

Reserve Bank of India: Functions and Working

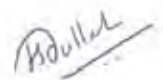


भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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Foreword

The Reserve Bank of India, the nation's central bank, began operations on April 01, 1935. It was established with the objective of ensuring monetary stability and operating the currency and credit system of the country to its advantage. Its functions comprise monetary management, foreign exchange and reserves management, government debt management, financial regulation and supervision, apart from currency management and acting as banker to the banks and to the Government. In addition, from the beginning, the Reserve Bank has played an active developmental role, particularly for the agriculture and rural sectors. Over the years, these functions have evolved in tandem with national and global developments

This book aims to demystify the central bank by providing a simple account of the Reserve Bank's operations and the multidisciplinary nature of its functions. The Bank today focuses, among other things, on maintaining price and financial stability; ensuring credit flow to productive sectors of the economy; managing supply of good currency notes within the country; and supervising and taking a lead in development of financial markets and institutions. The book serves to highlight how the Reserve Bank's decisions touch the daily lives of all Indians and help chart the country's economic and financial course. We hope that readers would find the book, authored by the staff of the Bank, useful in getting a better appreciation of the policies and concerns of the Reserve Bank.



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1 Overview



The origins of the Reserve Bank of India 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 for India 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 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 and financial sector changed.

Origins of the Reserve Bank of India

- 1926: The Royal Commission on Indian Currency and Finance recommended creation of a central bank for India.
- 1927: A bill to give effect to the above recommendation was introduced in the Legislative Assembly, but was later withdrawn due to lack of agreement among various sections of people.
- 1933: The White Paper on Indian Constitutional Reforms recommended the creation of a Reserve Bank. A fresh bill was introduced in the Legislative Assembly.
- 1934: The Bill was passed and received the Governor General's assent
- 1935: The Reserve Bank commenced operations as India's central bank on April 1 as a private shareholders' bank with a paid up capital of rupees five crore (rupees fifty million).
- 1942: The Reserve Bank ceased to be the currency issuing authority of Burma (now Myanmar).
- 1947: The Reserve Bank stopped acting as banker to the Government of Burma.
- 1948: The Reserve Bank stopped rendering central banking services to Pakistan.
- 1949: The Government of India nationalised the Reserve Bank under the Reserve Bank (Transfer of Public Ownership) Act, 1948.

Starting as a private shareholders' bank, the Reserve Bank was nationalised in 1949. It then assumed the responsibility to meet the aspirations of a newly independent country and its people. The Reserve Bank's nationalisation aimed at achieving coordination between the policies of the government and those of the central bank.

Functions of the Reserve Bank

The functions of the Reserve Bank today can be categorised as follows:

- Monetary policy
- Regulation and supervision of the banking and non-banking financial institutions, including credit information companies
- Regulation of money, forex and government securities markets as also certain financial derivatives
- Debt and cash management for Central and State Governments
- Management of foreign exchange reserves
- Foreign exchange management—current and capital account management

- Banker to banks
- Banker to the Central and State Governments
- Oversight of the payment and settlement systems
- Currency management
- Developmental role
- Research and statistics

Continuity with Change

The Preamble to the Reserve Bank of India Act, 1934 (the Act), under which it was constituted, specifies its objective as "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".

The objectives outlined in the Preamble hold good even after 75 years. As evident from the multifaceted functions that the Reserve Bank performs today, its role and priorities have, in the span of 75 years, changed in tandem with changing national priorities and global developments. Essentially, the Reserve Bank has demonstrated dynamism and flexibility to meet the requirements of an evolving economy.

A core function of the Reserve Bank in the last 75 years has been the formulation and implementation of monetary policy with the objectives of maintaining price stability and ensuring adequate flow of credit to productive sectors of the economy. To these was added, in more recent times, the goal of maintaining financial stability. The objective of maintaining financial stability has spanned its role from external account management to oversight of banks and non-banking financial institutions as also of money, government securities and foreign exchange markets.

The Reserve Bank designs and implements the regulatory policy framework for banking and non-banking financial institutions with the aim of providing people access to the banking system, protecting depositors' interest, and maintaining the overall health of the financial system. Its function of regulating the commercial banking sector, which emerged with the enactment of the Banking Regulation Act, 1949, has over time, expanded to cover other entities. Thus, amendments to the Banking Regulation Act, 1949 brought cooperative banks and regional rural banks under the Reserve Bank's jurisdiction, while amendments to the Reserve Bank of India Act saw development finance institutions, non-banking financial companies

and primary dealers coming under its regulation, as these entities became important players in the financial system and markets.

Similarly, the global economic uncertainties during and after the Second World War warranted conservation of scarce foreign exchange reserves by sovereign intervention and allocation. Initially, the Reserve Bank carried out the regulation of foreign exchange transactions under the Defence of India Rules, 1939 and later, under the Foreign Exchange Regulation Act of 1947. Over the years, as the economy matured, the role shifted from foreign exchange regulation to foreign exchange management.

Post-independence, as the emerging nation tried to meet the aspirations of a large and diversified populace, the Reserve Bank, with its experience and expertise, was entrusted with a variety of developmental roles, particularly in the field of credit delivery. With the onset of economic planning in 1950-51, the Reserve Bank undertook a variety of developmental functions to encourage savings and capital formation and widen and deepen the agricultural and industrial credit set-up. Institution building was a significant aspect of its role in the sixties and the seventies. The strategy for nearly four decades placed emphasis on the state-induced or state-supported developmental efforts. Subsequently, the role of the financial sector and financial markets was also given an explicit recognition in the development strategy.

The aftermath of the 1991 balance of payments and foreign exchange crisis saw a paradigm shift in India's economic and financial policies. The approach under the reform era included a thrust towards liberalisation, privatisation, globalisation and concerted efforts at strengthening the existing and emerging institutions and market participants. The Reserve Bank adopted international best practices in areas, such as, prudential regulation, banking technology, variety of monetary policy instruments, external sector management and currency management to make the new policy framework effective.

The rapid pace of growth achieved by the financial system in the deregulated regime necessitated a deepening and widening of access to banking services. The new millennium has seen the Reserve Bank play an active role in balancing the relationship between banks and customers; focusing on financial inclusion; setting up administrative machinery to handle customer grievances; pursuing clean note policy and ensuring development and oversight of secure and robust payment and settlement systems.

The last one-and-a-half decades have also seen growing integration of the national economy and financial system with the globalising world. While rising global integration has its advantages in terms of expanding the scope and scale of growth of the Indian economy, it also exposes India to global shocks. Hence, maintaining financial stability became an important mandate for the Reserve Bank. This, in turn, has brought forth the need for effective coordination and consultation with other regulators within the country and abroad.

The following chapters provide more details on the primary functions of the Reserve Bank.



2 Organisation



Central Board of Directors

The Central Board of Directors is at the top of the Reserve Bank's organisational structure. Appointed by the Government under the provisions of the Reserve Bank of India Act, 1934, the Central Board has the primary authority and responsibility for the oversight of the Reserve Bank. It delegates specific functions to the Local Boards and various committees.

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

The Central Government nominates fourteen Directors on the Central Board, including one Director each from the four Local Boards. The other ten Directors represent different sectors of the economy, such as, agriculture, industry, trade, and professions. All these appointments are made for a period of four years. The Government also nominates one Government official as a Director representing the Government, who is usually the Finance Secretary to the Government of India and remains on the Board 'during the pleasure of the Central Government'. The Reserve Bank Governor and a maximum of four Deputy Governors are also ex officio Directors on the Central Board.

Local Boards

The Reserve Bank also has four Local Boards, constituted by the Central Government under the RBI Act, one each for the Western, Eastern, Northern and Southern areas of the country, which are located in Mumbai, Kolkata, New Delhi and Chennai. Each of these Boards has five members appointed by the Central Government for a term of four years. These Boards represent territorial and economic interests of their respective areas, and advise the Central Board on matters, such as, issues relating to local cooperative and indigenous banks. They also perform other functions that the Central Board may delegate to them.

Offices and Branches

The Reserve Bank has a network of offices and branches through which it discharges its responsibilities. The units operating in the four metros – Mumbai, Kolkata, Delhi and Chennai – are known as offices, while the units located at other cities and towns are called branches. Currently, the Reserve Bank has its offices, including branches, at 27 locations in India. The offices and larger branches are headed by a senior officer in the rank of Chief General Manager, designated as Regional Director while smaller branches are headed by a senior officer in the rank of General Manager.



Central Office Departments

Over the last 75 years, as the functions of the Reserve Bank kept evolving, the work areas were allocated among various departments. At times, the changing role of the Reserve Bank necessitated closing down of some departments and creation of new departments. Currently, the Bank's Central Office, located at Mumbai, has twenty-seven departments. (Box No.3) These departments frame policies in their respective work areas. They are headed by senior officers in the rank of Chief General Manager.

Central Office Departments

- | | |
|-----------------------------------|---|
| Markets | <ul style="list-style-type: none"> ● Department of External Investments and Operations ● Financial Markets Department ● Financial Stability Unit ● Internal Debt Management Department ● Monetary Policy Department |
| Regulation and Supervision | <ul style="list-style-type: none"> ● Department of Banking Operations and Development ● Department of Banking Supervision ● Department of Non-Banking Supervision ● Foreign Exchange Department ● Rural Planning and Credit Department ● Urban Banks Department |
| Research | <ul style="list-style-type: none"> ● Department of Economic Analysis and Policy ● Department of Statistics and Information Management |
| Services | <ul style="list-style-type: none"> ● Customer Service Department ● Department of Currency Management ● Department of Government and Bank Accounts ● Department of Payment and Settlement Systems |
| Support | <ul style="list-style-type: none"> ● Department of Administration and Personnel Management ● Department of Communication ● Department of Expenditure and Budgetary Control ● Department of Information Technology ● Human Resources Development Department ● Inspection Department ● Legal Department ● Premises Department ● Rajbhasha Department ● Secretary's Department |

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

Board for Financial Supervision (BFS)

In terms of the regulations formulated by the Central Board under Section 58 of the RBI Act, the Board for Financial Supervision (BFS) was constituted in November 1994, as a committee of the Central Board, to undertake integrated supervision of different sectors of the financial system. Entities in this sector include banks, financial institutions and non-banking financial companies (including Primary Dealers). The Reserve Bank Governor is the Chairman of the BFS and the Deputy Governors are the ex officio members. One Deputy Governor, usually the Deputy Governor in-charge of banking regulation and supervision, is nominated as the Vice-Chairperson and four directors from the Reserve Bank's Central Board are nominated as members of the Board by the Governor.

The Board is required to meet normally once a month. It deliberates on various regulatory and supervisory policy issues, including the findings of on-site supervision and off-site surveillance carried out by the supervisory departments of the Reserve Bank and gives directions for policy formulation. The Board thus plays a critical role in the effective discharge of the Reserve Bank's regulatory and supervisory responsibilities.

Audit Sub-Committee

The BFS has constituted an Audit Sub-Committee under the BFS Regulations to assist the Board in improving the quality of the statutory audit and internal audit in banks and financial institutions. The Deputy Governor in charge of regulation and supervision heads the sub-committee and two Directors of the Central Board are its members.

Board for Regulation and Supervision of Payment and Settlement Systems (BPSS)

The Board for Regulation and Supervision of Payment and Settlement Systems provides an oversight and direction for policy initiatives on payment and settlement systems within the country. The Reserve Bank Governor is the Chairman of the BPSS, while two Deputy Governors, three Directors of the Central Board and some permanent invitees with domain expertise are its members.

The BPSS lays down policies for regulation and supervision of payment and settlement systems, sets standards for existing and future systems, authorises such systems, and lays down criteria for their membership.

Subsidiaries of the RBI

The Reserve Bank has the following fully - owned subsidiaries:

Deposit Insurance and Credit Guarantee Corporation (DICGC)

With a view to integrating the functions of deposit insurance and credit guarantee, the Deposit Insurance Corporation and Credit Guarantee Corporation of India were merged and the present Deposit Insurance and Credit Guarantee Corporation (DICGC) came into existence on July 15, 1978. Deposit Insurance and Credit Guarantee Corporation (DICGC), established under the DICGC Act 1961, is one of the wholly owned subsidiaries of the Reserve Bank. The DICGC insures all deposits (such as savings, fixed, current, and recurring deposits) with eligible banks except the following:

- (i) Deposits of foreign Governments;
- (ii) Deposits of Central/State Governments;
- (iii) Inter-bank deposits;
- (iv) Deposits of the State Land Development Banks with the State co-operative bank;
- (v) Any amount due on account of any deposit received outside India;
- (vi) Any amount, which has been specifically exempted by the corporation with the previous approval of Reserve Bank of India.

Every eligible bank depositor is insured upto a maximum of Rs.1,00,000 (Rupees One Lakh) for both principal and interest amount held by him.

National Housing Bank (NHB)

National Housing Bank was set up on July 9, 1988 under the National Housing Bank Act, 1987 as a wholly-owned subsidiary of the Reserve Bank to act as an apex level institution for housing. NHB has been established to achieve, among other things, the following objectives:

- To promote a sound, healthy, viable and cost effective housing finance system to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institutions to adequately serve various regions and different income groups.
- To augment resources for the sector and channelise them for housing.
- To make housing credit more affordable.
- To regulate the activities of housing finance companies based on regulatory and supervisory authority derived under the Act.
- To encourage augmentation of supply of buildable land and also building materials for housing and to upgrade the housing stock in the country.
- To encourage public agencies to emerge as facilitators and suppliers of serviced land for housing.

Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)

The Reserve Bank established BRBNMPL in February 1995 as a wholly-owned subsidiary to augment the production of bank notes in India and to enable bridging of the gap between supply and demand for bank notes in the country. The BRBNMPL has been registered as a Public Limited Company under the Companies Act, 1956 with its Registered and Corporate Office situated at Bengaluru. The company manages two Presses, one at Mysore in Karnataka and the other at Salboni in West Bengal.

National Bank for Agriculture and Rural Development (NABARD)

National Bank of Agriculture and Rural Development (NABARD) is one of the subsidiaries where the majority stake is held by the Reserve Bank. NABARD is an apex Development Bank with a mandate for facilitating credit flow for promotion and development of agriculture, small-scale industries, cottage and village industries, handicrafts and other rural crafts. It also has the mandate to support all other allied economic activities in rural areas, promote integrated and sustainable rural development and secure prosperity of rural areas.

Staff Strength

As of June 30, 2009, the Reserve Bank had a total staff strength of 20,572. Nearly 46% of the employees were in the officer grade, 19% in the clerical cadre and the remaining 35% were sub staff. While 17,351 staff members were attached to Regional Offices, 3,221 were attached to various Central Office departments.

Training and Development

The Reserve Bank attaches utmost importance to the development of human capital and skill upgradation in the Indian financial sector. For this purpose, it has, since long, put in place several institutional measures for ongoing training and development of the staff of the banking industry as well as its own staff.

Training Establishments

The Reserve Bank currently has two training colleges and four zonal training centres and is also setting up an advanced learning centre.

The Reserve Bank Staff College (originally known as Staff Training College), set up in Chennai in 1963, offers residential training programmes, primarily to its junior and middle-level officers as well as to officers of other central banks, in various areas. The programmes offered can be placed in four broad categories: Broad Spectrum, Functional, Information Technology and Human Resources Management.

The College of Agricultural Banking set up in Pune in 1969, focuses on training the senior and middle level officers of rural and co-operative credit sectors. In recent years, it has diversified and expanded the training coverage into areas relating to non-banking financial companies, human resource management and information technology.

Both these colleges together conduct nearly 300 training programmes every year, imparting training to over 7,500 staff. The Reserve Bank is also in the process of setting up the Centre for Advanced Financial Learning (CAFL) replacing the Bankers' Training College, Mumbai.


In addition, the Reserve Bank also has four Zonal Training Centres (ZTCs), in Chennai, Kolkata, Mumbai (Belapur) and New Delhi, primarily for training its clerical and sub-staff. However, of late, the facilities at the ZTCs are also being leveraged for training the junior officers of the Reserve Bank.

Academic Institutions

The Reserve Bank has also set up autonomous institutions, such as, National Institute of Bank Management (NIBM), Pune; Indira Gandhi Institute for Development Research (IGIDR), Mumbai; and the Institute for Development and Research in Banking Technology (IDRBT), Hyderabad.


National Institute of Bank Management (NIBM) was established as an autonomous apex institution with a mandate of playing a pro-active role of a 'think-tank' of the banking system. The Institute is engaged in research (policy and operations), education and training of senior bankers and development finance administrators, and consultancy to the banking and financial sectors. Publication of books and journals is also integral to its objectives. International Monetary Fund (IMF), in collaboration with Australian Government Overseas Aid Programme (AUS-AID) and the Reserve Bank, has set-up its seventh international centre, the Joint India-IMF Training Programme (ITP) in NIBM for South Asia and Eastern Africa regions.

The Indira Gandhi Institute of Development Research (IGIDR) is an advanced research institute for carrying out research on development issues. Starting as a purely research institution, it quickly grew into a full-fledged teaching cum research organisation when in 1990 it launched a Ph.D. programme in the field of development studies. The objective of the Ph.D. programme is to produce analysts with diverse disciplinary background who can address issues of economics, energy and environment policies. In 1995 an M. Phil programme was also started. The institute is fully funded by the Reserve Bank.



IDRBT was established in 1996 as an Autonomous Centre for Development and Research in Banking Technology. The research and development activities of the Institute are aimed at improving banking technology in the country. While addressing the immediate concerns of the banking sector, research at the Institute is focused towards anticipating the future needs and requirements of the sector and developing technologies to address them. The current focal areas of research in the Institute are: Financial Networks and Applications, Electronic Payments and Settlement Systems, Security Technologies for the Financial Sector, Technology Based Education, Training and Development, Financial Information Systems and Business Intelligence.

The Institute is also actively involved in the development of various standards and systems for banking technology, in coordination with the Reserve Bank of India, Indian Banks' Association, Ministry of Communication and Information Technology, Government of India, and the various high-level committees constituted at the industry and national levels.



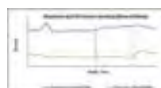
3 Monetary Management



1935
Proportional Reserve System



1954
Minimum Reserve System



1973-76
Minimum and maximum
lending rates for bank loans prescribed



1985
Flexible monetary targeting
with feedback



1998
Multiple indicator
approach adopted

One of the most important functions of central banks is formulation and execution of monetary policy. In the Indian context, the basic functions of the Reserve Bank of India as enunciated in the Preamble to the RBI Act, 1934 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." Thus, the Reserve Bank's mandate for monetary policy flows from its monetary stability objective.

Essentially, monetary policy deals with the use of various policy instruments for influencing the cost and availability of money in the economy.

As macroeconomic conditions change, a central bank may change the choice of instruments in its monetary policy. The overall goal is to promote economic growth and ensure price stability.

Monetary Policy in India

Over time, the objectives of monetary policy in India have evolved to include maintaining price stability, ensuring adequate flow of credit to productive sectors of the economy for supporting economic growth, and achieving financial stability.

Based on its assessment of macroeconomic and financial conditions, the Reserve Bank takes the call on the stance of monetary policy and monetary measures. Its monetary policy statements reflect the changing circumstances and priorities of the Reserve Bank and the thrust of policy measures for the future.

Faced with multiple tasks and a complex mandate, the Reserve Bank emphasises clear and structured communication for effective functioning of the monetary policy. Improving transparency in its decisions and actions is a constant endeavour at the Reserve Bank.

The Governor of the Reserve Bank announces the Monetary Policy in April every year for the financial year that ends in the following March. This is followed by three quarterly reviews in July, October and January. However, depending on the evolving situation, the Reserve Bank may announce monetary measures at any point of time. The Monetary Policy in April and its Second Quarter Review in October consist of two parts:

Part A provides a review of the macroeconomic and monetary developments and sets the stance of the monetary policy and the monetary measures. Part B provides a synopsis of the action taken and the status of past policy announcements together with fresh policy measures. It also deals with important topics, such as, financial stability, financial markets, interest rates, credit delivery, regulatory norms, financial inclusion and institutional developments.

However, the First Quarter Review in July and the Third Quarter Review in January consist of only Part 'A'.

Monetary Policy Framework

The monetary policy framework in India, as it is today, has evolved over the years. The success of monetary policy depends on many factors.

Operating Target

There was a time when the Reserve Bank used broad money (M_3) as the policy target. However, with the weakened relationship between money, output and prices, it replaced M_3 as a policy target with a multiple indicators approach. As the name suggests, the multiple indicators approach looks at a large number of indicators from which policy perspectives are derived. Interest rates or rates of return in different segments of the financial markets along with data on currency, credit, trade, capital flows, fiscal position, inflation, exchange rate, and such other indicators, are juxtaposed with the output data to assess the underlying trends in different sectors. Such an approach provides considerable flexibility to the Reserve Bank to respond more effectively to changes in domestic and international economic environment and financial market conditions.

