



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
www.rbi.org.in

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Overview: Who We Are

The Reserve Bank of India (RBI) is the nation's central bank

Since 1935, when we began operations, we have stood at the centre of India's financial system, with a fundamental commitment to maintaining the nation's monetary and financial stability.



From ensuring stability of interest and exchange rates to providing liquidity and an adequate supply of currency and credit for the real sector; from ensuring bank penetration and safety of depositors' funds to promoting and developing financial institutions and markets, and maintaining the stability of the financial system through continued macro-financial surveillance, the Reserve Bank plays a crucial role in the economy. Our decisions touch the daily life of all Indians and help chart the country's current and future economic and financial course.

Over the years, our specific roles and functions have evolved. However, there have been certain constants, such as the integrity and professionalism with which the Reserve Bank discharges its mandate.



First RBI Building 1935, Kolkata

RBI at a Glance

- Managed by Central Board of Directors
- India's monetary authority
- Supervisor of financial system
- Issuer of currency
- Manager of foreign exchange reserves
- Banker and debt manager to government
- Supervisor of payment system
- Banker to banks
- Maintaining financial stability
- Developmental functions
- Research, data and knowledge sharing

Celebrating Our Platinum Jubilee

1935-2010



As Reserve Bank commences operations today I take [the] opportunity to...express my confidence that this great undertaking will contribute largely to the economic well being of India and...its people.

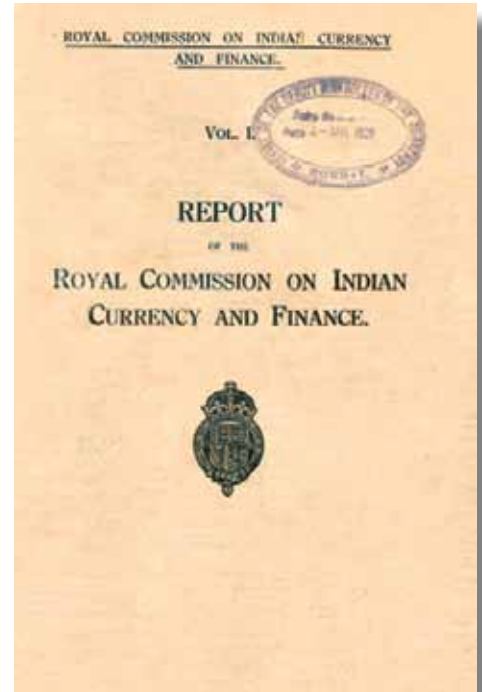


- excerpt from telegram sent by the Viceroy to Osborne Smith, first governor of the Reserve Bank, 1935



The Reserve Bank: Tradition and Change

The origin of the Reserve Bank can be traced to 1926, when the Royal Commission on Indian Currency and Finance—also known as the Hilton-Young Commission—recommended the creation of a central bank to separate the control of currency and credit from the government and to augment banking facilities throughout the country. The Reserve Bank of India Act of 1934 established the Reserve Bank as the banker to the central government and set in motion a series of actions culminating in the start of operations in 1935. Since then, the Reserve Bank's role and functions have undergone numerous changes—as the nature of the Indian economy has changed.



Today's RBI bears some resemblance to the original institution, although our mission has expanded along with our deepened, broadened and increasingly globalised economy.



75 years:

**1935**

Operations begin on April 1

**1950**

India embarks on planned economic development. The Reserve Bank becomes active agent and participant

**1969**

Nationalisation of 14 major commercial banks (six more were nationalised in 1980)

1966

Cooperative banks come under RBI regulation

**1949**

Nationalisation of the Reserve Bank; Banking Regulation Act enacted

**1973**

RBI strengthens exchange controls by amending Foreign Exchange Regulation Act (FERA)

**1974**

Introduction of priority sector lending targets

**1985**

Financial market reforms begin with Sukhamoy Chakravarty and Vaghul Committee Reports

**1993**

Exchange rate becomes market determined

**1997**

Ad hoc treasury bills phased out ending automatic monetisation

1975

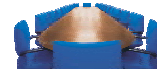
Regional Rural Banks set up

**1991**

India faces balance of payment crisis; pledges gold to shore up reserves. Rupee devalued

**1994**

Board for Financial Supervision set up



Highlights



1998

Multiple indicator approach for monetary policy adopted



2002

Clearing Corporation of India Limited (CCIL) commences clearing and settlement in government securities

2004

Transition to a full-fledged daily liquidity adjustment facility (LAF) completed. Market Stabilisation Scheme (MSS) introduced to sterilise capital flows



2005

Focus on financial inclusion and increasing the outreach of the banking sector



2007

RBI empowered to regulate Payment System



2010

Year-long Platinum Jubilee celebrations

2000

Foreign Exchange Management Act replaces FERA



1997

Regulation of Non-Banking Finance Companies strengthened



2003

Fiscal Responsibility and Budget Management Act enacted



2004

Real Time Gross Settlement System commences



2006

RBI empowered to regulate money, forex, G-sec and gold related securities market



2008/9

Pro-active efforts to minimise impact of global financial crisis



2011

Positioning RBI as a knowledge institution



Structure, Organisation and Governance: How We Function

The Reserve Bank is wholly owned by the Government of India. The Central Board of Directors oversees the Reserve Bank's business.

About the Central Board

The Central Board has primary authority for the oversight of the Reserve Bank. It delegates specific functions through its committees and sub-committees.

- **Central Board:** Includes the Governor, Deputy Governors and a few Directors (of relevant local boards)
- **Committee of Central Board:** Oversees the current business of the central bank and typically meets every week, on Wednesdays. The agenda focuses on current operations, including approval of the weekly statement of accounts related to the Issue and Banking Departments.
- **Board for Financial Supervision:** Regulates and supervises commercial banks, Non-Banking Finance Companies (NBFCs), development finance institutions, urban co-operative banks and primary dealers.
- **Board for Payment and Settlement Systems:** Regulates and supervises the payment and settlement systems.
- **Sub-committees of the Central Board:** Includes those on Inspection and Audit; Staff; and Building. Focus of each sub-committee is on specific areas of operations.
- **Local Boards:** In Chennai, Kolkata, Mumbai and New Delhi, representing the country's four regions. Local board members, appointed by the Central Government for four-year terms, represent regional and economic interests and the interests of co-operative and indigenous banks.

