



Central bank recap

Urjit Patel provides reassuring signals on NPAs and the RBI-Centre détente

There are two important takeaways from the deposition of Reserve Bank of India Governor Urjit Patel before the Parliamentary Standing Committee on Finance on Tuesday. First, the banking industry is over the hump on non-performing assets (NPAs), which peaked in the quarter ending March 2018 at 11.18% of advances. Both gross and net NPAs have registered a decline for two consecutive quarters – June and September 2018. Crucially, there has been a sharp fall in slippages (fresh NPAs added to the existing heap) from 7.3% in March 2018 to 3.87% in September. This is certainly good news as it indicates that the skeletons are mostly out of the cupboard now. Of course, there is still the onerous task of resolving the bad loans stock, which is at a little over ₹10 lakh crore now. Profitability of banks will continue to remain under stress as they provide for the bad loans in their books and/or take hair-cuts on recoveries through the insolvency process. Meanwhile, banks will also have to be wary of their small loans portfolio, especially those made under the Pradhan Mantri Mudra Yojana, which already add up to ₹6.77 lakh crore. These will need close monitoring.

The second important aspect of Mr. Patel's deposition was his spirited defence of the RBI's autonomy. Though he was careful not to say anything that would break the détente forged by the Centre and the central bank at its last board meeting on November 19, he made three forceful points: that the RBI's autonomy is important to protect depositors' interests; monetary policy has to be the exclusive domain of the RBI; and its reserves are central to maintaining its AAA rating. These statements are probably aimed at nipping in the bud any attempts to change the governance structure of the central bank. After the last board meeting, there have been reports that the Centre is planning to push for board committees to be set up to "assist" the RBI in the discharge of its work. Monetary policy is anyway the preserve of the Monetary Policy Committee created two years ago under the RBI Act, but there are other equally important functions which the Centre may be attempting to control through the board. The issue of autonomy is clearly the gorilla in the room and driving it out is not going to be an easy task. Yet, for the Centre and the RBI there is no alternative but to continue talking on this subject even while ensuring that it does not cast a shadow over their other respective roles and responsibilities. The issue of RBI autonomy is not something that first emerged during this government's tenure, nor is it likely to be solved in its remaining tenure.

Dire strait

Russia must be persuaded to lower tensions with Ukraine

Russia's capture of three Ukrainian naval ships and over 20 crew members in the disputed Azov Sea has refocused international attention on the conflict on Europe's eastern corridors. The rapid escalation in tensions following the flare-up is evident. Kiev has declared martial law and demanded that the sailors be treated as prisoners of war. A court in Russian-annexed Crimea, meanwhile, has ordered many of them to be held in pre-trial detention, charging them with illegally entering its territorial waters. Ukraine insists that the patrol of the Kerch Strait, where the vessels were impounded, was authorised under a bilateral agreement with Moscow. A new bridge over the strait that connects mainland Russia with Crimea has raised concerns about Moscow's greater control and influence in the region. The latest incident coincides with the anniversary of the November 2013 Maidan Square protests in Ukraine demanding integration with Europe, which was the prelude to Russia's invasion of Ukraine's Crimea in 2014. The protracted conflict has so far claimed about 10,000 lives and displaced millions, and no lasting resolution is in sight. The 2014-15 Minsk peace accords prohibited air strikes and heavy artillery firing. But the dispute has dragged on into a smouldering low-intensity combat. The Ukraine-Russia conflict has also widened religious schisms. The independence granted to the Ukrainian Orthodox Church from the Russian entity in October was criticised by Moscow. In turn, the election this month of the legislatures of two breakaway enclaves of Kiev, with Moscow's endorsement, drew criticism from Ukraine, leading European powers and the U.S. as violations of the Minsk accords.

There has been renewed Western diplomatic pressure since the weekend's skirmishes, with the UN Security Council and NATO calling on Moscow and Kiev to de-escalate tensions. But besides forcing Russian President Vladimir Putin to toughen his rhetoric *vis-à-vis* the big powers, the hardships from the economic sanctions since Crimea's occupation have achieved little by way of confidence-building in the region. European powers are divided between those advocating greater diplomatic engagement with the Kremlin and others wanting to press with further sanctions to punish perceived Russian political interference. But there has been little appreciation of the provocation for Moscow from NATO's continued expansion into the former Eastern Europe and the erstwhile USSR. The geopolitical imperative of greater engagement with Moscow has never been more urgent, as hawks in the U.S. administration make no secret of their preference for confrontation over dialogue. The recent escalations could serve well the leaders of both Russia and Ukraine to divert attention from the sagging popularity levels at home. Ukrainian President Petro Poroshenko faces a general election next year, which, it is widely forecast, he will lose. But the humanitarian situation arising from the continuing conflict brooks no delay in arriving at a speedy resolution.