Monetary Policy Instruments

The Reserve Bank traditionally relied on direct instruments of monetary control such as Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR). Cash Reserve Ratio indicates the quantum of cash that banks are required to keep with the Reserve Bank as a proportion of their net demand and time liabilities. SLR prescribes the amount of money that banks must invest in securities issued by the government.

In the late 1990s, the Reserve Bank restructured its operating framework for monetary policy to rely more on indirect instruments such as Open Market Operations (OMOs). In addition, in the early 2000s, the Reserve Bank instituted Liquidity Adjustment Facility (LAF) to manage day-to-day liquidity in the banking system. These facilities enable injection or absorption of liquidity that is consistent with the prevailing monetary policy stance. The repo rate (at which liquidity is injected) and reverse repo rate (at which liquidity is absorbed) under the LAF have emerged as the main instruments for the Reserve Bank's interest rate signalling in the Indian economy. The armour of instruments with the Reserve Bank to manage liquidity was strengthened in April 2004 with the Market Stabilisation Scheme (MSS). The MSS was specifically introduced to manage excess liquidity arising out of huge capital flows coming to India from abroad.

In addition, the Reserve Bank also uses prudential tools to modulate the flow of credit to certain sectors so as to ensure financial stability. The availability of multiple instruments and their flexible use in the implementation of monetary policy have enabled the Reserve Bank to successfully influence the liquidity and interest rate conditions in the economy. While the Reserve Bank prefers

indirect instruments of monetary policy, it has not hesitated in taking recourse to direct instruments if circumstances warrant such actions. Often, complex situations require varied combination of direct and indirect instruments to make the policy transmission effective.

The recent legislative amendments to the Reserve Bank of India Act, 1934 enable a flexible use of CRR for monetary management, without being constrained by a statutory floor or ceiling on the level of the CRR. The amendments to the Banking Regulation Act, 1949 also provide further flexibility in liquidity management by enabling the Reserve Bank to lower the SLR to levels below the pre-amendment statutory minimum of 25 per cent of net demand and time liabilities (NDTL) of banks.

Box 4

Monetary Policy Transmission

An important factor that determines the effectiveness of monetary policy is its transmission – a process through which changes in the policy achieve the objectives of controlling inflation and achieving growth.

In the implementation of monetary policy, a number of transmission channels have been identified for influencing real sector activity. These are (a) the quantum channel relating to money supply and credit; (b) the interest rate channel; (c) the exchange rate channel; and (d) the asset price channel.

How these channels function in an economy depends on its stage of development and its underlying financial structure. For example, in an open economy one would expect the exchange rate channel to be important; similarly, in an economy where banks are the major source of finance as against the capital market, credit channel could be a major conduit for monetary transmission. Of course, these channels are not mutually exclusive, and there could be considerable feedback and interaction among them.

Institutional Mechanism for Monetary Policy-making

The Reserve Bank has made internal institutional arrangements for guiding the process of monetary policy formulation.

Financial Markets Committee (FMC)

Constituted in 1997, the inter-departmental Financial Markets Committee is chaired by the Deputy Governor in-charge of monetary policy formulation. Heads of various departments dealing with markets, and the head of the Monetary Policy Department (MPD) are its members. They meet every morning and review developments in money, foreign exchange and government securities markets. The FMC also makes an assessment of liquidity conditions and suggests appropriate market interventions on a day-to-day basis.

Monetary Policy Strategy Group

The Monetary Policy Strategy Group is headed by the Deputy Governor in-charge of MPD. The group comprises Executive Directors (EDs) in-charge of different markets departments and heads of other departments. It generally meets twice in a quarter to review monetary and credit conditions and takes a view on the stance of the monetary policy.

Technical Advisory Committee (TAC) on Monetary Policy

The Reserve Bank had constituted a Technical Advisory Committee (TAC) on Monetary Policy in July 2005 with a view to strengthening the consultative process in the conduct of monetary policy. This TAC reviews macroeconomic and monetary developments and advises the Reserve Bank on the stance of the monetary policy and monetary measures that may be undertaken in the ensuing policy reviews. The Committee has, as its members, five external experts and two Directors from the Reserve Bank's Central Board. The external experts are chosen from the areas of monetary economics, central banking, financial markets and public finance.

The Committee is chaired by the Governor, with the Deputy Governor in-charge of monetary policy as the vice-chairman. The other Deputy Governors of the Reserve Bank are also members of this Committee. The TAC normally meets once in a quarter, although a meeting could be convened at any other time, if necessary. The role of the TAC is advisory in nature. The responsibility, accountability and time path of the decision making remains entirely with the Reserve Bank.

Pre-Policy Consultation Meetings

The Reserve Bank aims to make the policy making process consultative, reaching out to a variety of stakeholders and experts ahead of each Monetary Policy and quarterly Review.

From October 2005, the Reserve Bank has introduced pre-policy consultation meetings with the Indian Banks' Association (IBA), market participants, representatives of trade and industry, credit rating agencies and other institutions, such as, urban co-operative banks, micro-finance institutions, small and medium enterprises, non-banking finance companies, rural co-operatives and regional rural banks. In order to further improve monetary policy communication, the Governor also meets economists, journalists and media analysts. These meetings focus on macroeconomic developments, liquidity position, interest rate environment and monetary and credit developments. This consultative process contributes to enriching the policy formulation process and enhances the effectiveness of monetary policy measures.

Resource Management Discussions

The Reserve Bank holds Resource Management Discussions (RMD) meetings with select banks about one and a half months prior to the announcement of the Monetary Policy and the Second Quarter Review. These discussions are chaired by the Deputy Governor in-charge of monetary policy formulation. These meetings mainly focus on perception and outlook of bankers on the economy, liquidity conditions, credit outflows, developments in different market segments and the direction of interest rates. Bankers offer their suggestions for the policy. The feedback received from these meetings is analysed and taken as inputs while formulating monetary policy.



4 Issuer of Currency



1935

Currency function moves from Controller of Currency to RBI



1957

Decimilization of coinage



1995

RBI sets up its printing press



2000

Currency processing mechanized



2005

Machine-readable security features introduced

Management of currency is one of the core central banking functions of the Reserve Bank for which it derives the necessary statutory powers from Section 22 of the RBI Act, 1934. Along with the Government of India, the Reserve Bank is 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. In consultation with the Government, the Reserve Bank routinely addresses security issues and targets ways to enhance security features to reduce the risk of counterfeiting or forgery of currency notes.

The Paper Currency Act of 1861 conferred upon the Government of India the monopoly of note issues, thus ending the practice of private and presidency banks issuing currency. Between 1861 and 1935, the Government of India managed the issue of paper currency. In 1935, when the Reserve Bank began operations, it took over the function of note issue from the Office of the Controller of Currency, Government of India.

Currency Unit and Denomination

The Indian Currency is called the *Indian Rupee* (abbreviated as *Re. in singular and Rs. in plural*), and its sub-denomination the *Paisa* (*plural Paise*). At present, notes in India are issued in the denomination of Rs.5, Rs.10, Rs.20, Rs.50, Rs.100, Rs.500 and Rs.1,000. The printing of Re.1 and Rs.2 denominations has been discontinued. However, notes in these denominations issued earlier are still valid and in circulation. The Reserve Bank is also authorised to issue notes in the denominations of five thousand rupees and ten thousand rupees or any other denomination, but not exceeding ten thousand rupees, that the Central Government may specify. Thus, in terms of current provisions of RBI Act 1934, notes in denominations higher than ten thousand rupees cannot be issued.

Coin Denomination

Coins in India are available in denominations of 10 paisa, 20 paisa, 25 paisa, 50 paisa, one rupee, two rupees, five rupees and ten rupees. Coins up to 50 paisa are called "*small coins*" and coins of Rupee one and above are called "*Rupee coins*". As per the provisions of Coinage Act, 1906, coins can be issued up to the denomination of Rs.1,000.

Currency Management

The Reserve Bank carries out the currency management function through its Department of Currency Management located at its Central Office in Mumbai, 19 Issue Offices located across the country and a currency chest at its Kochi branch. To facilitate the distribution of notes and rupee coins across the country, the Reserve Bank has authorised selected branches of banks to establish currency chests. There is a network of 4,281 Currency Chests and 4,044 Small Coin Depots with other banks. Currency chests are storehouses where bank notes and rupee coins are stocked on behalf of the Reserve Bank. The currency chests have been established with State Bank of India, six associate banks, nationalised banks, private sector banks, a foreign bank, a state cooperative bank and a regional rural bank. Deposits into the currency chest are treated as reserves with the Reserve Bank and are included in the CRR. The reverse is applicable for withdrawals from chests. Like currency chests, there are also small coin depots which have been established by the authorised bank branches to stock small coins. The small coin depots distribute small coins to other bank branches in their area of operation.

The Department of Currency Management makes recommendations on design of bank notes to the Central Government, forecasts the demand for notes,

and ensures smooth distribution of notes and coins throughout the country. It arranges to withdraw unfit notes, administers the provisions of the RBI (Note Refund) Rules, 2009 (these rules deal with the payment of value of the soiled or mutilated notes) and reviews/rationalises the work systems and procedures at the issue offices on an ongoing basis.

The RBI Act requires that the Reserve Bank's affairs relating to note issue and its general banking business be conducted through two separate departments – the Issue Department and the Banking Department. All transactions relating to the issue of currency notes are separately conducted, for accounting purposes, in the Issue Department. The Issue Department is liable for the aggregate value of the currency notes of the Government of India (currency notes issued by the Government of India prior to the issue of bank notes by the Reserve Bank) and bank notes of the Reserve Bank in circulation from time to time and it maintains eligible assets for equivalent value. The assets which form the backing for note issue are kept wholly distinct from those of the Banking Department. The Issue Department is permitted to issue notes only in exchange for notes of other denominations or against prescribed assets. This Department is also responsible for getting its periodical requirements of notes/coins from the currency printing presses/mints, distribution of notes and coins among the public as well as withdrawal of unserviceable notes and coins from circulation. The mechanism for putting currency into circulation and its withdrawal from circulation (that is, expansion and contraction of currency, respectively) is effected through the Banking Department.

Currency Distribution

The Government of India on the advice of the Reserve Bank decides on the various denominations of the notes to be printed. The Reserve Bank coordinates with the Government in designing the banknotes, including their security features.

For printing of notes, the Security Printing and Minting Corporation of India Limited (SPMCIL), a wholly owned company of the Government of India, has set up printing presses at Nashik, Maharashtra and Dewas, Madhya Pradesh. The Bharatiya Reserve Bank Note Mudran Pvt. Ltd. (BRBNMPL), a wholly owned subsidiary of the Reserve Bank, also has set up printing presses at Mysore in Karnataka and Salboni in West Bengal. The Reserve Bank estimates the quantity of notes (denomination-wise) that is likely to be required and places indents with the various presses. The notes received from the presses are then issued for circulation both through remittances to banks as also across the Reserve Bank counters. Currency chests, which are maintained by

banks, store soiled and re-issuable notes, as also fresh banknotes. The banks send notes, which in their opinion are unfit for circulation, back to the Reserve Bank. The Reserve Bank examines these notes and re-issues those that are found fit for circulation. The soiled notes are destroyed, through shredding, so as to maintain the quality of notes in circulation.

Coin Distribution

The Indian Coinage Act, 1906 governs the minting of rupee coins, including small coins of the value of less than one rupee. One rupee notes (no longer issued now) and coins are legal tender in India for unlimited amounts. Fifty paisa coins are legal tender for any sum not exceeding ten rupees and smaller coins for any sum not exceeding one rupee. The Reserve Bank acts as an agent of the Central Government for distribution, issue and handling of the coins (including one rupee note) and for withdrawing and remitting them back to Government as may be necessary. SPMCIL has four mints at Mumbai, Noida (UP), Kolkata and Hyderabad for coin production.

Similar to distribution of banknotes, coins are distributed through various channels such as Reserve Bank counters, banks, post offices, regional rural banks and urban cooperative banks. The Reserve Bank offices also sometimes organise special coin *melas* for exchanging notes into coins through retail distribution. Just as unfit banknotes are destroyed, unfit coins are also withdrawn from circulation and sent to the mint for melting.

Special Type of Notes

A special Star series of notes in three denominations of rupees ten, twenty and fifty have been issued since August 2006 to replace defectively printed notes at the printing presses. The Star series banknotes are exactly like the existing Mahatma Gandhi Series banknotes, but have an additional character – a ☆(star) in the number panel in the space between the prefix and the number. The packets containing these banknotes will not, therefore, have sequential serial numbers, but contain 100 banknotes, as usual. This facility has been further extended to Rs. 100 notes with effect from June 2009. The bands on such packets indicate the presence of such notes.

Exchange of Notes

Basically there are two categories of notes which are exchanged between banks and the Reserve Bank – soiled notes and mutilated notes. While soiled notes are notes which have become dirty and limp due to excessive use or a two-piece note, mutilated note means a note of which a portion is missing or which is composed of more than two pieces. While soiled notes can be

tendered and exchanged at all bank branches, mutilated notes are exchanged at designated bank branches and such notes can be exchanged for value through an adjudication process which is governed by Reserve Bank of India (Note Refund) Rules, 2009. Under current provisions, either full or no value for notes of denomination up to Rs.20 is paid, while notes of Rs.50 and above would get full, half, or no value, depending on the area of the single largest undivided portion of the note. Special adjudication procedures exist at the Reserve Bank Issue offices for notes which have turned extremely brittle or badly burnt, charred or inseparably stuck together and, therefore, cannot withstand normal handling.

Combating Counterfeiting

To combat the incidence of forged notes, the Reserve Bank has taken certain measures like publicity campaigns on security features of bank notes and display of "Know Your Bank note" poster at bank branches including at offsite ATMs. The Reserve Bank, in consultation with the Government of India, periodically reviews and upgrades the security features of the bank notes to deter counterfeiting. It also shares information with various law enforcement agencies to address the issue of counterfeiting. It has also issued detailed guidelines to banks and government treasury offices on how to detect and impound counterfeit notes.



5 Banker and Debt Manager to Government



1935
RBI becomes Banker and
Debt Manager to
Central Government.



1944
Public Debt Act passed



1997
Ad-Hoc Treasury bills
abolished ending
automatic monetization



2003
Fiscal Responsibility and
Budget Management
Act passed



2007
Government Securities Act
replaces Public Debt Act 1944

Since its inception, the Reserve Bank has undertaken the traditional central banking function of managing the government's banking transactions. The Reserve Bank of India Act, 1934 requires the Central Government to entrust the Reserve Bank with all its money, remittance, exchange and banking transactions in India and the management of its public debt. The Government also deposits its cash balances with the Reserve Bank. The Reserve Bank may also, by agreement, act as the banker to a State Government. Currently, the Reserve Bank acts as banker to all the State Governments in India, except Jammu & Kashmir and Sikkim. It has limited agreements for the management of the public debt of these two State Governments.

As a banker to the Government, the Reserve Bank receives and pays money on behalf of the various Government departments. As it has offices in only 27 locations, the Reserve Bank appoints other banks to act as its agents for undertaking the banking business on behalf of the governments. The Reserve Bank pays agency bank charges to the banks for undertaking the government

business on its behalf. The Reserve Bank has well defined obligations and provides several services to the governments. The Central Government and State Governments may make rules for the receipt, custody and disbursement of money from the consolidated fund, contingency fund, and public account. These rules are legally binding on the Reserve Bank.

The Reserve Bank also undertakes to float loans and manage them on behalf of the Governments. It also provides Ways and Means Advances – a short-term interest bearing advance – to the Governments, to meet the temporary mismatches in their receipts and payments. Besides, it arranges for investments of surplus cash balances of the Governments as a portfolio manager. The Reserve Bank also acts as adviser to Government, whenever called upon to do so, on monetary and banking related matters.

The banking functions for the governments are carried out by the Public Accounts Departments at the offices / branches of the Reserve Bank, while management of public debt including floatation of new loans is done at Public Debt Office at offices / branches of the Reserve Bank and by the Internal Debt Management Department at the Central Office. For the final compilation of the Government accounts, both of the centre and states, the Nagpur office of the Reserve Bank has a Central Accounts Section.

Banker to the Central Government

Under the administrative arrangements, the Central Government is required to maintain a minimum cash balance with the Reserve Bank. Currently, this amount is Rs.10 crore on a daily basis and Rs.100 crore on Fridays, as also at the end of March and July.

Under a scheme introduced in 1976, every ministry and department of the Central Government has been allotted a specific public sector bank for handling its transactions. Hence, the Reserve Bank does not handle government's day-to-day transactions as before, except where it has been nominated as banker to a particular ministry or department.

In 2004, a Market Stabilisation Scheme (MSS) was introduced for issuing of treasury bills and dated securities over and above the normal market borrowing programme of the Central Government for absorbing excess liquidity. The Reserve Bank maintains a separate MSS cash balance of the Government, which is not part of the Consolidated Fund of India.

As banker to the Government, the Reserve Bank works out the overall funds

position and sends daily advice showing the balances in its books, Ways and Means Advances granted to the government and investments made from the surplus fund. The daily advices are followed up with monthly statements.

Banker to the State Governments

All the State Governments are required to maintain a minimum balance with the Reserve Bank, which varies from state to state depending on the relative size of the state budget and economic activity. To tide over temporary mismatches in the cash flow of receipts and payments, the Reserve Bank provides Ways and Means Advances to the State Governments. The WMA scheme for the State Governments has provision for Special and Normal WMA. The Special WMA is extended against the collateral of the government securities held by the State Government. After the exhaustion of the special WMA limit, the State Government is provided a normal WMA. The normal WMA limits are based on three-year average of actual revenue and capital expenditure of the state. The withdrawal above the WMA limit is considered an overdraft. A State Government account can be in overdraft for a maximum 14 consecutive working days with a limit of 36 days in a quarter. The rate of interest on WMA is linked to the Repo Rate. Surplus balances of State Governments are invested in Government of India 14-day Intermediate Treasury bills in accordance with the instructions of the State Governments.

Management of Public Debt

The Reserve Bank manages the public debt and issues new loans on behalf of the Central and State Governments. It involves issue and retirement of rupee loans, interest payment on the loan and operational matters about debt certificates and their registration.

The union budget decides the annual borrowing needs of the Central Government. Parameters, such as, interest rate, timing and manner of raising of loans are influenced by the state of liquidity and the expectations of the market. The Reserve Bank's debt management policy aims at minimising the cost of borrowing, reducing the roll-over risk, smoothening the maturity structure of debt, and improving depth and liquidity of Government securities markets by developing an active secondary market.

While formulating the borrowing programme for the year, the Government and the Reserve Bank take into account a number of factors, such as, the amount of Central and State loans maturing during the year, the estimated available resources, and the absorptive capacity of the market.



6 Banker to Banks



1935

Currency function moves from Controller of Currency to RBI



1957

Decimalization of coinage



1995

RBI sets up its printing press



2000

Currency processing mechanized



2005

Machine-readable security features introduced

Banks are required to maintain a portion of their demand and time liabilities as cash reserves with the Reserve Bank, thus necessitating a need for maintaining accounts with the Bank. Further, banks are in the business of accepting deposits and giving loans. Since different persons deal with different banks, in order to settle transactions between various customers maintaining accounts with different banks, these banks have to settle transactions among each other. Settlement of inter-bank obligations thus assumes importance.

To facilitate smooth operation of this function of banks, an arrangement has to be made to transfer money from one bank to another. This is usually done through the mechanism of a clearing house where banks present cheques and other such instruments for clearing. Many banks also engage in other financial activities, such as, buying and selling securities and foreign currencies. Here too, they need to exchange funds between themselves. In order to facilitate a smooth inter-bank transfer of funds, or to make payments and to receive funds on their behalf, banks need a common banker.

In order to meet the above objectives, in India, the Reserve Bank provides banks with the facility of opening accounts with itself. This is the 'Banker to Banks' function of the Reserve Bank, which is delivered through the Deposit Accounts Department (DAD) at the Regional offices. The Department of Government and Bank Accounts oversees this function and formulates policy and issues operational instructions to DAD.

Reserve Bank as Banker to Banks

To fulfill this function, the Reserve Bank opens current accounts of banks with itself, enabling these banks to maintain cash reserves as well as to carry out inter-bank transactions through these accounts. Inter-bank accounts can also be settled by transfer of money through electronic fund transfer system, such as, the Real Time Gross Settlement System (RTGS).

The Reserve Bank continuously monitors operations of these accounts to ensure that defaults do not take place. Among other provisions, the Reserve Bank stipulates minimum balances to be maintained by banks in these accounts. Since banks need to settle funds with each other at various places in India, they are allowed to open accounts with different regional offices of the Reserve Bank. The Reserve Bank also facilitates remittance of funds from a bank's surplus account at one location to its deficit account at another. Such transfers are electronically routed through a computerised system. The computerisation of accounts at the Reserve Bank has greatly facilitated banks' monitoring of their funds position in various accounts across different locations on a real-time basis.

