

FINANCE MINISTER'S SPEECH ON THE OCCASION OF RELEASE OF RBI'S REPORT ON CURRENCY AND FINANCE:2004-2005

It gives me great pleasure to be here today on the occasion of the release of three volumes of the History of the Reserve Bank of India by the Prime Minister.

On this occasion, I am happy to release one of the key research publications of the Reserve Bank, viz., *Report on Currency and Finance* for the year 2004-05.

Since 1999, the Report has focussed on a particular theme each year so that the overlap with the Bank's other flagship publications, such as, the Annual Report and the Report on Trend and Progress of Banking in India could be minimised.

The theme for the present Report, viz., "Evolution of Central Banking in India", befits the occasion of the release of the History volumes. It is seen that the Report attempts to capture the transformation of central banking in India in the context of development of central banking worldwide. It also undertakes an in depth analysis of the various functions of the Reserve Bank, such as, monetary and external sector management, development of institutions and financial markets, public debt management and banking regulation and supervision. The Report delineates the flexibility of the Reserve Bank of India Act which enables the Bank to adapt to a rapidly changing domestic and external environment.

Financial sector reforms have been an integral part of the liberalisation in economic policies from 1991 onwards. The RBI has played an important part in ushering in the changes, not only for modernising of the banking infrastructure but also for making it competitive and in conformity with international norms through a suitable road map. The Government and the RBI has worked together for moving away from directed credit to a market oriented system of credit allocation; we have broken with the past of an administered interest rate regime. There is no longer any automatic monetising of Government deficit by the RBI. This year marks a yet another departure, with the Government due to take over the management of its public debt.

Today RBI is fulfilling multiple functions of being the apex monetary authority shaping the country's monetary policy, managing the foreign exchange reserves, fulfilling its developmental role in banking sector and also laying down standards of performance is a supervisor-regulator of the monetary sector.

As we embark upon a journey to an even higher growth path of 8-10 per cent, the financial sector will have a key role to play through efficient allocation of savings to productive investments. I am sure that the financial sector will take up these challenges of garnering resources from savers and allocating them to the most productive uses in an efficient manner.

I am also very happy to note that the Reserve Bank of India in all aspects of its functioning including as a regular, as a developer of the financial markets and as a provider of services to the general public has kept the interest of the ultimate customer firmly in its focus. Its recent instructions and guidelines regarding financial inclusion, quality of credit card services, management of the demand for currency and clean note policy have all kept in view the need for optimal levels of customer service through the financial system. I am sure that in the years to come the RBI will further intensify its customer focus.

In keeping with the emerging challenges in the financial sector, there are a few issues which need to be addressed in the medium term. It is often observed that misdemeanour by some market players in the capital market gets traced to the institutions in the money market. Though such instances are not wide-spread, it is necessary that institutional and regulatory safeguards of the country's central bank

are effective in ensuring the continued confidence of domestic and foreign investors in the country's capital market. It is also necessary to address inter-relationship with the rest of the architectural framework of the financial sector which is still not fully regulated. In addition, the increased financial openness of the country has its advantages as well as risks. These risks will need to be managed within the liberalised framework.

As the Report has documented, the Reserve Bank has evolved continuously with the changing contours of the Indian economy. As the economy continues to become more open, we will face new challenges in macro-management. I can, therefore, expect confidently that the path of continuous change that the Reserve Bank has exhibited over the last 70 years will continue for another 70 and beyond.

March 18, 2006