpose.
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- Experience has also shown that trust and confidence will improve if the spending authority, viz., the government is separate from the money creating authority, that is, central bank or monetary authority.
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- The government has now started the first step under Section 7, which is to start consultations with the RBI Governor on issues such as easing the PCA framework, providing more credit to small units.
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- The next step lies in issuing a directive to the RBI, something which has never been done so far in the history of the RBI.
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- The finance ministry recently issued a statement emphasising on RBI's autonomy, but added that it would continue consultations.
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- Thus the autonomy for the central bank, within the framework of the RBI Act, is an essential and accepted governance requirement and the central government should nurture and respect it.
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Source: The Hindu, The Indian Express

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