Weekly EBook for RBI Grade B 2023 (22-28 May)

Indian Economic History

A general understanding of India' economic history will help you how various schemes evolved in Indian economy. The history gives us the base to how to proceed for future development of the economy.
The Indian economy history dwells on the Five year plans. The Idea of Planning **as a process of rebuilding the economy** gained prominence in the 1940s-50s

What is a Five Year plan?
The Government of India prepares a document with **all its income and expenditure** for five years.

Here the list of Five year plans:
1st Five Year Plan: 1951- 1956
- It was based on the Harrod-Domar model with a adaptation for Indian economy.
- Objective : the agricultural development of the country.
- This plan was successful and achieved a growth rate of 3.6% ,more than its target of 2.1%.
- At the end of this plan, five IITs were set up in the country.
- It mainly addressed the **agrarian sector, including investment in dams and irrigation.** Ex- huge allocations were made for **Bhakhra Nangal Dam**.

2nd Five Year plan: 1956-1961
- It was based on the **P.C. Mahalanobis** Model made in the year 1953.
- Objective:The industrial development of the country.
- The government imposed tariffs on imports to protect domestic industries under this plan.
- This plan lags behind its target growth rate of 4.5% and achieved a growth rate of 4.27%.
- However, this plan was criticized by many experts and as a result, India faced a payment crisis in the year 1957.
- Note : PC Mahalanobis: father of Indian statistics

3rd Five Year Plan: 1961-1966
- This plan is also called 'Gadgil Yojna', after the Deputy Chairman of Planning Commission D.R. Gadgil.
- Objective : To make the economy independent. The stress was laid on agriculture and the improvement in the production of wheat.
- During the execution of this plan, India was engaged in two wars:

(1) Sino-India war of 1962
(2) Indo-Pakistani war of 1965.
These wars exposed the weakness in our economy and shifted the focus to the defence industry, the Indian Army, and the stabilization of the price (India witnessed inflation).
- The plan was a flop due to wars and drought. The target growth was 5.6% while the achieved growth was 2.4%.

Plan Holidays:1966-1969

- Due to the failure of the previous plan, the government announced three annual plans called Plan Holidays.
- The main reason behind the plan holidays was the 1965 Indo-Pakistani war and the 1962 Sino-India war, leading to the failure of the third Five Year Plan.
- During this plan, annual plans were made and equal priority was given to agriculture its allied sectors and the industry sector.
- In a bid to increase the exports in the country, the government declared devaluation of the rupee.

4th Five Year Plan:1969-1974

- Two objectives : growth with stability and progressive achievement of self-reliance, Based on **Gadgil Formula**,
- 14 major Indian banks were nationalized.
- Green Revolution was started.
- Indo-Pakistani War of 1971 and the Bangladesh Liberation War took place.
- Implementation of Family Planning Programmes was amongst major targets of the Plan
- his plan failed and could achieve a growth rate of 3.3% only against the target of 5.7%.

5th Five Year Plan:1974-1978

- This plan focussed on Garibi Hatao, employment, justice, agricultural production and defence.
- The Electricity Supply Act was amended in 1975, a Twenty-point program was launched in 1975, the Minimum Needs Programme (MNP) made by D.P. Dhar and the Indian National Highway System was introduced.
- Overall this plan was successful which achieved a growth of 4.8% against the target of 4.4%.
- This plan was terminated in 1978

Note: The termination of five year plan and bringing rolling plan shows the change in government and unstability of democratic setup in India. Student needs to correlate the economic history with the political history of India for better understanding

Rolling Plan: 1978-1990

- After the termination of the 5th Five Year Plan, the Rolling Plan came into effect
- In 1980, Congress rejected the Rolling Plan and a new 6th Five Year Plan was introduced.
- Three plans were introduced under the Rolling plan:

  (1) For the budget of the present year

  (2) this plan was for a fixed number of years– 3,4 or 5

  (3) Perspective plan for long terms– 10, 15 or 20 years.

This structure will be seen in planning by Niti Aayog as well

- The plan has several advantages as the targets could be mended and projects, allocations, etc. were variable to the country's economy. This means that if the targets can be amended each year, it would be difficult to achieve the targets and will result in destabilization in the Indian economy.

