



Dispute Between Government and RBI

For Prelims: [Reserve Bank of India \(RBI\)](#), RBI Governor, [Repo Rate](#), [Reverse Repo Rate](#), CRR

For Mains: Working of RBI, Key Reasons for Tussle between RBI and Central Government

[Source: IE](#)

Why in News?

Recently, the tenure of [Reserve Bank of India \(RBI\) Governor Shaktikanta Das](#) concluded in December 2024, characterized by some friction with the government towards the end of his second term.

- The disagreement between the **RBI and the government** arose from the central bank's decision to **refrain from cutting policy rates**, despite the economic slowdown and the government's appeal for steps to boost **GDP growth**.

Note: The **Appointments Committee of the Cabinet** has approved the **appointment of 56-year-old Sanjay Malhotra**, currently serving as Revenue Secretary in the Finance Ministry, as the **26th Governor of the Reserve Bank of India**.

What are the Key Issues Between RBI and the Central Government?

- **Easing Norms of Prompt Corrective Action (PCA):** The government urged RBI to exempt power companies and ease lending rules under [PCA](#) to boost credit for MSMEs, but the RBI has often opposed such measures.
 - Arguing that relaxing norms under PCA could undermine the efforts to address the **Non-Performing Asset (NPA) crisis**, which had become a significant challenge for the **Indian banking system**.
- **Section 7 of RBI Act, 1934:** The government, under **Section 7 of the RBI Act**, can direct the RBI in public interest, but its rare invocation has raised concerns about undermining RBI's autonomy.
 - While the government prioritizes short-term growth through measures like [lowering interest rates](#), the RBI focuses on [inflation control](#), [price stability](#), and long-term financial stability, leading to occasional policy tensions.
- **RBI Surpluses:** RBI earns income from **bonds and retains part of the surplus** for buffers like the **Contingency Fund and Asset Reserve**.
 - It is seen that the government often demands higher dividends, arguing excess reserves, while the RBI warns of inflation risks and threats to macroeconomic stability.
 - Surpluses also act as a safeguard against currency value fluctuations and gold depreciation.
- **Regulatory Authority and Institutional Turf:** The creation of bodies like the [Financial Stability and Development Council \(FSDC\)](#) has raised concerns within the RBI about its **diminishing role in**

financial regulation.

- Moreover, there is conflict over the issue of government influence in the appointment of key RBI officials, with the central bank expressing concerns that such **interference challenges its independence**.
- **Issue over Forex:** The RBI has resisted the government's calls to use [foreign exchange reserves](#) for [fiscal deficits](#) or loan write-offs, fearing it could undermine **financial stability** and weaken the rupee, leading to disagreements on reserve management.
 - RBI opposes this demand by citing risks to **financial stability and the rupee's strength**. Additionally, the government's push for [financial inclusion](#) and [priority sector lending](#) often conflicts with RBI's focus on maintaining overall financial stability.

What Were the Previous Conflicts Between RBI Governors and the Government?

- **RBI governor YV Reddy (2003-2008):** He had differences with the then Finance Minister (FM) **over rate cuts** and [financial market development](#). He opposed proposals for writing off farmer loans and using foreign exchange reserves without guarantees.
- **D Subbarao (2008-2013):** His tenure saw **conflicts over anti-inflation policies**, with government officials pushing for lower rates despite high inflation.
- **Raghuram Rajan (2013-2016):** He also faced challenges when the government sought to regulate money markets through the [Securities and Exchange Board of India \(SEBI\)](#) without consulting the RBI. He raised concerns about the **potential costs and benefits of demonetization**, which the government pursued without his endorsement.
- **Urjit Patel (2016-2018):** His tenure was marked by significant **disagreements over surplus transfers and lending norms**. The government invoked [Section 7 of the RBI Act](#) to engage in discussions about the RBI's policies.
 - He resigned amid escalating tensions, particularly regarding the government's attempts to access the RBI's capital reserves.

