

The new RBI gov comes in with enough room to build an institution and leave a legacy

# Enter, Peacetime General



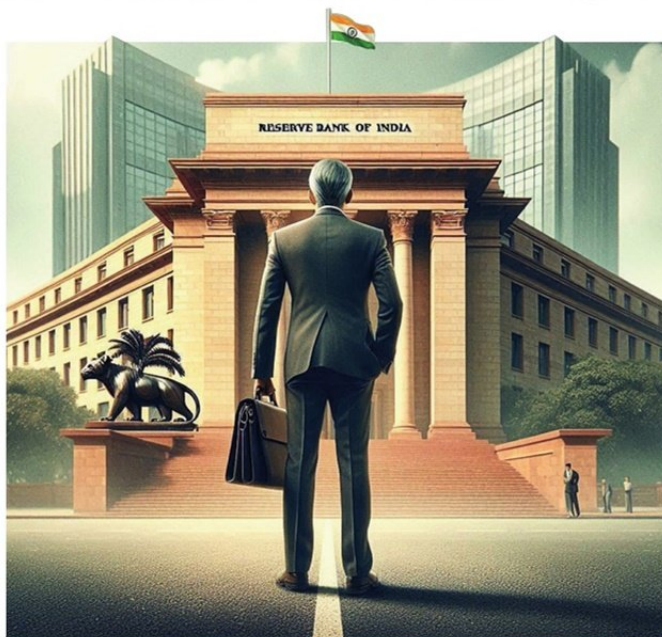
**M C Govardhana Rangan**

**A**lmost all governors of RBI since Chakravarthy Rangarajan had to firefight from day one. Sanjay Malhotra may be an exception. As Malhotra walks into Mint Street as the 26th gov, he doesn't face challenges like his predecessors did — a currency crisis, or a ruptured relationship with GoI. Instead, what lies before him are a stable economy that requires some fuel, a fit banking system that's looking to fly, and a financial market that's impatient to grow.

After deft handling of the Covid crisis, surge in money supply led to spiralling of prices, forcing it to raise interest rates. But the dual mandate of growth and inflation needs MPC to consider lowering policy rates, as there are signs of inflation cooling and also because of the negative impact of high real interest rates.

Malhotra has the ground laid out by the departing Shaktikanta Das, who has signalled that the next move could be a cut in rates. That the two external members of MPC have already voted for a reduction could make his job easier. While monetary policy and interest rates may keep RBI in limelight, its full-service nature — by which it regulates banking, NBFCs and currency markets — has even broader implications for the economy.

The Indian banking industry was on the throes of collapse in 2015 when the debt bubble burst, and the regulator ordered a complete asset-quality review. The picture wasn't pretty



**First day, first show**

with bad loans shooting past more than 10%, making some lenders technically bankrupt. Along with it, collapse of institutions such as IL&FS and the rescue of Yes Bank had led to a series of measures to rein in bad practices. The industry has come a long way since.

As RBI under Das cleaned up the system, it came up with prudential guidelines that eliminated many bad practices. But, in the process, some of them are turning restrictive, where the banking industry is beginning to complain about over regulation and micromanagement.

Banks' loan growth has fallen to 11%. They have been struggling to raise deposits to lend. There isn't much elbow room to borrow from markets and lend, as the regulator sees it as a practice that needs to be avoided in the interest of financial stability.

RBI has come a long way in strengthening financial stability. However, as in most regulations that are 'one size fits all', the strong and the weak are getting similar treatment. For instance, tightening of unsecured loans is uniform irrespective of the level of bad loans. Why can't those with good underwriting standards, capital buffers and low bad loans be given more leeway than the rest?

The industry wish list also consists of diluting some impending regulations, such as provisioning for project finance, expected credit loss and liquidity coverage ratio. Unlike advanced economies, Indian banks are hobbled by more pre-emptions and directed lending in the form of statutory liquidity ratio, high cash reserve ratio and priority sector lending.

Industry believes that some of these measures are harsh, and that it could redu-

ce bank funding for projects the country desperately needs. It's true that the previous blow-up was excesses committed in funding projects. But availability of data and improved due diligence may prevent repeat of past mistakes.

Under Das, digital banking leaped, and the Indian model is being taken overseas. But a recent mandate to hold more liquidity for those with higher digital customers to handle a potential run on the bank is turning out to be a punishment, rather than an incentive.

When it came to penalising errant players, RBI was seen as toothless tiger with meagre monetary penalties even for substantial violations, as in the misselling of currency derivatives. But banning repeat offenders such as Paytm and IIFL Finance from conducting business has put the fear of god in regulated entities.

Over the years, supervision, inspection and surveillance departments of RBI have expanded as the industry grew, which is leading to lack of synchronisation. While the magnitude of the system may require it to have the manpower, there is a need to make it more nimble, and accountable.

Malhotra may be inheriting a calm and sound empire from Das. But a hurricane across the Atlantic is gaining momentum that's set to sweep the world: Donald Trump. Das ensured the outlawing of cryptocurrency, with his steadfast belief that it

is 'nothing' more than a fad. But in the Trump era, it is set to gain currency. Can there be a change of heart at RBI, where fears of terror funding and money-laundering still dominate the thought process?

Unlike governors from Rangarajan to Das, the computer graduate from IIT Kanpur and batch of 1990 IAS officer Malhotra will be a peacetime general — with enough room to build an institution and leave a legacy.

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