Our Views

Eventful 2 years for RBI governor Das: Well begun, and a lot done!

Earlier this week, Governor Shaktikanta Das completed two years at the helm of the Reserve Bank of India (RBI).

In a flashback, two years ago, around the time the Governor took charge the financial market was indeed in choppy waters. The ILF&S and Yes bank crisis was looming large. A major liquidity crisis was born out of this as NBFCs found it difficult to raise funds from banks and certain sectors were faced with severe liquidity squeeze. Though the inflation was under control and subsiding, interest rates were high with repo rate at 6.5% as RBI had retained its calibrated tightening stance. Most of the investments in the preceding two years were government-driven and corporate loan offtake was low with a host of growth sectors like telecom and power being under stress. At a time when the economy needed credit growth and spending, a credit squeeze was counter-productive resulting in a sharp deceleration in credit growth. Rumours of a rift between RBI and the Government over dividend pay-out and other matters were ripe. The Supreme Court had struck down the Central Bank's famous February 12th circular on defaulting companies.

In contrast, today we are in quite a happy space with a robust post-covid economic recovery, lowest interest rates in the last 20 years, a system plush with liquidity, a stable currency, a higher foreign exchange reserve, a more stable banking system with resolution of some of the financially stressed institutions, a relieved non-banking financial sector and credit and economic growth taking Centre-stage with the central bank.

Some of the important strategic moves and certain proactive steps by the RBI in the past two years helped stabilise the markets. A major crisis was averted with the **resolution of the Yes Bank issue**. RBI's decisive move to bring in State Bank of India for infusion of Rs.2,450 crores into Yes Bank for a 49% stake helped fix the problem. Firm decisions like imposition of a 3-year lock-in for all investors **and** extension of a special liquidity facility (SLF) of Rs. 50,000 crores (which was also later repaid in full) were some very well thought through steps executed under a newly created regulatory framework for this purpose.

To **address the crisis brewing out of the DHFL** issue, RBI swiftly moved to supersede the board of DHFL and appointed an administrator. Process for resolution of DHFL under the amended Insolvency and Bankruptcy Code (IBC) was initiated. The **amalgamation of Lakshmi Vilas Bank with DBS** was in my recollection an unprecedented step where the central bank permitted a foreign bank to take-over a domestic bank. This averted another crisis that was evidently looming in the banking sector.

Just as things were settling down a couple of weeks into the Yes Bank resolution, **Covid-19** hit the country like a bolt from the blue and the markets were in complete disarray. Taking control of the situation, the Government and the central bank worked in an orchestrated manner to pull the country swiftly out of the slump. The RBI ensured that there is enough liquidity in the market by infusing liquidity through the TLTRO schemes and reducing the cash reserve ratio. Slashing of repo rate has led the country to one of the lowest interest rate regimes in recent times. Measures like moratorium on loan repayments and emergency credit guarantee line wherein RBI supported the government has helped businesses survive the pandemic.

Interestingly, immediate priority didn't deter RBI from taking their eyes off from the long term strategic initiatives. One such major initiative was the recommendation of the internal working group to review extant ownership guidelines and corporate structure for Indian private sector banks. RBI has currently invited comments on the report till January 12, 2021. Of course, there are other areas still to be attended to like improved governance of the public sector banks either by way of privatisation in consultation with the Government or through consolidation for which recommendation are readily available in P J Nayak Committee report. A digital-only bank format like in other emerging economies also needs attention given the high penetration of the mobile telephony in the country. A long term prescription for NBFCs will be required as this sector is always vulnerable to market realities. Development of the corporate bond markets to help finance long term infrastructure is also requires focus.

Conclusion

Undoubtedly, the last couple of years have been some of the most eventful years in the Indian financial markets. But the grit with which the central bank responded to every situation is undeniably applaudable. Of course, as we all know some of these aggressive moves may have other implications. Inflation is inching up and is becoming somewhat sticky. It will indeed be another challenge for the Governor to maintain lower interest rates alongside reigning-in inflation. Am sure, like on multiple occasions in the last two years, he will pull a rabbit out of his hat and manage the situation.

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