Central Board of Directors by the Numbers

Official Directors

- 1 Governor
- 4 Deputy Governors, at a maximum

Non-Official Directors

- 4 directors—nominated by the Central Government to represent each local board
- 10 directors nominated by the Central Government with expertise in various segments of the economy
- 1 representative of the Central Government
- 6 meetings—at a minimum—each year
- 1 meeting—at a minimum—each quarter

Management and Structure

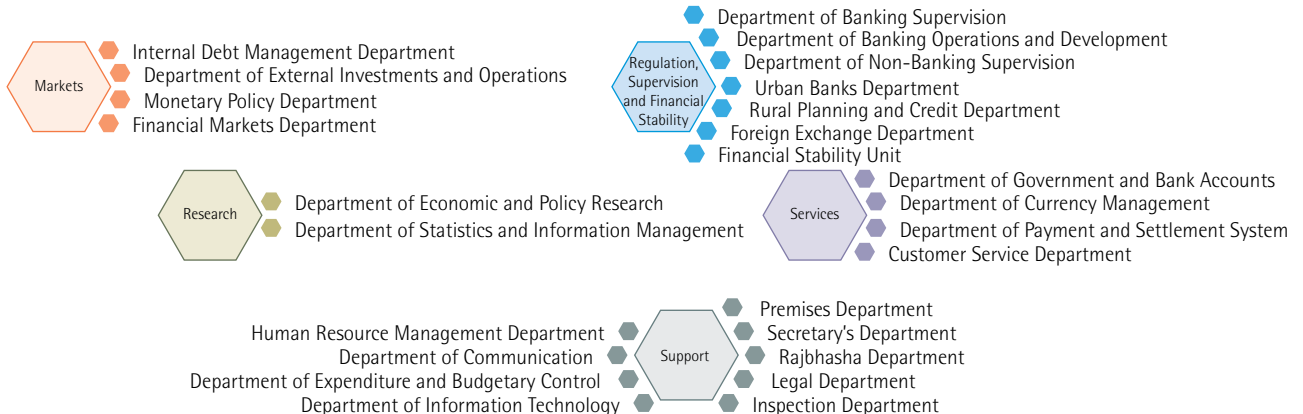
The Governor is the Reserve Bank's chief executive. The Governor supervises and directs the affairs and business of the Reserve Bank. The management team also includes Deputy Governors and Executive Directors.



Executive Directors

- Shri D. K. Mohanty
- Shri P. Vijaya Bhaskar
- Shri B. Mahapatra
- Shri G. Padmanabhan
- Shri Jasbir Singh
- Dr. (Smt.) Deepali Pant Joshi
- Shri N. S. Vishwanathan
- Shri U S Paliwal
- Shri Chandan Sinha

Departments



■ The RBI is made up of:

- **26 Departments:** These focus on policy issues in the Reserve Bank's functional areas and internal operations.
- **28 Regional Offices and Branches:** These are the Reserve Bank's operational arms and customer interfaces, headed by Regional Directors. Smaller branches / sub-offices are headed by a General Manager / Deputy General Manager.
- **Training centres:** The Reserve Bank Staff College at Chennai addresses the training needs of RBI officers; the College of Agricultural Banking at Pune trains staff of co-operative and commercial banks, including regional rural banks. The Zonal Training Centres, located at regional offices, train non-executive staff.
- **Research institutes:** RBI-funded institutions to advance training and research on banking issues, economic growth and banking technology, such as, National Institute of Bank Management (NIBM) at Pune, Indira Gandhi Institute of Development Research (IGIDR) at Mumbai, and Institute for Development and Research in Banking Technology (IDRBT) at Hyderabad.
- **Subsidiaries:** Fully-owned subsidiaries include National Housing Bank (NHB), Deposit Insurance and Credit Guarantee Corporation (DICGC), Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL). The Reserve Bank also has a majority stake in the National Bank for Agriculture and Rural Development (NABARD).

Training session at the College of Agricultural Banking in Pune



Main Activities of the RBI: What We Do

The Reserve Bank is the umbrella network for numerous activities, all related to the nation's financial sector, encompassing and extending beyond the functions of a typical central bank. This section provides an overview of our primary activities:

- Monetary Authority
- Issuer of Currency
- Banker and Debt Manager to Government
- Banker to Banks
- Regulator of the Banking System
- Manager of Foreign Exchange
- Maintaining Financial Stability
- Regulator and Supervisor of the Payment and Settlement Systems
- Developmental Role



Monetary Authority

Monetary policy refers to the use of instruments under the control of the central bank to regulate the availability, cost and use of money and credit. The goal: achieving specific economic objectives, such as low and stable inflation and promoting growth.



The basic functions of the Reserve Bank of India are to regulate the issue of Bank notes and the keeping of 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.

- From the Preamble of the Reserve Bank of India Act, 1934

The main objectives of monetary policy in India are:

- Maintaining price stability
- Ensuring adequate flow of credit to the productive sectors of the economy to support economic growth
- Financial stability

The relative emphasis among the objectives varies from time to time, depending on evolving macroeconomic developments.

■ Our Approach

Our operating framework is based on a multiple indicator approach. This means that we monitor and analyse the movement of a number of indicators including interest rates, inflation rate, money supply, credit, exchange rate, trade, capital flows and fiscal position, along with trends in output as we develop our policy perspectives.

■ Our Tools

The Reserve Bank's Monetary Policy Department (MPD) formulates monetary policy. The Financial Markets Department (FMD) handles day-to-day liquidity management operations. There are several direct and indirect instruments that are used in the formulation and implementation of monetary policy.

Direct Instruments

- **Cash Reserve Ratio (CRR):** The share of net demand and time liabilities that banks must maintain as cash balance with the Reserve Bank.
- **Statutory Liquidity Ratio (SLR):** The share of net demand and time liabilities that banks must maintain in safe and liquid assets, such as government securities, cash and gold.
- **Refinance facilities:** Sector-specific refinance facilities (e.g., against lending to export sector) provided to banks.

