Foreword

Unravelling the past in an objective and systematic manner brings with it many positive learnings that can shine a light on the path ahead. While grappling with contemporary complex policy dilemmas, a reference to institutional history often provides valuable guidance on time and context specific policy responses and their impact. I am happy to note that the documenting of its history by successive generations is entrenched as a living tradition in the Reserve Bank of India. This volume – The Reserve Bank of India (1997–2008), the fifth in the series – provides an absorbing and insightful account of central banking in India and the ethos in which it evolved over the period from 1997 to 2008. With this volume, the institutional history of the RBI has been recorded for 73 of the 87 years of its existence.

This volume has been prepared on the basis of documentary records and oral evidence provided by eminent central bankers and policy makers. Drawing on this repository of information, the volume provides a perspective on the developments and challenges over the reference period, that is, 1997–2008, which encompassed the Asian financial crisis and the initial phase of the global financial crisis in its ambit. During this period, India experienced high growth coupled with macroeconomic and financial stability, even as strong capital inflows posed significant challenges for exchange rate and monetary management.

Against this backdrop, a number of institutional and structural reforms were put in place by the RBI in coordination with the government. Important among them were the institution of the Liquidity Adjustment Facility (LAF), introduction of the Market Stabilisation Scheme (MSS) and prohibition of the RBI's participation in primary auctions of government securities as part of fiscal responsibility legislation. Sector-specific refinancing facilities were phased out to enable liquidity management at a system level under the LAF. Amendment to the RBI Act in June 2006 removed the floor and ceiling on the cash reserve ratio (CRR) and the RBI was prohibited from payment of interest on CRR balances. Amendment to the Banking Regulation Act came into force in January 2007 which removed the floor rate of 25 per cent of the statutory liquidity ratio (SLR). All these reforms enhanced the flexibility and effectiveness of monetary policy considerably.

In the area of external sector management, the repealing of the Foreign Exchange Regulation Act (FERA) in 1999 and the establishment of a new legal framework under the Foreign Exchange Management Act (FEMA) on 1 June 2000 marked a regime shift from regulation and conservation of scarce foreign exchange to a liberalised environment in which foreign exchange came to be regarded as a strategic asset.

On the banking and non-banking domains, the regulatory and supervisory processes were strengthened alongside greater convergence with global practices, combined with significant operational flexibility to these entities and their Boards. While infusing competition in the banking sector, the RBI consciously pursued improvements in customer service.

In the payment system space, a state-of-the-art system, leveraging on cutting-edge technology, evolved during this period, owing to the establishment of modern wholesale and retail payment system infrastructure. These advances paved the way for a gradual shift from paper-based instruments to electronic systems. With the enactment of the Payment and Settlement Systems Act in 2007, the RBI also assumed regulatory and supervisory oversight over payment systems in the economy.

In the area of currency management, the thrust on improving quality of notes in circulation received a substantial boost during this period under the 'Clean Note Policy'. Mechanisation of note processing and destruction of non-issuable currency notes became an integral part of this endeavour.

On the whole, it may not be an exaggeration to say that today's modern financial system owes much of its origin to the surge of reforms undertaken by the RBI during this period. I am happy that all these landmarks have been assiduously recorded in this volume.

This volume has been authored by eminent economic historian Professor Tirthankar Roy of the London School of Economics and prepared under the guidance of an Advisory Committee chaired by Dr Narendra Jadhav, economist and Member of Parliament, with Smt. K. J. Udeshi, former Deputy Governor; Dr Viral V. Acharya, then Deputy Governor; and Dr Niranjan Rajadhyaksha, Research Director and Senior Fellow, IDFC Institute, as members. Dr M. D. Patra, then Executive Director and now Deputy Governor, was actively associated in the deliberations of the Advisory Committee as a permanent invitee.

A team of consultants, namely Shri N. Gopalaswamy, Shri K. Kanagasabapathy, Shri F. R. Joseph and Shri S. V. S. Dixit, all former senior officers of the Reserve Bank, contributed to the project by putting together the material for framing the chapters of the volume. The History Cell of the RBI collated relevant official records from across various departments and other such evidence, and provided pivotal administrative support to the entire process. I gratefully acknowledge the steadfast dedication and meticulous efforts of the author, the Advisory Committee and the History Cell in this endeavor to record and carry forward the legacy of central banking in India. I do hope this volume will be an essential reference point for all those interested in knowing about the challenges confronted by the RBI as it maneuvered through storms and calm, adapting to evolving circumstances.

October 2022
Mumbai

Shaktikanta Das
Governor