6th Five Year Plan:1980-1985

- Basic objective : economic liberalization by eradicating poverty and achieving technological self-reliance.
- It was based on investment Yojna, infrastructural changing, and trend to the growth model.
- NABARD was established
- Its growth target was 5.2% but it achieved a 5.7% growth.

7th Five Year Plan: 1985-1990

- Objective :The establishment of a self-sufficient economy, opportunities for productive employment, and up-gradation of technology.
- The Plan aimed at accelerating food grain production, increasing employment opportunities & raising productivity with a focus on 'food, work & productivity
- For the first time, the private sector got priority over the public sector.
- Growth target was 5.0% but it achieved 6.01%.

2 Annual Plans: 1990-91& 1991-92

- Eighth Five Year Plan could not take place due to the volatile political situation at the centre. To accommodate that situation 2 annual plans were formed

8th Five Year Plan: 1992-1997

- Objective: development of human resources i.e. employment, education, and public health.
- During this plan, Goverment launched the New Economic Policy of India.
- Some of the main economic outcomes during the eighth plan period were rapid economic growth (highest annual growth rate so far – 6.8 %), high growth of agriculture and allied sector, and manufacturing sector, growth in exports and imports, improvement in trade and current account deficit. A high growth rate was achieved even though the share of the public sector in total investment had declined considerably to about 34 %
- This plan was successful and got an annual growth rate of 6.8% against the target of 5.6%.
- India became a member of the **World Trade Organisation** on 1 January 1995.

9th Five Year Plan: 1997 - 2002

- The main focus of this plan was "Growth with Social Justice and Equality".
- It was launched in the 50th year of independence of India.
- This plan failed to achieve the growth target of 6.5% and achieved a growth rate of 5.6%.

10th Five Year Plan: 2002 - 2007

- This plan aimed to double the Per Capita Income of India in the next 10 years.
- It also aimed to reduce the poverty ratio to 15% by 2012.
- Its growth target was 8.0% but it achieved only 7.6%.

11th Five Year Plan: 2007-2012

- It was prepared by the C. Rangarajan.
- Its main theme was "rapid and more inclusive growth".
- It achieved a growth rate of 8% against a target of 9% growth.

12th Five Year Plan: 2012-2017

- Main theme is "Faster, More Inclusive and Sustainable Growth".
- Its growth rate target was 8%.

The five year planning had certain issues which reflected that for a country as diverse and big as India, centralised planning could not work beyond a point because its one-size-fits-all approach. Therefore, the NDA government dissolved the Planning Commission which was replaced by the Niti Aayog Thus, there is no 13th Five Year Plan, however, the five-year defense plan was made.

The present structure of planning in India:

The NITI Aayog was formed on January 1, 2015. In Sanskrit, the word "NITI" means morality, behaviour, guidance, etc. But, in the present context, it means policy and the NITI stands for **"National Institution for Transforming India"**.

NITI Aayog is developing itself as a state-of-the-art resource centre with the necessary knowledge and skills that will enable it to act with speed, promote research and innovation, provide strategic policy vision for the government, and deal with contingent issues. It is supported by an attached office, Development Monitoring and Evaluation Organisation (DMEO), a flagship initiative, Atal Innovation Mission (AIM) and an autonomous body, National Institute of Labour Economics Research and Development (NILERD).

It is the country's premier policy-making institution that is expected to bolster the economic growth of the country. It aims to construct a strong state that will help to create a dynamic and strong nation. This helps India to emerge as a major economy in the world. The NITI Aayog's creation has two hubs called **"Team India Hub"** and "**Knowledge and Innovation Hub"**.

1. Team India: It leads to the participation of Indian states with the central government.
2. The Knowledge and Innovation Hub: it builds the institution's think tank capabilities.

It is important to note that the documents of the NITI Aayog have no financial role. They are only policy guide maps for the government.