Indirect Instruments

- **Liquidity Adjustment Facility (LAF):** Consists of daily infusion or absorption of liquidity on a repurchase basis, through repo (liquidity injection) and reverse repo (liquidity absorption) auction operations, using government securities as collateral.
- **Repo/Reverse Repo Rate:** These rates under the Liquidity Adjustment Facility (LAF) determine the corridor for short-term money market interest rates. In turn, this is expected to trigger movement in other segments of the financial market and the real economy.
- **Open Market Operations (OMO):** Outright sales/purchases of government securities, in addition to LAF, as a tool to determine the level of liquidity over the medium term.
- **Marginal Standing Facility (MSF):** was instituted under which scheduled commercial banks can borrow over night at their discretion up to one per cent of their respective NDTL at 100 basis points above the repo rate to provide a safety valve against unanticipated liquidity shocks
- **Bank Rate:** It is the rate at which the Reserve Bank is ready to buy or rediscount bills of

exchange or other commercial papers. It also signals the medium-term stance of monetary policy.

- **Market Stabilisation Scheme (MSS):** This instrument for monetary management was introduced in 2004. Liquidity of a more enduring nature arising from large capital flows is absorbed through sale of short-dated government securities and treasury bills. The mobilised cash is held in a separate government account with the Reserve Bank.

What is the Cash Reserve Ratio?

The Reserve Bank requires banks to maintain a certain amount of cash in reserve as a percentage of their deposits to ensure that banks have sufficient cash to cover customer withdrawals. We adjust this ratio on occasion, as an instrument of monetary policy, depending on prevailing conditions. Our centralised and computerised system allows for efficient and accurate monitoring of the balances maintained by banks with the Reserve Bank.





Governor Dr. Raghuram Rajan listening to questions posed by media



Improving transparency in our decisions and actions is a constant endeavour at RBI.



■ Looking Ahead

The Reserve Bank looks at both short term and longer term issues related to liquidity management. In the longer term, we monitor the developments in global financial markets, capital flows, the government's fiscal position and inflationary pressures, with an eye toward encouraging strong and sustainable economic growth.

Open and Transparent Monetary Policy-Making

The Reserve Bank explains the relative importance of its objectives in a given context in a transparent manner, emphasises a consultative approach in policy formulation as well as autonomy in policy operations and harmony with other elements of macroeconomic policies. The monetary policy formulation is aided by advice and input from:

- Technical Advisory Committee on Monetary Policy
- Pre-policy consultations with bankers, economists, market participants, chambers of commerce and industry and other stakeholders
- Regular discussions with credit heads of banks
- Feedback from banks and financial institutions
- Internal analysis

The Reserve Bank's Annual Policy Statements, announced in April, are followed by three quarterly reviews, in July, October and January. A detailed background report – *Review of Macroeconomic and Monetary Developments* – is released the day before each of these policy reviews. In between the quarterly reviews, we also release three mid-quarter statements in September, December and March reviewing the policy. Faced with multiple tasks and a complex mandate, the Reserve Bank emphasizes clear and structured communication for effective functioning. Improving transparency in our decisions and actions is a constant endeavour at the Reserve Bank.

The Reserve Bank is the nation's sole note issuing authority.

Along with Government of India, we are responsible for the design, production and overall management of the nation's currency, with the goal of ensuring an adequate supply of clean and genuine notes. The Government of India is the issuing authority of coins and supplies coins to the Reserve Bank on demand. The Reserve Bank puts the coins into circulation on behalf of the Central Government. In consultation with the Government of India, we work towards maintaining confidence in the currency by constantly endeavouring to enhance integrity of banknotes through new design and security features.

■ Our Approach

- The Department of Currency Management at Central Office, Mumbai, in cooperation with the Issue Departments of the Reserve Bank's Regional Offices across India oversees currency management. The function includes supplying and distributing adequate quantity of currency throughout the country and ensuring the quality of banknotes in circulation by continuous supply of clean notes and timely withdrawal of soiled notes.
- This is achieved through a wide network of more than 4000 currency chests of commercial banks. Currency chests are extended arms of the Reserve Bank Issue Departments and are responsible for meeting the currency requirements of their respective regions.





The Reserve Bank's printing press at Mysore.

Our Tools

Four printing presses print and supply banknotes. These are at Dewas in Madhya Pradesh, Nasik in Maharashtra, Mysore in Karnataka, and Salboni in West Bengal.

The presses in Madhya Pradesh and Maharashtra are owned by the Security Printing and Minting Corporation of India (SPMCIL), a wholly owned company of the Government of India. The presses in Karnataka and West Bengal are owned by the Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL), a wholly owned subsidiary of the Reserve Bank.

Coins are minted by the Government of India. The Reserve Bank is the agent of the Government for distribution, issue and handling of coins. Four mints are in operation: Mumbai in Maharashtra, Noida in Uttar Pradesh, Kolkata, and Hyderabad.

RBI's Anti-counterfeiting Measures

- Continual upgrades of banknote security features
- Public awareness campaigns to educate citizens to help prevent circulation of forged or counterfeit notes
- Installation of note sorting machines

RBI's Clean Note Policy

- Education campaign on preferred way to handle notes: no stapling, writing, excessive folding and the like
- Timely removal of soiled notes: use of currency verification and processing systems and sorting machines
- Exchange facility for torn, mutilated or defective notes: at all branches of commercial banks

Few initiatives

We have taken several initiatives to improve customer service with regard to banknotes. Some of them are:

- Giving incentive to banks for adjudication of cut notes and mopping up of soiled notes
- Transferring currency exchange facility to bank branches
- Permitting banks to engage the services of Business Correspondents and Cash-In-Transit companies for distribution of notes and coins and ensure last mile connectivity
- Withdrawal of old series of banknotes (issued before 2005) keeping in view the standard international practice
- Creating 'Paisa bolta hai' – an educative micro-site, which includes a film for public awareness about banknotes

Looking Ahead

Focus continues on ensuring availability of clean notes and on strengthening the security features of bank notes. Given the volumes involved and costs incurred in the printing, transport, storage and removal of unfit/soiled notes, the Reserve Bank is evaluating ways to extend the life of bank notes - particularly in lower denominations. We are, for instance, considering issue of Rs. 10 banknotes in plastic.

Denominations of coins and notes in circulation:

- Coins in circulation: 50 paise, 1, 2, 5 and 10 Rupee



- Notes in circulation: Rs. 5, 10, 20, 50, 100, 500 and 1000



Bank notes are legal tender at any place in India for payment without limit.

As per Indian Coinage Act-

- Rupee coin (1 and above) can be used to pay /settle any sum
- Paise 50 coin can be used to pay /settle any sum not exceeding Ten Rupees

Banker and Debt Manager to Government

Managing the government's banking transactions is a key RBI role. Like individuals, businesses and banks, governments need a banker to carry out their financial transactions in an efficient and effective manner, including the raising of resources from the public. As a banker to the central government, the Reserve Bank maintains its accounts, receives money into and makes payments out of these accounts and facilitates the transfer of government funds. We also act as the banker to those state governments that have entered into an agreement with us.