In a spirit of accommodation

The RBI, the RBI board and the government must understand the limits to which they can push each other



C. RANGARAJAN

The saying, 'all's well that ends well', appears to be most appropriate in the case of the recent spat between the Reserve Bank of India (RBI) and the government. However, the agreement arrived at could as well have been settled before things went public. Even though the agreement itself has raised certain fresh questions, by and large it is a satisfactory one. Without going into the merits of the issues raised, two important questions have arisen, which relate to the relationship between the RBI and the government and between the RBI management and its board. Even if one cannot come to definitive conclusions, it is important to note the ramifications of the issues raised.

Earlier episodes

Section 7 of the RBI Act, in a sense, sets out the relationship between the government and the RBI. This section gives the government the right to issue directions to the RBI in public interest. Strangely, the framers of the Act seemed to have had in mind frequent use of the section as it says: "The central government may from time to time give such directions..." Leaving that aside, it is a fact that the government had not issued such directions. But it does not mean that the government did not have its way. When Benegal Rama Rau resigned as RBI Governor in 1957 on an issue on which he differed from the government, Jawaharlal Nehru wrote to him: "You have laid stress on the autonomy of the Reserve Bank. Certainly it is autonomous,

but is also subject to the Central Government's directions... Monetary policies must necessarily depend upon the larger policies which a government pursues. It is in the ambit of those larger policies that the Reserve Bank can advise."

The tone of the letter was harsh. Similarly, some years later when another Governor, H.V.R. Iengar, raised the issue of ad hoc Treasury Bills, Finance Minister T.T. Krishnamachari said: "What to my mind is necessary is to ensure that Government policy is formulated in this respect after very full discussion with the Reserve Bank and that the latter is kept informed from time to time of any changes that Government feel called upon to make before they are made."

These episodes effectively set the tone and nature of the relationship between the government and the RBI. In one more instance, the RBI, in 1985, decided to allow banks the freedom to fix the interest rate on term deposits up to maturity of one year. The government was consulted before the circular was issued. Later, the government changed its mind. Of course, there was some uneasiness among public sector banks and the freedom given was not properly managed. The government wanted the RBI to withdraw the circular, which was done. Governor R.N. Malhotra and I, at the time, Deputy Governor of the RBI, agonised over the issue for several hours before writing the new circular withdrawing the earlier one. After issuing the new circular, I wrote to the Finance Ministry reiterating again why we had taken the earlier decision. Monetary policy measures were never announced without the concurrence of the Finance Minister.

The recent change in the monetary policy framework setting up the Monetary Policy Committee



and giving it full freedom to determine the policy rate is a giant step forward in terms of giving the RBI autonomy. Literally, the Finance Minister gets to know the decision along with others.

A distinction

But it must be noted that the first step in this direction was taken by Manmohan Singh when he was the Finance Minister. When I approached him to do away with the system of the issue of ad hoc Treasury Bills which had the effect of monetising fiscal deficit, he readily agreed to this. It was this act of statesmanship by Dr. Singh which put the RBI on the road to autonomy. There is, however, a distinction between autonomy as a monetary authority and autonomy as a regulator.

In the first case, autonomy has to be full once the mandate is given. In the second case, autonomy is somewhat blurred because the mandate is broad and vague. However, coming to the issues that were thrown up in the current spat, these are mostly operational and it would have been unwise for government to use Section 7 to issue instructions. It would have sent out the wrong signals both at home and abroad. It is good that the government has desisted from using Section 7. Nevertheless, one must say that Section 7 hangs like the sword of Damocles. It is impor-

tant to have continuous and sustained dialogue, and an atmosphere of give and take is much needed.

RBI and board

The second issue is about the relationship between the RBI management headed by the Governor and the board. The debate arose because of the contentious issues between the government and the RBI being referred to the board. The question that has been raised is whether the board as it is constituted today can discuss such issues and compel the Governor to act according to the majority view.

In order to understand the relationship between the government and board, we have to go back to Clause 2 of Section 7, which says: "The affairs and business of the Bank shall be entrusted to a Central Board of Directors which may exercise all powers and do all acts and things which may be exercised or done by the Bank."

However, Clause 3 says: "Save as otherwise provided in regulations made by the Central Board, the Governor... shall also have powers of general superintendence and direction of the affairs and business of the Bank and may exercise all powers and do all acts and things which may be exercised or done by the Bank."

Some argue that Clause 3 abridges the powers of the board. To me, the right way of interpretation is that both the board and the Governor have concurrent powers in almost all matters. The board has members nominated by the Central government from various walks of life, including industry. It does create a problem. This can result in a conflict of interest because the actions taken by the RBI could directly affect their interest. Therefore, the tradition that had evolved is that the board has largely functioned as an adviser.