Box 6

As Banker to Banks, the Reserve Bank focuses 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 the Reserve Bank for statutory reserve requirements and maintenance of transaction balances.
- Acting as a lender of last resort.

In addition, the Reserve Bank has also introduced the Centralised Funds Management System (CFMS) to facilitate centralised funds enquiry and transfer of funds across DADs. This helps banks in their fund management as they can access information on their balances maintained across different

DADs from a single location. Currently, 75 banks are using the system and all DADs are connected to the system.

As Banker to Banks, the Reserve Bank provides short-term loans and advances to select banks, when necessary, to facilitate lending to specific sectors and for specific purposes. These loans are provided against promissory notes and other collateral given by the banks.

Lender of Last Resort

As a Banker to Banks, the Reserve Bank also acts as the 'lender of last resort'. It can come to the rescue of a bank that is solvent but faces temporary liquidity problems by supplying it with much needed liquidity when no one else is willing to extend credit to that bank. The Reserve Bank extends this facility to protect the interest of the depositors of the bank and to prevent possible failure of a bank, which in turn may also affect other banks and institutions and can have an adverse impact on financial stability and thus on the economy.



7 Financial Regulation and Supervision



1949
Banking Regulation Act
comes into force



1966
Cooperative Banks come under
RBI Regulation



1992
Basel Norms made applicable
to Indian banking system



1994
Board of Financial
Supervision constituted



1997
Regulation of Non-Banking
Finance Companies
strengthened

The Reserve Bank's regulatory and supervisory domain extends not only to the Indian banking system but also to the development financial institutions (DFIs), non-banking financial companies (NBFCs), primary dealers, credit information companies and select segments of the financial markets. In respect of banks, the Reserve Bank derives its powers from the provisions of the Banking Regulation Act, 1949, while the other entities and markets are regulated and supervised under the provisions of the Reserve Bank of India Act, 1934. The credit information companies are regulated under the provisions of Credit Information Companies (Regulation) Act, 2005.

As the regulator and the supervisor of the banking system, the Reserve Bank has a critical role to play in ensuring the system's safety and soundness on an ongoing basis. The objective of this function is to protect the interest of depositors through an effective prudential regulatory framework for orderly development and conduct of banking operations, and to maintain overall financial stability through various policy measures.

India's financial system includes commercial banks, regional rural banks, local area banks, cooperative banks, financial institutions and non-banking financial companies. The banking sector reforms since the 1990s made stability in the financial sector an important plank of the Reserve Bank's functions. Besides, the global financial markets have, in the last 75 years, grown phenomenally in terms of volumes, number of players and instruments. The Reserve Bank's regulatory and supervisory role has, therefore, acquired added importance. The Board for Financial Supervision (BFS), constituted in November 1994, is the principal guiding force behind the Reserve Bank's regulatory and supervisory initiatives.

There are various departments in the Reserve Bank that perform these regulatory and supervisory functions. The Department of Banking Operations and Development (DBOD) frames regulations for commercial banks. The Department of Banking Supervision (DBS) undertakes supervision of commercial banks, including the local area banks and all-India financial institutions. The Department of Non-Banking Supervision (DNBS) regulates and supervises the Non-Banking Financial Companies (NBFCs) while the Urban Banks Department (UBD) regulates and supervises the Urban Cooperative Banks (UCBs). Rural Planning and Credit Department (RPCD) regulates the Regional Rural Banks (RRBs) and the Rural Cooperative Banks, whereas their supervision has been entrusted to NABARD.

Regulatory and Supervisory Functions

Traditionally, the Reserve Bank's regulatory and supervisory policy initiatives are aimed at protection of the depositors' interests, orderly development and conduct of banking operations, and liquidity and solvency of banks. With the onset of banking sector reforms during the 1990s, various prudential measures were initiated that have, in effect, strengthened the Indian banking system over a period of time. Improved financial soundness of banks has helped them to show stability and resilience in the face of the recent severe global financial crisis, which had seriously impacted several banks and financial institutions in advanced countries. However, there is still a need to strengthen the regulatory and supervisory architecture. The Reserve Bank represents India in various international fora, such as, the Basel Committee on Banking Supervision (BCBS) and the Financial Stability Board (FSB). Its presence on such bodies has enabled the Reserve Bank's active participation in the process of evolving global standards for enhanced regulation and supervision of banks.

The major regulatory functions of the Reserve Bank with respect to the various components of the financial system are as follows:

(i) Commercial Banks

Licensing

For commencing banking operations in India, whether by an Indian or a foreign bank, a licence from the Reserve Bank is required. The opening of new branches by banks and change in the location of existing branches are also regulated as per the Branch Authorisation Policy. This policy has recently been liberalised significantly and Indian banks no longer require a licence from the Reserve Bank for opening a branch at a place with population of below 50,000. The Reserve Bank continues to emphasise opening of branches by banks in unbanked and under-banked areas of the country. The Reserve Bank also regulates merger, amalgamation and winding up of banks.

Corporate Governance

The Reserve Bank's policy objective is to ensure high-quality corporate governance in banks. It has issued guidelines stipulating 'fit and proper' criteria for directors of banks. In terms of the guidelines, a majority of the directors of banks are required to have special knowledge or practical experience in various relevant areas. The Reserve Bank also has powers to appoint additional directors on the board of a banking company.

Statutory Pre-emptions

Commercial banks are required to maintain a certain portion of their Net Demand and Time Liabilities (NDTL) in the form of cash with the Reserve Bank, called Cash Reserve Ratio (CRR) and in the form of investment in unencumbered approved securities, called Statutory Liquidity Ratio (SLR). The Reserve Bank also monitors compliance with these requirements by banks in their day-to-day operations.

Interest Rate

The interest rates on most of the categories of deposits and lending transactions have been deregulated and are largely determined by banks. However, the Reserve Bank regulates the interest rates on savings bank accounts and deposits of non-resident Indians (NRI), small loans up to rupees two lakh, export credits and a few other categories of advances.

Prudential Norms

The Reserve Bank has prescribed prudential norms to be followed by banks in several areas of their operations. It keeps a close watch on developing trends in the financial markets, and fine-tunes the prudential policies.

Prudential Norms

In order to strengthen the balance sheets of banks, the Reserve Bank has been prescribing appropriate prudential norms for them in regard to income recognition, asset classification and provisioning, capital adequacy, investments portfolio and capital market exposures, to name a few. A brief description of these norms is furnished below:

Capital Adequacy

The Reserve Bank has instructed banks to maintain adequate capital on a continuous basis. The adequacy of capital is measured in terms of Capital to Risk-Weighted Assets Ratio (CRAR). Under the recently revised framework, banks are required to maintain adequate capital for credit risk, market risk, operational risk and other risks. Basel II standardised approach is applicable with road map drawn up for advanced approaches.

Loans and Advances

In order to maintain the quality of their loans and advances, the Reserve Bank requires banks to classify their loan assets as performing and non-performing assets (NPA), primarily based on the record of recovery from the borrowers. NPAs are further categorised into Sub-standard, Doubtful and Loss Assets depending upon age of the NPAs and value of available securities. Banks are also required to make appropriate provisions against each category of NPAs.

Banks are also required to have exposure limits in place to prevent credit concentration risk and limit exposures to sensitive sectors, such as, capital markets and real estate.

For Investments

The Reserve Bank requires banks to classify their investment portfolios into three categories for the purpose of valuation: Held to Maturity (HTM), Available for Sale (AFS) and Held for Trading (HFT). The securities held under HFT and AFS categories have to be marked-to-market periodically and depreciation, if any, needs appropriate provisions by banks. Securities under HTM category must be carried at acquisition / amortised cost, subject to certain conditions.

Risk Management

Banks, in their daily business, face various kinds of risks. The Reserve Bank requires banks to have effective risk management systems to cover credit risk, market risk, operational risk and other risks. It has issued guidelines, based on the Basel II capital adequacy framework, on how to measure these risks as well as how to manage them

Disclosure Norms

Public disclosure of relevant information is an important tool for enforcing market discipline. Hence, over the years, the Reserve Bank has strengthened the disclosure norms for banks. Banks are now required to make disclosures in their annual report, among others, about capital adequacy, asset quality, liquidity, earnings aspects and penalties, if any, imposed on them by the regulator.

Know Your Customer Norms

To prevent money laundering through the banking system, the Reserve Bank has issued 'Know Your Customer' (KYC), Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) guidelines. Banks are required to carry out KYC exercise for all their customers to establish their identity and report suspicious transactions to authorities.

Protection of Small Depositors

The Reserve Bank has set up Deposit Insurance and Credit Guarantee Corporation (DICGC) to protect the interest of small depositors, in case of bank failure. The DICGC provides insurance cover to all eligible bank depositors up to Rs.1 lakh per depositor per bank.

Para - banking Activities

The banking sector reforms and the gradual deregulation of the sector inspired many banks to undertake non-traditional banking activities, also known as para-banking. The Reserve Bank has permitted banks to undertake diversified activities, such as, asset management, mutual funds business, insurance business, merchant banking activities, factoring services, venture capital, card business, equity participation in venture funds and leasing.

Supervisory Functions

The Reserve Bank undertakes supervision of banks to monitor and ensure compliance by them with its regulatory policy framework. This is achieved through on-site inspection, off-site surveillance and periodic meetings with top management of banks.

On-site Inspection

The Reserve Bank undertakes annual on-site inspection of banks to assess their financial health and to evaluate their performance in terms of quality of management, capital adequacy, asset quality, earnings, liquidity position as well as internal control systems. Based on the findings of the inspection, banks are assigned supervisory ratings based on the CAMELS (CALCS for foreign banks in India) supervisory model and are required to address the weaknesses identified.

Off-site Surveillance

The Reserve Bank requires banks to submit detailed and structured information periodically under its Off Site Surveillance and Monitoring System (OSMOS). This information is thoroughly analysed by the RBI to assess the health of individual banks and that of the banking system, and also glean early warning signals which could serve as a trigger for necessary supervisory intervention.

Periodic Meetings

The Reserve Bank periodically meets the top management of banks to discuss the findings of its inspections. In addition, it also has quarterly / monthly discussions with them on important aspects based on OSMOS returns and other inputs.

Monitoring of Frauds

The Reserve Bank regularly sensitises banks about common fraud-prone areas, the modus operandi and the measures necessary to prevent frauds. It also cautions banks about unscrupulous borrowers who have perpetrated frauds with other banks.

(ii) Foreign Banks

In February 2005, the Government of India and the Reserve Bank released the 'Roadmap for presence of Foreign Banks in India' laying out a two-track and gradualist approach aimed at increasing the efficiency and stability of the banking sector in India. One track was the consolidation of the domestic banking system, both in private and public sectors, and the second track was the gradual enhancement of the presence of foreign banks in a synchronised manner. The roadmap was divided into two phases, the first phase spanning the period March 2005 - March 2009, and the second phase beginning April 2009 after a review of the experience gained in the first phase.

In view of the recent global financial market turmoil, there are uncertainties surrounding the financial strength of banks around the world. Further, the

regulatory and supervisory policies at national and international levels are under review. In view of this, the current policy and procedures governing the presence of foreign banks in India will continue. The proposed review will be taken up after consultation with the stakeholders once there is greater clarity regarding stability, recovery of the global financial system and a shared understanding on the regulatory and supervisory architecture around the world.

(iii) Financial Institutions

Financial institutions are an important part of the Indian financial system as they provide medium to long term finance to different sectors of the economy. These institutions have been set up to meet the growing demands of particular segments, such as, export, rural, housing and small industries. These institutions have been playing a crucial role in channelising credit to the above sectors and addressing the challenges / issues faced by them.

There are four financial institutions - Exim Bank, National Bank for Agriculture and Rural Development (NABARD), National Housing Bank (NHB) and Small Industries Development Bank of India (SIDBI) which are under full-fledged regulation and supervision of the Reserve Bank.

As in the case of commercial banks, prudential norms relating to income recognition, asset classification and provisioning, and capital adequacy ratio are applicable to these financial institutions as well. These institutions also are subject to on-site inspection as well as off-site surveillance.

(iv) Rural Financing Institutions

(A) Rural Cooperative Banks

Rural cooperatives occupy an important position in the Indian financial system. These were the first formal institutions established to purvey credit to rural India. Thus far, cooperatives have been a key instrument of financial inclusion in reaching out to the last mile in rural areas. Cooperative banks are registered under the respective State Co-operative Societies Act or Multi State Cooperative Societies Act, 2002 and governed by the provisions of the respective acts. The legal character, ownership, management, clientele and the role of state governments in the functioning of the cooperative banks make these institutions distinctively different from commercial banks.

The distinctive feature of the cooperative credit structure in India is its heterogeneity.

Structure of Rural Cooperative Credit Institutions

Rural cooperatives structure is bifurcated into short-term and long-term structure. The short-term cooperative structure is a three-tier structure with State Cooperative Banks (StCBs) at the apex (State) level, District Central Cooperative Banks (DCCBs) at the intermediate (district) level and Primary Agricultural Credit Societies (PACS) at the ground (village) level. The short-term structure caters primarily to the various short / medium-term production and marketing credit needs for agriculture.

The long-term cooperative structure has the State Cooperative Agriculture and Rural Development Banks (SCARDBs) at the apex level and the Primary Cooperative Agriculture and Rural Development Banks (PCARDBs) at the district or block level. These institutions were conceived with the objective of meeting long-term credit needs in agriculture.

As on end-March 2008, there were 95,352 Short-term Rural Cooperative Credit Institutions (STCCIs). This included 31 StCBs, 371 DCCBs and 94,950 PACS. There were 717 Long Term Rural Cooperative Credit Institutions (LTCCIs) comprising 20 SCARDBs and 697 PCARDBs.

Regulatory and Supervisory Framework

While regulation of State Cooperative Banks and District Central Cooperative Banks vests with Reserve Bank, their supervision is carried out by National Bank for Agriculture and Rural Development (NABARD). The Board of Supervision, a Committee of the Board of Directors of NABARD, gives directions and guidance in respect of policies and matters relating to supervision and inspection of StCBs and DCCBs. A large number of StCBs as well as DCCBs are unlicensed and are allowed to function as banks till they are either granted licence or their applications for licence are rejected. The Committee on Financial Sector Assessment (Chairman: Dr. Rakesh Mohan and Co-Chairman: Shri Ashok Chawla) had observed that there is a need for a roadmap to ensure that only licenced banks operate in the cooperative space and that banks which fail to obtain a licence by 2012 should not be allowed to operate to expedite the process of consolidation and weeding out of non viable entities from the cooperative space. A roadmap has been put in place to achieve this position.

Capital Adequacy Norms

At present, the CRAR norms are not applicable to StCBs and DCCBs. However, since March 31, 2008, they are required to disclose the level of CRAR in the 'notes on accounts' to their balance sheets every year. The income recognition, asset classification and provisioning norms are applicable as in the case of commercial banks.

(B) Regional Rural Banks

Regional Rural Banks were set up under the Regional Rural Banks Act, 1976 with a view to developing the rural economy by providing credit and other facilities, particularly to the small and marginal farmers, agricultural labourers, artisans and small entrepreneurs. Being local level institutions, RRBs together with commercial and co-operative banks, were assigned a critical role to play in the delivery of agriculture and rural credit.

The equity of the RRBs was contributed by the Central Government, concerned State Government and the sponsor bank in the proportion of 50:15:35. As of March 31, 2009, there were 86 RRBs having a total of 15,107 branches. The function of financial regulation over RRBs is exercised by Reserve Bank and the supervisory powers have been vested with NABARD.

CRAR norms are not applicable to RRBs. However, the income recognition, asset classification and provisioning norms as applicable to commercial banks are applicable to RRBs.

(v) Urban Cooperative Banks

Urban co-operative banks play a significant role in providing banking services to the middle and lower income groups of society in urban and semi urban areas. The primary (urban) co-operative banks (UCBs), like other co-operative societies, are registered under the respective State Co-operative Societies Act or Multi State Cooperative Societies Act, 2002 and governed by the provisions of the respective acts.

With a view to bringing primary (urban) co-operative banks under the purview of the Banking Regulation Act, 1949, certain provisions of the Banking Regulation Act, 1949 were made applicable to co-operative banks effective March 1, 1966. With this, these banks came under the dual control of respective State Governments/Central Government and the Reserve Bank. While the non-banking aspects like registration, management, administration and recruitment, amalgamation and liquidation are regulated by the State/Central Governments, matters related to banking are regulated and supervised by the Reserve Bank under the Banking Regulation Act, 1949 (as applicable to co-operative societies).

As of March 31, 2009, there were 1721 primary (urban) co-operative banks including 53 scheduled banks. The UCBs are largely concentrated in a few States, such as, Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu. Apart from a few large banks, most of the UCBs are often functioning as a unit bank.

(A) Regulatory Framework

Licensing

UCBs have to obtain a licence from the Reserve Bank for doing banking business. The unlicensed primary (urban) co-operative banks can continue to carry on banking business till they are refused a licence. Further UCBs also have to obtain prior authorisation of the Reserve Bank to open a new place of business.

Prudential Norms

Prudential norms relating to income recognition, asset classification, provisioning and capital adequacy ratio are applicable to urban co-operative banks as well.

(B) Supervisory Framework

To ensure that primary (urban) co-operative banks function on sound lines and their methods of operation are consistent with statutory provisions and are not detrimental to the interests of depositors, they are subject to (i) on-site inspection, and (ii) off-site surveillance.

On-site Inspection

The principal objective of inspection of primary (urban) co-operative banks is to safeguard the interests of depositors and to build and maintain a sound banking system in conformity with the banking laws and regulations. While all scheduled urban co-operative banks, and select non-scheduled urban co-operative banks are inspected on an annual basis, other non-scheduled UCBs are inspected once in two years. The banks are graded into four categories based on four parameters viz., CRAR, net NPA, profitability and compliance with CRR/SLR stipulations.

Off-site Surveillance

In order to have continuous supervision over the UCBs, the Reserve Bank has supplemented the system of periodic on-site inspection with off-site surveillance (OSS) through a set of periodical prudential returns to be submitted by UCBs.

(vi) Non-Banking Financial Companies (NBFCs)

Non-banking Financial Companies play an important role in the financial system. An NBFC is defined as a company engaged in the business of lending, investment in shares and securities, hire purchase, chit fund, insurance or collection of monies. Depending upon the line of activity, NBFCs are

categorised into different types. Recognising the growth in the sector, initially the regulatory set-up primarily focused on the deposit taking activity in terms of limits and interest rate.

The recommendations of the Joint Parliamentary Committee which looked into the stock market scam of early 90s and the Shah Committee (1992) suggested that there was a need to expand the regulatory and supervisory focus also to the asset side of NBFCs' balance sheet. Legislative amendments were adopted to empower the Reserve Bank to regulate Non-Banking Financial Companies to ensure that they integrate their functioning within the Indian financial system.

The amended Act provides that for commencing /carrying on the business of Non –Banking Financial Institution(NBFI), a company has to have a minimum level of Net Owned Funds (NoF). At end- June 2009 there were 12,740 NBFCs. Out of these, 336 have been permitted to accept deposits and are classified as NBFC-D. The non-deposit taking companies are classified as NBFC-ND.

(A) Regulatory Framework

NBFCs accepting Public Deposits

The Reserve Bank issues directions about the quantum of public deposits that can be accepted, the period of deposits, which should not be less than 12 months and should not exceed 60 months, the maximum rate of interest payable on such deposits (presently 12.5 per cent), brokerage fees and other expenses amounting to a maximum of 2 per cent and 0.5 per cent of the deposits, respectively, and the contents of the application forms, as well as the advertisement for soliciting deposits.

Companies which accept public deposits are required to comply with all the prudential norms on income recognition, asset classification, accounting standards, provisioning for bad and doubtful debts, capital adequacy, credit and investment concentration. Additional disclosures in balance sheets have also been prescribed.

In order to restrict indiscriminate investment by Non-Banking Financial Companies in real estate and in unquoted shares, they have been directed to limit their investment in real estate, except for their own use, up to 10 per cent of their owned funds. Further, a ceiling of 20 per cent has also been prescribed for investment in unquoted shares of other than group / subsidiary companies.

In case an NBFC defaults in the payment of matured deposits, the depositors can lodge their claims against the Company with the Company Law Board (CLB). NBFCs also have to maintain SLR (15 per cent) as a percentage of deposits. However, there is no CRR prescription for NBFCs as they do not accept demand deposits.

NBFCs not accepting Public Deposits

Non-Banking Financial Companies not accepting public deposits are regulated in a limited manner. However, with the opening up of foreign direct investment in NBFCs and the opportunities for credit growth in the economy, the sector has witnessed the entry of some large companies in the category of NBFC-ND. Since these companies, unlike the NBFC-D, were earlier not subject to prudential norms for capital adequacy and exposures, their borrowings increased considerably. Further, since, unlike banks, the NBFC sector does not have any cap on exposure to the capital market, these entities have, as a part of their business, been taking significant exposure on the capital market.