MCQ for Practice

Q1. Arrange the models used in reverse chronological order:

1. Gadgil Model
2. Mahanoblis model
3. Harrod model

(a) 1,2,3
(b) 3,2,1
(c) 1,3,2
(d) 2,3,1
(e) 3,1,2

Ans.(a)

Q2. Which Five Year plan was in operation when Indian celebrated its 50th independence day?
(a) 7th
(b) 8th
(c) 9th
(d) 10th
(e) None
Ans.(c)

Q3. In which FYP Garibi Hatao Program was launched?
(a) 5th
(b) 7th
(c) 8th
(d) 9th
(e) 10th
Ans.(a)

Q4. Consider the following statements about NITI Aayog, choose the correct statement
1. 1.IT was established in 2015
2. It is a statutory body
3. The NITI Aayog's creation has two hubs called **"Team India Hub"** and "**Knowledge and Innovation Hub"**.

(a) 1,2,3
(b) 1,3
(c) 2,3
(d) 3
(e) None
Ans.(b)

INTRODUCTION TO RBI

Introduction:

Reserve Bank of India is the central bank of India. The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the **Reserve Bank of India Act, 1934**.The Central Office of the Reserve Bank was initially established in Kolkata but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

Origin of Reserve Bank of India:

In 1926 **Royal Commission on Indian Currency and Finance /Hilton-Young Commission** recommended creation of a central bank for India. RBI Act 1934 was introduced which later established RBI. In the beginning it was a private stakeholders' bank. In 1949 it was nationalized to create coordination between the policies of the government and those of the central bank.RBI is also called Mint Street.

Preamble of Reserve Bank of India.

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

"to regulate the issue of Bank notes and 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; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth."

The Preamble of Reserve Bank of India tells us what are the functions of RBI. So in short the preamble is the origin of functions done by Reserve Bank of India

1. To regulate and issue of Bank notes:
2. To maintain forex reserve of India
3. Monetary policy of India
4. To maintain inflation in the Indian Economy.

Central Board of Reserve Bank of India

The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India in keeping with the Reserve Bank of India Act. There are 21 members in the central board. The tenure of Appointed/ nominated members is of 4 years, rest those who work in the central bank are on the job tenure.

- Constitution: There are official and non-official directors.
    - **Official Directors**
        - Full-time: Governor and not more than four Deputy Governors
    - **Non-Official Directors**
        - Nominated by Government: ten Directors from various fields and two government Official.
        - Others: four Directors - one each from four local boards

The present Official Directors are:

RBI Governor: Shakti Kant Das. He is a former IAS. He succeeded Urjit Patel. RBI governor is appointed by the **Prime Minister's Office (PMO) on the recommendation of the union finance minister** as per Section 8(1)(a) of the Reserve Bank of India Act, 1934.

Deputy Governors: Mahesh Kumar Jain, M.D. Patra, M Rajeshwar Rao, T Rabi Sankar

The non-official directors appointments can be learnt when they are in current affairs.

Subsidiaries of RBI

Deposit Insurance and Credit Guarantee Corporation (DICGC)

Earlier there were two separate entities- Deposit Insurance Corporation and Credit Guarantee Corporation. In 1978 they were merged and DICGC was formed. It is a wholly owned subsidiary of RBI. The name of Deposit Insurance Act, 1961 was changed to 'Deposit Insurance and Credit GuaranteeCorporation Act, 1961 '. Functions of DICGC are governed by provisions of this act. The main function of DICGC is to protect depositors money in case of bank run.

Banks covered by DICGC:

Commercial Banks : All commercial banks including branches of foreign banks functioning in India, local area banks and regional rural banks are insured by the DICGC.

Cooperative Banks : All State, Central and Primary cooperative banks, also called urban cooperative banks, functioning in States / Union Territories which have amended the local Cooperative Societies Act empowering the Reserve Bank of India (RBI) to order the Registrar of Cooperative Societies of the State / Union Territory to wind up a cooperative bank or to supersede its committee of management and requiring the Registrar not to take any action regarding winding up, amalgamation or reconstruction of a co-operative bank without prior sanction in writing from the RBI are covered under the Deposit Insurance Scheme. At present all co-operative banks are covered by the DICGC.

