

Looking Back and Looking Ahead¹

Reserve Bank of India's Platinum Jubilee Celebrations

- Duvvuri Subbarao

We are gathered here to mark the Grand Finale of the Platinum Jubilee celebrations of the Reserve Bank of India.

It is my pleasure and privilege to welcome:

- Hon'ble Prime Minister Dr. Manmohan Singh
- Hon'ble Finance Minister Shri Pranab Mukherjee
- His Excellency, Governor of Maharashtra, Shri K. Sankaranarayanan; and
- Hon'ble Chief Minister of Maharashtra, Shri Ashok Chavan

2. I also want to acknowledge the presence here on this happy occasion of Smt. Gursharan Kaur, who has accompanied the Prime Minister, and the Reserve Bank's former Governors and Deputy Governors and their graceful spouses.

3. And of course, a big and hearty welcome to all our guests - our colleagues in the financial sector, our friends and well wishers, and our former and current staff, all gathered here today to celebrate with us.

¹ Welcome remarks of Dr. D. Subbarao, Governor, Reserve Bank of India, at the Grand Finale of the Platinum Jubilee Celebrations of RBI held at National Centre for Performing Arts, Mumbai.

Reserve Bank @ 75

4. As an institution, central banks go back several centuries. The first central bank, the Riksbank in Sweden, was established in 1668, nearly 350 years ago, at a time when much of India was still under the Great Mughals. The Bank of England came shortly thereafter in 1694. By the turn of the century in 1900, there were only 18 central banks. Today, there are around 180 central banks, a tenfold increase in the last one hundred years.

5. The intellectual justification for a central bank in India was proposed by big weights such as James Wilson, the first editor of the Economist, in 1860, and by John Maynard Keynes in 1913. However, the idea did not turn into reality until many years later. The Reserve Bank was born as a private shareholders bank in 1935 in the city of Calcutta, what was then Calcutta, it moved in 1937 to Bombay, the erstwhile name for this great city of Mumbai, and was nationalized in 1949. The journey over the last seventy-five years has been eventful for the Reserve Bank, shaping not only its intellectual evolution, but also securing its preeminent position in the economic policy space of the country.

6. The Reserve Bank's 75 year journey has been marked by a host of historic developments both at home and abroad. Internationally, there were the aftermath of the Great Depression of the 1930s; the Second World War and the consequent challenges of war financing; the establishment of the Bretton Woods system in 1944; the unraveling of the gold standard and the oil price shocks of the 1970s; the Third World debt crisis of the 1980s; the Asian crisis of the mid-1990s; and most recently the global financial turmoil.

7. There were historic developments on the home front too, and they were varied - starting with the launching of the five-year plans and the challenges emanating from one of history's

most ambitious and gigantic experiments in economic development; the after-effects of the two wars in the 1960s; the devaluation of the rupee in 1966; bank nationalization in 1969; the balance of payments crisis of the early 1990s and the follow on path-breaking economic reforms that moved India into a new economic era. The Reserve Bank is proud of the role it has played in shaping these developments, or responding to them as the case may be, but always with sensitivity and integrity.

Leadership of RBI

8. The high esteem in which the Reserve Bank is held today owes a lot to the competence and professionalism of its staff, its institutional values and culture, and importantly, the outstanding leadership of former Governors - twenty-one to date.

9. When applauded for the law of gravity, Sir Isaac Newton, not one to make easy concessions to humility, famously said in a letter to his friend and rival Robert Hooke, that if he had seen a little further, it was because he was standing on the shoulders of giants. I can quite relate to that statement. As the Governor of the Reserve Bank in these exciting times, I am deeply humbled by the intellectual reputation of the lineage of the Reserve Bank's Governors. It is my privilege to pay a tribute to all twenty-one of them on the occasion of this platinum jubilee. Four of our former Governors - Dr. Manmohan Singh, Dr. (or I should more appropriately say Prof.) C. Rangarajan, Dr. Bimal Jalan and Dr. Y.V. Reddy - are happily with us today. Shri M. Narasimham and Shri S. Venkitaramanan have been unable to travel to Mumbai but send their best wishes for the function.

Platinum Jubilee Celebrations

10. As you have just seen in the film clip, over the past one year, we celebrated the Platinum Jubilee in diverse ways. The flagship of our celebrations, one which will possibly have the most enduring value, has been the outreach programme. The outreach programme was focussed on taking forward the twin pillars of financial inclusion and financial literacy. The motivation behind this venture was for the RBI, as an institution, to connect with ordinary people of the country. The odyssey took all of us - our Deputy Governors, Executive Directors and myself - to villages across the country - typically off-main road, away from urban influence, unbanked villages - to see and understand how grassroots institutions - self-help women's groups, micro-finance institutions, non-government organizations, rural cooperatives, rural branches of regional and mainstream commercial banks - operate, and to listen first-hand to the hopes and aspirations of village India. In return, we also got an opportunity to explain to people what the Reserve Bank does, and how what we do touches their everyday life.

11. I can claim, indeed I do so with pride, that we visited at least one village in every state of the country and most union territories. Given that India has over 600,000 habitations, our coverage was admittedly miniscule. Even so, it has been a wonderful experience - intellectually rewarding, emotionally fulfilling and professionally mind-expanding.

12. During my own outreach visits to villages in several states, I was impressed by the self-confidence of self-help group women, the enthusiasm of rural girls for education and their growing aspirations for a better quality of life. In many ways, the outreach programme has been a reality check on the design and implementation of the Reserve Bank's policies, and

it has reinforced our institutional commitment to addressing the challenge and opportunity of financial inclusion.