Way Forward

- **Strengthening RBI-Government Dynamics:** Independent oversight mechanisms can ensure merit-based appointments and shield RBI from undue political influence.
 - A clear delineation of roles is essential, with the government focusing on fiscal policies and growth, while RBI prioritizes [monetary policy](#) and financial stability.
- **Strengthening the RBI's Autonomy:** The government should build consensus with the RBI to implement short-term measures that compromise long-term financial stability.
 - **Clear legal and institutional frameworks** can reinforce the RBI's autonomy, ensuring it can carry out its mandate without external interference.
- **Enhancing Transparency and Accountability:** Greater **transparency in decision-making** by both the RBI and the government is needed to reduce misunderstandings and build mutual trust. Instances like **demonetization (2016)**, **PCA norms**, **surplus transfer disagreements**, and monetary policy conflicts highlight the need for transparent decision-making to align RBI-government priorities and build mutual trust.
- **Clear Fiscal-Monetary Policy Coordination:** The government should aim for **better coordination between fiscal and monetary policies**, acknowledging the limits of fiscal expansion and the RBI's concerns regarding inflation control.
 - This could involve **formal mechanisms for policy alignment**, ensuring that both institutions work towards a **common economic goal**.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. Which of the following statements is/are correct regarding the Monetary Policy Committee

(MPC)? (2017)

1. It decides the RBI's benchmark interest rates.
2. It is a 12-member body including the Governor of RBI and is reconstituted every year.
3. It functions under the chairmanship of the Union Finance Minister.

Select the correct answer using the code given below:

- (a) 1 only
- (b) 1 and 2 only
- (c) 3 only
- (d) 2 and 3 only

Ans: A

Q. If the RBI decides to adopt an expansionist monetary policy, which of the following would it not do? (2020)

1. Cut and optimize the Statutory Liquidity Ratio
2. Increase the Marginal Standing Facility Rate
3. Cut the Bank Rate and Repo Rate

Select the correct answer using the code given below:

- (a) 1 and 2 only
- (b) 2 only
- (c) 1 and 3 only
- (d) 1, 2 and 3

Ans: B

INS Tushil

[Source: PIB](#)

INS Tushil (F70), India's advanced **multi-role stealth-guided missile frigate**, was commissioned into the [Indian Navy](#) in Russia, marking a significant milestone in [India-Russia defense cooperation](#) and maritime strength.

- **About:** INS Tushil is an upgraded [Krivak III-class frigate](#) of [Project 1135.6 \(Talwar Class\)](#). It is the 7th in the series after three **Talwar-class** and three **Teg-class frigates**.
 - INS Tushil, is the first of two upgraded frigates under a 2016 contract between the Indian Government and **JSC Rosoboronexport (a Russian company)**.
 - A frigate is a versatile warship used for escorting, patrolling, and combat operations, crucial in modern navies.
 - The name **Tushil means "protector shield,"** reflects the Indian Navy's commitment to protecting maritime frontiers.
- **Advanced Weaponry:** INS Tushil is equipped with [BrahMos supersonic cruise missiles](#), **Shtil Surface-to-Air Missiles**, [anti-submarine torpedoes](#), and electronic warfare systems.
- **Operational Versatility:** Designed for **blue-water operations** across air, surface, underwater, and electromagnetic dimensions, aligning with [India's SAGAR \(Security and Growth for All in the Region\)](#), ensuring stability in the [Indian Ocean Region \(IOR\)](#).
- **India - Russia Defense Cooperation:**

- [Agreement on Military Technical Cooperation \(2021-2031\)](#)
- [India-Russia 2+2 Dialogue.](#)
- **Bilateral Projects:** [T-90 tanks](#), [Su-30-MKI aircraft](#), [MiG-29-K aircraft](#)
- **Military Exercises:** [INDRA\(Tri-Services\)](#), [Avia Indra](#) (Air Force), and [Ex Vostok](#) (Army).

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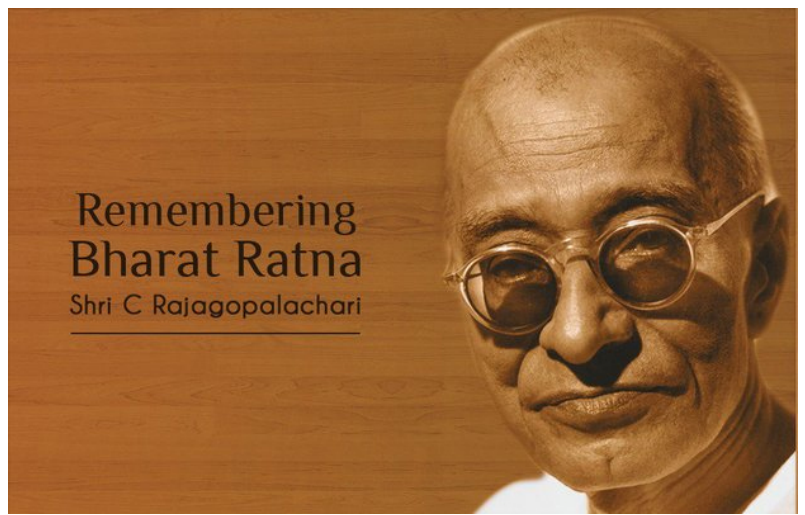
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Birth Anniversary of C. Rajagopalachari

[Source: PIB](#)

Why in News?

