Who Moved Your Interest Rate?

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There have been many criticisms relating to the legislation for regulating the financial sector and the monetary policy. The Reserve Bank of India (RBI) has also been criticised for its inefficiency in managing the monetary policy. There were many loopholes in the legislation which were enacted on unsystematic way and being changed from time to time which was creating ambiguity in management of the sector. Apart from it, it was not dealing with critical key issues, there was lack of transparency. These loopholes have brought the urgency of new legislation for the financial sector and due to which the **Financial Sector Legislative Reforms Commission (FSLRC)** was established by the Ministry of Finance, Government of India on March 24, 2011. FSLRC produced the draft **Indian Financial Code (IFC)** in March 2013. The Indian Financial Code is a set of new rules and laws which could regulate the financial sector of India. The revised draft of the Indian Financial Code (IFC), suggested doing away with RBI Governor's veto (the power of governor to reject) power and proposed Monetary Policy Committee to take rate decisions by a majority vote. On June 27, 2016, the Government amended the RBI Act to hand over the job of monetary policy-making in India to a newly constituted Monetary Policy Committee (MPC).These all things have created serious disagreements between Government and RBI.

However, in the last 10 years the Central Government and the RBI have had frequent disagreements. The government understandably aims to keep interest rates low so as to inject liquidity into the system and get cheap loans to fund its various projects to develop infrastructure. The RBI is focused on reducing inflation but is not in the business of votes. The RBI in the last two years have increased the interest rate to control the inflation. Due to which there were growing gap between Government and RBI.

Ever since the NDA government came to power in June 2014, the finance ministry led by Mr. Arun Jaitley and the Reserve Bank of India led by Mr. Raghuram Rajan has been constantly engaged in a turf war. It is not in fact a dispute but indeed a difference of opinion. In the relationship between government and Reserve Bank, often the government has appeared like the bully trying to influence the technocratic RBI to serve its short term goals. Taking away the veto power of RBI Governor in fixing interest rates would snatch independence of the apex bank in monetary policy decisions

Government: Interference in Monetory Policy: The Government wants to attract huge foreign investment and utilize capital for boosting Indian economy. On the other hand RBI wants to control the wholesale and consumer index which is against the aspirations of government. The government wants to capitalize on the considerable reduction in global crude oil prices and the positive sentiment with respect to it by reducing its fiscal and current account deficits by