13. As part of the outreach programme, we also conducted quiz contests and debating competitions in schools and colleges in various parts of the country to spread the message of financial literacy and to explain the role and responsibilities of the Reserve Bank. In addition, the top management of the Reserve Bank participated in a couple of town hall events that were aired on television, fielding questions from ordinary people. The idea once again was to understand the concerns of India's growing middle class, and in turn demystify the Reserve Bank to them.

Challenges on the Way Forward

14. A platinum jubilee is a chronological milestone, an occasion for celebration; but it is also an occasion for introspection. People often ask me about the challenges for the Reserve Bank - where I would like to see it going in the next few years. I am deeply conscious that this is not a seminar; so, I will highlight just four areas that the Reserve Bank must address going forward.

15. The first challenge, I believe, is for the Reserve Bank to learn to manage both economic and regulatory policies in a globalizing environment. The recent global financial crisis has clearly demonstrated the uncertainties and dilemmas of macroeconomic management in a globalizing world. Even as governments and central banks acted with unusual show of policy force, they found that they were unable to get the situation under control because of the interconnectedness of the financial system and the cross-border

externalities to domestic policy actions. Most importantly, sentiment and confidence were remarkably correlated across countries around the world.

16. Experience shows that external developments interact with domestic macroeconomic factors in complex, uncertain and even capricious ways. As India increasingly integrates with the rest of the world, the results of our policies will be influenced by what happens beyond our borders. It is, therefore, important for the Reserve Bank to acquire expertise in policy formulation in a globalizing environment. Of course, globalization is not a one way street. What happens here in India is beginning to affect the rest of the world. I recall a Bloomberg headline the other day which said, “US stocks drop as India raises rates for the first time since 2008.”

17. Second in my list of challenges - or rather goals - for RBI is that it must reposition itself as a knowledge institution. The global financial crisis has forcefully revealed the enormous size and forbidding complexity of the financial sector. Some people have described the financial sector before the crisis as anti-Schumpeterian - a ‘destructive creation’. Now, as the crisis recedes, there is a deep, intellectual churning, and we are on to, as most people hope and believe, Schumpeterian ‘creative destruction’.

18. Even at the risk of being clichéd, let me say that at the Reserve Bank, we need to ‘think global and act local’. The idea is not to fight globalization but to manage it to the country’s best advantage. Mahatma Gandhi said [and I quote], “I do not want my house to be walled in on all sides, and my windows to be stuffed. I want the cultures of all the lands to be blown about my house as freely as possible. But I refuse to be blown off my feet by any.” [unquote] The Mahatma’s exhortation is even more true today than when he said it.

19. We need to learn from the best in the world, but adapt our learning to the demands and culture of a maturing and emerging economy. We need to be constantly pushing the envelope, be at the frontiers of domain knowledge, oftentimes reinvent it, but all the time remain sensitive to the core concerns of an emerging market economy, one which is still home to hundreds of millions of poor people.

20. That takes me to the third big challenge for the Reserve Bank - to widen and deepen financial inclusion. We all know from personal experience that economic opportunity is strongly inter-twined with financial access. Such access is especially powerful for the poor as it provides them opportunities to build savings, make investments, avail credit, and above all, insure themselves against income shocks. At the aggregate level, financial inclusion provides an avenue for bringing the huge savings of the poor into the formal financial intermediation system, and for channelling them into much needed investment. One of the big take-aways from our outreach programme is that financial inclusion is not just a public good; it is also a merit good. It empowers poor people in diverse ways. If there is to be 'inclusive growth', financial inclusion is the next big idea, as it will at once promote both growth and equity.

21. The final challenge for the Reserve Bank is to become a more transparent and sensitive institution. We are a public institution, and have an obligation to deliver quality service at the cutting edge level. We need to listen to people, be sensitive to their concerns, and redress their grievances. We also need to communicate effectively, and credibly and explain the logic of our decisions and actions at both technical and non-technical levels. Being able to communicate clearly is non-trivial in many ways. 'Centralbankspeak', the language that central bankers speak, can get counterproductive, if not used wisely. We all know of Alan

Greenspan, the iconic chairman of the Fed. He had to propose to his future wife seven times before she finally understood that he was actually proposing to her!

The Idea of India

22. A final thought before I close. A powerful lesson from the financial crisis has been that financial sector development is not, and cannot be, an end in itself. The growth of the financial sector is important only to the extent it improves the growth of the real sector. For all of us in the Reserve Bank - indeed even for those outside it - engaged in financial sector issues, it is important to remember that what we do in the financial sector adds value if, and only if, it makes a difference to the lives of ordinary people. This is the lasting message that the Reserve Bank will carry forward beyond the platinum jubilee celebrations.

23. Prime Minister Sir, as Finance Minister, in your budget speech of 1994-95, you had famously invoked Victor Hugo to say that: 'No power on earth can stop an idea whose time has come.' If our first Prime Minister, Pandit Nehru, gave us 'the idea of India', you had reinvented the idea to unleash India's 'animal spirits', Keynes' memorable phrase for 'get up and go' entrepreneurship. As a nation, it is our collective dream, hope and joy to take forward that idea of India. On the occasion of its platinum jubilee, the Reserve Bank of India rededicates itself to the continuing task of turning that idea into reality.