In view of the above, non-deposit taking NBFCs with asset size of Rs 100 crore and above were classified as Systemically Important and were required to comply with exposure and capital adequacy norms. To facilitate off-site supervision, they are also required to provide additional information to the Reserve Bank through monthly and annual returns. Further, to contain the risks of the NBFC sector spilling over to the banking sector, exposure of banks to the NBFC sector, either in the form of credit facilities or in the form of equity contribution has been prudentially capped.

(B) Supervisory Framework

On-Site Inspection

All NBFC-D and all large NBFC – NDs are subjected to regular annual inspection to assess their financial performance and the general compliance with the directions issued by the Reserve Bank. The inspection focuses on Capital, Asset Quality, Management, Earnings, Liquidity and Systems (CAMELS pattern) and identifies the supervisory concerns. These are taken up with the respective institutions for remedial action.

Off-Site Surveillance System

In order to supplement information between on-site inspections, several returns have been prescribed for NBFCs as part of the off-site surveillance system. The information provided is analysed to identify potential supervisory concerns and in certain cases serves as a trigger for on-site inspection.

External Auditing

The responsibility of ensuring compliance with the directions issued by the Reserve Bank, as well as adherence to the provisions of the RBI Act has also been entrusted to the statutory auditors of the Non-Banking Financial Companies. The statutory auditors are required to report to the Reserve Bank about any irregularity or violation of regulations concerning acceptance of public deposits, credit rating, prudential norms and exposure limits, capital adequacy, maintenance of liquid assets and regularisation of excess deposits held by the companies.

(vii) Primary Dealers

In 1995, the Reserve Bank introduced the system of Primary Dealers (PDs) in the Government Securities Market, which comprised independent entities undertaking Primary Dealer activity. PDs play an active role in the Government securities market by underwriting and bidding for fresh issuances and acting as market makers for these securities. In order to broaden the Primary Dealership system, banks were permitted to undertake Primary Dealership business departmentally in 2006-07. Further, the standalone PDs were permitted to diversify into business activities, other than the core PD business, in 2006-07, subject to certain conditions. As on June 30, 2009, there were six standalone PDs and eleven banks authorised to undertake PD business departmentally.

Regulation

PDs are required to meet registration and such other requirements as stipulated by the Securities and Exchange Board of India (SEBI) including operations on the Stock Exchanges, if they undertake any activity regulated by SEBI. PDs are expected to join the Primary Dealers Association of India (PDAI) and the Fixed Income Money Market and Derivatives Association (FIMMDA) and abide by the code of conduct and such other actions as initiated by these Associations in the interest of the securities markets. Any change in the shareholding pattern / capital structure of a PD needs prior approval of the Reserve Bank. The Reserve Bank reserves the right to cancel the Primary Dealership if, in its view, the concerned institution has failed to adhere to the terms of authorisation or any other applicable guideline. A Primary Dealer should bring to the Reserve Bank's attention any major complaint against it or action initiated/taken against it by the Stock Exchanges, SEBI, CBI, Enforcement Directorate, Income Tax, or any other authority.

Supervision

Off-site supervision: PDs are required to submit to the Reserve Bank, periodic returns which are analysed to identify any concerns.

On-site inspection: The Reserve Bank has the right to inspect the books, records, documents and accounts of the PD. PDs are required to make available all such documents and records to the Reserve Bank officers and render all necessary assistance as and when required.

(viii) Credit Information Companies

Credit Information Companies (CIC) play an important role in facilitating credit to various borrowers on the basis of their track record. Credit Information Companies (Regulation) Act 2005 empowers the Reserve Bank to regulate CICs. The Reserve Bank announced in November 2008 that Foreign Direct Investment up to 49 per cent in CICs would be considered in cases: (a) where the investor was a company with an established track record of running a credit information bureau in a well regulated environment; (b) no shareholder in the investor company held more than 10 per cent voting rights in that company; and (c) preferably, the company was a listed company on a recognised stock exchange. The Reserve Bank, in April 2009, issued 'in-principle approval' to four companies to set up CICs.

(ix) Financial Markets

Deep and efficient financial markets are essential for realising the growth potential of an economy; however, disorderly financial markets could be a source of risk to both financial institutions and the economy. The Reserve Bank regulates only certain segments of financial markets, namely, the money market, the government securities market and the foreign exchange market. Various measures have been taken to deepen these markets over a period of time.



8 Foreign Exchange Reserves Management



1935

A proportional reserve system required gold and forex reserves to be a minimum 40 percent of currency issued



1991

India faces balance of payment crises, pledges gold to shore up reserves



2009

The Reserve Bank purchased 200 mts of gold under IMF's limited gold sales programme

The Reserve Bank, as the custodian of the country's foreign exchange reserves, is vested with the responsibility of managing their investment. The legal provisions governing management of foreign exchange reserves are laid down in the Reserve Bank of India Act, 1934.

The Reserve Bank's reserves management function has in recent years grown both in terms of importance and sophistication for two main reasons. First, the share of foreign currency assets in the balance sheet of the Reserve Bank has substantially increased. Second, with the increased volatility in exchange and interest rates in the global market, the task of preserving the value of reserves and obtaining a reasonable return on them has become challenging.

The basic parameters of the Reserve Bank's policies for foreign exchange reserves management are safety, liquidity and returns.

Within this framework, the Reserve Bank focuses on:

- a) Maintaining market's confidence in monetary and exchange rate policies.
- b) Enhancing the Reserve Bank's intervention capacity to stabilise foreign exchange markets.
- c) Limiting external vulnerability by maintaining foreign currency liquidity to absorb shocks during times of crisis, including national disasters or emergencies.
- d) Providing confidence to the markets that external obligations can always be met, thus reducing the costs at which foreign exchange resources are available to market participants.
- e) Adding to the comfort of market participants by demonstrating the backing of domestic currency by external assets.

Investment of Reserves:

The Reserve Bank of India Act permits the Reserve Bank to invest the reserves in the following types of instruments:

- 1) Deposits with Bank for International Settlements and other central banks
- 2) Deposits with foreign commercial banks
- 3) Debt instruments representing sovereign or sovereign-guaranteed liability of not more than 10 years of residual maturity
- 4) Other instruments and institutions as approved by the Central Board of the Reserve Bank in accordance with the provisions of the Act
- 5) Certain types of derivatives

Box 8

While safety and liquidity continue to be the twin-pillars of reserves management, return optimisation has become an embedded strategy within this framework. The Reserve Bank has framed policy guidelines stipulating stringent eligibility criteria for issuers, counterparties, and investments to be made with them to enhance the safety and liquidity of reserves. The Reserve Bank, in consultation with the Government, continuously reviews the reserves management strategies.

Deployment of Reserves

The foreign exchange reserves include foreign currency assets (FCA), Special Drawing Rights (SDRs) and gold. SDRs are held by the Government of India. The foreign currency assets are managed following the principles of portfolio management.

In deploying reserves, the Reserve Bank pays close attention to currency

composition, interest rate risk and liquidity needs. All foreign currency assets are invested in assets of top quality and a good proportion is convertible into cash at short notice. The counterparties with whom deals are conducted are also subject to a rigorous selection process. In assessing the returns from deployment, the total return (both interest and capital gains) is taken into consideration. One crucial area in the process of investment of the foreign currency assets in the overseas markets relates to the risks involved in the process. While there is no set formula to meet all situations, the Reserve Bank follows the accepted portfolio management principles for risk management.

Box 9

Foreign Exchange Reserves Management: The RBI's Approach

The Reserve Bank's approach to foreign exchange reserves management has also undergone a change. Until the balance of payments crisis of 1991, India's approach to foreign exchange reserves was essentially aimed at maintaining an appropriate import cover. The approach underwent a paradigm shift following the recommendations of the High Level Committee on Balance of Payments chaired by Dr. C. Rangarajan (1993). The committee stressed the need to maintain sufficient reserves to meet all external payment obligations, ensure a reasonable level of confidence in the international community about India's capacity to honour its obligations, and counter speculative tendencies in the market. After the introduction of system of market-determined exchange rates in 1993, the objective of smoothening out the volatility in the exchange rates assumed importance.

The overall approach to the management of foreign exchange reserves also reflects the changing composition of Balance of Payments (BoP) and liquidity risks associated with different types of flows. In 1997, the Report of the Committee on Capital Account Convertibility under the chairmanship of Shri S.S. Tarapore, suggested alternative measures for adequacy of reserves. The committee in addition to trade-based indicators also suggested money-based and debt-based indicators. Similar views have been held by the Committee on Fuller Capital Account Convertibility (Chairman: Shri S. S. Tarapore, July 2006).

The traditional approach of assessing reserve adequacy in terms of import cover has been widened to include a number of parameters about the size, composition, and risk profiles of various types of capital flows. The Reserve Bank also looks at the types of external shocks to which the economy is potentially vulnerable. The objective is to ensure that the quantum of reserves is in line with the growth potential of the economy, the size of risk-adjusted capital flows and national security requirements.

9 Foreign Exchange Management



1939
Exchange Control introduced in India
under Defence of India Rules



1966
Indian Rupee
devalued



1975
Rupee linked to
basket of
currencies



1993
Exchange rate becomes
market-determined



2000
Foreign Exchange Management Act (FEMA)
replaces
Foreign Exchange Regulation Act (FERA)

The Reserve Bank oversees the foreign exchange market in India. It supervises and regulates it through the provisions of the Foreign Exchange Management Act, 1999. Like other markets, the foreign exchange market has also evolved over time, and the Reserve Bank has been modulating its approach towards its function of supervising the market.

Evolution

For a long time, foreign exchange in India was treated as a controlled commodity because of its limited availability. The early stages of foreign exchange management in the country focused on control of foreign exchange by regulating the demand due to limited supply. Exchange control was introduced in India under the Defence of India Rules on September 3, 1939 on a temporary basis. The statutory power for exchange control was provided by the Foreign Exchange Regulation Act (FERA) of 1947, which was subsequently replaced by a more comprehensive Foreign Exchange Regulation Act, 1973. This Act empowered the Reserve Bank, and in certain cases the Central Government, to control and regulate dealings in foreign exchange payments outside India, export and import of currency notes and bullion, transfer of securities between

residents and non-residents, acquisition of foreign securities, and acquisition of immovable property in and outside India, among other transactions.

Extensive relaxations in the rules governing foreign exchange were initiated, prompted by the liberalisation measures introduced since 1991 and the Act was amended as a new Foreign Exchange Regulation (Amendment) Act 1993. Significant developments in the external sector, such as, substantial increase in foreign exchange reserves, growth in foreign trade, rationalisation of tariffs, current account convertibility, liberalisation of Indian investments abroad, increased access to external commercial borrowings by Indian corporates and participation of foreign institutional investors in Indian stock market, resulted in a changed environment. Keeping in view the changed environment, the Foreign Exchange Management Act (FEMA) was enacted in 1999 to replace FERA with effect from June 1, 2000.

FEMA aimed at consolidating and amending the laws relating to foreign exchange with the objective of facilitating external trade and payments and for promoting the orderly development and maintenance of foreign exchange markets in India. Emphasising the shift in focus, the Reserve Bank in due course also amended (since January 31, 2004) the name of its department dealing with the foreign exchange transactions to Foreign Exchange Department from Exchange Control Department.

Liberalised Approach

The Reserve Bank issues licences to banks and other institutions to act as Authorised Dealers in the foreign exchange market. In keeping with the move towards liberalisation, the Reserve Bank has undertaken substantial elimination of licensing, quantitative restrictions and other regulatory and discretionary controls.

Apart from easing restrictions on foreign exchange transactions in terms of processes and procedure, the Reserve Bank has also provided the exchange facility for liberalised travel abroad for purposes, such as, conducting business, attending international conferences, undertaking technical study tours, setting up joint ventures abroad, negotiating foreign collaboration, pursuing higher studies and training, and also for medical treatment.

Moreover, the Reserve Bank has permitted residents to hold foreign currency up to a maximum of USD 2,000 or its equivalent. Residents can now also open foreign currency accounts in India and credit specified foreign exchange receipts into it.

Foreign Investment

Foreign investment comes into India in various forms. Following the reforms path, the Reserve Bank has liberalised the provisions relating to such investments.

- The Reserve Bank has permitted foreign investment in almost all sectors, with a few exceptions. Foreign companies are permitted to set up 100 per cent subsidiaries in India.
- In many sectors, no prior approval from the Government or the Reserve Bank is required for non-residents investing in India.
- Foreign institutional investors are allowed to invest in all equity securities traded in the primary and secondary markets. The total investment by all the foreign institutional investors put together should not exceed 24 per cent of the issued and paid up capital of a company which can be raised up to the level of the prescribed sectoral cap by the respective companies by passing a special resolution to the effect.
- Foreign institutional investors have also been permitted to invest in Government of India treasury bills and dated securities, corporate debt instruments and mutual funds. The NRIs have the flexibility of investing under the options of repatriation and non-repatriation.
- The Government allows Indian companies to issue Global Depository Receipts (GDRs) and American Depository Receipts (ADRs) to foreign investors. The GDRs/ADRs issued by Indian companies to non-residents have free convertibility outside India.

Indian Investment Abroad

Any Indian entity can make investment in an overseas joint venture or in a wholly-owned subsidiary, up to 400 per cent of its net-worth.

External Commercial Borrowings

Indian companies are allowed to raise external commercial borrowings including commercial-bank loans, buyers' credit, suppliers' credit, and securitised instruments. Foreign Currency Convertible Bonds (FCCBs) and Foreign Currency Exchangeable Bonds (FCEBs) are also governed by the ECB guidelines.

Liberalised Remittance Scheme

As a step towards further simplification and liberalisation of the foreign exchange facilities available to the residents, the Reserve Bank has permitted resident individuals to freely remit abroad up to USD 200,000 per financial year for any permissible purposes.

Currency Futures

In a recent development, regulators have permitted exchange-traded currency futures in India. Such trading facilities are currently being offered by the National Stock Exchange, the Bombay Stock Exchange and the MCX-Stock Exchange. As the product is exchange traded, the conduct of currency futures trading facility is being regulated jointly by the Reserve Bank and the Securities and Exchange Board of India.

Indian Depository Receipts (IDRs)

Under another reform measure, authorities in India have allowed eligible companies resident outside India to issue Indian Depository Receipts (IDRs) through a domestic depository. Such issuances are subject to approval of the sectoral regulators.

Exchange Rate Policy

The foreign exchange market in India comprises Authorised Persons (banks, money changers and other entities) in foreign exchange business, foreign exchange brokers who act as intermediaries and customers – individuals as well as corporates – who need foreign exchange for their transactions. The customer segment is dominated by major public sector entities and Government of India (for civil debt service and defence) on the one hand and large private sector corporates on the other. Foreign Institutional Investors (FIIs) have emerged as an important constituent in the equity market and thus contribute significantly to the foreign exchange market activity. The Indian foreign exchange market primarily comprises two segments – the spot market and the derivatives market. As in other emerging market economies, the spot market is the dominant segment of the Indian foreign exchange market.

India's exchange rate policy has evolved in tandem with the domestic as well as international developments. The period after independence was marked by a fixed exchange rate regime, which was in line with the Bretton Woods system prevalent then. The Indian Rupee was pegged to the Pound Sterling on account of historic links with Britain. After the breakdown of Bretton Woods System in the early seventies, most of the countries moved towards a system of flexible/managed exchange rates. With the decline in the share

of Britain in India's trade, increased diversification of India's international transactions together with the weaknesses of pegging to a single currency, the Indian Rupee was de-linked from the Pound Sterling in September 1975. The exchange rate subsequently came to be determined with reference to the daily exchange rate movements of an undisclosed basket of currencies of India's major trading partners. As the basket-linked management of the exchange rate of the Rupee did not capture the market dynamics and the developments in the exchange rates of competing countries fully, the Rupee's external value was allowed to be determined by market forces in a phased manner following the balance of payment difficulties in the nineties.

A significant two-step downward adjustment in the exchange rate of the Rupee was made in 1991. In March 1992, Liberalised Exchange Rate Management System (LERMS) involving the dual exchange rate was instituted. A unified single market-determined exchange rate system based on the demand for and supply of foreign exchange replaced the LERMS effective March 1, 1993.

The Reserve Bank's exchange rate policy focuses on ensuring orderly conditions in the foreign exchange market. For the purpose, it closely monitors the developments in the financial markets at home and abroad. When necessary, it intervenes in the market by buying or selling foreign currencies. The market operations are undertaken either directly or through public sector banks.

In addition to the traditional instruments like forward and swap contracts, the Reserve Bank has facilitated increased availability of derivative instruments in the foreign exchange market. It has allowed trading in Rupee-foreign currency swaps, foreign currency-Rupee options, cross-currency options, interest rate swaps and currency swaps, forward rate agreements and currency futures.



10 Market Operations



1985
Money market reforms begin



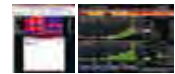
1992
Introduction of auction system for government securities



1996
Primary Dealer System initiated



2002
Electronic trading and guaranteed settlement through CCIL for G-Sec starts



2006
RBI expressly empowered to regulate Money, Forex, G-Sec and Gold-related securities markets

The Reserve Bank operationalises its monetary policy through its operations in government securities, foreign exchange and money markets.

Monetary Operations

Open Market Operations

Open Market Operations in the form of outright purchase/sale of Government securities are an important tool of the Reserve Bank's monetary management. The Bank carries out such operations in the secondary market on the electronic Negotiated Dealing System – Order Matching (NDS-OM) platform by placing bids and/or taking the offers for securities. All the secondary market transactions in Government Securities are settled through Clearing Corporation of India Limited (CCIL). The entire settlement is under Delivery versus Payment mode. The netted funds settlement is carried out through members' Current Account maintained at the Reserve Bank and through Designated Settlement Bank for those members who do not maintain current account with the Reserve Bank. The securities settlement is done in SGL/CSGL Accounts of members maintained at the central bank. CCIL acts as central counter party to all Government securities trade facilitating smooth

settlement and also guaranteeing settlement, thus reducing gridlocks and mitigating cascading impact that default by one member could have on the system.

Liquidity Adjustment Facility Auctions

The liquidity management operations are aimed at modulating liquidity conditions such that the overnight rates in the money market remains within the informal corridor set by the repo and reverse repo rates for the liquidity adjustment facility (LAF) operations. In a repo transaction, the Reserve Bank infuses liquidity into the system by taking securities as collateral, while in a reverse repo transaction it absorbs liquidity from the system with the Reserve Bank providing securities to the counter parties. The LAF auctions are also conducted electronically with the market participants, such as, banks and Primary Dealers. The LAF auctions are conducted either only once or two times in a day with the operations effectively modulating overnight liquidity conditions in the market.

Market Stabilisation Scheme

The Market Stabilisation Scheme (MSS) was introduced in April 2004 under which Government of India dated securities / treasury bills could be issued to absorb surplus structural / durable liquidity created by the Reserve Bank's foreign exchange operations. MSS operations are a sterilisation tool used for offsetting the liquidity impact created by intervention in the foreign exchange markets. The dated securities / treasury bills are the same as those issued for normal market borrowings for avoiding segmentation of the market. The MoU between the Reserve Bank and the Government of India envisaged an annual ceiling, to be fixed through mutual consultations, for MSS operations along with a threshold which would trigger a review of the ceiling. The issuances under MSS are matched by an equivalent cash balance held by the Government in a separate identifiable cash account maintained and operated by the Reserve Bank. While these issuances do not provide budgetary support to the Government, interest costs are borne by the Government. These securities are also traded in the secondary market. By design, the MSS has the flexibility of not only absorbing liquidity but also of injecting liquidity, if required, through unwinding as well as buy-back of securities issued under the MSS.

Domestic Foreign Exchange Market Operations

Operations in the domestic foreign exchange markets are conducted within the Reserve Bank's framework of exchange rate management policy. The exchange rate management policy in recent years has been guided by the broad principles of careful monitoring and management of exchange rates

with flexibility, without a fixed target or a pre-announced target or a band coupled with the ability to intervene if and when necessary. It also allows underlying demand and supply conditions to determine the exchange rate movements over a period in an orderly way. Subject to this predominant objective, the exchange rate management policy is guided by the need to reduce excess volatility, prevent the emergence of destabilising speculative activities, help maintain adequate level of reserves and develop an orderly foreign exchange market. The Reserve Bank also collates, computes and disseminates RBI Reference rate on daily basis.

Money Market

The Reserve Bank also carries out regulation and development of money market instruments such as call / notice / term money market, repo market, certificate of deposit, commercial paper and Collateralised Borrowing and Lending Obligations (CBLO). The call / notice / term money market operations are transacted / reported on the Negotiated Dealing System – Call (NDS Call) platform.



