

## **Raghuram Rajan: Reserve Bank of India celebrates its 80th anniversary**

Opening remarks by Dr Raghuram Rajan, Governor of the Reserve Bank of India, at the Financial Inclusion Conference, Mumbai, 2 April 2015.

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The Reserve Bank was set up in 1935 when India was under British rule. But the RBI was certainly not a British institution, and has been working right from the outset for Indian economic interests.

It has also nurtured Indian talent. In 1943, Chintaman Dwarkanath Deshmukh, one of India's finest financial minds, was appointed as the first Indian governor of the Reserve Bank. Amongst the problems he had to confront was how to deal respectfully but firmly with the debts the colonial power had accumulated to India during World War II.

Over the years, the Reserve Bank has been blessed with a number of such great leaders, a reflection also of the importance the government places in having a strong central bank. The list of past governors and deputy governors reads like a who's who of the Indian economic establishment, with governors like Benegal Rama Rau, M. Narasimham, Dr. I.G. Patel, Dr. Manmohan Singh, Dr. Rangarajan, Dr. Bimal Jalan, Dr. Y.V. Reddy, and Dr. Subba Rao, ably assisted by deputy governors such as SS Tarapore, Vepa Kamesan, Dr. Rakesh Mohan, K. Udeshi, Shyamala Gopinath, and Usha Thorat. The RBI's board has also been superb, with people like Sir Purshottamdas Thakurdas and Yezdi Malegam guiding it.

Interestingly, many of the governors were from the administrative services, with only one, M. Narasimham, from the RBI itself. Nevertheless, all understood that the Reserve Bank's role is to safeguard the monetary and financial stability of the country even while working towards its financial development. There has always been a constructive dialogue between the Government and the Bank, informed by their respective time horizons and attitudes towards risk. And history records that successive governments have invariably appreciated the wisdom of the Reserve Bank's counsel.

Over the years, the Reserve Bank has addressed many concerns. Inflation control has been foremost – and the Reserve Bank has done an admirable job over time, despite the price pressures created by food shortages, oil prices and wars.

Financial sector development has been another concern. The RBI's role has included setting up new institutions, encouraging the use of technology, developing markets, and expanding financial inclusion.

In the coming year, we will have many new players in the banking eco-system, such as payments banks, small finance banks and possibly a postal bank competing with existing universal banks, regional rural banks, cooperative banks, and a variety of non-bank finance companies.

The use of technology has also expanded from the days when accounts were maintained manually in ledgers and unions called for strikes at the very mention of the word computers. Today, some banks allow customers to do all their banking transactions on a mobile phone, without entering a branch or touching a pen.

The Reserve Bank's intent is to create an ownership neutral, institution neutral, technology agnostic level competitive arena. For example, technologies enabling touch-and-go payments will find use even as banks focus on acquiring and analysing information and reducing transactions costs as they compete to extend financial services to all. The RBI's state-of-the-art payments system will support technology, even as the RBI strengthens its cyber-supervision and cyber-security.

We also need deep markets to absorb risks that stay too often in banks or in corporations. Here too our track record has been strong. Though many developing country governments

are forced to borrow only in foreign currency, the Reserve Bank has fostered a liquid rupee government bond market, where the government today is able to contemplate issuing 40 year bonds. The rupee is truly becoming international as foreign institutions queue up to issue rupee denominated bonds. New products supported by the RBI, such as the recently introduced interest rate futures contract, are doing a roaring business on exchanges.

Our tasks are far from over. The nation has enormous financing needs in infrastructure, and far too many of our banks already have too much exposure. Big corporate infrastructure players have also taken too much debt. The required national push to finance infrastructure should not override financial stability, which is key to national security. Going forward, we need to develop new sources of risk capital so that our infrastructure needs can be financed with moderate amount of debt, even as we help the system deleverage.

Perhaps the country's most important financial challenge, which is the theme of the Conference today, is to bring financial services to every doorstep and to every small enterprise. The poor are still too far away from, or too uncomfortable stepping into, bank branches.

With government initiatives like Pradhan Mantri Jan Dhan Yojana and the MUDRA Bank, as well as new technologies, new institutions, and new processes such as direct benefits transfers, I am confident that our country can empower the poor and the small with both choice and opportunities. The Reserve Bank in turn has to ensure greater consumer protection and consumer literacy.

Finally, if the Reserve Bank is respected today, it is because of the many thousands who have worked over the years for the Bank, with capability and dedication. Let me recognize two. Rani Durve, a DGM in the Bhopal office, has created numerous films, books, and street plays on themes such as fictitious emails and excessive interest rates so as to educate and inform the public. Nirmal Pattnayak, an AGM in the Department of Information Technology, enabled the pan-India electronic transfer of funds for government departments through the national electronic payment systems, thus overnight making the government one of the largest users of electronic payments. Both have gone beyond the ordinary call of duty, but they are only representative of many others in the Bank.

The RBI is also respected for its integrity. It is a matter of great pride for me today that when someone enters our building to persuade us to change a regulation, they come armed not with money but with arguments about what is right.

Let me conclude. Strong national institutions are hard to build. Therefore existing ones should be nurtured from the outside, and constantly rejuvenated from the inside, for there are precious few of them. In the 81st year of this great institution let us rededicate it to helping the nation secure prosperity and economic opportunity for all. Thank you for joining us in this celebration.