

## Preface

With the publication of this volume, the history of the Reserve Bank of India has been brought forward to the end of 1981. Very few Central Banks have reached this far in the writing of their histories. The period beyond 1981 is so current that it is better to let some time pass before writing the history of that period.

Institutional histories are important; they show what role institutions have played in moulding the events of the day. They also show how effective and influential they have been. The history of the Reserve Bank of India, for example, is not just the history of an institution. It is part of the economic history of the country. As the apex institution of the financial system of the country, it has played and continues to play a critical role in steering the economy.

The first volume of the history of the Reserve Bank of India dealt with the formative years of the Bank, and the critical issues faced by the country and the Bank in the immediate post-independence period. The second volume dealt with the issues of economic development and management of the financial system in a period marked by several crises of shortages. The third volume covers a period that is marked not only by political and economic upheavals, but also by far-reaching changes in the financial system.

The 'defining event' of the period 1967-81 was nationalization of the major commercial banks. This is surrounded by much controversy. As the present volume has brought out, while the timing might have been political, the decision to nationalize banks was rooted in economic considerations that had been debated over a long time. This decision had a dramatic effect on the banking system which underwent a fundamental change in terms of orientation and operations. The functional and geographical coverage of the system that followed nationalization was truly impressive and unparalleled. In a significant way, sectors which had hitherto been neglected came under credit dispensation. Undoubtedly, it also had an effect on viability and

efficiency which showed up, in a stark way, only in the subsequent period. With the emergence of the government as the owner of the major banks, a system of 'dual control' over the banking system emerged. The Reserve Bank had to adjust itself to a new situation, creating sometimes doubts about who was calling the shots, even when there was a congruence of approaches.

This period was beset with many uncertainties. With two oil shocks and the breakdown of the original Bretton Woods system of exchange rates, the external environment was hardly conducive to growth. The Bangladesh war had its impact on the economy. Output growth, more particularly that of agricultural production, was erratic. The price situation went out of control in several years. At the same time, there was a felt compulsion to enlarge the size of the Plan, which, in turn, put pressure on the fiscal system. The Reserve Bank had to act in a situation when the demands of the fiscal system largely guided the course of monetary policy. While monetary policy in conjunction with other measures was actively used to control inflation when it reached alarmingly high levels, during the rest of the period it had to accommodate itself to the dictates of fiscal policy. Monetary management thus became a delicate balancing act between the compulsions of fiscal policy and price stability considerations. This dilemma was not, however, unique to the Reserve Bank of India. However, autonomy of the Central Bank was yet to become an issue to be debated in the open. The banking system operated under a regime of administered interest rates and credit allocation. This also had a bearing both on the scope and the instruments of credit control. These and other aspects of the management of the monetary and credit system constitute the key elements of the third volume.

History is not just a chronicle of events. It goes behind the events and tries to analyse how, by whom and in what circumstances decisions were taken. This is how the task has been broadly conceived in writing these volumes. It is also important that we judge the events in the context of the times in which they happened. It is always easy to be wiser in retrospect!

The eminent economic historian Dr S. Ambirajan was initially entrusted with the work of writing this third volume. He had a great vision that could not be fulfilled. After his sudden demise, Dr A. Vasudevan was given the task. He had literally to start from the scratch and had to design the pattern and content. Independently, Dr Batliwalla was in charge of writing on the issues relating to the external sector. The final task of editing and modifying the chapters fell to Shri T.C.A. Srinivasa Raghavan. Thus, the book bears the imprint of all the three. Besides, the members of the History Cell, initially under the leadership of Shri A.L. Verma and later Dr T.K. Chakrabarty, had

to put together the materials, cross-check and verify them, and present them in a coherent manner.

The members of the Advisory Committee offered critical comments on the chapters as they were being drafted. I must record my thanks to all those who have made it possible for this third volume to come out in this year when RBI is celebrating the completion of 70 years.

Finally, let me thank Dr Bimal Jalan who asked me to chair the Advisory Committee, Dr Y.V. Reddy, the present Governor, and Dr Rakesh Mohan, Deputy Governor, for their continuous support and advice.

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