

## **Duvvuri Subbarao: Reserve Bank of India – reflections on its evolution**

Address by Dr Duvvuri Subbarao, Governor of the Reserve Bank of India, to staff at the Platinum Jubilee Celebrations, Mumbai, 2 April 2009.

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Dear Colleagues,

As the Reserve Bank of India enters its 75th year, today marks a momentous milestone in the history of this great institution. I am indeed delighted and privileged to be speaking to all of you, members of the RBI family, on this historic occasion.

Marking the 75th birthday is a time for joy and celebration. It is also an opportunity for each of us in the RBI family to make a positive difference – an occasion for introspection – an occasion to reflect on the evolution of the Reserve Bank, to look back on the road we traversed, and look ahead to the life of every Indian, every day.

75 years is a long time from a human perspective; yet 75 years is a relatively short time in the life span of an institution. Even so, the past 74 years have marked a historic journey for the Reserve Bank as it evolved from relatively modest origins to come to be acknowledged today as one of the most professional and responsive public policy institutions in the country. This is an enviable reputation, and for this we are in debt to the past Governors and Deputy Governors, past members of the Board and past staff of the Reserve Bank of India. As today's RBI family, it is both our challenge and our obligation to build on this reputation, and rededicate ourselves to the task of furthering the objectives of the RBI.

Mahatma Gandhi put the test for every action very aptly. He said that the question we must ask ourselves is, "how is what I plan to do going to improve the life of the poorest person?". I want to paraphrase that question for today's context. All of us in the RBI family must ask ourselves, "how can I do my job better so that I can make a positive difference to the country?"

The Reserve Bank has a rich history going back to pre-independence days. The question of a central banking institution for India had been under examination both by Royal Commissions and by the Legislature long before the Hilton-Young Commission recommended in 1926 that India's financial structure should be completed by the creation of a central bank. The report of the Chamberlain Commission of 1914 included a comprehensive memorandum by John Maynard Keynes, one of its members, proposing that the three Presidency Banks should be merged into one central bank. This led to a legislation, introduced in January 1927, to set up the Reserve Bank of India. However, it was not until seven years later, in March 1934, that the enactment came through. Thus began the exciting and glorious journey of our Bank on 1st April 1935.

The Reserve Bank of India was first established as a shareholders' bank. Subsequently, it was nationalized in 1949. As India became independent in 1947, RBI's "tryst with nation building" ran parallel to the nation's "tryst with destiny". The year 1949 also marked the enactment of the Banking Regulation Act which mandated a comprehensive and formal structure of bank regulation and supervision in India.

For the first two decades of India's independence, banking was largely concentrated in our cities and major towns. The rural areas were largely left behind. This was a lacuna as the potential of rural savings remained unexploited, and rural credit needs remained unmet. These were also the years when banking had become the centre of political attention.

The 1960s were difficult years for the country from an economic perspective. India had fought a war with China in 1962, and soon thereafter with Pakistan in 1965. The country also went through three very bad years of monsoon. The country's financial position became extremely poor and the currency had to be devalued in 1966. Economic distress started

growing as evidenced by rising prices, scarcity of essential commodities and services, low growth and widespread unemployment. It was in the backdrop of this scenario that the Union Finance Minister of the time advocated social control over commercial banks.

Even as a consensus on social control was emerging, in a swift and unexpected move, 14 major commercial banks were nationalized in July 1969. This decision, justified as being necessary for growth and poverty reduction, was arguably the most important economic decision by the Government since Independence till that date. Nationalization led to sharp expansion of the banking network and impressive penetration into rural areas.

The Reserve Bank evolved in parallel with these socio economic developments. It took a leading role in designing and implementing policies for agricultural and industrial development and for laying the foundations for financial markets. Some of today's premier development and market institutions such as the National Bank for Agriculture and Rural Development (NABARD), the Industrial Development Bank of India (IDBI) and the Unit Trust of India (UTI) had their beginnings as specialized departments and divisions within the RBI.

