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A Study on RBI Reforms in Indian Banking Sector before and after Raghuram Rajan Era

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***Abstract:** This study examines the details of RBI reforms in Indian Banking sector before and after Raghuram rajan Era. The primary objective behind this move is to achieve growth at the strategic level in terms of size and client base. The study intended to determine the RBI reforms in India during and after the Raghuram rajan. To express the reforms that took place in the banking sector before and after Raghuram rajan took the in-charge ship of RBI governor. To evaluate the impact of reforms on the economy with the help of few selected parameters such as Inflation, GDP, Per-capita Income, Exports & imports, Changes in the lending rates among the bankers and exchange market. This analysis has been shown with the help of Bar diagrams. Data was collected from secondary sources such as websites, articles and merger reports. The study shows that the details of RBI reforms in Indian Banking sector before and after Raghuram rajan Era.*

I. INTRODUCTION

A. *RBI Reforms*

The financial development was given impetus with the adoption of social control over banks in 1967 and subsequently Nationalzation of 14 major scheduled banks in July 1969. Since then the banking system has formed the core of the Indian financial system. In the three decades following the first round of nationalization (the second round consisted of 6 commercial banks in April, 1980), aggregate deposits of scheduled commercial banks have increased at a compound annual average growth rate of 17.8 per cent during this period (1969 to1999), while bank credit expanded at the rate of 16.3 per cent per annum.

B. *Scope of the Study*

The present study is restricted to banking sector reforms before and after Raghuram rajan. The study focuses on the banking sector as a whole. As the reforms are a general initiative for all banks to follow, the study is a macro perspective research. The study also looks from a macro level at the economy of India as the effects of the reforms are being checked on it.

The Banking Sector Reform Committee further suggested that existence of a healthy competition between public sector banks and private sector banks was essential. The report envisaged flow of capital to meet higher and unspecified levels of capital adequacy and reduction of targeted credit. The government focused through reform process on enhancing the role of market forces by making sharp reduction in pre-emption through reserve requirement, market determined pricing for government securities, disbanding of administered interest rates with a few exceptions and enhanced transparency and disclosure norms to facilitate market discipline; introduction of pure inter-bank call money market, auction-based repos-reverse repos for short-term liquidity management, facilitation of improved payments and settlement mechanism, and requirement of significant advancement in dematerialization and markets for securitized assets are being developed.

C. *Objectives Of The Study*

1) To observe the RBI reforms in India during and after the Raghuram rajan.
2) To express the reforms that took place in the banking sector before and after Raghuram rajan took the in charge ship of RBI governor.
3) To evaluate the impact of reforms on the economy with the help of few selected parameters such as
a) Inflation
b) GDP
c) Per-capita Income,
d) Exports & imports,
e) Changes in the lending rates among the bankers and exchange market.

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II. RESEARCH METHODOLOGY

The term research methodology can be defined as a process used to collect data and information for the purpose of making business decisions. The methodology may include publication RBI website, newspaper, articles in journals and others. The type of data that is used in the study is stated here. For this study, we have relied totally on research papers and various articles, thus the type of data used here is secondary data.

A. *Shaktikanta Das*

1) Born on 26th February 1957 is an Indian economist. is a retired 1980 batch Indian Administrative Service (IAS) officer of Tamil Nadu cadre
2) He was earlier a member of the Fifteenth Finance Commission and India's Sherpa to the G20.
3) He was the 25th Governor of the Reserve Bank of India
4) Das was appointed Governor of the Reserve Bank of India by the ACC on 11 December 2018 for a period of three years, replacing Urjit Patel who had resigned the day before¨
5) It was announced that Das would take over as the Governor of the Reserve Bank of India for a term of 3 years.
6) Das was appointed Union Revenue Secretary by the prime minister-led-Appointments Committee of the Cabinet (ACC) in June 2014,
7) He assumed the office of Secretary on 16 June 2014, and demitted it on 31 August 2015.Das (right) with Minister of Finance Arun Jaitley (centre) and the president of Confederation of Indian Industry Naushad Forbes (left)

B. *Raghuram Rajan*

1) Born on 3 February 1963 is an Indian economist.
2) He was the 23rd Governor of the Reserve Bank of India between September 2013 and September 2016.
3) Rajan was the Chief Economist and Director of Research at the International Monetary Fund.
4) It was announced that Rajan would take over as the Governor of the Reserve Bank of India for a term of 3 years.