11 Payment and Settlement Systems



1984
Automated Magnetic Ink
Character Recognition (MICR)
system introduced



1992
ECS & EFT
introduced



2004
Real Time Gross
Settlement
commences



2008
RBI empowered
to regulate
payment system



2008
Mobile Banking
enabled

The regulation and supervision of payment systems is being increasingly recognised as a core responsibility of central banks. Safe and efficient functioning of these systems is an important pre-requisite for the proper functioning of the financial system and the efficient transmission of monetary policy.

The Reserve Bank, as the regulator of financial systems, has been initiating reforms in the payment and settlement systems to ensure efficient and faster flow of funds among various constituents of the financial sector. The increasing monetisation in the economy, the country's large geographic expanse, people's preference for paper-based instruments and rapid changes in technology are among factors that make this task a formidable one.

Development, Consolidation and Integration

The Reserve Bank has adopted a three-pronged strategy of consolidation, development and integration to establish a modern and robust payment and settlement system which is also efficient and secure.

The consolidation revolves around expanding the reach of the existing products by introducing clearing process in new locations. The reach is also facilitated by the use of latest technology, such as, mechanised cheque processing, image-based cheque processing systems, and interconnection of the clearing houses.

The Reserve Bank has also taken steps towards integrating the payment system with the settlement systems for government securities and foreign exchange. To facilitate settlement of Government securities transactions, it created the Negotiated Dealing System, a screen-based trading platform. The NDS facilitates the dealing process and provides for electronic reporting of trades, on-line information dissemination and settlement in a centralised system.

For settlement of trade in foreign exchange, Government securities and other debt instrument, it has set up the Clearing Corporation of India Limited (CCIL). This plays the role of a central counter party to transactions and guarantees settlement of trade, thus managing the counter party risk.

Payment and Settlement System: Evolution and Initiatives

- **Computerisation** of clearing operations was the first major step towards modernisation of the payments system, its aim being to reduce the time taken in clearing, balancing and settlement, apart from providing accuracy in the final settlement.
- **Mechanisation** of the clearing operations was another milestone with the introduction of Magnetic Ink Character Recognition (MICR)-based cheque-processing technology using High Speed Reader Sorter systems driven by mainframe computers. The Reserve Bank introduced mechanised clearing in the four metro cities of Mumbai, New Delhi, Kolkata and Chennai during 1986.
- To facilitate faster clearing of large-value cheques (of value of rupees one lakh and above), the Reserve Bank introduced '**High-Value' Clearing** (HVC), covering select branches of banks for same day settlement. However, with the development of other electronic modes of transfer and to encourage customers to move from paper-based modes to electronic products, the Reserve Bank has advised the clearing houses to gradually discontinue its use.
- The Reserve Bank has also introduced a '**Cheque Truncation System**' (CTS) in the National Capital Territory of New Delhi. This system eliminates the physical movement of cheques and provides a more secure and efficient method for clearing cheques.
- The Reserve Bank has introduced **Electronic Clearing Service** (ECS). This uses a series of electronic payment instructions for transfer of funds instead

of paper instruments. The 'ECS–Credit' enables companies to pay interest or dividend to a large number of beneficiaries by direct credit of the amount to their bank accounts. 'ECS–Debit' facilitates payment of charges to utility services, such as, electricity, telephone companies, payment of insurance premia and loan installments, directly by debit to the customer's account with a bank.

- The **National Electronic Clearing Service** (NECS), facilitates credits to bank accounts of multiple customers against a single debit of remitter's account. NECS (Debit) when launched would facilitate multiple debits to destination account holders against a single credit to the sponsor bank. The system has a pan-India characteristic leveraging on Core Banking Solutions (CBS) of member banks, facilitating all CBS bank branches to participate in the system, irrespective of their location. As at the end of September 2009 as many as 114 banks with 30,780 branches were participating in NECS.
- The Reserve Bank has introduced an **Electronic Funds Transfer** scheme to enable an account holder of a bank to electronically transfer funds to another account holder with any other participating bank.
- **The Real Time Gross Settlement** system settles all inter-bank payments and customer transactions above rupees one lakh. Participants in this system include banks, financial institutions, primary dealers and clearing entities. All systemically important payments including securities settlement, forex settlement and money market settlements are processed through the RTGS system.
- **Pre-paid payment instruments** facilitate purchase of goods and services against the value stored on these instruments. To encourage the use of this safe payment mechanism, the Reserve Bank has issued guidelines that lay down the basic eligibility criteria and the conditions for operating such payment systems in the country.
- The Reserve Bank has also issued guidelines for the use of **mobile phones** as a medium for providing banking services. Only banks which are licensed and supervised in India and have a physical presence in India are permitted to offer mobile banking services in the country. The guidelines focus on systems for security and inter-bank transfer arrangements through authorised systems.
- The Reserve Bank encouraged the setting up of the **National Payments Corporation of India** (NPCI) to act as an umbrella organisation for operating the various retail payment systems in India. NPCI is expected to bring greater efficiency in retail payment by way of uniformity and standardisation as also expansion of reach and innovative payment products to augment customer convenience.

Legal Framework

The Payment and Settlement Systems Act, 2007 provides for regulation and supervision of payment systems in India and designates the Reserve Bank as the authority for the purpose. As per the Act, only payment systems authorised by the Reserve Bank can be operated in the country. The Act also provides for the settlement effected under the rules and procedures of the system provider to be treated as final and irrevocable.

Institutional Framework

The Reserve Bank has put in place an institutional framework and structure for oversight of the payment systems. In 2005, it created a Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) as a Committee of the Central Board. A new department called the Department of Payment and Settlement Systems (DPSS) was constituted to assist the BPSS in performing its functions.



12 Developmental Role



1954
All India Rural Credit Survey
Committee Report



1974
Introduction of Priority Sector
lending targets



1975
Regional Rural
Banks set up



1991
Bank-Self Help Group (SHG)
linkage norms introduced



2004
Report of Task Force on
Rural Co-operative Credit Structure

The Reserve Bank is one of the few central banks that has taken an active and direct role in supporting developmental activities in their country. The Reserve Bank's developmental role includes ensuring credit to productive sectors of the economy, creating institutions to build financial infrastructure, and expanding access to affordable financial services. Over the years, its developmental role has extended to institution building for facilitating the availability of diversified financial services within the country. The Reserve Bank today also plays an active role in encouraging efficient customer service throughout the banking industry, as well as extension of banking service to all, through the thrust on financial inclusion.

Towards this goal, which has evolved over many years, the Reserve Bank has taken various initiatives.

Rural Credit

Given the predominantly agrarian character of the Indian economy, the Reserve Bank's role has been to ensure timely and adequate credit to the

agricultural sector at affordable cost. Section 54 of the RBI Act, 1934 states that the Bank may maintain expert staff to study various aspects of rural credit and development and in particular, it may tender expert guidance and assistance to the National Bank (NABARD) and conduct special studies in such areas as it may consider necessary to do so for promoting integrated rural development.

Priority Sector Lending

The focus on priority sectors can be traced to the Reserve Bank's credit policy for the year 1967-68, and institution of a scheme of 'social control' over commercial banks in 1967 by the Government of India to remove certain deficiencies observed in the functioning of the banking system, such as, bulk of bank advances directed to large and medium-scale industries and established business houses. In order to provide access to credit to the neglected sectors, a target based priority sector lending was introduced from the year 1974, initially with public sector banks. The scheme was gradually extended to all commercial banks by 1992.

The scope and extent of priority sectors have undergone several changes since the formalisation of description of the priority sectors in 1972. The guidelines on lending to priority sector were revised with effect from April 30, 2007. The guiding principle of the revised guidelines on lending to priority sector has been to ensure adequate flow of bank credit to those sectors of the society/ economy that impact large segments of the population and weaker sections, and to the sectors which are employment-intensive, such as, agriculture and small enterprises. The broad categories of advances under priority sector now include agriculture, micro and small enterprises sector, microcredit, education and housing.

Targets for Lending to the Priority Sector

	Domestic Commercial Banks	Foreign Banks
Total priority sector advances	40 per cent of Adjusted Net Bank Credit (ANBC) [Net Bank Credit plus investments made by banks in non-SLR bonds held in held to maturity (HTM) category] or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	32 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.
Total agricultural advances	18 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher. Of this, indirect lending in excess of 4.5 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher, will not be reckoned for computing performance under 18 per cent target. However, all agricultural advances under the categories 'direct' and 'indirect' will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No target.
Small enterprise advances	Advances to small enterprises sector will be reckoned in computing performance under the overall priority sector target of 40 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher
Micro enterprises within small enterprises sector	(i) 40 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises having investment in plant and machinery up to Rs 5 lakh and micro (service) enterprises having investment in equipment up to Rs. 2 lakh; (ii) 20 per cent of total advances to small enterprises sector should go to micro (manufacturing) enterprises with investment in plant and machinery above Rs 5 lakh and up to Rs. 25 lakh, and micro (service) enterprises with investment in equipment above Rs. 2 lakh and up to Rs. 10 lakh. (Thus, 60 per cent of small enterprises advances should go to the micro enterprises).	Same as for domestic banks
Export credit	Export credit is not a part of priority sector for domestic commercial banks.	12 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher
Advances to weaker sections	10 per cent of ANBC or credit equivalent amount of Off-Balance Sheet Exposure, whichever is higher.	No target
Differential rate of interest scheme	1 per cent of total advances outstanding as at the end of the previous year. It should be ensured that not less than 40 per cent of the total advances granted under DRI scheme goes to scheduled caste / scheduled tribes. At least two third of DRI advances should be granted through rural and semi-urban branches.	No target

The domestic scheduled commercial banks, both in the public and private sector, having shortfall in lending to priority sector and/or agricultural lending and/or weaker section lending targets, are required to deposit in Rural Infrastructure Development Fund (RIDF) established with NABARD or other Funds set up with other financial institutions. RIDF was established with NABARD in April 1995 to assist State Governments / State-owned corporations in quick completion of projects relating to irrigation, soil conservation, watershed management and other forms of rural infrastructure (such as, rural roads and bridges, market yards, etc.). Since then, the RIDF has been extended on a year-to-year basis to presently RIDF XV through announcements in the Union Budgets.

The interest rates charged from State Governments and payable to banks under the Rural Infrastructure Development Fund (RIDF) have been brought down over the years in accordance with the reduction of market interest rates. As a measure of disincentive for non-achievement of agricultural lending target, effective RIDF-VII, the rate of interest on RIDF deposits has been linked to the banks' performance in lending to agriculture. Accordingly, while the State Governments are required to pay interest at Bank Rate plus 0.5 percentage points, the rates of interest on deposits vary between Bank Rate and Bank Rate minus 3 percentage points depending on the individual bank's shortfall in lending to agriculture target of 18 per cent.

Lead Bank Scheme

The Reserve Bank introduced the Lead Bank Scheme in 1969. Here designated banks were made key instruments for local development and were entrusted with the responsibility of identifying growth centres, assessing deposit potential and credit gaps and evolving a coordinated approach for credit deployment in each district, in concert with other banks and other agencies. 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.

Special Agricultural Credit Plan

With a view to augmenting the flow of credit to agriculture, Special Agricultural Credit Plan (SACP) was instituted and has been in operation for quite some time now. Under the SACP, banks are required to fix self-set targets showing an increase of about 30 per cent over previous year's disbursements on yearly basis (April – March). The public sector banks have been formulating SACP since 1994. The scheme has been extended to Private Sector banks as well from the year 2005-06.

Kisan Credit Cards

The Kisan Credit Card (KCC) Scheme was introduced in the year 1998-99 to enable the farmers to purchase agricultural inputs and draw cash for their production needs. On revision of the KCC Scheme by NABARD in 2004, the scheme now covers term credit as well as working capital for agriculture and allied activities and a reasonable component for consumption needs.

Under the scheme, the limits are fixed on the basis of operational land holding, cropping pattern and scales of finance. Seasonal sub-limits may be fixed at the discretion of the banks. Limits may be fixed taking into account the entire production credit needs along with ancillary activities relating to crop production, allied activities and also non-farm short term credit needs (consumption needs). Limits are valid for three years subject to annual review. Security, margin and rate of interest are as per RBI guidelines issued from time to time.

Natural Calamities – Relief Measures

In order to provide relief to bank borrowers in times of natural calamities, the Reserve Bank has issued standing guidelines to banks. The relief measures include, among other things, rescheduling / conversion of short-term loans into term loans; fresh loans; relaxed security and margin norms; treatment of converted/rescheduled agriculture loans as 'current dues'; non-compounding of interest in respect of loans converted / rescheduled; and moratorium of at least one year.

Micro, Small and Medium Enterprises Development

With the enactment of the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006, the services sector has also been included in the definition of micro, small and medium enterprises, apart from extending the scope to medium enterprises. The Act sought to modify the definition of micro, small and medium enterprises engaged in manufacturing or production and providing or rendering of services.

Some of the major measures by RBI/ GOI to improve the credit flow to the MSE sector are as under:

- **Collateral Free Loans:** Reserve Bank has issued instructions/ guidelines advising banks to sanction collateral free loans up to Rs.5 lakh to the MSE borrowers. Further, banks have also been advised to lend collateral free loans up to Rs.25 lakh, based on good track record and financial position of the units.

- **Credit Guarantee Scheme for Small Industries by SIDBI:** The main objective of the Credit Guarantee Scheme (CGS) for MSEs is to make available bank credit to first generation entrepreneurs for setting up their MSE units without the hassles of collateral/third party guarantee. The Scheme envisages that the lender availing guarantee facility would give composite credit so that the borrowers obtain both term loan and working capital facilities from a single agency. The Trust at present is providing guarantee to collateral free loans up to Rs. 1 crore under the scheme.
- **Specialised MSE Branch in every District:** Public sector banks were advised in August 2005 to operationalise at least one specialised MSE branch in every district and centre having a cluster of MSE enterprises. At the end of March 2009, 869 specialised MSE bank branches were operationalised by banks.
- **Formulation of "Banking Code for MSE Customers":** The Banking Codes and Standards Board of India (BCSBI) has formulated a voluntary Code of Bank's Commitment to Micro and Small Enterprises and has set minimum standards of banking practices for banks to follow when they are dealing with MSEs.
- **Working Group on Rehabilitation/Nursing of Potentially Viable Sick SME Units:** Detailed guidelines have been issued to banks advising them to evolve Board approved policies for the MSE sector relating to:
 - (i) Loan policy governing extension of credit facilities.
 - (ii) Restructuring / Rehabilitation policy for revival of potentially viable sick units / enterprises.
 - (iii) Non-discretionary one time settlement scheme for recovery of non-performing loans.

Institutions to Meet Needs of the Evolving Economy

When India embarked upon the era of planned development, the primary need was to facilitate adequate flow of credit to the industrial and other sectors according to the Plan priorities. A major task undertaken by the Reserve Bank was to put in place the necessary institutional mechanism to complement the planning efforts. This was crucial especially in the context of an underdeveloped and evolving financial system. In the absence of a well-developed capital market, the Reserve Bank played a proactive role in setting up a number of specialised financial institutions at the national and regional level to widen the facilities for term finance to industry and for institutionalisation of savings – a novel departure for a central bank. The institutions set up included:

- 1962: Deposit Insurance Corporation
- 1963: Agricultural Refinance Corporation
- 1964: Unit Trust of India
- 1964: Industrial Development Bank of India
- 1969: National Institute of Bank Management
- 1971: Credit Guarantee Corporation
- 1978: Deposit Insurance and Credit Guarantee Corporation (The DIC and CGC were merged and renamed as DICGC)
- 1982: National Bank for Agriculture and Rural Development
- 1982: Export-Import Bank of India
- 1987: Indira Gandhi Institute of Development Research
- 1988: Discount and Finance House of India
- 1988: National Housing Bank
- 1990: Small Industries Development Bank of India
- 1994: Securities Trading Corporation of India
- 1995: Bharatiya Reserve Bank Note Mudran Private Limited
- 1996: Institute for Development & Research in Banking Technology
- 2001: Clearing Corporation of India Limited
- 2008: National Payments Corporation of India

Export Credit

Recognising the important role of exports in maintaining the viability of external sector and in generating employment, the Reserve Bank had sought to ensure adequate availability of concessional bank credit to exporters. It took the lead role in setting up the Export Import Bank of India (EXIM Bank) in January 1982. In recent years, with the liberalisation of real and financial sectors of the economy, interest rates on export credit have been rationalised

within the overall monetary and credit policy framework. In order to provide adequate credit to exporters on a priority basis, the Reserve Bank has also prescribed a minimum proportion of banks' adjusted net bank credit to be lent to exporters by foreign banks.

Financial Inclusion

Post liberalisation and deregulation of the financial sector within the country, it was observed that banking industry has shown tremendous growth in volume and range of services provided while making significant improvements in financial viability, profitability and competitiveness. However, banks had not been reaching and bringing vast segments of the population, especially the underprivileged sections of society, into the fold of basic banking services to the desired extent. This prompted the need for the RBI to develop a specific focus towards Financial Inclusion for inclusive growth.

Box 12

Improving Banking Services in Comparatively Backward States

The Reserve Bank established Working Groups in Bihar, Uttaranchal, Chhattisgarh, Lakshadweep, Himachal Pradesh and Jharkhand between July 2006 and October 2007 with a view to improving the outreach of banks and their services, promoting financial inclusion and supporting the development plans of the State Governments. The reports examined the adequacy of banking services, made constructive suggestions towards enhancing the outreach of banks and promoting financial inclusion as well as revitalising RRBs and UCBs in the respective regions.

To improve banking penetration in the North-East, the Reserve Bank of India established a Committee on Financial Sector Plan (CFSP) for North Eastern Region in January 2006. The report includes, among other things, suggestions for expanding the banking outreach, simplification of system and procedures for opening bank accounts, land collateral substitutes, currency management, funds transfer and payment facilities and revised human resources incentives in the region. The Report addressed important issues pertaining to financial inclusion, improving CD ratio, providing hassle-free credit.

The Reserve Bank has also formulated a scheme for setting-up banking facilities (currency chests, extension of foreign exchange and Government business facilities) at centres in the North-Eastern region, which are not found to be commercially viable by banks. The State Governments would make available necessary premises and other infrastructural support. The Reserve Bank, as its contribution, would bear the one time capital cost and recurring costs for a limited period of five years.

A special taskforce was established for Sikkim, which looked at various key indicators, such as, financial inclusion, branch expansion, business correspondent / facilitator model, forex facilities, insurance and capital, currency management, funds transfer and payment, etc. The implementation of the report's recommendations is monitored through an Action Point Matrix and quarterly progress reports.

Customer Service

The Reserve Bank's approach to customer service focuses on protection of customers' rights, enhancing the quality of customer service, and strengthening the grievance redressal mechanism in banks and also in the Reserve Bank.

The Reserve Bank's initiatives in the field of customer service include the setting up of a Customer Redressal Cell, creation of a Customer Service Department and the setting up of the Banking Codes and Standards Board of India (BCSBI), an autonomous body for promoting adherence to self-imposed codes by banks. In order to strengthen the institutional mechanism for dispute resolution, the Reserve Bank in 1995 introduced the Banking Ombudsman (BO) scheme. The BO is a quasi-judicial authority for resolving disputes between a bank and its customers. At present, there are 15 Banking Ombudsman offices in the country. The scheme covers grievances of the customers against commercial banks, urban cooperative banks and regional rural banks. In 2006, the RBI introduced a revised BO scheme. Under the revised scheme, the BO and the attached staff are drawn from the serving employees of the Reserve Bank. The new scheme is fully funded by the RBI and covers grievances related to credit cards and activities of the selling agents of banks also. Under the BO scheme, both the complainant and the bank, if unsatisfied with the decision of the BO, can appeal against the decisions of the BO to the appellate authority within the Reserve Bank.



13 Policy Research and Data Dissemination



The Reserve Bank has over time established a sound and rich tradition of policy-oriented research and an effective mechanism for disseminating data and information. Like other major central banks, the Reserve Bank has also developed its own research capabilities in the field of economics, finance and statistics, which contribute to a better understanding of the functioning of the economy and the ongoing changes in the policy transmission mechanism.

Internal Research

The research undertaken at the Reserve Bank revolves around issues and problems arising in the current environment at national and international levels, which have critical implications for the Indian economy. The primary data compiled by the Reserve Bank becomes an important source of information for further research by the outside world. The Reserve Bank also disseminates data and information regularly in the form of several publications and through its website.

The Reserve Bank has made focused efforts to provide quality data to the public at large, which has emanated from its internal economic research and

robust statistical system, established and strengthened over the years. It endeavours to provide credible statistics and information to users across the spectrum of market participants, businesses, the media, professionals and the academics. This is done through various tools, such as, website, press releases, and weekly, monthly, quarterly and annual publications. India is among the first few signatories of the Special Data Dissemination Standards (SDDS) as defined by the International Monetary Fund for the purpose of releasing data and the Reserve Bank contributes to SDDS in a significant manner.