Primary cooperative societies are not insured by the DICGC.

Insurance coverage: 5 lakh rupees. The Act empowers the Corporation to raise this limit with prior approval of Central Govt.

Types of Deposits Covered:

It covers all deposits (such as savings, fixed, current, and recurring deposits) with eligible banks except:

- Deposits of foreign govts Deposits of Central / State governments Inter-Bank deposits
- Deposits of the State Land Development Banks with the State co-operative bankAny amount due on account of any deposit received outside India
- Any amount which has been specifically exempted by the corporation with previous approval of the RBI

Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL)

BRBNMPL is wholly owned by RBI established on 3rd Feb 1995. It is registered as a Private Limited Company under Companies Act, 1956.

Aim: To augment the production of bank notes in India and bridging of the gap between supply and demand forbank notes in the country.

The company manages two Presses, one at Mysore in Karnataka and the other at Salboni in West Bengal. It supplies major portion of bank note requirement in the country. Remaining money supply is supplied by Security Printing and MintingCorporation of India Limited (SPMCIL), a PSU wholly owned by Government of India.

Reserve Bank Information Technology Private Limited (ReBIT)

It was established in 2016 with following objectives:

1. Managing IT projects of RBI
2. Assisting RBI in supervision of regulated entities
3. Improving cyber resilience of banking sector through collaboration with key stakeholders
4. Safeguarding RBI assets by detecting and responding to cyber-threats

Indian Financial Technology and Allied Services (IFTAS)

It is a wholly owned subsidiary of RBI, mandated to design and deploy IT related services to RBI, and all Banks andFinancial Institutions in the country.Facilitates smooth functioning of banks by supporting them to innovate.

Services of IFTAS:

Indian Financial Network (INFINET) is the underlying closed user group Payment System network connecting India's financial institutions. Structured Financial Messaging System (SFMS) serves as the backbone Messaging platform and the Indian standard for inter-bank Financial Messaging for Centralized Payment system viz. National Electronic Fund Transfer (NEFT) and Real-Time Gross Settlement (RTGS). IFTAS is also the service provider for NEFT application.

Global Interchange for Financial Transactions (GIFT), is an integrated Payment & Settlement system that has been created by IFTAS to provide straight-through processing (STP) inter-bank transactions, supporting batched, gross & bulk settlement modes. GIFT is intuitively designed to improve operational efficiency of a country's payment system.

How RBI Works

How RBI works?
There are two boards which one needs to understand in detail to understand the functioning of Reserve Bank of India.
1. Board for Financial Supervision
2. Board for Payment and Settlement Systems

Board for Financial Supervision
The Reserve Bank of India performs the supervisory function under the guidance of the Board for Financial Supervision (BFS). The Board was constituted in November 1994 as a committee of the Central Board of Directors of the Reserve Bank of India under the Reserve Bank of India (Board for Financial Supervision) Regulations, 1994.

Objective
The primary objective of BFS is to undertake consolidated supervision of the financial sector comprising Scheduled Commercial and Co-operative Banks, All India Financial Institutions, Local Area Banks, Small Finance Banks, Payments Banks, Credit Information Companies, Non-Banking Finance Companies and Primary Dealers.

Constitution
The Board is constituted by co-opting four Directors from the Central Board as Members and is chaired by the Governor. The Deputy Governors of the Reserve Bank are ex-officio members. One Deputy Governor, traditionally, the Deputy Governor in charge of supervision, is nominated as the Vice-Chairman of the Board.
In April 2018, a Sub-committee of the Board for Financial Supervision was constituted, under Para 11 & 12 of the Reserve Bank of India (Board for Financial Supervision) Regulations, 1994. The Sub-committee performs the functions and exercises the powers of supervision and inspection under the Reserve Bank of India Act, 1934 and the Banking Regulation Act, 1949, in relation to Payments Banks, Small Finance Banks, Local Area Banks, small Foreign Banks, select scheduled Urban Co-operative Banks, select Non-Banking Financial Companies and Credit Information Companies. The Sub-committee is chaired by the Deputy Governor in charge of supervision and includes the three Deputy Governors and two Directors of the Central Board as Members.