Financial Reforms Before And After Raghuram Rajan

a) *Interest Rate:* When Rajan took office, repo rate stood at 7.5 per cent, which then rise to 8 per cent in January 2014. Post-January 2015, repo rate has been slashed by 1.5 per cent to 6.5 per cent.
b) *Equity Markets:* The BSE Sen sex rise 51 per cent even since Rajan took office through August 8, 2016. The NSE Nifty50 has gained 60 per cent in the same period.
c) *Inflation:* The price of inflation rate was around 10% in 2013. Today, it is around 6%.
d) *Foreign Exchange:* The rupee fell drastically during Rajan's tenure. One of his first major initiatives was aimed at increasing forex inflows, stabilizing the rupee.

C. *D. Subbarao*

1) Born on 11 August 1949 is an Indian economist and central banker.
2) He was the 22rd Governor of the Reserve Bank of India between 5th September 2008 and 8th September 2013.
3) Dr. D. Subbarao is a 1972 batch Indian Administrative Service (IAS) officer of Andhra Pradesh .
4) It was announced that D. Subbarao would take over as the Governor of the Reserve Bank of India for a term of 5 years.

Financial reforms of rbi at the period of dr.d. Subbarao (2008-2013)

a) *Interest Rate:* Interest rate was recorded at 7.25 %. interest rate is reported by the. reserve bank of India. Interest rate averaged 6.58 % from 2000 until 2013, reaching an all-time high of 14.50 % in august of 2000 and a record low of 4.25 % in April of 2009. in India, interest rate decisions are taken by the reserve bank of India's central board of directors the official interest rate is the benchmark repurchase rate.
b) *Equity Markets:* Today, the Indian stock market size is around 70 per cent of the GDP, which is comparable to other emerging market economies (EMEs). Indian stock market such as large cap stocks/futures and index futures have liquidity and efficiency, the two critical features of the well functioning market (Government of India, 2008). The introduction of exchange traded derivative instruments such as options, futures in 2000 has enabled investors to better hedge their positions and reduce risks.
c) *Inflation Rate:* In India was recorded at 5.79 % in July of 2013. Inflation rate in India is reported by the ministry of commerce and industry.

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d) Foreign Exchange: The Indian Rupee became one of the worst performers during the period from the second half of May 2013 to August 2013. Rupee depreciated sharply by around 19.4 per cent against the US dollar from the level of 55.4 per US dollar on May 22, 2013 to a historic low of 68.85 per US dollar on August 28, 2013

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D. Dr. Urjit Patel

1) Born on 28 October 1963 is an Indian economist.

2) He was the 24thGovernor of the Reserve Bank of India between 4th September 2016 and 10th December 2018.

3) Patel was the Chief Economist and previously, as an RBI deputy Director.

4) It was announced that Patel would take over as the Governor of the Reserve Bank of India for a term of 2 years.

Financial reforms of RBI at the period of Dr. Urjit R Patel (2016-2018)

a) Interest Rate: The repo rates at 6.5 per cent, reverse repo rate at 6.25 per cent, and the marginal standing facility rate and the bank rate at 6.75 per cent.

b) Equity Market: Global equities gained 5.6% (MSCI AC World index in dollars) in 2016 while emerging markets equities rose by 8.6% (MSCI Emerging in dollars).

c) Inflation: The RBI had highlighted upside risks to inflation, even though it has maintained that monetary policy remains in an accommodative phase. Retail inflation rose to a two-year high of 6.07% in July. Dr. Patel will need to keep a watchful eye on CPI inflation carefully. At 6.1% in July, it has risen to well over the RBI's early-2017 target of 5%.

d) Foreign Exchange: The rupee value was rise during patel tenure march 2016 67.5 to dec 2018 72.11

III. DATA ANALYSIS

The Narsimham Committee had argued for reductions in SLR on the grounds that the stated government objective of reducing the fiscal deficits will obviate the need for a large portion of the current SLR. Similarly, the need for the use of CRR to control secondary expansion of credit would be lesser in a regime of smaller fiscal deficits. The committee offered the route of Open Market Operations (OMO) to the Reserve Bank of India for further monetary control beyond that provided by the (lowered) SLR and CRR reserves. Ultimately, the rule was Reduction in the reserve requirements of banks, with the Statutory Liquidity Ratio (SLR) being brought down to 25 per cent by 1996-97 in a period of 5 years. The committee recommended a Stipulation of minimum capital adequacy ratio of 4 per cent to risk weighted assets by March 1993, 8 per cent by March 1996, and 8 per cent by those banks having international operations by March 1994. Later, all banks required attaining the capital adequacy norm of 8 per cent, as per the Basle Committee Recommendations, by March 31, 1996. To get a true picture of the profitability and efficiency of the Indian Banks, a code stating adoption of uniform accounting practices in regard to income recognition, asset classification and provisioning against bad and doubtful debts has been laid down by the Central Bank. Close to 16 per cent of loans made by Indian banks were NPAs - very high compared to say 5 per cent in banking systems in advanced countries.

