

Foreword

Established in 1935, the Reserve Bank of India is one of the oldest central banks in the developing world. The Reserve Bank of India Act, 1934, confers a wide mandate on the Bank: “to regulate the issue of Bank notes and the keeping of reserves with the view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.” The interpretation of this wide mandate into specific responsibilities and obligations over time was shaped by global and domestic developments as also evolving international best practices.

In addition to being the monetary authority and issuer of currency, the Reserve Bank has responsibilities for the regulation and supervision of banks, non-banks and large segments of the financial markets. It has responsibilities for the development and regulation of the payment and settlement systems. The Bank plays an active role in the management of the external sector and is the manager of the country’s foreign exchange reserves. The Reserve Bank has always had a development dimension to its mandate, starting from the All-India Rural Credit Survey, 1954 to the most recent initiatives of furthering financial inclusion and financial literacy. Accordingly, the Reserve Bank’s mandate is wider not only relative to that of advanced economy central banks, but also relative to central banks of the peer group of emerging economies.

The history of the Reserve Bank reflects in many ways the economic history of India. Its journey over the past seven or more decades 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.

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 nationalisation 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.

It is a matter of pride and satisfaction for all of us in the Reserve Bank that it is one of the few central banks to be documenting its institutional history. We have so far completed three volumes of history covering the period since the inception of the Bank up to 1981. Volume 1, covering the period from 1935 to 1951, highlights the initial efforts to establish a central bank in India, particularly the concrete proposal made by John Maynard Keynes in 1913 to set up a 'State Bank' in India by merging the three Presidency Banks to take up some of the functions of a central bank. Volume 2 narrates the Reserve Bank's role in the process of development planning from 1951 to 1967. The highlight of Volume 3, which covered the period from 1967 to 1981, was its depiction of efforts to deepen banking into the country's hinterland.

This brings us to the present Volume 4, which covers the period from 1981 to 1997. This was by far one of the most challenging periods for the economy. This volume of history takes us through the difficult times when the Reserve Bank and the Government had to contend with unprecedented strains on the external payments situation. In response to the balance of payments crisis, the Government embarked on a wide-ranging programme of economic reforms that defined a marked reorientation of the philosophy of economic management of the country. The Reserve Bank was a partner in this exciting process, generating ideas, processing proposals and implementing reform initiatives. Chapters 10 to 12 of this volume provide a vivid account of this remarkable phase of the Reserve Bank's history.

As per the precedent set by the earlier volumes, Volume 4 too is based on official records, published sources and discussions with former senior officials associated with the Reserve Bank during the period under review.

The volume also benefited from the oral history extracts of the recorded interviews of former Governors, Deputy Governors and executives of the Bank as well as government officials of the period. It also draws significantly from internal records that were searched to verify facts and to reflect the flavour of the debates and discussions within the Bank on policy proposals before they were firmed up.

The preparation of this volume was guided by an Advisory Committee on RBI History chaired by Dr Bimal Jalan, former Governor. The Members of the Committee included Dr Subir Gokarn, Deputy Governor, Reserve Bank of India; Dr Rakesh Mohan, former Deputy Governor, Reserve Bank of India; Dr A Vasudevan, former Executive Director, Reserve Bank of India; Dr Amitava Bose, Professor IIM, Kolkata and Dr Dilip Nachane, Professor, IGIDR, Mumbai. Shri Deepak Mohanty, Executive Director, Reserve Bank of India proactively monitored preparation of the volume. I thank all Members of the Advisory Committee, Consultants and the staff of the History Cell for the sense of purpose they brought to preparing this volume.

My sincere thanks and gratitude to Dr Bimal Jalan for his intellectual leadership in steering this volume of history. His passion and professionalism are a continuing source of inspiration for us.

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