■ Our Approach

The role as banker and debt manager to government includes several distinct functions:

- Undertaking banking transactions for the central and state governments to facilitate receipts and payments and maintaining their accounts.
- Managing the governments' domestic debt with the objective of raising the required amount of public debt in a cost-effective and timely manner.
- Developing the market for government securities to enable the government to raise debt at a reasonable cost, provide benchmarks for raising resources by other entities and facilitate transmission of monetary policy actions.

■ Our Tools

At the end of each day, our electronic system automatically consolidates all of the government's transactions to determine the net final position. If the balance in the government's account shows a negative position, we extend a short-term, interest-bearing advance, called a Ways and Means Advance—WMA—the limit or amount for which is set at the beginning of each financial year in April.



सत्यमेव जयते

The RBI's Government Finance Operating Structure

The Reserve Bank's Department of Government and Bank Accounts oversees governments' banking related activities. This department encompasses:

- **Public accounts departments:** manage the day-to-day aspects of Government's banking operations. The Reserve Bank also appoints commercial banks as its agents and uses their branches for greater access to the government's customers.
- **Public debt offices:** provide depository services for government securities for banks, institutions and service government loans.
- **Central Accounts Section at Nagpur:** consolidates the government's banking transactions.

The Internal Debt Management Department based in Mumbai raises the government's domestic debt and regulates and develops the government securities market.

Looking Ahead

Going forward, we will continue to enhance efficient and user-friendly conduct of banking transactions for central and state governments while ensuring cost-effective cash and debt management by deepening and widening of the market for government securities.

RBI as the Governments' Debt Manager

In this role, we set policies, in consultation with the government and determine the operational aspects of raising money to help the government finance its requirements:

- Determine the size, tenure and nature (fixed or floating rate) of the loan
- Define the issuing process including holding of auctions
- Inform the public and potential investors about upcoming government loan auctions

The Reserve Bank also undertakes market development efforts, including enhanced secondary market trading and settlement mechanisms, authorisation of primary dealers and improved transparency of issuing process to increase investor confidence, with the objective of broadening and deepening the government securities market.



The RBI plays a critical role managing the issuance of public debt. Part of this role includes informing potential investors about upcoming debt auctions through notices such as these.

Banker to Banks

Like individual consumers, businesses and organisations of all kinds, banks need their own mechanism to transfer funds and settle inter-bank transactions—such as borrowing from and lending to other banks—and customer transactions. As the banker to banks, the Reserve Bank fulfills this role. In effect, all banks operating in the country have accounts with the Reserve Bank, just as individuals and businesses have accounts with their banks.



■ Our Approach

As the banker to banks, we focus on:

- Enabling smooth, swift and seamless clearing and settlement of inter-bank obligations.
- Providing an efficient means of funds transfer for banks.
- Enabling banks to maintain their accounts with us for purpose of statutory reserve requirements and maintain transaction balances.
- Acting as lender of the last resort.

Our Tools

The Reserve Bank provides products and services for the nation's banks similar to what banks offer their own customers. Here's a look at how we help:

- **Non-interest earning current accounts:** Banks hold accounts with the Reserve Bank based on certain terms and conditions, such as, maintenance of minimum balances. They can hold accounts at each of our regional offices. Banks draw on these accounts to settle their obligations arising from inter-bank settlement systems. Banks can electronically transfer payments to other banks from this account, using the Real Time Gross Settlement System (RTGS).
- **Deposit Accounts Department:** This department's computerised central monitoring system helps banks manage their funds position in real time to maintain the optimum balance between surplus and deficit centres.
- **Remittance facilities:** Banks and government departments can use these facilities to transfer funds.
- **Lender of the last resort:** The Reserve Bank provides liquidity to banks unable to raise short-term liquid resources from the inter-bank market. Like other central banks, the Reserve Bank considers this a critical function because it protects the interests of depositors, which in turn, has a stabilising impact on the financial system and on the economy as a whole.
- **Loans and advances:** The Reserve Bank provides short-term loans and advances to banks / financial institutions, when necessary, to facilitate lending for specified purposes.



RBI provides liquidity support to banks. Cash being transported from Mysore Press.

Looking Ahead

Challenges going forward include implementing core banking solutions for our customers and enhancing the safety and efficiency of the payments and settlement system in the country.

Regulator of the Banking System

Banks are fundamental to the nation's financial system. The central bank has a critical role to play in ensuring the safety and soundness of the banking system—and in maintaining financial stability and public confidence in this system. As the regulator and supervisor of the banking system, the Reserve Bank protects the interests of depositors, ensures a framework for orderly development and conduct of banking operations conducive to customer interests and maintains overall financial stability through preventive and corrective measures.

■ Our Approach

The Reserve Bank regulates and supervises the nation's financial system. Different departments of the Reserve Bank oversee the various entities that comprise India's financial infrastructure. We oversee:

- **Commercial banks and all-India development financial institutions:** Regulated by the Department of Banking Operations and Development, supervised by the Department of Banking Supervision
- **Urban co-operative banks:** Regulated and supervised by the Urban Banks Department
- **Regional Rural Banks (RRB), District Central Cooperative Banks and State Co-operative Banks:** Regulated by the Rural Planning and Credit Department and supervised by NABARD
- **Non-Banking Financial Companies (NBFC):** Regulated and supervised by the Department of Non-Banking Supervision



■ Our Tools

The Reserve Bank makes use of several supervisory tools:

- On-site inspections
- Off-site surveillance, making use of required reporting by the regulated entities
- Thematic inspections, scrutiny and periodic meetings

The Board for Financial Supervision oversees the Reserve Bank's regulatory and supervisory responsibilities.



Consumer confidence and trust are fundamental to the proper functioning of the banking system. RBI's supervision and regulation helps ensure that banks are stable and that the system functions smoothly.

The RBI's Regulatory Role

As the nation's financial regulator, the Reserve Bank handles a range of activities, including:

- Licensing
- Prescribing capital requirements
- Monitoring governance
- Setting prudential regulations to ensure solvency and liquidity of the banks
- Prescribing lending to certain priority sectors of the economy
- Regulating interest rates in specific areas
- Setting appropriate regulatory norms related to income recognition, asset classification, provisioning, investment valuation, exposure limits and the like
- Initiating new regulation

■ Looking Ahead

In the regulatory and supervisory arena, there are several challenges going forward.

