

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1030
ANSWERED ON:30.07.2010
FUNCTIONS OF RBI QUESTION
Tewari Shri Manish

Will the Minister of FINANCE be pleased to state:

- (a) whether there are proposals to reform the Reserve Bank of India (RBI);
- (b) if so, the details thereof;
- (c) whether in today's economy the various functions performed by the RBI, mandated as they are by various acts of Parliament, are in conflict with each other;
- (d) if so, the details thereof and comments of the Government on each such conflict;
- (e) whether there are any other Central Banks in various countries around the world which discharge similar multifarious functions that are performed by the RBI; and
- (f) the details of mandate given by the Government to RBI as it sets out to represent India on the Financial Stability Board?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) & (b): No, Sir. There are no reform proposals as such. However, in the Union Budget Speech 2010-11, it has been announced the setting up of an agency called Financial Stability and Development Council (FSDC) to deal with financial stability and macro prudential supervision, inter-regulatory coordination and financial literacy and inclusion.

(c) & (d): The functions of the Reserve Bank of India (RBI) are derived from the provisions of various statutes, such as, the Reserve Bank of India Act, 1934, the Indian Coinage Act, 1906, the Banking Regulation Act, 1949, Securities Contract (Regulation) Act, 1956, the Foreign Exchange Management Act, 1999, the Government Securities Act, 2006, the Payment & Settlement Systems Act, 2007, the Credit Information Companies (Regulation) Act, 2005, etc. These statutes mandate RBI to perform various functions which, inter-alia, include monetary management of the country; management of foreign exchange and domestic debt of the Government; regulation and supervision of banks, financial institutions, non-banking finance companies, credit information companies; etc.

The objective of assigning these responsibilities to RBI is to have a co-ordinated approach towards orderly growth of banking and other financial services, strengthen financial system of the country, promote synchronized development and maintenance of foreign exchange market in the country and to facilitate external trade and payments, etc. Internationally, the role of central banks in each country has evolved in the context of the specific circumstances. The natural synergies inherent in the multiple functions provide RBI with an advantage in addressing the broader objectives of price stability, financial stability and operating the currency and credit system to the advantage of the country.

The balance of weight assigned to each objective keeps changing depending on the evolving developments and challenges relating to growth, inflation and financial stability. Given the scope for occasional trade-off between these objectives, through prioritization of the objectives at different points of time, the Reserve Bank strives to contribute to the multiple objectives.

There is no conflict of interest in the multiple responsibilities enjoined upon RBI. In fact, the natural synergies inherent in the multiple functions provide RBI with an inherent advantage in addressing the broader objectives of price stability, financial stability and 'operating the currency and credit system of the country to its advantage', as enshrined in the Act. However, as and when any such issue of conflict of interest come to the fore, appropriate remedial measure is taken to remove the conflict, depending upon the state of preparedness of the system.

(e): Internationally, the role of central banks in each country has been evolved in context of specific circumstances, but many of the central banks perform multiple functions, as the Reserve Bank of India. The Federal Reserve in the United States, for instance, operates under a multiple objective framework having duties for, inter alia, conducting the nation's monetary policy; supervising and regulating banking institutions; maintaining the stability of the financial system and containing systemic risk that may arise in financial markets; and operating the nation's payments system, etc.

(f): Broader financial stability is being recognized as one of the key objectives of macro policy and central banks as systemic regulators are being enjoined with greater responsibilities in this regard. In India, the multiple roles of the RBI already provide it with an

implicit mandate for financial stability.