

## **Central Banking in India: Retrospect and Prospects\***

**Y.V. Reddy**

Dear Friends,

It is my privilege and great honour to be invited to deliver Kale Memorial Lecture. Shri RR Kale has done great service to the country by founding the Gokhale Institute of Politics and Economics in 1930. The Institute is a product of his vision, foresight and generosity. It is not a mere research or academic institution believing in excellence in scholarship. It is much more than that. It stands for service, courage and dedication to social and ethical values that are cherished in India. I have known and worked with some of its products. They believe in simplicity in personal lives also. I take this opportunity to pay a tribute to the founder, and to the institution.

There are several reasons for selecting the subject for today's lecture. Many Kale Memorial Lectures in the past related to central banking, and one of them is by Dr. C D Deshmukh in 1948 on "Central Banking in India – A Retrospect". It was delivered in the backdrop of differences between Government and RBI on nationalisation of Reserve Bank. I want to revisit the subject to trace developments since then and explore emerging issues, with special reference to current context.

### **Current Context**

The issue of governance in central banking is being widely debated globally. U.S. President Donald Trump has criticised the Federal Reserve for raising interest rates. European Central Bank president Mario Draghi recently raised the issue of the threat to central banks' independence from governments stating that the "ECB mandate does not involve financing government's deficit". President Erdogan accused the Central Bank of a "traitorous" reluctance to lower interest rates. In India, tensions between Government and the Reserve Bank of India (RBI) in the

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Y.V. Reddy, Former Governor, Reserve Bank of India, Plot No. 13, Ashwini Layout, Film Nagar P.O. Road, 70, Jubilee Hills, Hyderabad 500097, Telangana, Email: office.dryvr@gmail.com

Text of Rao Bahadur R.R. Kale Memorial Lecture delivered at the Gokhale Institute of Politics and Economics, Pune, on February 8, 2019.

\*First published in *Economic and Political Weekly*, 30<sup>th</sup> March 2019, Vol LIV, No. 13, pp. 35-90.

Acknowledgements are due to Indirani Rao, Padmanabhan, Premchand, Rammanohar Reddy, Srinivasa Raghavan and Usha Thorat, for inputs and comments.