Data and Research Dissemination

The Reserve Bank releases several periodical publications that contain a comprehensive account of its operations as well as information of the trends and developments pertaining to various areas of the Indian economy. Besides, there are periodical statements on monetary policy, official press releases, and speeches and interviews given by the top management which articulate the Reserve Bank's assessment of the economy and its policies.

The Reserve Bank is under legal obligation under The RBI Act to publish two reports every year: *the Annual Report* and *the Report on Trend and Progress of Banking in India*. Besides these and the regular periodical publications, it also publishes reports of various committees appointed to look into specific subjects, and discussion papers prepared by its internal experts.


The Reserve Bank has also set up an enterprise-wide data warehouse through which data is made available in downloadable and reusable formats. Users now have access to a much larger database on the Indian economy through the Reserve Bank's website. This site has a user-friendly interface and enables easy retrieval of data through pre-formatted reports. It also has the facility for simple and advanced queries.

Under the aegis of the Development Research Group in the Department of Economic Analysis and Policy, the Reserve Bank encourages and promotes policy-oriented research backed by strong analytical and empirical basis on subjects of current interest. The DRG studies are the outcome of collaborative efforts between experts from outside the Reserve Bank and the pool of research talent within. The annual Report on Currency and Finance has now been made into a theme-based publication, providing in-depth information and analysis on a topical subject. It has become a valuable reference point for research and policy formulation.



The Handbook of Statistics on the Indian Economy constitutes a major initiative at improving data dissemination by providing statistical information on a wide range of economic indicators. The Handbook was first published in 1996 and over the years, its coverage has improved significantly.

The Reserve Bank's two research departments – Department of Economic Analysis and Policy and Department of Statistics and Information Management – provide analytical research on various aspects of the Indian economy.



14 How Departments Work

- Markets**
 - Department of External Investments and Operations
 - Financial Markets Department
 - Financial Stability Unit
 - Internal Debt Management Department
 - Monetary Policy Department

- Regulation and Supervision**
 - Department of Banking Operations and Development
 - Department of Banking Supervision
 - Department of Non-Banking Supervision
 - Foreign Exchange Department
 - Rural Planning and Credit Department
 - Urban Banks Department

- Research**
 - Department of Economic Analysis and Policy
 - Department of Statistics and Information Management

- Services**
 - Customer Service Department
 - Department of Currency Management
 - Department of Government Bank and Accounts
 - Department of Payment and Settlement Systems

- Support**
 - Department of Administration and Personnel Management
 - Department of Communication
 - Department of Expenditure and Budgetary Control
 - Department of Information Technology
 - Human Resources Development Department
 - Inspection Department
 - Legal Department
 - Premises Department
 - Rajbhasha Department
 - Secretary's Department

Department of External Investments and Operations

The objectives of the Department of External Investments and Operations are reserves and exchange rate management. It also undertakes certain foreign exchange transactions on behalf of the Government and plays a role in international co-operation arrangements involving foreign exchange reserves.

(i) Management of Reserves

Deployment of Assets: The RBI Act, 1934 provides the overarching legal framework for deployment of the foreign currency assets and gold and defines the broad parameters for currencies, instruments, issuers and counterparties. It permits deposits with central banks and the Bank for International Settlements, deposits with foreign commercial banks, investments in sovereign and sovereign-guaranteed paper with a residual maturity not exceeding 10 years, any other instruments and institutions as approved by the Central Board of the Reserve Bank and dealing in certain types of derivatives. While safety and liquidity constitute the twin objectives, return optimisation has become an embedded strategy.

Risk Management: The emphasis is on managing and controlling exposure to financial and operational risks. Decision-making relies on regular reviews of investment strategy, and considerable attention to strengthening operational risk control arrangements.

(ii) Government Business

The Department manages foreign exchange transactions on behalf of the Government of India that include grants-in-aid and/or loans from various international institutions, including the IMF.

(iii) International Financial Co-operation

The Department plays an important role in international monetary and financial co-operation initiatives, bilateral arrangements and membership of the Asian Clearing Union, etc.

(iv) Market Research

The Department monitors and analyses key developments in global financial markets as information inputs for management on a daily basis. Special studies and reports are also prepared expeditiously on emerging international financial issues. It publishes data on foreign exchange reserves, foreign exchange market operations and deployment of foreign currency assets and gold.

Financial Stability Unit

The Reserve Bank established the Financial Stability Unit in July 2009 against the backdrop of international initiatives for resolving the global financial crisis and strengthening the international financial architecture.

The Department – which draws upon the expertise from supervisory, regulatory, statistics, economics and financial markets departments—conducts macro-prudential surveillance of the financial system, prepares periodic financial stability reports, develops a database by collecting key data on variables that impact financial stability, conducts systemic stress tests, and develops models for assessing financial stability.

The Department's work includes the following:

Macro Prudential Surveillance

Macro prudential surveillance of the financial system is the core function, and especially of those institutions and markets it regulates. This involves identifying key risks and possible inter-connectedness for systemically important institutions, markets and countries. As key risk indicators could change with the changing economic scenario, identifying them and the associated data requirements is an ongoing task.

Macro Stress Testing

The Department conducts system-level stress tests based on plausible scenarios to assess the resilience of the financial system. While presently that involves basic single factor sensitivity analysis, more advanced methods of stress testing are gradually being attempted using scenario building for multi-factor stress testing by developing econometric models.

Preparation of Periodic Financial Stability Reports

Periodic financial stability reports focus on early stage identification and assessment of the magnitude and implications of potential risks and vulnerabilities that could magnify into a crisis for the financial system. The reports look at the strength and resilience of three major segments— markets, institutions and infrastructure.

Secretariat to the Financial Stability Board

The FSU is the Secretariat to the Reserve Bank's representative on the FSB, coordinating with the FSB Secretariat at the BIS in Basel, Switzerland.

Financial Markets Department

Financial Markets Department was set up in 2005 to give the Reserve Bank an integrated interface with various financial markets for conduct of its monetary operations. The mandated functions of the Department are:

- Monitoring of money, government securities and forex markets.
- Monetary operations such as open market operations (OMO), including liquidity adjustment facility (LAF) and operations under market stabilisation scheme (MSS).
- Conducting operations in the domestic foreign exchange market.

Given this mandate, the Department undertakes the following functions:

(i) Monitoring: Conducts detailed analysis of various financial market segments: forex, government securities, money, equity, corporate debt, commodity and derivatives markets, assessing banking system liquidity, and provides analytical inputs to senior management for decision-making and policy formulation.

(ii) Market Operations: Undertakes operations in various segments of domestic market that include:

- **Forex:** Intervention operations to curb excessive volatility and to ensure orderly conditions in the domestic forex market.
- **Money:** Conduct of daily LAF auctions for banks and primary dealers; multiple and longer-term LAF operations under special circumstances.
- **Government Securities:** Sell/purchase of Government Securities in the secondary market for effective liquidity management, smoothing volatility in the secondary market, augmenting the Reserve Bank's rupee securities stocks, and conduct of MSS operations for sterilisation of Rupee liquidity of enduring nature created out of forex market intervention operations in response to large capital inflows.

(iii) Surveillance: Scrutiny and analysis of transactions in government securities and money markets, compiling data on CDs and CPs and monitoring FII investment in government and corporate bonds.

(iv) Policy and Co-ordination: In policy matters, the Financial Markets Committee (FMC) – chaired by the Deputy Governor- in- charge and comprising heads of relevant departments (DEIO, MPD, IDMD and FMD) – guides the Department's initiatives. The FMC meets every morning to assess and evaluate developments in various market segments, domestic and foreign.

Internal Debt Management Department

The main activities of the Internal Debt Management Department include:

- Managing the Government's debt in a risk efficient and cost effective manner.
- Providing innovative and practical solutions for broader government financial issues.
- Regulation and development of financial markets in keeping with the best international standards and practices.
- Building a robust institutional framework of primary dealers.

The Department operates through the following Divisions:

(i) Government Borrowing Division: Manages the market borrowing programmes of the Government of India (including preparing an issuance calendar in consultation with the Government of India), all State Governments and the Union Territory of Puducherry, choice of instruments and tenor, manages the auction process and monitors State and Central cash balances.

(ii) Dealing Operations Division: Interfaces with the Government securities market for purchasing securities from the secondary market for investment purposes by State Governments under schemes like Consolidated Sinking Fund (CSF) and Guarantee Redemption Fund (GRF) and monitors movement of yields of Government securities, among other things.

(iii) Primary Dealers Regulation Division: Regulates and supervises Primary Dealers, monitors their bidding commitments in primary auctions, reviews their performance and authorises new entrants.

(iv) Research Division: The nodal division for various committees, such as, the High Level Coordination Committee on Financial Markets and the State Finance Secretaries Conference, analyses market developments and practices, acts as the focal point for research contributions to IMF, World Bank and G20 publications.

(v) Management Information Systems Division: Maintains database pertaining to market infrastructure, provides data for various statutory and internal publications, runs the technology platform for Government securities auctions, LAF and OMO activities, as well as undertakes analysis on long term patterns of Government borrowing.

(vi) Policy Coordination Division: Regulation and development of financial market products (excluding Forex regulation).

Monetary Policy Department

The Monetary Policy Department formulates and implements the Reserve Bank's monetary policy. The objectives of monetary policy in India have evolved to include maintaining price stability, ensuring adequate flow of credit to productive sectors of the economy to support economic growth, and maintaining financial stability. The relative emphasis placed on a particular objective at a particular point in time is modulated according to the prevailing macroeconomic conditions and outlook and is spelt out, from time to time, in the policy statements of the Reserve Bank.

The Department is an inter-disciplinary unit of the Reserve Bank with professional staff drawn from both operational and research Departments.

Core Activities

The core activities of the Department include:

- Preparing the Governor's monetary policy statements and its quarterly reviews.
- Formulating monetary policy measures. These include policies on CRR, SLR, repo and reverse repo rates under the LAF, export credit refinance, market stabilisation scheme (MSS) and open market operations (OMOs).
- Formulating policy on interest rates of the banking sector.
- Monitoring domestic macroeconomic developments, key financial market indicators and global developments including, monetary policy stance in select economies.
- Making projections on growth, inflation and monetary aggregates.
- Projecting market borrowing programme of the government consistent with monetary projections.
- Managing the policy formulation and communication; organising Governor's quarterly meetings with bankers, meetings of the Technical Advisory Committee on Monetary Policy, pre-policy consultation meetings with bankers, financial markets, industry, NBFCs, RRBs, micro-finance institutions, economists, journalists and media.
- Monitoring maintenance of CRR and SLR.
- Monitoring, analysing and dissemination of data on interest rates in the banking sector.
- Monitoring and analysing data on sectoral credit deployment and advances against select sensitive commodities.
- Authorising food credit limits.
- Co-ordinating with operational departments and other institutions on specific policy issues.

Department of Banking Operations and Development

The Department of Banking Operations and Development is responsible for regulation of commercial banks, which is aimed at protecting depositors' interests, orderly development and conduct of banking operations, and fostering the overall health of the banking system.

Bank / Branch Licensing

The Department issues 'licenses' for opening banks and 'authorisations' for opening branches in the country. The policies for 'licences' and 'authorisations' are adapted, depending on the circumstances.

Regulation of Banks

The Department is the focal point for providing the framework for regulation of domestic commercial banks. This includes:

Formulation of Banking Policies:

- Prescribing prudential regulations on capital adequacy, income recognition, asset classification, provisioning for loan and other losses, investment valuation, accounting and disclosure standards, and risk management systems.
- Strengthening the banking system by studying International Best Practices and Codes on Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT), and issuing necessary instructions, and continuously upgrading 'Know Your Customer' guidelines.

Regulation of Private Sector Banks: Setting up of operations and winding up of domestic private sector commercial banks.

Regulation of Foreign Banks and Overseas Offices of Indian Banks: Governing foreign banks' entry and expansion, approval of Indian banks to operate overseas.

Regulation of Select All India Financial Institutions: Regulatory oversight of the National Housing Bank, and SIDBI, and monitoring sources and deployment.

Other functions of the Department include:

- Approving appointment of chief executive officers (private sector banks and foreign banks) and their compensation packages.
- Advising the government on amendments to various banking statutes.
- Collecting, disseminating and sharing information from banks and notified All-India Financial Institutions on defaulters.
- Monitoring CRR and SLR maintenance.
- Overseeing the amalgamation, reconstruction and liquidation of banking companies.

Department of Banking Supervision

The Department of Supervision monitors operations of scheduled commercial banks, including foreign banks in India, all India financial institutions and local area banks. The Department formulates and implements supervisory policies and strategy to ensure development of a safe, sound and efficient banking system.

The broad functions of the Department are:

- On-site annual financial inspections and off-site monitoring and surveillance.
- Formulating supervisory policy.
- Regulating the audit function.
- Monitoring high-value fraud in financial institutions and NBFCs.
- Secretarial services to the Board for Financial Supervision (BFS).

On-site inspection is the main instrument of the Reserve Bank's supervision. The Reserve Bank also carries out periodic surveys to ensure that banks fulfill license conditions.

The Department supplements annual financial inspection with off-site surveillance and monitoring, which examines the financial condition of the banks in between on-site inspections to take appropriate supervisory action in time, on the basis of capital adequacy, asset quality, loan concentration, operational results, connected lending, profile of ownership, control, management, liquidity and interest rate risks. The Department also periodically conducts reviews of macro and micro prudential indicators, conducts interest rate sensitivity analysis and other relevant studies.

Banks have to submit periodic Consolidated Prudential Reports (CPRs). A banking group also has to prepare Consolidated Financial Statements (CFS). The Department also monitors financial conglomerates (FCs), including through off-site surveillance, reviews FC monitoring activities by the Standing Technical Committee and has discussions with the major entities in the FC.

Certain other tools, such as, quarterly discussions with the CEO and senior management, reports of the Reserve Bank's nominee directors on the boards of State owned banks and additional directors in private banks, and a system of prompt corrective action, are also used for effective supervision.

The Department formulates policy on bank audits and the appointment of statutory auditors. The Department serves as the nodal department for monitoring large value frauds in banks.

Department of Non-Banking Supervision

The Department of Non-Banking Supervision regulates and supervises Non-Banking Financial Companies (NBFCs). The Department has 16 regional offices across the country. The major financial intermediaries regulated by the Department are (i) Deposit accepting NBFCs, (ii) Non-Deposit accepting NBFCs and (iii) Securitisation Companies (SCs) / Reconstruction Companies (RCs).

Broadly, the functions of the Department are:

(i) Regulatory Activities

- Formulating regulatory framework and issuing directions to NBFCs.
- Issuing / cancellation of certificates of registration for NBFCs.
- Ensuring proper classification for NBFCs by classifying them into four categories namely, Asset Finance Companies, Loan Companies, Investment Companies and Infrastructure Finance Companies.
- Conducting on-site inspection, scrutiny and follow up.
- Off-site surveillance and scrutiny of various returns.
- Attending to complaints relating to NBFCs and supplying data to various departments of the Reserve Bank and other organisations.
- Initiating deterrent action against errant companies.
- Market intelligence gathering.
- Monitoring of receipt of auditors' exception reports/annual certificates

(ii) Activities with regard to Securitisation and Reconstruction Companies

- Issuing certificate of registration for SC / RC under SARFAESI Act, 2002.
- Attending to various operational issues raised by SCs / RCs.
- Collection of returns and preparing reviews on SCs' / RCs' functioning.
- Study of operations and inspection of SCs / RCs.

(iii) Developmental Activities

- Co-ordination with State Governments and other regulators for enacting state legislations to curb unauthorised and fraudulent activities in the NBFC sector.
- Publicity campaign for depositors' education and awareness, workshops / seminars of trade and industry organisations, depositors' associations.

Foreign Exchange Department

The Foreign Exchange Department covers the following areas:

(i) Current Account Transactions

- Trade: Monitoring export and import transactions delegated to authorised dealers. The Department grants approval where powers have not been delegated.
- Remittances: Granting approvals in case of other non-trade current account remittances beyond the delegated powers of authorised dealers. This includes remittances for travel, gifts, donations, medical treatment, education, immigration charges, consultancy services, etc.

(ii) Capital Account Transactions

- Foreign Direct Investment: Foreign investments in India should be in tune with the Foreign Direct Investment (FDI) policy. The Department monitors post-issue reporting and transfer of shares between residents and non-residents, collects data on portfolio investments through authorised dealer banks and approves the opening of liaison and branch offices in India by foreign companies.
- Overseas Direct Investment: Indian companies and Registered Partnership firms are allowed to invest up to 400 per cent of their net worth under the automatic route in joint venture/wholly owned subsidiary abroad. The Department grants the required approval for investments beyond this limit.
- External Commercial Borrowing: External commercial borrowing (ECB) refers to commercial loans in the form of bank loans, buyers' credit, suppliers' credit, securitised instruments availed from non-resident lenders by Indian companies with minimum average maturity of three years. ECBs can be availed of through automatic and approval routes.
- Foreign Currency Accounts: The Department's approval is required in cases where general permission is not available, such as deposit accounts by Non-Resident Indians and Persons of Indian Origin and foreign currency accounts.

(iii) Compounding

- The Reserve Bank is empowered to compound any contravention of the FEMA, except the contraventions under section 3 (a), on an application made by the contravener.

(iv) Development Activity

- Formulating risk management policies for foreign exchange exposures including derivative contracts, and administering rules governing personal remittances and money transfers.
- Collecting and compiling data on foreign exchange transactions on fortnightly basis for quick estimates of the Balance of Payments.

Rural Planning and Credit Department

The Rural Planning and Credit Department studies and coordinates issues related to rural credit and development. The RBI Act, 1934 says:

"The Bank may maintain expert staff to study various aspects of rural credit and development and in particular, it may,

- (a) tender expert guidance and assistance to the National Bank (NABARD)
- (b) conduct special studies in such areas as it may consider necessary to do so for promoting integrated rural development".

The Rural Planning and Credit Department, both on account of the historical compulsions of the Indian economy and the special responsibility cast on it in terms of the statute, presently undertakes the following functions through its Central Office and 22 Regional Offices:

- Formulates policy on rural credit and priority sector lending, including, agriculture and micro and small enterprises.
- Assesses quantitative and qualitative performance of commercial banks in priority sector lending, including agriculture, micro and small enterprises sector, and of various Government sponsored poverty alleviation programmes.
- Regulates Regional Rural Banks and State/ District Central cooperative banks as provided under various Acts.
- Formulates policy with regard to Lead Bank Scheme and monitors the implementation thereof.
- Undertakes special studies relating to various aspects of rural credit;
- Formulates policy with regard to the development of micro-finance sector in the country.
- Formulates policy for enhancing financial inclusion, particularly in the under-banked and un-banked regions/ pockets of the country and monitors the performance of banks in this area.
- Deals with the National Bank for Agriculture and Rural Development (NABARD), based on various statutory provisions.

Urban Banks Department

The Urban Banks Department regulates and supervises the banking activities of Primary (Urban) Cooperative Banks (UCBs).

The Department carries out its functions through its Regional Offices, and its functions can be divided into four parts: (i) licensing, (ii) banking policies, (iii) supervision, and (iv) development.

Licensing: The licensing division formulates eligibility criteria for the issue of banking licenses and authorising branch expansions for already licensed banks. It also grants approvals for expanding areas of operation for UCBs.

Banking Policies: The Banking Policy Division formulates policies for regulation and supervision of UCBs under the guidance of the Board for Financial Supervision (BFS) and the Standing Advisory Committee (SAC) for Urban Cooperative Banks, under the chairmanship of the Deputy Governor-in-Charge.

Besides the formulation of banking policies, the Division also disburses claims to UCBs under various financial assistance schemes of the Central or State Government, attends to compliance work relating to the directions of various authorities, replies to the Parliament questions, and coordinates with other bodies.

Bank Supervision: The Department has two Bank Monitoring Divisions (BMD), one for scheduled and the other for non-scheduled UCBs for on-site inspection. The BMDs are responsible for overall monitoring of the functioning of UCBs. While the Regional Offices carry out on-site inspections of UCBs, the supervisory and follow-up actions are shared with the Central Office. The Off Site Surveillance segment of the Bank Supervision Division monitors the functioning of UCBs continuously through a set of periodical returns. It also provides data and support services for preparation of policies, reports and publications. The merger cell within the Department oversees the sanction and process of amalgamation of UCBs as a non-disruptive exit route for weak UCBs, under the guidance of an expert committee.

Developmental Functions: The Department also undertakes training to the officials of UCBs to upgrade their knowledge, skill and expertise.

Department of Economic Analysis and Policy

The Department of Economic Analysis and Policy undertakes policy supportive research on macroeconomic issues of national and international importance.