The context and circumstances that culminated in the path-breaking economic reforms of 1991 are by now standard fare. The programme of "opening up" launched under the leadership of the then Finance Minister, and the present Prime Minister, Dr. Manmohan Singh – who, incidentally, was also Governor of the Reserve Bank of India – catapulted India into a major emerging economy. Today, India is the fourth largest economy in the world in purchasing power parity (PPP) terms and the second-fastest in terms of growth. It is a tribute to the resilience of the Indian economy that even in the midst of the deep recession that the world is going through today, India remains a growing economy. Our growth, no doubt, has moderated but this moderation is modest compared to the convulsions almost everywhere else in the world.

Most importantly, over the years, the mandate of the RBI has expanded encompassing both its regulatory and developmental responsibilities. Today, we are a large and complex organisation compared to most other central banks in the world. The various departments that have made up the Bank through these years have reflected the diverse financial and economic functions associated with the process of economic development and the growth of the financial sector. When we started in 1935, there were just three departments, namely the Banking Department, the Issue Department and the Agricultural Credit Department. Today, we have 26 departments in the Central Office, have 26 regional and field offices across the country, four subsidiaries (BRB Note Mudran Press Ltd., DICGC, NABARD and NHB,) and a staff of over 20,000 employees.

The preamble to the Reserve Bank of India Act lays down the purpose of establishing RBI as "to regulate issue of Bank notes, to keep the reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage". As you will note, this is a broad and flexible mandate. Today, we perform several important functions. We are the monetary authority, and regulator and supervisor for banks and non-banking financial companies. We are the issuer of currency and the debt manager for the central and state governments. Besides, we manage the country's foreign exchange reserves, manage the capital account of the Balance of payments, and design and operate payment systems. We also operate a grievance redressal scheme for bank customers through the Banking Ombudsmen and formulate policies for treating customers fairly. Importantly, the RBI has had a decisive influence in shaping and implementing every major economic policy in the monetary and financial sectors. The developmental role of the RBI has expanded too. Among our major endeavours today are financial inclusion and the strengthening of the credit delivery mechanisms for agriculture, and small and micro-enterprises, specially in the rural areas.

With India emerging as a key player in the global growth story, RBI's role and responsibilities too have increasingly acquired an international dimension. Today RBI is an active participant in several important international institutions that seek to promote more effective regulatory

structures and financial and systemic stability. We have for sometime now been shareholders of the Bank for International Settlements (BIS) and member of the Committee on Global Financial System, the Markets Committee, and the International Liaison Group under the aegis of the Basel Committee on Banking Supervision (BCBS), and are now becoming active members of the Financial Stability Forum and the BCBS.

The large and diverse responsibilities of the Bank demand vastly different resources in terms of infrastructure and human competencies. In fact, as our mandate has evolved and grown, our resources and the organization of these resources too have undergone significant changes. The Bank recognizes that our employees are our main assets and that the efficacy of an institution is fundamentally dependent not just on the sum total of its individual human capital, but on how effectively it is able to draw out the best from its talent pool. It has been our constant endeavour to create a work environment where we can deliver our services efficiently, discharge our functions competently and enjoy a wholesome work-life balance.

As I had mentioned to you in my New Year Message, today the economy is facing an extraordinary challenge. The global recession, a fall-out of the unprecedented financial crisis, is the most serious economic problem that the world has faced in the post-War era. Contrary to earlier hopes, it is now clear that the downturn will be deeper and the recovery longer than we had earlier anticipated. The Reserve Bank has played, and will continue to play, a leading role in managing the crisis and minimizing the pain of adjustment. This affords the RBI both a challenge and an opportunity. A challenge because a lot is expected of us; and an opportunity because it gives us a chance to demonstrate that we can rise to the occasion, think out of the box, lead from the front and act swiftly and effectively.

In the course of the next one month, we will be working out a detailed plan for marking the Platinum Jubilee of the Reserve Bank of India. There will be events of celebration, but I am anxious that this must go beyond mere discrete events of celebration. The Platinum Jubilee must launch a series of initiatives and activities that make the Reserve Bank a more responsive, relevant, professional and effective public policy institution and remind each of us how we can serve the institution, and thereby the country, better. In short, our goal must be to make a difference.

In conclusion, on the occasion of this Platinum Jubilee, I wish you and your families all the very best of health, happiness and fulfillment.