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CRR is a cost, manage it: Chakrabarty tells SBI

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K.C. Chakrabarty, Deputy Governor, RBI, at a conference on Systemic Risk, organised by the Great Lakes Institute of Management in Chennai on Monday. Photo: Bijoy Ghosh

That is what the law also says, explains RBI Deputy Governor

Work within the rules laid down by the regulator. If you can't, you better find a different avenue where you can do your business, says K. C. Chakrabarty, Deputy Governor of Reserve Bank of India.

He was reacting to a question on the suggestion made by State Bank of India Chairman Pratip K. Chaudhuri to abolish CRR (cash reserve ratio).

"From State Bank point of view, they can ask for abolition of CRR, SLR (statutory liquidity ratio). But, we have to function within the regulatory system in which you are in. If you are not able to do business in the regulatory system in which you are functioning... you will have to find out something else ... where you can do business," Dr. Chakrabarty said in an interaction with *The Hindu* here on Monday.

Quizzed further, he said, "No, I am not angry [with SBI chairman]." In this context, he cited the example of bargaining with a vendor of potatoes in the marketplace. While the vendor quoted Rs.10 a kg, the buyer quoted Rs.3 a kg. "But the fellow [seller] does not agree. So, the deal does not take place."

The RBI Deputy Governor asked: "What is the regulatory system for? Whether to reduce it [CRR] to zero or increase it, the regulator had the right to decide."

Asked if the Reserve Bank would seek the opinion of banks on this issue, he said, "Why should I take others' opinion. My regulatory system is not based on what the opinion of other people is." When pointed out that many countries did not have CRR, he said, "several countries are not having. But several others are having."

It is the job of Reserve Bank to decide. Anybody who has to do the business has to do it within the regulatory environment which has been provided."

The SBI Chairman sought the abolition of CRR on the ground that it did not earn any interest for the banks.

"That is what CRR is meant for," Dr. Chakrabarty said, pointing out "that is also what the law says." The RBI, he explained, had no role to play in this. "The Banking Regulation Act says you cannot pay interest on the CRR. The matter is over. If law says certain things, it is like that."

"If you feel [that RBI decision is an irritant], then pay little bit less interest rate on deposit or charge more interest on loans. How much difference does it make? Regulatory things are your production cost. So, you have to accordingly adjust your pricing," he added.

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