- **For commercial banks:** Focus is on implementing Basel III norms, which will require improved capital planning and risk management skills.
- **For urban cooperative banks:** Focus is on profitability, professional management and technology enhancement.
- **For NBFCs:** Focus is on identifying the interconnections and the roles these institutions should play as the financial system deepens.
- **For regional rural banks:** Focus is on enhancing capability through IT and HR for serving the rural areas.
- **For rural cooperative banks:** Focus is on ensuring that they meet minimum prudential standards.

Manager of Foreign Exchange

With the transition to a market-based system for determining the external value of the Indian rupee, the foreign exchange market in India gained importance in the early reform period. In recent years, with increasing integration of the Indian economy with the global economy arising from greater trade and capital flows, the foreign exchange market has evolved as a key segment of the Indian financial market.

■ Our Approach

The Reserve Bank plays a key role in the regulation and development of the foreign exchange market and assumes three broad roles relating to foreign exchange:

- Regulating transactions related to the external sector and facilitating the development of the foreign exchange market
- Ensuring smooth conduct and orderly conditions in the domestic foreign exchange market
- Managing the foreign currency assets and gold reserves of the country



Our Tools

The Reserve Bank is responsible for administration of the Foreign Exchange Management Act, 1999 and regulates the market by issuing licences to banks and other select institutions to act as Authorised Dealers in foreign exchange. The Foreign Exchange Department (FED) is responsible for the regulation and development of the market.

On a given day, the foreign exchange rate reflects the demand for and supply of foreign exchange arising from trade and capital transactions. The RBI's Financial Markets Department (FMD) participates in the foreign exchange market by undertaking sales / purchases of foreign currency to ease volatility in periods of excess demand for/supply of foreign currency.

The Department of External Investments and Operations (DEIO) invests the country's foreign exchange reserves built up by purchase of foreign currency from the market. In investing its foreign assets, the Reserve Bank is guided by three principles: safety, liquidity and return.



The Department of External Investments & Operations manages a multi-currency multi-instrument portfolio of foreign currency assets. A well-equipped dealing room executes transactions.

Looking Ahead

The challenge now is to liberalise and develop the foreign exchange market, with an eye toward ushering in greater market efficiency while ensuring financial stability in an increasingly global financial market environment. With current account convertibility achieved in 1994, the key focus is now on capital account management.



In investing its foreign assets, the Reserve Bank is guided by three principles: safety, liquidity and return.

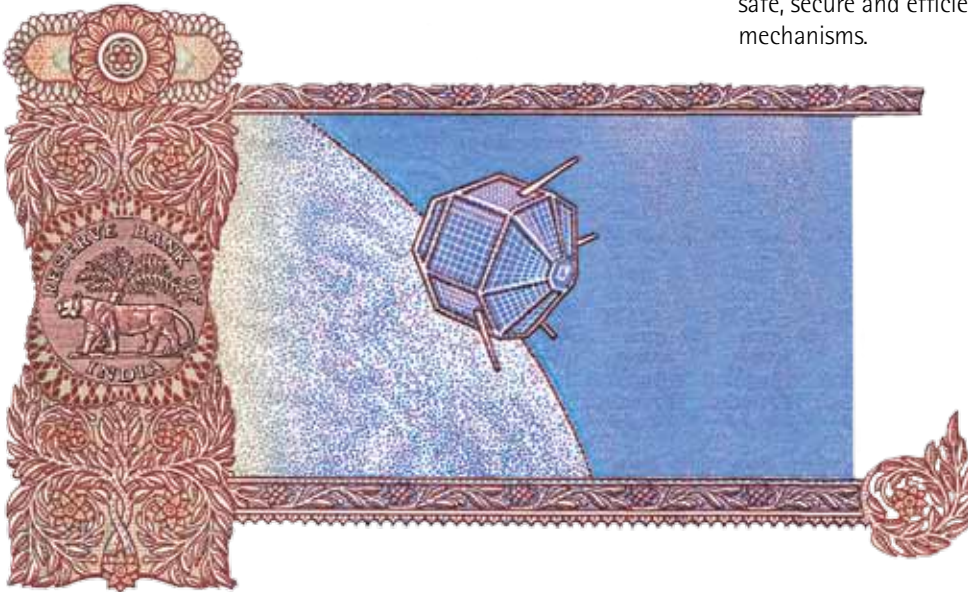


Regulator and Supervisor of Payment and Settlement Systems

Payment and settlement systems play an important role in improving overall economic efficiency. They consist of all the diverse arrangements that we use to systematically transfer money—currency, paper instruments such as cheques, and various electronic channels.

■ Our Approach

The Payment and Settlement Systems Act of 2007 (PSS Act) gives the Reserve Bank oversight authority, including regulation and supervision, for the payment and settlement systems in the country. In this role, we focus on the development and functioning of safe, secure and efficient payment and settlement mechanisms.



Our Tools

The Reserve Bank has a two-tiered structure. The first tier provides the basic framework for our payment systems. The second tier focusses on supervision of this framework. As part of the basic framework, the Reserve Bank's network of secure systems handles various types of payment and settlement activities. Most operate on the security platform of the INdianFInancialNEtwork (INFINET), using digital signatures for further security of transactions. Here is an overview of the various systems used:

- **Retail payment systems:** Facilitating cheque clearing, electronic funds transfer, through National Electronic Funds Transfer (NEFT), settlement of card payments and bulk payments, such as electronic clearing services. Operated through local clearing houses throughout the country.
- **Large value systems:** Facilitating settlement of inter-bank transactions from financial markets. These include:
 - Real Time Gross Settlement System (RTGS): for funds transfers
 - Securities Settlement System: for the government securities market
 - Foreign Exchange Clearing: for transactions involving foreign currency
- **Department of Payment and Settlement Systems:** The Reserve Bank's payment and settlement systems regulatory arm.
- **Department of Information Technology:** Tech support for the payment systems and for the Reserve Bank's internal IT systems.