A. Reduction in CRR & SLR.

B. Minimum capital adequacy ratio.

C. Prudential norm.

1) Interest Rates

Table no: 3 Interest rates during the region of 3 governors:

YEARS	INTEREST RATES	GOVERNORS
2008 – 2013	4.25	Subba rao
2013 – 2016	7.5	Rajan
2016 - 2018	6.5	Urjit

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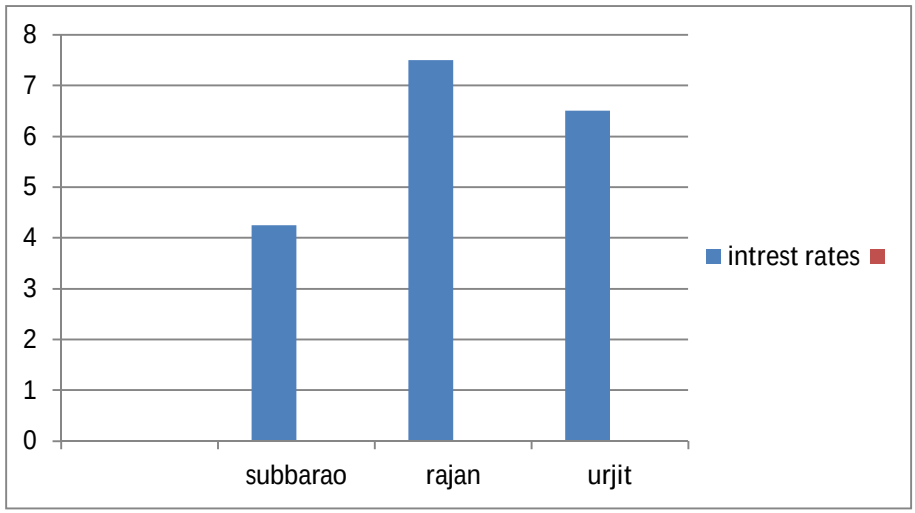
Graph No: 1 Graphical representation of interest rates 3 governors



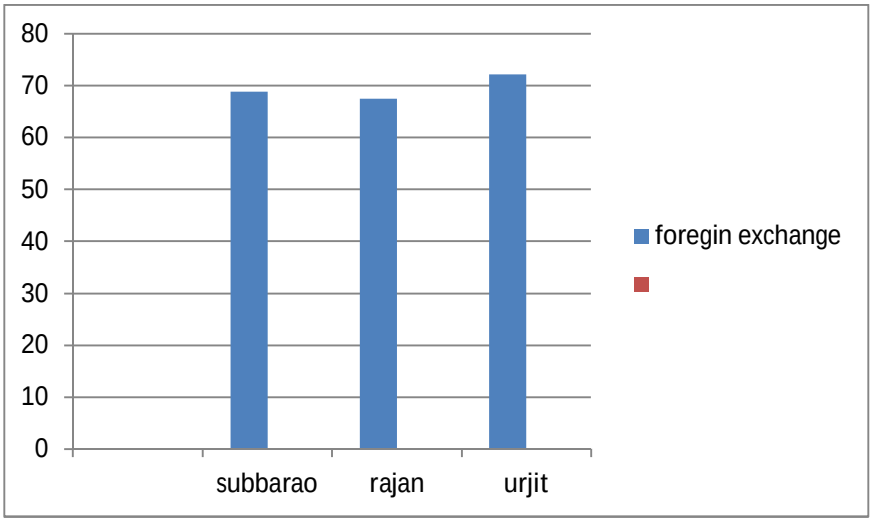
a) *Interpretation:* In the above bar graph the interest rates are taken into consideration, the X axis indicates the governor's names and the Y axis indicates the interest rates. In the year 2008 – 2013 i.e. during Subba rao has decreased to 4.25. In the year 2013 – 2016 i.e. during Rajan has increased to 7.5. In the year 2016 – 2018 i.e. Urjit has decreased to 6.5.

