

FOREWORD

The Reserve Bank of India completed seventy eventful years of its existence in 2005. It is one of the oldest central banks in the developing world. Over this fairly long period, the Bank has grown in size and complexity and has undergone continuous transformation in terms of organisational set up and management. With this backdrop, it was considered appropriate to devote the theme of the Report on Currency and Finance, 2004-05 to the 'The Evolution of Central Banking in India'. This volume of the Report on Currency and Finance incidentally coincides with the release of the Volume III of the history of the Reserve Bank of India for 1967-1981.

Since the introduction of theme based Reports in 1998-99, the Department of Economic Analysis and Policy has released six Reports encompassing several important contemporary issues concerning India. However, the current Report is a unique departure as it attempts to analyse and present the Reserve Bank's evolution over the last seventy years in the backdrop of development of central banking worldwide. Although it is not easy to analyse the conceptual evolution of a central bank over seventy years in an annual publication like this, sincere efforts have been made to cover the vast canvas of operations of the Reserve Bank in its multifaceted role.

The functions of central banks have undergone significant transformation alongwith the evolution of their respective financial systems and stages of economic development. Central banks have served as a reservoir of expertise that is generally drawn upon by governments and institutions, both domestic and international. Understandably, central banks have always occupied centre stage in the financial system in all countries. The Reserve Bank has also undergone continuous transformation in the backdrop of the changing environment while formulating and implementing monetary and financial policies since its inception in 1935. The functions of the Reserve Bank have emerged out of a diversity of roles entrusted to it. In this context, the key functions that have been examined in this Report are regulation and supervision, development of financial markets, the monetary and fiscal interface and dynamics of its balance sheet. The evolution of monetary policy was the theme of the Report on Currency and Finance last year and has, therefore, not been addressed in detail here.

The operations of the Reserve Bank of India have been marked with great flexibility in responding to domestic necessities and compulsions, with an endeavour to align regulation and supervision with international best practices with suitable adaptations. The Reserve Bank has been constantly refining its operating procedures and instruments in the direction of developing sound financial markets and financial infrastructure. The Reserve Bank has acquired technical expertise over the years in developing the government securities market and in managing government borrowings. This has enabled it to efficiently discharge the twin responsibilities of debt and monetary management, while meeting Government borrowing requirements and market expectations. The balance sheet of the Reserve Bank has undergone a fundamental change over the past seven decades alongwith transformation of the Indian economy. In recent years, the relative significance of foreign assets has increased and that of domestic assets has declined.

The Report has also attempted to trace the organisational evolution and management development of the Reserve Bank since its inception and has brought out the changing role and functions of the Bank over seventy years of its existence.

The Report has been drafted by a core team in the Department of Economic Analysis and Policy under the overall guidance of Narendra Jadhav, Principal Adviser and Chief Economist. The core team comprised K.Udaya Bhaskar Rao, Balbir Kaur, S.M.Pillai, Asha Kannan, Gunjeet Kaur, Nishita Rajee and D.Bose. The drafting of the Report was extensively assisted by A.Karunakaran, J.K.Mallik, Siddhartha Sanyal, Ramesh Golait, L.Lakshmanan, Deepa Raj, Indranil Bhattacharyya, S. Suraj, S. M. Lokre, Snehal Herwadkar, Sangeeta Misra, Satyananda Sahoo, Amar Nath Yadav, Jai Chander, Rajeev Jain, Raj Rajesh, A.K.Shukla, Pankaj Kumar, P.K.Bhoite and S.K.Takle.

Valuable contributions were made by M.R.Nair, Janak Raj, Charan Singh, Partha Ray and Sunando Roy from within the Department; Sandip Ghose and Bazil Sheikh from Human Resources Development Department; and G.Gopalakrishna, K.V.Subba Rao, Amarendra Mohan and P.Ravi Mohan from Department of Banking Supervision provided relative inputs at various stages of preparation of the Report.

The significant contributions by operational departments, *viz.*, Human Resources Development Department, Department of Banking Supervision, Department of Banking Operations & Development, Department of Information Technology, Legal Department and Department of Government and Bank Accounts are highly appreciated. Almost every officer of the Department of Economic Analysis and Policy was associated in the preparation of Chapter II of this Report which deals with the 'Recent Economic Developments'.

The core team also benefited from the discussions with Shri S.S. Tarapore, Dr. A. Vasudevan and Prof. Dilip Nachane.

The task of tracing the evolution of central banking in India has been difficult. Our effort has been to outline the conceptual evolution of the Reserve Bank as it has changed through the country's independence and many different phases of economic and financial development in India. In reviewing its functions through the seventy years of its existence, one feature stands out: the continuous transformation that has been experienced by the Reserve Bank of India in response to changing circumstances. Other central banks have also changed very substantially over the years. Thus, we can look forward to continuing change in the future along with the very significant transformation taking place in the financial sector internationally, particularly with the information technology revolution continuing to progress, accompanied by ever increasing openness of economies.

I take this opportunity to place on record my deep appreciation of the professional skills and utmost dedication of the officials of the Reserve Bank, without which it would have been not possible to bring out this Report.

March 18, 2006

Rakesh Mohan
Deputy Governor