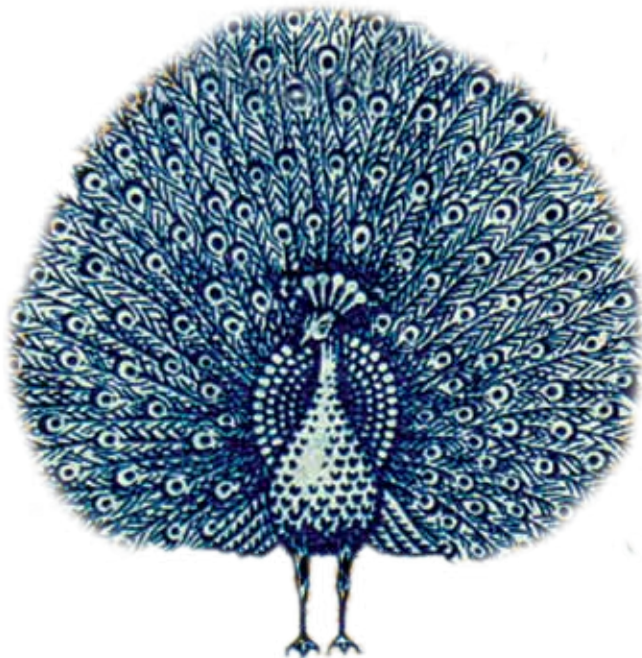
Efficient funds clearing was first initiated in the '80s through Magnetic Ink Character Recognition (MICR) technology.

Looking Ahead

Going forward, we are proactively identifying and addressing issues that help mitigate the risks for large value systems. Efforts on the retail payment system side will focus on operational efficiencies, cost effectiveness, innovation and risk management.

Maintaining Financial Stability

Pursuit of financial stability has emerged as a key critical policy objective for the central banks in the wake of the recent global financial crisis. Central banks have a critical role to play in achieving this objective. Though financial stability is not an explicit objective of the Reserve Bank in terms of the Reserve Bank of India Act, 1935, it has been an explicit objective of the Reserve Bank since the early 2000s.



■ Our Approach

In 2009, the Reserve Bank set up a dedicated Financial Stability Unit mainly to, put in place a system of continuous monitoring of the macro financial system. The department's remit includes:

- Conduct of macro-prudential surveillance of the financial system on an ongoing basis
- Developing models for assessing financial stability in going forward
- Preparation of half yearly financial stability reports.
- Development of a database of key variables which could impact financial stability, in co-ordination with the supervisory wings of the Reserve Bank
- Development of a time series of a core set of financial indicators
- Conduct of systemic stress tests to assess resilience

Following the establishment of the Financial Stability Unit, the Reserve Bank started publishing periodic financial stability reports, with the first Financial Stability Report (FSR) being published in March 2010. FSRs are now being published on a half yearly basis – in June and

December every year. Internally, quarterly Systemic Risk Monitors and monthly Market Monitors are prepared to place before the Bank's Top Management a more frequent assessment of the risks to systemic stability of the economy.

In the Union Budget for 2010-11, the Finance Minister announced the establishment of Financial Stability and Development Council (FSDC) to provide, among other things, a high level focus to financial stability. The Reserve Bank plays a critical role in the Council. The Governor, Reserve Bank, is the ex-officio chairperson of the Sub Committee of the FSDC – the Council's main operating arm. The Financial Stability Unit of the Reserve Bank of India acts as the Secretariat for the Sub Committee.

■ Our Tools

The Reserve Bank makes use of a variety of tools and techniques to assess the build up of systemic risks in the economy and to provide critical inputs in this respect to its policy making departments. The tools include:

- A **Financial Stress Indicator** - a contemporaneous indicator of conditions in financial markets and in the banking sector;
- **Systemic Liquidity Indicator** for assessing stresses in availability of systemic liquidity;
- A **Fiscal Stress Indicator** for assessing build up of risks from the fiscal;
- A **Network Model** of the bilateral exposures in the financial system – for assessing the inter-connectedness in the system;
- A **Banking Stability Indicator** for assessing risk factors having a bearing on the stability of the banking sector; and
- A series of **Banking Stability Measures** for assessing the systemic importance of individual banks.



Financial Stability Report

■ Looking Ahead

Launching a Systemic Risk Survey to more formally elicit market views on the possible sources of risk to systemic stability of the country – both, domestic and global.

This role is, perhaps, the most unheralded aspect of our activities, yet it remains among the most critical. This includes ensuring credit availability to the productive sectors of the economy, establishing institutions designed to build the country's financial infrastructure, expanding access to affordable financial services and promoting financial education and literacy.

■ Our Approach

Over the years, the Reserve Bank has added new institutions as the economy has evolved. Some of the institutions established by the RBI include:

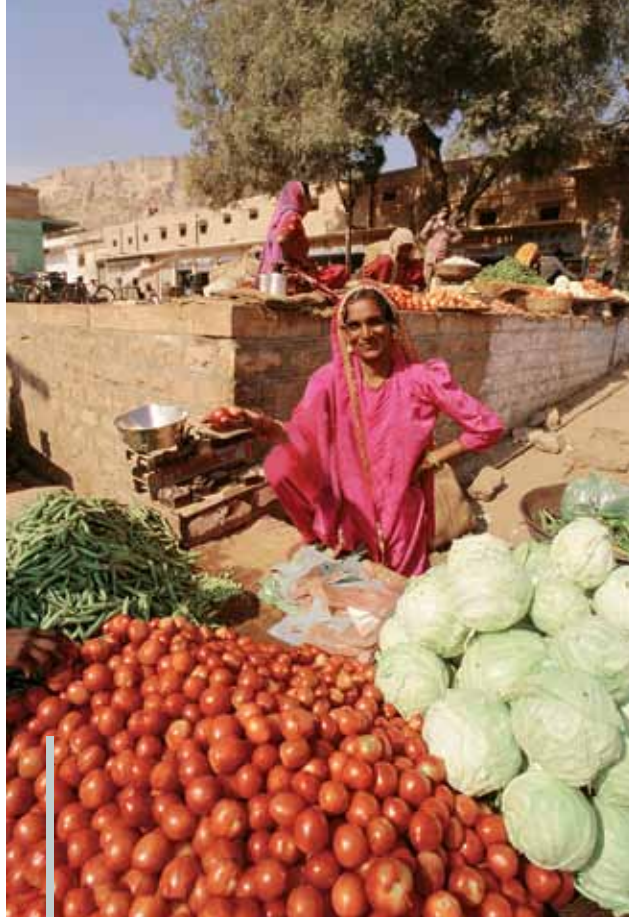
- Deposit Insurance and Credit Guarantee Corporation (1962), to provide protection to bank depositors and guarantee cover to credit facilities extended to certain categories of small borrowers
- Unit Trust of India (1964), the first mutual fund of the country
- Industrial Development Bank of India (1964), a development finance institution for industry
- National Bank for Agriculture and Rural Development (1982), for promoting rural and agricultural credit
- Discount and Finance House of India (1988), a money market intermediary and a primary dealer in government securities
- National Housing Bank (1989), an apex financial institution for promoting and regulating housing finance
- Securities and Trading Corporation of India (1994), a primary dealer