2) *Foreign Exchange*

Table no: 4 Foreign exchange during the region of 3 governors:

YEARS	INTEREST RATES	GOVERNORS
2008 – 2013	68.85	Subba rao
2013 – 2016	67.5	Rajan
2106 – 2018	72.11	Urjit

Graph No : 2 Graphical representation of foreign exchange 3 governors:



a) *Interpretation:* In the above bar graph the foreign exchange are taken into consideration, the X axis indicates the governor's names and the Y axis indicates the interest rates. In the year 2008 – 2013 i.e. during Subba rao has increased to 68.85. In the year 2013 – 2016 i.e. during Rajan has decreased to 67.5. In the year 2016 – 2018 i.e. Urjit has increased to 72.11.

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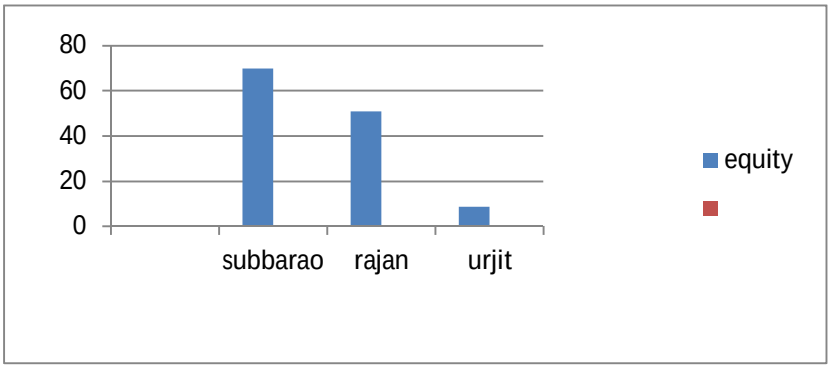
3) Equity Markets

Table no: 5 Equity markets during the reforms of 3 governors:

YEARS	INTEREST RATES	GOVERNORS
2008 – 2013	70	Subba rao
2013 – 2016	51	Rajan
2106 - 2018	86	Urjit

Graph No: 3 Graphical representation of Equity markets 3 governors:



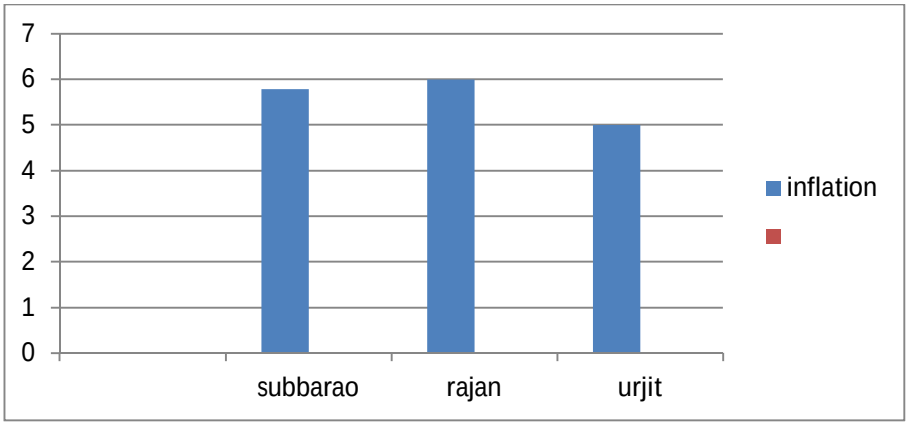
a) Interpretation: In the above bar graph the equity values are taken into consideration, the X axis indicates the governor's names and the Y axis indicates the interest rates. In the year 2008 – 2013 i.e. during Subba rao has increased to 70. In the year 2013 – 2016 i.e. during Rajan has decreased to 51. In the year 2016 – 2018 i.e. Urjit has increased to 86.

4) Inflation

Table no : 6 Inflation during the region of 3 governors:

YEARS	INTEREST RATES	GOVERNORS
2008 – 2013	5.79	Subba rao
2013 – 2016	6	Rajan
2106 - 2018	5	Urjit

Graph No : 4 Graphical representation of inflation 3 governors:



a) Interpretation: In the above bar graph the inflation rates are taken into consideration, the X axis indicates the governor's names and the Y axis indicates the interest rates. In the year 2008 – 2013 i.e. during Subba rao has decreased to 5.79. In the year 2013 – 2016 i.e. during Rajan has increased to 6. In the year 2016 – 2018 i.e. Urjit has decreased to 5.