The Prime Minister of India, paid tribute to [Shri Chakravarti Rajagopalachari](#) (popularly known as Rajaji) on his birth anniversary (10th December), remembering his invaluable contributions to India's freedom struggle, governance, and social empowerment.



Who Was C. Rajagopalachari?

- **Early Life and Education:** C. Rajagopalachari was born on 10th December 1878 in Salem, Madras Province (now Tamil Nadu). Became a Bachelor of Law in 1899 and began his legal practice in Salem.
- **Politics and Social Reforms:** Rajagopalachari was deeply affected by [Lord Curzon's decision to partition Bengal on communal lines](#) and was inspired by [Lokmanya Bal Gangadhar Tilak's](#) call for complete independence.
 - Joined the [Indian National Congress \(INC\)](#) and actively participated in India's freedom struggle.
 - In 1917, Rajagopalachari became Chairman of Salem Municipality, focused on social welfare of [backward classes](#), and in 1925, he established an Ashram in Madras Province for social upliftment.
 - The Ashram published two magazines, **Vimochanam (Tamil)** and **Prohibition (English)**.
- **Freedom Struggle:** During the [anti-Rowlatt agitation](#), Rajaji hosted [Mahatma Gandhi](#) in Chennai, Tamil Nadu.
 - In 1930, during the [Dandi March](#), Rajagopalachari led the Salt March in Madras Province from Tiruchi to Vedaranyam (also known as **Vedaranyam Satyagraha**).
 - His arrest during Vedaranyam Satyagraha gained him national recognition as a leader in the **independence movement**.
 - After the [Quit India movement](#), Rajagopalachari's pamphlet "**The Way Out**" outlined the **C. R. Formula** to resolve the constitutional deadlock between the **Muslim League** and the INC regarding a separate Muslim state.
- **Prime Minister of Madras Province:** In 1937, Rajagopalachari became the **Prime Minister of Madras Province**.
 - Implemented social and economic reforms, including the **promotion of Khadi**, the **abolition of Zamindari**, and the **introduction of Hindi in schools**.
 - Focused on raising the [standard of living for Dalits](#) and promoting [social equity](#).
- **Post-Independence Contributions:** Rajagopalachari was appointed the **Governor of West Bengal** and later the **first Indian Governor-General of Independent India in 1947** (the office was permanently abolished in 1950).
 - Worked to integrate **Muslims into the national mainstream** and maintain India's secular fabric.
 - Served as Union Home Minister after [Sardar Patel's](#) death and played a significant role in key national issues, including the **preparation of the First Five-Year Plan**.
 - In 1959, Rajagopalachari founded the **Swatantra Party**, advocating for a market economy and less government control.
 - In 1962, Rajaji led a **Gandhi Peace Foundation** delegation to the US, urging a [ban on nuclear tests](#).
 - Rajagopalachari wrote a Tamil translation of the Ramayana, titled **Chakravarthi Thirumagan**, which won the [Sahitya Akademi Award in 1958](#).

- **Legacy:** Shri C. Rajagopalachari was awarded '[Bharat Ratna](#)' in **1954**. He was the **first to receive the highest civilian award**.
 - Rajagopalachari passed away on 25th December 1972.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. After Quit India Movement, C. Rajagopalachari issued a pamphlet entitled “The Way Out”. Which one of the following was a proposal in this pamphlet? (2010)

- (a)** The establishment of a “War Advisory Council” composed of representatives of British India and the Indian States
- (b)** Reconstitution of the Central Executive Council in such a way that all its members, except the Governor General and the Commander-in-Chief should be Indian leaders
- (c)** Fresh elections to the Central and Provincial Legislatures to be held at the end of 1945 and the Constitution making body to be convened as soon as possible
- (d)** A solution for the constitutional deadlock

Ans: (d)

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