The Department is entrusted with multiple functions, prominent among which are the following:

- Studying and analysing domestic and international issues affecting the Indian economy.
- Generating primary data on monetary and credit aggregates, balance of payments and external debt statistics, flow-of-funds, financial saving and state finances.
- Providing advice and views on economic policy formulation, shaping of monetary, banking and financial policies.
- Preparing statutory publications—the Annual Report and the Report on Trend and Progress of Banking in India.
- Preparing other publications, such as, Handbook of Statistics on Indian Economy, Report on Currency and Finance, State Finances: A Study of Budgets of State Governments, Macroeconomic and Monetary Developments, RBI Bulletin and Statistical Supplement.

Other Functions

The Department also undertakes the following functions:

- Coordinating with international institutions, such as, the IMF for the Article IV country consultations and supports work relating to G-20, periodic BIS meetings and SAARC Finance.
- Providing policy support to the Government and background material for the Economic Survey, Finance Minister's Budget Speech and Parliament questions.
- Undertaking estimation and forecasting of monetary and macroeconomic aggregates required for decision-making.
- Promoting research and exchange of views with outside experts on topical issues through seminars, collaborative studies and endowment schemes.
- Administering Research Chairs and Fellowships set up by the Reserve Bank in 17 Universities and research institutions, special financial grants for supporting specific research projects and publications.
- Organising three annual lectures in the memory of C.D. Deshmukh, L.K. Jha and P.R. Brahmananda. They are delivered by distinguished personalities in the areas of macroeconomics, banking and finance.
- Identifying and collecting data of historical value for writing the history of the Reserve Bank.

Department of Statistics and Information Management

The Department's mandate is to manage comprehensive statistical systems relating to monetary, banking, corporate and the external sector; conduct structured surveys and carry out specialised statistical analysis and forecasting.

The Department undertakes the following core activities:

(i) Collecting, processing, analysing, storing and disseminating data on banking, corporate and external sector. This includes:

- Compiling banking statistics relating to cash reserve ratio, money supply, deposits, credit, investments, international banking, annual accounts and other banking indicators of commercial banks.
- Providing primary inputs for compiling balance of payment (BoP), external debt and international investment position (IIP) under the IMF's Special Data Dissemination Standard.
- Providing data on India's private corporate business sector, assessing the investment climate, analysing corporate finances that form the basis for assessing linkages between corporate performance and monetary policy.

(ii) Designing and implementing regular sample surveys: (a) to generate forward looking indicators for monetary policy (e.g., industrial outlook, inflation expectations of households, order books, inventory and capacity utilisation, credit conditions, professional forecasters projections on major economic indicators), and ad hoc surveys on financial inclusion, customer services, etc. (b) to fill in data gaps in compilation of BoP and IIP and conducting surveys.

(iii) Developing methodologies for measurement, estimation and forecast of important macro-economic indicators, and improving the statistical system in various sectors of the economy.

(iv) Preparing estimates of saving and capital formation for private corporate business sector in India for National Accounts Statistics (NAS).

(v) Providing technical support to other departments for statistical analysis, information technology, large-scale data management, and related systems developments.

(vi) Coordinating statistical activities with national and international organisations, including the provision of electronic data dissemination platforms, through the Bank's Data Warehouse (<http://cdbms.rbi.org.in>) and Database on Indian Economy (<http://dbie.rbi.org.in>).

Customer Service Department

In July 2006, the Customer Service Department was created to consolidate customer service activities undertaken by various departments of the Reserve Bank.

Broadly, the activities of the Department are:

- Ensuring redressal of consumer grievances in banking services in an expeditious, fair and reasonable manner that will provide impetus to improved customer services in the banking sector on a continuous basis.
- Providing feedback and suggestions towards framing appropriate and timely guidelines for banks to improve the level of customer service and to strengthen their internal grievance redressal systems.
- Enhancing the awareness of the Banking Ombudsman Scheme (BO).

Banking Ombudsman Section monitors complaint redressal through the IT enabled Complaint Tracking System. It strives to make the Banking Ombudsman Scheme 2006 more customer friendly in areas, such as, mode of complaint receipt, disposal procedures, appeal provision and ownership. It prepares guidance manuals for updating knowledge and for ensuring consistency across BO offices. The section also handles appeals received against the decision of the BO.

Public Grievance Redressal Section handles complaints against banks as swiftly as possible from the public as well as from Members of Parliament.

Complaint Redressal Section (CRC) monitors the work of Complaint Redressal Cells in the Regional Offices. For this purpose, the Section collects monitoring returns like Citizens Charter- Quarterly Returns, reports on unofficial visits to banks conducted by ROs and monthly status of complaints received, disposed and pending. The CRC also monitors release of half-yearly advertisements by ROs on the first Sunday of January and July every year.

Right to Information Section processes all references received under the Right to Information Act and sends replies to the applicants.

Policy and Research Section evolves policies, in consultation with BCSBI and IBA, for ensuring transparency, fairness and reasonableness in bank services and their charges. It also prepares the Annual Report of the Banking Ombudsman Scheme to enhance awareness about it.

Department of Currency Management

The Department of Currency Management provides focused attention on the management of currency notes and coins. The mandated functions of the Department include those related to:

- Management of currency notes, such as, design, printing and timely supply of currency notes and withdrawal of currency notes and distribution of coins.
- Keeping circulation of counterfeit banknotes in check.
- Monitoring currency chests and availability of customer service to the public by facilitating exchange of notes and coins.

Under this mandate the Department undertakes the following functions:

- **Planning, Research and Development:** Evaluating the need for the introduction of new design banknotes and the security features that need to be incorporated in banknotes, assessing currency needs, (notes and coins) and ensuring adequate and timely supplies of notes and coins.
- **Resource and Remittance Operations:** Monitoring allotment of notes and coins among issue offices and logistics for their supply and overall resource operations.
- **Currency Chest Operations:** Formulating policy on the establishment of currency chests, and monitoring their operations.
- **Note Exchange Operations:** Attending to the policy regarding the exchange of soiled and mutilated notes and administration of the Reserve Bank of India (Note Refund) Rules through Reserve Bank of India Issue Offices and banks, and monitors customer service to the public in this regard.
- **Forged Notes Vigilance Operations:** Formulating policy on dealing with forged notes, compiling data and sharing information on cases of forged notes with central and state Government, and organising public awareness on the features of genuine currency notes.
- **Note Processing Operations:** Monitoring soiled notes accumulated at currency chests and their withdrawal and disposal through a mechanised and eco-friendly manner.
- **Security Related Operations:** Making policy with regard to security arrangements at issue offices and currency chests, treasure in transit as well as periodical reviews of security arrangements.

Department of Government and Bank Accounts

The Department of Government and Bank Accounts oversees the functions of the Reserve Bank as a Banker to government, including administering the public debt of the government, acts as banker to banks; and maintains the internal accounts of the Reserve Bank. It is also overseeing implementation of the Core Banking Solution in the Bank.

At the operational level the various functions are as follows:

- The Public Accounts Departments (PAD) receives money and makes payments at various Regional Offices on behalf of the government; a Central Accounts Section (CAS) at Nagpur maintains the principal government account, and the Public Debt Offices (PDO) at the Regional Offices provide depository services for government securities.
- The banker to banks function and maintaining the internal accounts of the Reserve Bank is delivered through the Deposit Accounts Department (DAD) at the Regional Offices.

The Department of Government and Bank Accounts formulates policy and issues operational instructions to the above departments:

- **Banker to Government:** The Central Accounts Section at Nagpur maintains interest free accounts, consolidates and maintains the final accounts of the government. When there is a shortfall in cash balances, the CAS provides temporary liquidity in the form of Ways and Means Advances (WMA). A RBI Remittance Facility Scheme provides a mechanism of funds transfer to banks and government departments.
- **Government Debt Administration:** The administration of public debt involves the accounting of government loans (market loans, small saving schemes, etc), management of floatation and redemption of debt, and recovery of floatation and management charges from the government.
- **Banker to Banks:** The Reserve Bank provides banks, financial institutions and international bodies the facility of non-interest bearing accounts they can use for inter-bank settlement, maintenance of statutory reserves and managing their funds position.
- **Maintenance of Internal Accounts:** The Department consolidates and maintains the internal accounts of the Reserve Bank. This includes, compiling weekly statements, preparing annual profit and loss statement and balance sheet of the Reserve Bank, as well as matters relating to statutory auditors.

Department of Payment and Settlement Systems

The Payment and Settlement Systems Act, 2007 empowers the Reserve Bank to regulate and supervise the payment and settlement systems in the country. The Reserve Bank has played an active developmental role both in setting up of new payment systems and in improving the safety and efficiency of existing ones (see Box 10).

The functions of the Department include:

- **Policy Formulation:** Framing policies and prescribing standards governing the operations, supervision and oversight of payment and settlement systems in the country, both for large value payment systems and retail payment systems for banking as well as non-banking entities.
- **Authorisation:** Issuing the required authorisation to all persons/entities who wish to set up and operate large value and retail payment systems. The process is clearly laid down and the concerned regulatory departments are consulted when considering applications for authorisation. The Real Time Gross Settlement (RTGS) System is an example of large value payment system. Retail payment systems include, cheque based system, electronic funds transfer National Electronic Fund Transfer (NEFT) / Electronic Clearing Service (ECS), credit/debit cards, prepaid cards, ATM networks, etc.
- **Monitoring and Supervision:** Monitoring and supervising entities authorised to operate payment systems through periodical reporting and on-site inspections. The Department also issues directives, both general and specific, to regulated entities and is empowered to lay down technical and operational standards for various payment systems and initiate penal action against entities violating the provisions of the Payment and Settlement Systems Act, 2007.

India is a member of the Committee on Payment and Settlement Systems (CPSS) of the Bank for International Settlements. The Department is actively associated with the working groups constituted by the CPSS for laying down standards with respect to various components of the payment and settlement systems. The Reserve Bank is also a member of the SAARC Payments Council (SPC).

Department of Administration and Personnel Management

The core functions of the Department of Administration and Personnel Management include:

- Implementing the Reserve Bank's policies about recruitment, placement, promotion, transfer and allotment of flats.
- Overseeing the conduct of employees and administering disciplinary actions as well as attending to cases involving misconduct of senior officers.
- Ensuring implementation of Central Vigilance Commission's instructions and guidelines and to maintain vigilance administration in the Reserve Bank.
- Framing policy and monitoring security arrangements in the Reserve Bank and providing necessary manpower for this purpose.
- Implementing guidelines regarding prevention and redressal of sexual harassment of women at workplaces. The Department provides the secretariat to the Central Complaints Committee.
- Coordinating, monitoring and disseminating information in accordance with the provisions of the Right to Information Act, 2005. The Department is the nodal point for all other Central Office Departments with regard to implementation of the provisions of the Right to Information Act, 2005 as applicable to the Reserve Bank.

Department of Communication

Communication is central to the functioning of central banks. The Reserve Bank's communication strategy has evolved over time and focuses on the following key elements:

- Transparency for strengthening accountability and credibility.
- Clarity on the Reserve Bank's role and responsibilities with regard to its multiple objectives.
- Managing expectations and promoting a two-way flow of information.
- Disseminating information, statistics and research.

The balance and mix of communication products is tailored to the target audiences. These include researchers, analysts, academics, media, regulated entities, other central banks, rating agencies, multilateral institutions, market participants, and Government agencies. It also includes the common person women, senior citizens, defence personnel, and school children.

Communication Tools

Engagement with the Media: This includes building relationships with print and broadcast media, issuing press releases; coordinating press conferences and interviews with RBI officials; organising conferences with senior editors; arranging training courses on central banking for the media.

RBI Website: The Department manages the RBI's external website, which is one of the main sources of information about the Reserve Bank for the public. The website hosts all press releases, circulars, statistics, speeches by senior management as well as publications.

Publications: The Department helps disseminate the Reserve Bank's main publications and staff studies through various channels. It also assists operational departments in editing, printing and publishing brochures and pamphlets.

Outreach to a Broader Group of Stakeholders: The Department assists and advises management in reaching out to other constituencies through briefings/presentations, teleconferences, and townhall meetings.

Financial Literacy

The Department plays a crucial role in the Reserve Bank's efforts towards financial literacy, including through assisting in developing educational material. A separate website for financial education has been created as part of the RBI's web portal, with information in English and Hindi and 11 regional languages.

Department of Expenditure and Budgetary Control

The task of the Department of Expenditure and Budgetary Control is to provide efficient and prompt services to present and past employees of the Reserve Bank in establishment-related payments, pension payments and funds-related payments, as well as maintenance of various Funds Accounts. It also manages the Integrated Establishment System, which is a package for effecting establishment-related payments to all the staff members.

The main functions of the Department include:

- Preparing the Reserve Bank's budget.
- Ensuring adherence to budget discipline through quarterly and monthly reviews.
- Administration of Expenditure Rules and Bank's Housing Loan Rules.
- Processing and disbursements of salary and other establishment related payments.
- Acting as Central Office for establishment related matters in RBI; and
- Management of various Funds, such as, the Provident Fund, Gratuity and Superannuation Fund.

Department of Information Technology

The Department of Information Technology is responsible for IT related services to the various functions of the Reserve Bank and the banking sector. It also gives broad policy guidelines in critical areas, such as, information security.

Broadly, the Department attends to:

- Activities related to broad policy formulation for IT Architecture in the Bank, Information Security and the implementation of these policies.
- Implementation of major IT projects and their management, such as, the RTGS, the Public Debt Office – Negotiated Dealing System/Securities Settlement System (PDO-NDS/SSS), Centralised Public Accounts Department System (CPADS), Structured Financial Messaging System (SFMS).
- Support services for IT systems for smooth operations of the application systems through Data Centres and management of Local Area Networks (LAN) etc.
- Monitoring progress of computerisation in banks.

The Department discharges these roles through its various divisions, namely, Policy and Operations Division, Information Technology Support Division, Networking Division and System Development and Support Division. The three state-of-the-art Data Centres have been operationalised and managed by the Department. All banking and non-banking applications are run from these data centres in a very secure and efficient way.

Human Resources Development Department

The vision of the Human Resources Development Department is essentially to help the Bank carry out its central banking activities. The mission of the Department is to create a facilitating environment to enhance the efficiency of the Bank; to empower the staff so as to draw out the latent potential; and to create conditions for a more wholesome quality of life on the work as well as personal front.

Functions of HRDD

- Evolve HR policies relating to recruitment, performance and appraisal system, placement, promotion and career progression, industrial relations, deputation / secondment, compensation policy, retirement and voluntary vacation, training establishments, mobility (transfer / rotation), remuneration and reward mechanism. The Department also sees to staff welfare, internal communication, organisational development, training and skills upgradation (policy and implementation, both) and medical facilities.
- Interface with other institutions, such as, the government and other central banks on HRD issues.
- Review the appraisal system on an ongoing basis in order to make it an effective tool for HRD policy management.
- Install and implement an effective counseling system.
- Design career and succession plans.
- Review and revitalise training functions.
- Summer Placement.
- Annual Young Scholar Awards Scheme.
- Formulate and administer the Staff Suggestion Scheme.
- Publication of House Journal, 'Without Reserve'.

Inspection Department

Inspection Department examines and evaluates the adequacy and reliability of existing systems and ensures that the work is carried out as per laws, regulations, internal policies, procedures and Central Office instructions.

Major Functions

- The Department prepares a Management Audit Report on the health of the auditee office highlighting areas, such as, management effectiveness, decision making process, communication process and other relevant aspects.
- The e-compliance monitoring and follow-up are done through an online Compliance Monitoring and Reporting System (COMORS). The compliance position of major findings of MASI Reports is monitored by the Executive Directors' Committee (EDC) and Inspection and Audit Sub-Committee (IASC) of the Central Board.
- The efficacy of the whole system is also ensured through Concurrent Audit and Control Self Assessment Audit systems, periodically reviewed through an off-site Audit Monitoring Arrangement and on-site snap audits of offices (ROs / CODs / TEs).
- The Department also provides support to other departments and coordinates with others for conducting technology audits and ISO / ISMS certification.

Legal Department

The main function of the Legal Department is to tender legal advice on matters referred to it by the various departments and offices of the Reserve Bank. These references involve interpretation of the Constitution of India, provisions of the Reserve Bank of India Act, 1934, Banking Regulation Act, 1949, Foreign Exchange Management Act, 1999, Government Securities Act, 2006, Payment and Settlement Systems Act, 2007 and various other statutes. The Department is also required to interpret the rules and regulations governing the Reserve Bank's staff and to deal with legal issues relating to industrial relations.

Other functions include:

- Drafting legislation, rules, regulations and statutory notifications related to banking and finance.
- Briefing the counsel appearing in courts on behalf of the Reserve Bank and drafts pleading.
- Attending to investigation of title of land for acquisition of premises for the Reserve Bank and handling the documentation relating to construction of buildings.
- Publishing an in-house Legal Journal (Quarterly) – 'Legal News and Views' dealing with developments in banking and other related laws.

Premises Department

The Premises Department's responsibility is to create and maintain premises-related infrastructure. The Department frames policies and guidelines on physical infrastructure, acquisition, maintenance, consolidation and disposal of office and residential space. It allocates capital budgets to Regional Offices and monitors high- value works/projects of Estate Departments across the country, keeping in mind ecological and environmental concerns.

The current thrust-areas of the Department are as follows:

- Promoting greater environmental consciousness, conserving resources like energy and water and auditing the use of these resources.
- Dead Stock management through integrated Estate Management Software system across offices.
- Rationalisation of Bank's properties.

Rajbhasha Department

The functions of the Rajbhasha Department include implementation of the official language policy of the Government of India, conducting developmental activities and translation.

The Department's activities are the following:

- Making policy for progressive use of Hindi as per Government guidelines and monitoring the progress through various means, such as, collecting data, preparing reviews, holding quarterly meetings of the official language Implementation Committee, submitting different reports to Government and Committee of Parliament and issuing instructions and guidelines for smooth implementation of the official language.
- Ensuring uniformity in translation through preparation of 'Banking Shabdavali' and 'Banking Paribhasha Kosh'. The department also publishes books in Hindi on banking subjects, and brings out the only Hindi magazine on banking – 'Banking Chintan Anuchintan'.
- Conducting training programmes and workshops for staff to enhance the use of Hindi in the internal working of the Reserve Bank. Celebrating Hindi Samaroh is also an important activity of the Department.
- Organising the Rajbhasha Shield competition for public sector banks and financial institutes as well as for the Reserve Bank's own offices and departments. The Department also conducts all India Hindi essay writing and House Journal competition for banks. The evaluation work on behalf of the Ministry of Home Affairs for the Indira Gandhi Shield for Rajbhasha for banks is also done by the Rajbhasha Department.
- Ensuring day to day translation of press releases and various documents, including that of statutory publications, such as, the Annual Report and Report on Trend and Progress of Banking in India.

Secretary's Department

The Department primarily deals with the governance issues of the Reserve Bank involving the constitution and functioning of the Central Board, its Committees and the Top Management. Some of the major functions of the Department are discussed below:

(i) Central Bank Governance

The Department assists Senior Management in the decision making process by providing secretarial and logistics support. This includes secretarial work connected with the seven meetings of the Central Board each year in the four metros and three other state capitals, by rotation, 46 weekly Committee meetings, annual meeting of the Administrators of the Reserve Bank of India Employees' Provident Fund, weekly meetings of the Top Management Group (TMG) and the weekly Deputy Governors' Committee meetings.

(ii) Top Management Services – Coordination with Government

The Department attends to the work relating to the joining, retirement and relinquishing of charge of the Governor and Deputy Governors; terms and conditions of their service; and constitution of the Central and Local Boards.

The Department also facilitates review and obtains the requisite approvals for the revision of the pay and allowances and facilities extended to the Governor and Deputy Governors from time to time, in consultation with the Central Board, its Committee and the Government of India.

(iii) International Relations and Protocol Services

The Department facilitates the visits and meetings of representatives of other central banks, governments and international agencies. It also provides requisite protocol support to the visitors.

(iv) Administrative and Staff Services

The Department is the administrative hub for five central office departments – IDMD, FMD, MPD, DoC and FSU and supports the maintenance of staff records.

(v) Local Board Cell

A Local Board Cell (LBC), set up in the Department, allows for two-way communication between the various Central Office Departments and the Local Boards.