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IV. CONCLUSION

The financial sector reforms have brought about significant changes and positive impact in the financial strength and the competitiveness of the Indian banking systems. The prudential norms, accounting and disclosure standards, risk management practices etc are keeping space with global standards. Reforms have put the Indian economy on a higher growth path. The issues with regulatory framework with banks are resolved based on the market structure. capital adequacy supervision and privatization of banks.

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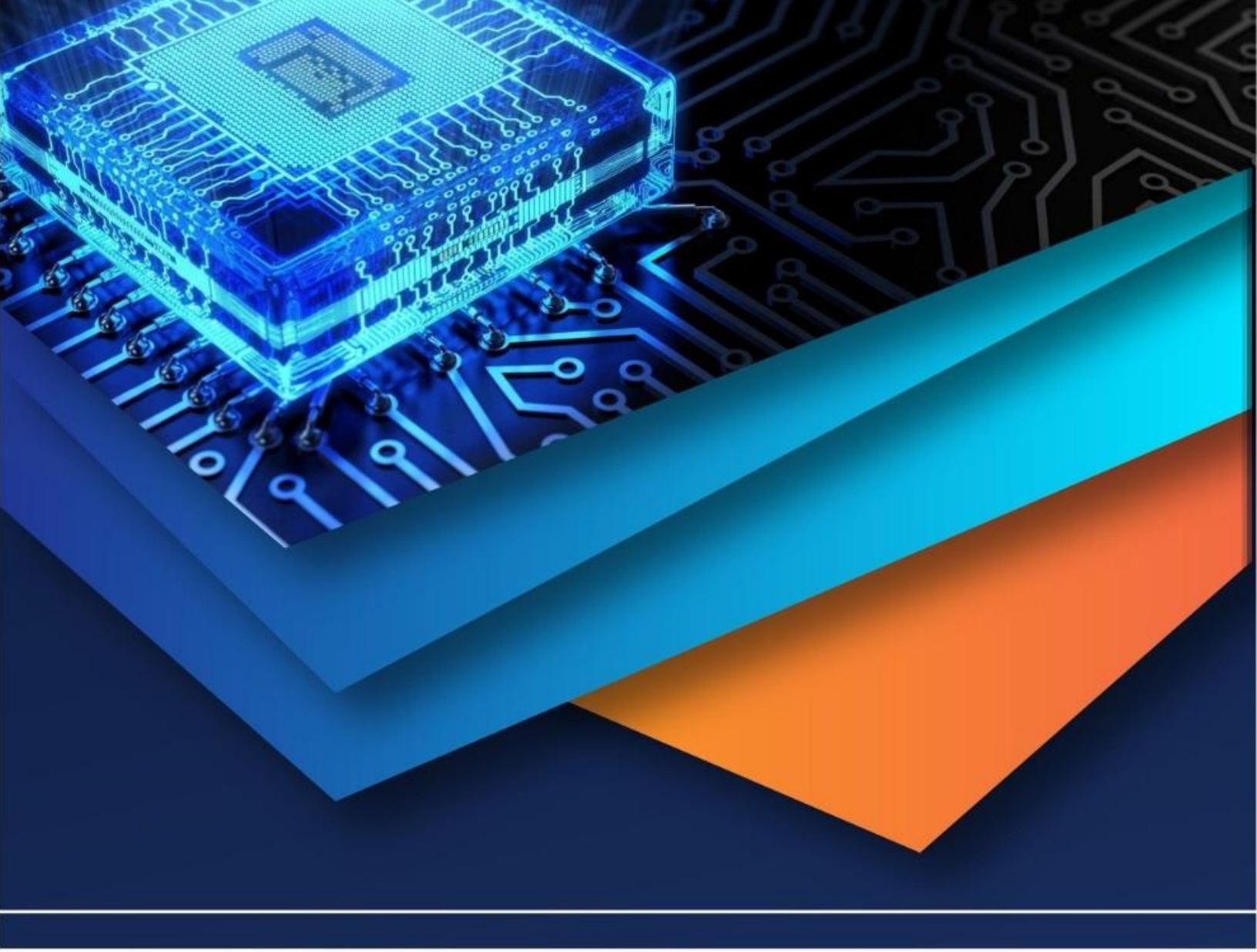

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