Two things need to be clarified in this context. First, it is not as if the board has not passed resolutions on matters which are operational and policy oriented. The change in the Bank rate in the past had the prior approval of the board. In fact, in the weekly meetings of the RBI Board, the first resolution used to be on the Bank rate. But with the Governor's concurrent powers, in the past, on occasions, the Bank rate had been changed without going to the board. Second, strictly speaking, the board has the powers to discuss and even pass resolutions, which have been done. But given the nature of the board and the interests of the members, it becomes difficult to let the board to take binding decisions.

Endnote

It is, however, true that in the case of the Federal Reserve System in the U.S., the board does take decisions with voting if necessary. But then the nature of the board is very different. Section 7 is a mix of things. First, it gives powers to the board, and second, it gives powers to the Governor as well. The way the relationship between the board and the Governor has evolved over time in India is a good one. The board by and large has played an advisory role.

Against this background, while the Governor can act on his own, he must listen to what the members feel and the sense of the board must be fully reflected in his actions. The crux of the problem is that the RBI, the board and the government must understand the limits to which they can push. A spirit of accommodation must prevail.

C. Rangarajan is former Chairman of the Economic Advisory Council to the Prime Minister and a former Governor, Reserve Bank of India

Without maternity benefits

The government's maternity benefit programme must be implemented better and comply with the Food Security Act



ADITI PRIYA

Yashoda Devi was five months pregnant with her third child when we met her in Jharkhand in June. She was in extreme pain. The doctor had told her that she was very weak and had advised her to improve her nutritional intake. But Ms. Devi did not have money to follow the doctor's advice.

Not serving its purpose

Ms. Devi was one of the 98 women we interviewed in the course of a small survey in 12 villages spread across two blocks of Jharkhand: Manika in Latehar district and Khunti in Khunti district. We enquired about the financial and physical hardships experienced by the respondents during pregnancy and delivery, and also studied the implementation of the Pradhan Mantri Matru Vandana Yojana (PMMVY), a maternity benefit programme, nearly one year after it

was officially launched.

Under the National Food Security Act (NFSA) of 2013, every pregnant woman is entitled to maternity benefits of ₹6,000, unless she is already receiving similar benefits as a government employee or under other laws. The PMMVY was announced by Prime Minister Narendra Modi on December 31, 2016. Unfortunately, it violates the NFSA in several ways. First, the benefits have been reduced from ₹6,000 to ₹5,000 per child. Second, they are now restricted to the first living child. Third, they are further restricted to women above the age of 18 years.

The scheme largely defeats the purpose it is supposed to serve: according to a recent analysis, it excludes more than half of all pregnancies because first-order births account for only 43% of all births in India. In our sample, less than half of the women met the PMMVY eligibility criteria. Among those who were eligible, a little over half had applied for maternity benefits.

The application process is cumbersome and exclusionary: a separate form has to be filled, signed and submitted for each of the three instalments, along with a co-



py of the applicant's mother-child protection card, her Aadhaar card, her husband's Aadhaar card, and the details of a bank account linked to her Aadhaar number. The compulsory linking of the applicant's bank account with Aadhaar often causes problems. Further, the PMMVY provides little assistance to women who lose their baby, because the successive payments are made only if the corresponding conditionalities are met.

Many hardships

The worst form of hardship reported by pregnant women in our sample, among those related to lack of funds, was the inability to improve their nutritional intake or even to eat properly during pregnancy.

Ms. Devi, during and before her second pregnancy, was working in someone else's field where she was paid in kind (5 kg of grain per day). This time, as she was in pain, she was unable to work for wages during her pregnancy. This reduced the family's income, already strained by the last delivery's debts when they had to spend more than ₹12,000 by borrowing and selling assets. Ms. Devi said that if she had received maternity benefits under the PMMVY, she could have used the money to take care of her health and eat nutritious food as advised by the doctor. Like her, 42% of respondents in the sub-sample of women who were working for wages before pregnancy with an average wage of ₹126 per day of work could not work during their pregnancy and earned zero wages. In our sample, on average, respondents spent ₹8,272 on their deliveries alone. Half of the respondents who had spent money during delivery or pregnancy said that they had to borrow money to meet the expenses. It was also common for the families of the respondents to sell assets or migrate to cover these costs. The PMMVY could help protect poor families from

these financial contingencies.