Our Tools

The Reserve Bank continues its developmental role, while specifically focussing on financial inclusion. Key tools in this on-going effort include:

- **Directed credit for lending to priority sector and weaker sections:** The goal here is to facilitate/ enhance credit flow to employment intensive sectors such as agriculture, micro and small enterprises (MSE), as well as for affordable housing and education loans.
- **Lead Bank Scheme:** A commercial bank is designated as a lead bank in each district in the country and this bank is responsible for ensuring banking development in the district through coordinated efforts between banks and government officials. The Reserve Bank has assigned a Lead District Manager for each district who acts as a catalytic force for promoting financial inclusion and smooth working between government and banks.
- **Sector specific refinance:** The Reserve Bank makes available refinance to banks against their credit to the export sector. In exceptional circumstances, it can provide refinance against lending to other sectors.
- **Strengthening and supporting small local banks:** This includes regional rural banks and cooperative banks
- **Financial inclusion:** Expanding access to finance and promoting financial literacy are a part of our outreach efforts.



RBI aims to ensure that credit is available to the productive sectors of the economy.

Looking Ahead

The development role of the Reserve Bank will continue to evolve, along with the Indian economy. Through the outreach efforts and emphasis on customer service, the Reserve Bank will continue to make efforts to fill the gaps to promote inclusive economic growth and stability.



Financial Inclusion and Literacy: Expanding Access; Encouraging Education

Expanding access to and knowledge about finance is a fundamental aspect of the Reserve Bank's operations. These efforts are critical to ensuring that the benefits of a growing and healthy economy reach all segments of the population. Our work here includes:

- Encouraging provision of affordable financial services like zero-balance, no-frills bank accounts, access to payments and remittance facilities, savings, loans and insurance services
- Expanding banking outreach through use of technology, such as banking by cell phone, smart cards and the like
- Encouraging bank branch expansion in parts of the country with few banking facilities
- Facilitating use of specified persons to act as agents to perform banking functions in hard-to-reach parts of the country

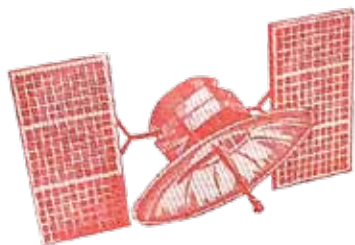
Our work to promote financial literacy focusses on educating people about responsible financial management. Efforts here include:

- **Information and knowledge-sharing:** User-friendly website includes easy-to-understand tips and guidance in multiple languages; brochures, advertisements and other marketing materials educate the public about banking services.
- **Credit counselling:** The Reserve Bank encourages commercial banks to set up financial literacy and credit counselling centres, to help people develop better financial planning skills.

Research, Data and Knowledge-Sharing: How We Communicate

The Reserve Bank has a rich tradition of generating sound, policy-oriented economic research, data compilation and knowledge-sharing.

Our economic research focuses on study and analysis of domestic and international macroeconomic issues. This is mainly done by the Department of Economic and Policy Research and the Department of Statistics and Information Management.



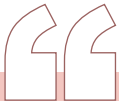
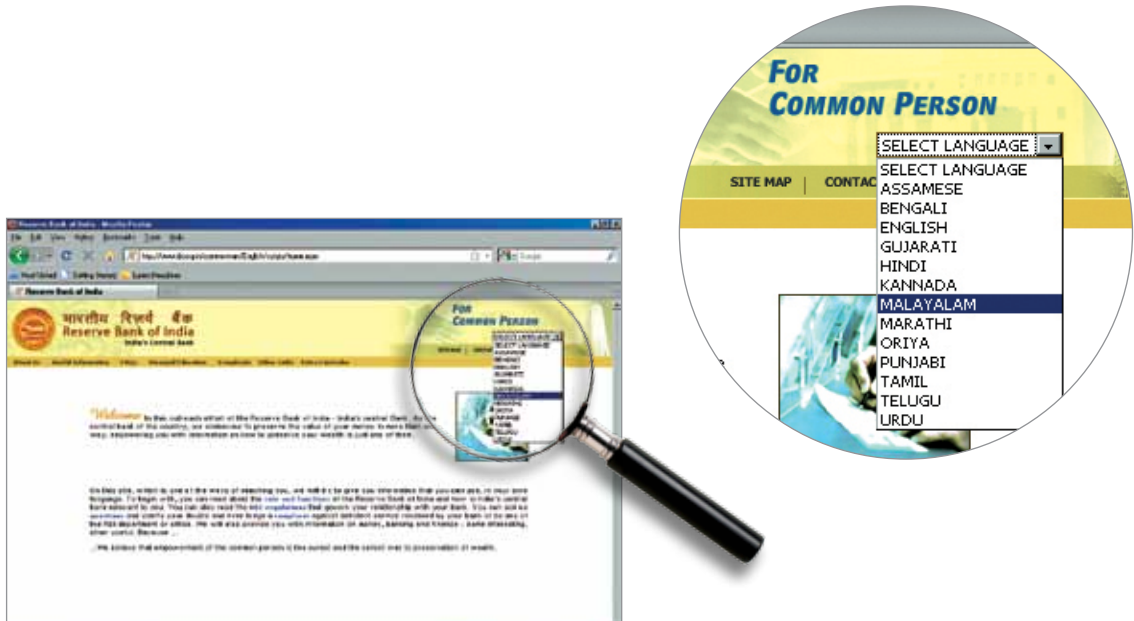
Economic research work is designed to:

- Educate the public
- Provide reliable, data-driven information for policy and decision-making
- Supply accurate and timely data for academic research as well as to the general public
- Provide support for collaborative research to research institutions/ universities
- To develop and maintain statistical data reporting systems
- To conduct forward-looking surveys for monetary policy

Communicating with the Public

Our emphasis on communication involves a range of activities, all aimed at sharing knowledge about the financial arena.