15 Chronology of Important Events in the History of the Reserve Bank

Year	Events
1913	The Royal Commission on Indian Finance and Currency (Chamberlain Commission) underlined the need for a central bank for India.
1926	Hilton Young Commission recommended the establishment of a central bank in India, to be named as Reserve Bank of India.
January 1927	The government introduced "The Gold Standard and Reserve Bank of India" in the legislature.
March 1927	The Bill was referred to a Joint Committee to resolve some of the controversial clauses.
January 1928	Government of India published the "New Gold Standard and Reserve Bank Bill", as amended by the Joint Committee.
February 1929	Government clarified that it did not intend to bring the Reserve Bank Bill before the legislature in the near future.
1931	Report of the Indian Central Banking Enquiry Committee released, strongly recommending the establishment of the Reserve Bank.
March 1933	Report of the India Office Committee released, recommending establishment of Reserve Bank of India as a private shareholders' bank.
July 1933	London Committee, which was set up after the India Office Committee, adopted the 1928 Reserve Bank Bill as the basis and proposed certain amendments to the Bill.
September 1933	Reserve Bank of India Bill, drafted on the basis of London Committee recommendations, introduced in the Legislative Assembly.
December 1933	Reserve Bank of India Bill passed by the Assembly.
February 1934	Reserve Bank of India Bill was passed by the Council of States.
March 1934	Reserve Bank of India Bill received the assent of the Governor-General.
April 1935	The Reserve Bank of India was created as a private share holders' bank. Sir Osborne Smith was appointed the first Governor of the Reserve Bank of India.
July 1937	Sir James Braid Taylor assumed office of the Governor.
March 1937	The Reserve Bank acted as banker to the Government of Burma and was also responsible for note issue in Burma as per the Burma Monetary Arrangements Order.
January 1938	The Reserve Bank issued its own bank notes.
September 1939	Introduction of Exchange Controls in India under Defence of India Rules.
1939	Indian Bank Act to bring banks within the ambit of the Reserve Bank.
March 1940	The Reserve Bank's accounting year changed from January -December to July- June.
1940	The silver rupee replaced by the quaternary alloy rupee. One Rupee note reintroduced. This note had the status of a rupee coin and represented the introduction of official fiat money in India.
August 1943	Sir C. D. Deshmukh took over as Governor.
1944	The Public Debt Act passed by the Government enabled the consolidation of laws relating to Government securities and management of public debt by the Reserve Bank.

February 1945	Non-scheduled banks were allowed to open accounts with the Reserve Bank.
1945	Establishment of Department of Banking Operations and Development and Research and Statistics Department in the Reserve Bank.
January 1946	High Denomination Bank Notes of Rs 500, Rs 1,000 and Rs 10,000 were demonetised to curb unaccounted money.
1946	Interim arrangements for bank supervision were put in place by an ordinance.
March 1947	The Reserve Bank ceased to function as Central Bank of Burma.
1947	Foreign Exchange Regulation Act was passed.
1948	Industrial Finance Corporation of India was established on the recommendation of the Central Board of the Reserve Bank.
June 1948	The Reserve Bank ceased to function as Central Bank of Pakistan.
January 1949	The Reserve Bank was nationalised.
March 1949	Banking Companies Act, 1949 came into force, replacing the earlier interim arrangements. This formed the statutory basis of bank regulation and supervision in India.
July 1949	Sir Benegal Rama Rau assumed office as Governor.
September 1949	Devaluation of the Rupee by 30.5 per cent consequent on the identical devaluation of Pound Sterling.
April 1950	Foreign Exchange Regulation Act, 1949 came into force.
1952	The Reserve Bank launched a pioneering project of All India Rural Credit Survey.
September 1954	The Reserve Bank set up Bankers' Training College at Mumbai (earlier Bombay).
May 1955	The Imperial Bank was nationalised and renamed as State Bank of India with the Reserve Bank taking a 60 per cent stake in it.
1956	Introduction of selective credit controls.
October 1956	Introduction of decimal coinage.
1956	System of note issue was changed from proportional reserve system to minimum reserve system.
January 1957	Shri K.G. Ambegoankar was appointed as Governor.
March 1957	Shri HVR Iyengar appointed as Governor.
1961	Failure of two commercial banks, namely, Palai Central Bank Ltd (Kerala) and Lakshmi Bank (Maharashtra). This led to deliberations on the need for deposit insurance in India.
1962	Deposit Insurance Corporation came into existence.
March 1962	Shri P.C. Bhattacharya appointed as Governor.
July 1963	Agricultural Refinance Corporation was set up as a subsidiary of the Reserve Bank.
1963	Reserve Bank Staff Training College (RBSC) was established.
February 1964	Unit Trust of India came into existence with 50 per cent share holding by the Reserve Bank.
June 1964	Industrial Development Bank of India came into existence with the Reserve Bank wholly contributing the capital of Rs. 10 crore.
1966	Cooperative banks brought under the ambit of regulation of the Reserve Bank.
June 1966	Indian rupee was devalued by 36.5 per cent.

March 1966	Department of Financial Companies was established.
April 1967	The size of the bank notes was reduced.
July 1967	Shri L.K. Jha appointed as Governor.
April 1968	Demonetisation of quaternary coins.
May 1968	The Bill for setting up of the Agricultural Credit Corporation passed in Parliament.
December 1968	The Deposit Insurance Corporation (Amendment) Bill, 1968 came into force. All central, state and urban cooperative banks with paid-up capital of Rs 1 lakh or more were covered under the scheme.
1969	The government propounded the tenet of "Social Banking". This led to nationalisation of 14 commercial banks.
July 1969	The Banking Companies (Acquisition and Transfer of Undertakings) Ordinance 1969 promulgated.
September 1969	National Institute of Bank Management (NIBM) established at Mumbai which was subsequently shifted to Pune.
September 1969	Cooperative Bankers Training College was established at Pune.
May 1970	Shri B.N. Adarkar appointed as Governor.
June 1970	Shri S. Jagannathan appointed as Governor.
January 1971	Credit Guarantee Corporation of India was established.
December 1972	Basic Statistical Returns (BSR) Scheme introduced to collect banking statistics.
September 1973	The Foreign Exchange Regulation Act, 1947 was amended.
January 1974	Foreign Exchange Regulation Act, 1973 came into force. The Cooperative Bankers' Training College was renamed as College of Agricultural Banking.
1975	Exchange rate of Rupee was linked to the basket of currencies of major trading partners.
May 1975	Shri N. C. Sengupta was appointed as Governor.
August 1975	Shri K. R. Puri was appointed as Governor.
November 1975	Agricultural Refinance Corporation (ARC) was renamed as Agricultural Refinance and Development Corporation (ARDC).
February 1976	Regional Rural Banks Act, 1976 received assent of the President.
February 1976	Industrial Development Bank of India delinked from the Reserve Bank.
May 1977	Shri M. Narasimham was appointed as Governor.
December 1977	Dr. I.G. Patel was appointed as Governor.
January 1978	Demonetisation of high denomination notes (Rs 1,000, Rs 5,000 and Rs 10,000) effected.
July 1978	Deposit Insurance Corporation and Credit Guarantee Corporation of India Ltd. were merged and renamed as Deposit Insurance and Credit Guarantee Corporation (DICGC).
April 1979	Six more Indian scheduled commercial banks were nationalised.
July 1982	National Bank for Agriculture and Rural Development (NABARD) was set up.
September 1982	Dr. Manmohan Singh was appointed as Governor.
1984	MICR Clearing was introduced. Release of Sukhomoy Chakravarty Report on monetary measurement; Dr. C. Rangarajan (Deputy Governor) Committee Report on computerisation in banking system.

1985	The Reserve Bank celebrates its Golden Jubilee Year. The Honourable Prime Minister Rajiv Gandhi graced the inaugural function.
January 1985	Shri A. Ghosh was appointed as Governor.
February 1985	Shri R.N. Malhotra was appointed as Governor.
December 1987	Indira Gandhi Institute of Development and Research was set up.
April 1988	Discount and Finance House of India Ltd. was set up, marking the beginning of RBI's role in financial markets.
July 1988	National Housing Bank was set up under the National Housing Bank Act, 1987.
1990	Small Industries Development Bank of India was set up.
December 1990	Shri S. Venkitaramanan was appointed as Governor.
1991	Paradigm shift in economic management and the Reserve Bank steps in as the facilitator. Support to economic reforms, liberalisation, privatisation, and globalisation and contributory presence in world bodies.
July 1991	The value of the rupee was adjusted downwards in two stages, on July 1 and 3, 1991. Two-step downward adjustment of the rupee in terms of the intervention currency, pound sterling, worked out to 17.38 per cent. Thereafter, the rupee exchange rate was anchored on a rupee-US dollar rate close to Rs. 26 a dollar.
August 1991	A high-powered Committee on the Financial System (CFS) was constituted by the Government of India in August 1991 to examine all aspects relating to the structure, organisation, functions and procedures of the financial system (Chairman: Shri M. Narasimham).
November 1991	Committee on the Financial System submitted its report in November 1991, made wide-ranging recommendations, which formed the basis of financial sector reforms relating to banks, development financial institutions (DFIs) and the capital market in the years to come.
March 1992	A dual exchange rate system called Liberalised Exchange Rate Management System (LERMS) introduced. Forex management under deregulated regime led to a series of measures culminating in FEMA 1999.
December 1992	Dr. C. Rangarajan was appointed as Governor.
1993	Unified Exchange Rate was introduced.
August 1994	Rupee made convertible on the Current Account. India attained the status of Article VIII of the Articles of Agreement of the IMF.
September 1994	The Reserve Bank and the Government of India signed an agreement as per which automatic monetisation of the budget deficit through the issue of ad-hoc treasury bills would phase out over a period of three years.
November 1994	Board for Financial Supervision constituted as a Committee of the Central Board of Directors.
February 1995	Bharatiya Reserve Bank Note Mudran Limited established as a fully owned subsidiary of the Reserve Bank. It commenced printing of notes on June 1 and December 11, at Mysore and Salboni, respectively.
June 1995	Banking Ombudsman scheme for redressal of customer grievance against the banking sector introduced.
1996	The Reserve Bank becomes a member of the Bank for International Settlements.
July 1996	Institute for Development and Research in Banking Technology, Hyderabad was established by the Reserve Bank as an autonomous entity.

September 1996	The Reserve Bank's Web site became operational
April 1997	The Reserve Bank and the Government of India agreed to replace the system of ad-hoc Treasury Bills by Ways and Means Advances, ending automatic monetisation of fiscal deficits.
November 1997	Dr. Bimal Jalan was appointed as Governor.
April 1998	The framework for further strengthening the banking sector was provided by the Committee on Banking Sector Reforms (Chairman: Shri M. Narasimham)
December 1998	The Monetary Museum Web Site launched.
1999	"Clean Note Policy" introduced for better currency management.
December 1999	Foreign Exchange Management Act, 1999 replaced FERA, 1973.
June 2000	FEMA became operational.
April 2001	Clearing Corporation of India was established.
March 2002	Bharatiya Reserve Bank Note Mudran became private limited company.
September 2003	Dr. Y.V. Reddy was appointed as Governor.
February 2004	Market Stabilisation Scheme was launched.
November 2004	The Reserve Bank Monetary Museum was set up in Mumbai.
January 2006	Revamped Banking Ombudsman Scheme came into effect.
March 2006	Banking Codes and Standards Board of India constituted.
July 2006	Customer Service Department was set up at the Reserve Bank.
2008	Payment and Settlements System Act, 2007 came into force with effect from August 12, 2008. Cheque truncation was introduced in Delhi region as a pilot project.
September 2008	Dr. D. Subbarao was appointed as Governor.
December 2008	Incorporation of National Payment Corporation of India.
2008/9	RBI pursued an accommodative monetary policy beginning mid-September 2008 to mitigate the adverse impact of the global financial crisis on the economy.
April 2009	The Reserve Bank enters its Platinum Jubilee year.
July 2009	The Reserve Bank establishes a new department – Financial Stability Unit.
November 2009	The Reserve Bank purchased 200 mts of gold under IMF's limited gold sales programme.
2009/10	From October 2009, the RBI began the process of exit from the expansionary monetary policy.

Annual

a) Statutory

- i) Annual Report
- ii) Trend and Progress of Banking in India

b) Others

- i) A Profile of Banks
- ii) Annual Report on Banking Ombudsman Scheme, 2007-08
- iii) Basic Statistical Returns of Scheduled Commercial Banks in India
- iv) Branch Banking Statistics
- v) Directory of Commercial Bank Offices in India
- vi) Handbook of Monetary Statistics of India
- vii) Handbook of Statistics on Indian Economy
- viii) Manual on Financial and Banking Statistics
- ix) Report on Currency and Finance
- x) State Finances : A Study of Budgets
- xi) Statistical Tables Relating to Banks in India

Half-Yearly

- i) Report on Foreign Exchange Reserves

Quarterly

- i) Macroeconomic and Monetary Developments
- ii) Occasional Papers
- iii) Quarterly Statistics on Deposits and Credit of Scheduled Commercial Banks
- iv) Survey of Professional Forecasters
- v) Variation to Foreign Exchange Reserves in India: Sources, Arbitrage and Costs

Monthly

- i) Monetary and Credit Information Review
- ii) RBI Bulletin

Weekly

- i) Weekly Statistical Supplement

Other Important Publications

- Book on 'External Debt Management: Issues, Lessons and Preventive Measures'
- DRG Studies
- Handbook of Instructions-Basic Statistical Returns 1 and 2
- Handbook of Statistics on State Government Finances
- India's Financial Sector an Assessment Vol. I to VI 2009
- Mint Road Milestones - RBI at 75
- Payment Systems in India
- Perspectives on Central Banking – Governors Speak (1935 to 2010)
- RBI - Note Refund Rules
- RBI - Staff Studies
- Reports on Currency and Finance - Special Edition
- Reserve Bank of India: Functions and Working
- The Banking Ombudsman Scheme, 2002
- The Banking Ombudsman Scheme, 2006
- The Reserve Bank of India History 1935 - 1981 (3 Volumes)
- 50 Years of Central Banking - Governors Speak



List of Abbreviations

A	ADRs	American Depository Receipts	
	AFS	Available for Sale	
	ANBC	Adjusted Net Bank Credit	
	ARC	Agricultural Refinance Corporation	
	ARDC	Agricultural Refinance and Development Corporation	
B	ATM	Automated Teller Machine	
	BC	Business Correspondent	
	BCSBI	Banking Codes and Standards Board of India	
	BF	Business Facilitator	
	BFS	Board for Financial Supervision	
	BIS	Bank for International Settlements	
	BO	Banking Ombudsman	
	BoP	Balance of Payments	
	BPSS	Board for Regulation and Supervision of Payment and Settlement Systems	
	BRBNMPL	Bharatiya Reserve Bank Note Mudran Private Limited	
	BSR	Basic Statistical Returns	
	C	CAC	Current Account Convertibility
		CAMELS	Capital Adequacy, Asset Quality, Management, Earnings, Liquidity, Systems and Control
		CAS	Central Accounts Section
		CBS	Core Banking Solution
CCIL		Clearing Corporation of India Limited	
CCP		Central Counter Party	
CDSL		Central Depository Services Ltd	
CE of OBE		Credit Equivalent of Off-Balance Sheet Exposures	
CFMS		Centralised Funds Management System	
CFSP		Committee on Financial Sector Plan	
CMB		Cash Management Bill	
CPPAPS		Committee on Procedures and Performance Audit on Public Services	
CRAR		Capital to Risk-Weighted Assets Ratio	
CRR		Cash Reserve Ratio	
CSD		Customer Service Department	
CSF	Consolidated Sinking Fund		
CTS	Cheque Truncation System		

D	DAD	Deposit Accounts Department
	DBOD	Department of Banking Operations and Development
	DBS	Department of Banking Supervision
	DCC	District Consultative Committee
	DCCB	District Central Cooperative Bank
	DEAP	Department of Economic Analysis and Policy
	DICGC	Deposit Insurance and Credit Guarantee Corporation
	DNBS	Department of Non-Banking Supervision
	DPSS	Department of Payment and Settlement Systems
	DSIM	Department of Statistics and Information Management
E	EBT	Electronic Benefit Transfer
	ECBs	External Commercial Borrowings
	ECS	Electronic Clearing Service
	EEFC	Exchange Earners' Foreign Currency
F	EFT	Electronic Funds Transfer
	Exim Bank	Export Import Bank of India
	FCAC	Fuller Capital Account Convertibility
	FCAs	Foreign Currency Assets
	FCCB	Foreign Currency Convertible Bond
	FCEB	Foreign Currency Exchangeable Bond
	FCNR(B)	Foreign Currency Non-Resident (Banks)
	FDI	Foreign Direct Investment
	FEMA	Foreign Exchange Management Act
	FERA	Foreign Exchange Regulation Act
	FIIs	Foreign Institutional Investors
	FIMMDA	Fixed Income Money Market and Derivatives Association of India
	FLCCs	Financial Literacy and Credit Counseling Centres
	FMC	Financial Markets Committee
	FRAs	Forward Rate Agreements
	FRBM	Fiscal Responsibility and Budget Management
G	GDRs	Global Depository Receipts
	Gol	Government of India
	GRF	Guarantee Redemption Fund
	G-Sec	Government Securities
H	HFT	Held for Trading
	HPC on UCBS	High Power Committee on Urban Cooperative Banks

HSRS	High Speed Reader Sorter
HTM	Held-to-Maturity
HVC	High Value Clearing
IBA	Indian Banks' Association
I ICICI	Industrial Credit and Investment Corporation of India
ICT	Information and Communication Technology
IDBI	Industrial Development Bank of India
IDMD	Internal Debt Management Department
IDR	Indian Depository Receipt
IDRBT	Institute for Development and Research in Banking Technology
IGIDR	Indira Gandhi Institute of Development Research
IMF	International Monetary Fund
IPDIs	Innovative Perpetual Debt Instruments
IRS	Interest Rate Swap
J JV	Joint Venture
K KCC	Kisan Credit Card
KYC	Know Your Customer
L LAF	Liquidity Adjustment Facility
LERMS	Liberalised Exchange Rate Management System
LTCCI	Long Term Rural Cooperative Credit Institution
M MCX-SX	MCX Stock Exchange
MICR	Magnetic Ink Character Recognition
MPD	Monetary Policy Department
MSE	Micro and Small Enterprise
MSMED	Micro, Small and Medium Enterprises Development
MSS	Market Stabilisation Scheme
N NABARD	National Bank for Agriculture and Rural Development
NBFCs	Non-Banking Financial Companies
NBFC-D	Deposit taking NBFC
NBFC-ND	Non-deposit taking NBFC
NDS	Negotiated Dealing System
NDS - OM	Negotiated Dealing System – Order Matching
NDTL	Net Demand and Time Liability
NECS	National Electronic Clearing System
NEFT	National Electronic Funds Transfer
NER	North Eastern Region

NGO	Non-Government Organisation
NI Act	Negotiable Instruments Act
NIBM	National Institute of Bank Management
NoF	Net owned Funds
NPAs	Non-Performing Assets
NPCI	National Payments Corporation of India
NR(E)RA	Non-Resident (External) Rupee Account
NREGS	National Rural Employment Guarantee Scheme
NRI	Non-Resident Indian
NRO	Non-Resident Ordinary Account
NSDL	National Securities Depository Limited
O OMO	Open Market Operation
OSMOS	Off-Site Monitoring and Surveillance
OSS	Off-Site Surveillance
OTC	Over-the-Counter
P PACS	Primary Agricultural Credit Society
PAD	Public Accounts Department
PAN	Permanent Account Number
PCARDBs	Primary Cooperative Agriculture and Rural Development Banks
PDAI	Primary Dealers Association of India
PDO	Public Debt Office
PDO-NDS	Public Debt Office - Negotiated Dealing System
PDs	Primary Dealers
PIO	Person of Indian Origin
Q PSS Act	Payment and Settlement Systems Act
QD	Quarterly Discussion
R RBS	Risk Based Supervision
RBSC	Reserve Bank Staff College
RFC	Resident Foreign Currency Account
RFC(D)	Resident Foreign Currency (Domestic) Account
RIDF	Rural Infrastructure Development Fund
RRBs	Regional Rural Banks
RTGS	Real Time Gross Settlement
S SACPs	Special Agricultural Credit Plans
SBI	State Bank of India
SCARDBs	State Cooperative Agriculture and Rural Development Banks

	SDDS	Special Data Dissemination Standards
	SDR	Special Drawing Rights
	SEBI	Securities and Exchange Board of India
	SGL	Subsidiary General Ledger
	SHGs	Self-Help Groups
	SIPS	Systemically Important Payment System
	SLBC	State Level Bankers' Committee
	SLR	Statutory Liquidity Ratio
	SMEs	Small and Medium Enterprises
	SPMCIL	Security Printing and Minting Corporation of India Ltd.
	SSI	Small Scale Industries
	StCB	State Co-operative Bank
T	TAC	Technical Advisory Committee
	TAFcUBs	Task Force for Urban Co-operative Banks
	TBs	Treasury Bills
U	UCBs	Urban Cooperative Banks
	USD	United States Dollar
	UTI	Unit Trust of India
W	WI	When Issued
	WMA	Ways and Means Advances
	WOS	Wholly Owned Subsidiary
Z	ZTC	Zonal Training Centre