Board for Payment and Settlement Systems
The Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), a sub-committee of the Central Board of the Reserve Bank of India is the highest policy making body on payment systems in the country. The BPSS is empowered for authorising, prescribing policies and setting standards for regulating and supervising all the payment and settlement systems in the country. The Department of Payment and Settlement Systems of the Reserve Bank of India serves as the Secretariat to the Board and executes its directions. It is headed by the RBI Governor.

Legal Framework
I. Acts administered by Reserve Bank of India and their important sections:
- **Reserve Bank of India Act, 1934**
  - Section 3: Establishment and incorporation of Reserve Bank.
  - Section 4: Capital of the RBI.
  - Section 6: Establishment of Offices, branches and agencies
  - Section 8: Composition of the Central Board, and term of office of Directors
  - Section 17: The business that RBI can transact

- Section 17(5) : way and means advances
    - Section 20: Obligation of the RBI to transact Government business.
    - Section 21: RBI to have the right to transact Government business in India.
    - Section 21A: RBI to transact Government business of States on agreement.
    - Section 22: Right to issue bank notes.
    - Section 24: Denominations of notes.
    - Section 27: Re-issue of notes.
    - Section 26 (1): Defines legal tender of notes
    - Section 26(2): Withdrawal of legal tender of notes
    - Section 42: Cash reserves of scheduled banks to be kept with the Bank.
    - Section 45(U): Defines repo, reverse repo, derivative, money market instruments and securities.
    - Section45(W): Regulations of derivatives and money market
- Public Debt Act, 1944/**Government Securities Act, 2006**
- **Government Securities Regulations, 2007**
- **Banking Regulation Act, 1949**
    - Section 5(1)b: Banking Definition
    - Section 8: Prohibition on trading
    - Section 16: Prohibition of common directors
    - Section 17: Reserve Fund
    - Section 18: Cash reserve
    - Section 35A: Power of the Reserve Bank to give directions
    - Section 35AA: Power of Central Government to authorize Reserve Bank for issuing directions to banking companies to initiate the insolvency resolution process
    - Section 35AB: Power of Reserve Bank to issue directions in respect of stressed assets
    - Section 36AA Power of Reserve Bank to remove managerial and other persons from office
    - Section 36AB Power of Reserve Bank to appoint additional directors
    - Section 36AE Power of Central Government to acquire undertakings of banking
    - companies in certain cases
    - Section 36AF Power of the Central Government to make scheme
    - Section 45ZE Release of contents of safety lockers
- **Foreign Exchange Management Act, 1999**
  In terms of Section 10(1) of the FEMA, 1999 Reserve Bank is empowered to **authorise any person to be known as authorised person to deal in foreign exchange as an authorised dealer or money changer**.
- Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
- Credit Information Companies(Regulation) Act, 2005
- **Payment and Settlement Systems Act, 2007**
    - **Payment and Settlement Systems Act, 2007 As Amended up to 2019**
    - **Payment and Settlement Systems Regulations, 2008 As Amended up to 2022**
- Factoring Regulation Act, 2011

II. Other relevant Acts

- Negotiable Instruments Act, 1881
- Bankers' Books Evidence Act, 1891
- State Bank of India Act, 1955
- Companies Act, 1956/ Companies Act, 2013
- Securities Contract (Regulation) Act, 1956
- State Bank of India Subsidiary Banks) Act, 1959
- Deposit Insurance and Credit Guarantee Corporation Act, 1961

- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1970
- Regional Rural Banks Act, 1976
- Banking Companies (Acquisition and Transfer of Undertakings) Act, 1980
- National Bank for Agriculture and Rural Development Act, 1981
- National Housing Bank Act, 1987
- Recovery of Debts Due to Banks and Financial Institutions Act, 1993
- Competition Act, 2002
- Indian **Coinage Act, 2011** : Governs currency and coins
- Banking Secrecy Act
- The Industrial Development Bank (Transfer of Undertaking and Repeal) Act, 2003
- The Industrial Finance Corporation (Transfer of Undertaking and Repeal) Act, 1993