The Reserve Bank's web site (www.rbi.org.in) provides a full range of information about our activities, our publications, our history and our organisation. The web site is updated regularly, with the most recent publications, speeches, press releases and circulars. Of note, relevant press releases and circulars are posted in 13 local languages.



The Reserve Bank's web site posts relevant information for citizens in 13 local languages.



RBI Publications

Publications produced on a regular basis include:

■ Annual

- Annual Report
- Report on Trend and Progress of Banking in India
- Report on Currency and Finance
- Handbook of Statistics on the Indian Economy
- State Finances: A Study of Budgets
- A Profile of Banks
- Statistical Tables Relating to Banks in India
- Basic Statistical Returns of Scheduled Commercial Banks in India

■ Half Yearly

- Financial Stability Report

■ Quarterly

- Macroeconomic and Monetary Development
- Occasional Papers
- Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks

■ Monthly

- RBI Bulletin
- Monetary and Credit Information Review

■ Weekly

- Weekly Statistical Supplement

■ Occasional

- RBI Working Paper Series (Web version)



A Central Resource: the RBI's Data Warehouse

- Enterprise-wide data warehouse
- User-friendly, public access via RBI web site, www.dbie.rbi.org.in
- Pre-formatted reports
- Simple and advanced queries
- Definitions of basic concepts

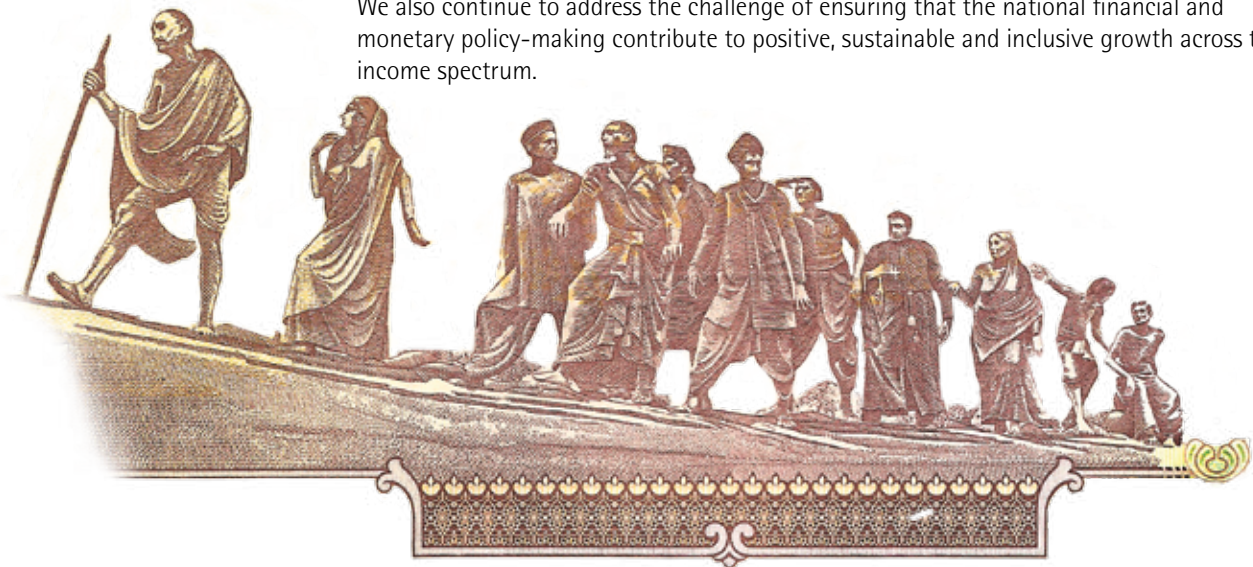
Addressing Current and Future Challenges

Building on the firm foundation of our rich tradition, the Reserve Bank is also changing with the times.

The Reserve Bank's mandate—yesterday, today and tomorrow—is to set a monetary and financial course that will sustain the nation's economic growth and health during global downturns, periods of volatility and global upturns alike.

Our actions prior to and during the recent period of global financial upheaval exemplify these commitments. We have demonstrated willingness to take pro-active measures to preserve gains and to ensure that progress is sustainable. The Reserve Bank responses during extraordinary times are aimed at maintaining financial stability including maintaining sufficient rupee and foreign exchange liquidity to ensure that credit continues to flow to businesses and consumers and financial markets remain stable.

We also continue to address the challenge of ensuring that the national financial and monetary policy-making contribute to positive, sustainable and inclusive growth across the income spectrum.



RBI: Some Notable Actions

The Reserve Bank's willingness to use conventional and unconventional measures has helped buffer the nation from severe crises. Here are some examples of our responses post-reforms:

- 2004 : Market Stabilisation Scheme - A sterilisation instrument, like CRR and OMOs, used to absorb excessive forex flow and the resultant rupee liquidity
- 2004: Using prudential norms like risk weights and provisioning norms for commercial real estate and capital market loans portfolio of banks to guard against their excessive bulging
- 2008-09 : Carefully considered and calibrated reduction of interest rates until situation stabilised; and took various steps to make domestic and forex liquidity available; both, confidence building moves
- 2011: Marginal Standing Facility - Under which scheduled commercial banks can borrow overnight (even by dipping into SLR portfolio) at their discretion up to one per cent of their respective NDTL at 100 basis points above the repo rate to provide a safety valve against unanticipated liquidity shocks
- 2012: Using Open Market Operations and CRR as pure LAF, liquidity instruments



Customer Service: How Can We Help You?

Our customer outreach policy is aimed at informing the public, so that they know what to expect, what choices they have and what rights and obligations they have in relation to banking services. Our customer service initiatives are designed to protect customers' rights, enhance the quality of customer service and strengthen the grievance redressal mechanism in the banking sector as a whole—and at the Reserve Bank itself. Our efforts include:

- **Customer Service Department (CSD):** Questions? Problems? Concerns? Communicate with this department (helpcsd@rbi.org.in) which was set up in 2006, based at the central office in Mumbai, to respond to system-level customer issues.
- **Banking Codes and Standards Board of India:** The Reserve Bank established this board to encourage transparency in lending and fair pricing. This will give customers more confidence in the system and encourage more usage of formal banking. (www.bcsbi.org.in)
- **Banking Ombudsman:** The Reserve Bank's quasi-judicial authority for resolving disputes between commercial banks, primary cooperative banks and regional rural banks and their customers. There is one Banking Ombudsman in virtually every state. (www.bankingombudsman.rbi.org.in)

