

## November 3<sup>rd</sup>, 2018 Sample Current Affairs

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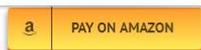


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**1. RBI Act Section 7: No government has so far invoked Section 7 of the RBI in the Reserve Bank of India's 83-year history**

- What does Section 7 (1) of RBI act say?**
- Why did the controversy arise relating to Sec 7 of RBI Act?**
- Why has the government invoked Section 7?**
- Why is Section 7 seen as an extreme measure?**

**GS paper 3 (Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment)**

**In this video, you can find detailed answers for all the above questions.**

**The above article has been retrieved from:**

Gopika Gopakumar. ( 2018, November , 03). The history of the contentious 'RBI Act Section 7'. Live Mint. Retrieved from

<https://www.livemint.com/Industry/fzKfeJ9KliesX4oQ4LEkdJ/The-history-of-the-contentious-RBI-Act-Section-7.html>

**What is the context about?**

- Section 7 (1) of The Reserve Bank of India Act, 1934, became a contentious issue after the tension between the central bank and government turned into a public spat over the last few days.

- ❑ No government has so far invoked this section in the central bank's 83-year history.

### **What does Section 7 (1) of RBI act say?**

- ❑ According to the RBI Act's Section 7 (1), "the central government may from time to time give such directions to the Bank as it may, after consultation with the Governor of the Bank, consider necessary in the public interest".

### **Why did the controversy arise relating to Sec 7 of RBI Act?**

The Centre recently asked the RBI's views on three issues, namely; exemption for power companies, liquidity measures, and PCA framework. But actually, Sec 7 has not been invoked.

### **The reasons behind controversy:**

- ❑ Upcoming elections: Allegedly, the government wants the RBI to relax its lending norms ahead of upcoming general elections so that there is increased liquidity in the market. RBI is unwilling to do so.
- ❑ NPA crisis: The central government has blamed the RBI for the NPA crisis whereas the RBI denies responsibility saying that lack of powers with RBI and Center interference in Banking matters has led to this problem.

### **Why has the government invoked Section 7?**

- ❑ The government believed that easing of lending rules for the banks under the prompt corrective action (PCA) framework could help reduce pressure on MSMEs, ET has reported. However, the regulator stood its ground arguing that such a move would put the clock back and undo clean-up efforts.
- ❑ With the credit markets tightening after the IL&FS default in September, non-banking finance companies lobbied the government for more liquidity.
- ❑ But RBI maintained its position since the banking system did not witness any spike in borrowing costs and the market was just repricing risk in an evolving situation.

### **Why is Section 7 seen as an extreme measure?**

- ❑ This section has never been used in till now. It was not used even when the country was close to default in the dark days of 1991, nor in the aftermath of the 2008 global financial crisis.
- ❑ It is not clear how this Section operates since it has never been used. The aggressive move could scandalise a section of academia and experts, while raising questions about the government's intentions and the impact on RBI's autonomy.