The provision for maternity entitlements in the NFSA is very important for women who are not employed in the formal sector. The PMMVY, however, undermines this provision due to the dilution of the entitled amount and the exclusion criteria. Even in this restricted form, the scheme is yet to reach eligible women as the implementation record has been dismal till date. In our sample, 30 women had applied for maternity benefits, but none of them had actually received any PMMVY money. No doubt some women did receive PMMVY benefits in both districts by June (this was confirmed by the block offices), but the numbers were so small that none of them emerged in our sample. The scheme seems to be achieving very little for now, in Jharkhand at least. There is an urgent need for better implementation as well as for compliance of the scheme with the NFSA. Maternity benefits should be raised to ₹6,000 per child at least, for all pregnancies and not just the first living child.

Aditi Priya is an MA student at the Delhi School of Economics

LETTERS TO THE EDITOR

Letters emailed to letters@thehindu.co.in must carry the full postal address and the full name or the name with initials.

Picking up the threads

The huge losses and damage that Tamil Nadu has sustained following Cyclone Gaja show that traditional land holding patterns have fragmented agricultural lands ("Desperate coconut farmers turn to outsiders for help", November 28). Since agricultural land ceiling is still in force, perhaps business leaders in the State should consider assisting those affected by forming mega-cooperatives on the lines of the Anand/Amul model and make investments in agricultural lands. Shares can be distributed and employment given to at least one member of a family. Once fragmented lands emerge as a mega block of agricultural land, mechanised agro-operations can commence. Shares as well as returns from cooperative shares can be divided to suit requirements of nuclear families. The cooperative model in some tea

plantations in the south can be used as a template. It is such actions that will be more meaningful than mere donations towards relief.

R. MADHAVAN,
Chennai

Health-care blueprint

It is fine to adopt cutting-edge technology especially in health care, but the moot point is, will it be beneficial to all sections? India is still unable to meet the minimum World Health Organisation requirement in terms of the necessary doctor-patient ratio. Also, using cutting-edge technology in medicine without having the required infrastructure in place will be of no use. The technologies talked about call for stable Internet connectivity across the length and breadth of the country. In my opinion, the way ahead should be in reaching the minimum requirements of the WHO in order to provide proper

medical facilities for one and all and then focussing on the infrastructure for new technology (Editorial page, "A prescription for the future", November 28).

VENIKA SINGHAL,
Noida

Circulation figures

My congratulations to *The Hindu* on recording a 20% growth in circulation this year and consolidating its position as south India's largest-selling English newspaper (Page 1, "Numbers don't lie", November 28). I am running 77 and am unflinchingly habituated to reading this daily – a habit which began since my school days in the 1950s. There is no doubt that its growth will continue to flourish every year as readers can look forward to quality and variety.

R.M. MANOHARAN,
Chennai

■ A 20% growth in circulation over six months is a remarkable achievement. I

have been a devoted reader for well over 70 years. We were living in a nondescript village, Mannuthy, about 6 km from Thrissur, Kerala, and looked forward to the paperboy "throwing" the paper into our courtyard shouting the words, "Indu paperu". He would have collected the *dak* edition of the previous day from Thrissur railway station. Many years later, as an adult, I was in Hong Kong for two years on an Army-sponsored course. I used to collect a copy of the daily from the Indian Consulate. In the early 1980s, I was posted at a Corps HQ in the east. On a routine visit, while crossing the snow-bound Sela Pass, I spent time with a detachment of the Madras Regiment. Over a cup of coffee, I asked a young officer whether he wanted anything from the Corps HQ. His reply: "Please sir, get us a copy of *The Hindu*." There was also a time when I was not receiving my copy in Chandranagar, Palakkad, as the agent couldn't care less. I

complained online to the Editor. The next day, the Regional Manager of the daily's Kozhikode office assured me that it would be delivered to any grocery shop of my choice. That's customer care, I think.

C.V. VENUGOPALAN,
Palakkad, Kerala

■ That there is credible data to show that *The Hindu* is steadily growing and also expanding is heartening. It is a pleasure for many readers to be a part of this success story.

G.T. SAMPATHKUMARACHAR,
Mysuru

■ The daily is widely popular in eastern India as well. Being a Patna-ite and a regular reader, I can vouch for this. The paper is held in high esteem by youngsters, especially students. It is rich in facts, with unbiased editorials, helping them get a good perspective of life around them. I am a second year English Honours student and have been reading *The Hindu* for a

little over a year, based on the recommendation of my father who has been an avid reader since his college days. It has helped improve my vocabulary, writing skills and fluency in the English language.

TUSHAR ANAND,
Danapur, Bihar

Women's cricket

The allegations that cricketer Mithali Raj has levelled against certain persons in the cricketer establishment are disturbing ("Sport" page, "Mithali 'utterly dejected, depressed'", November 28). The explanation by the captain of the team, Harmanpreet Kaur does not sound convincing. For the sake of Indian women's cricket, one hopes that factors such as ego, jealousy and parochialism are kept out. The BCCI needs to conduct a thorough and impartial inquiry.

G.G. MENON,
Tripunithura, Kerala

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