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RESERVE BANK
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Hon'ble Sri / Smt.

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Sir / Madam,

Shrinking Reserve Bank of India - a national distress

The RBI, as you know, is a premier national institution, which has played a commendable role in shaping the nation's economy after the independence of our country. Coming out of the contours of central banking model in developed countries, the RBI designed a model that was suitable in the socio-economic condition of a newly independent country aspiring for developing a self-reliant economy. The model constructed by the RBI has become a role model for all developing countries. With the launch of Five-Year Plans from 1951, the Reserve Bank's functions became more diversified in terms of Plan financing, establishment of special institutions to promote savings and investment in the economy and to meet credit requirements in the agricultural and small-scale industrial sectors etc. in particular. This expansion of activities needs RBI's presence at least in all state capitals of the country as well as important centres of economic activities for proper management of its functions and activities to ensure smooth working of the growth process.

As is known, the following are the core functions of RBI,

Monetary Management

Currency Management

Foreign Exchange Management

Regulation and Supervision of Financial System

Payment and Settlement System

Banker to banks

Banker to government

Public Debt Management

Developmental Role

Needless to mention that all these functions constitute the back-bone of an economy, ensure its stability and malfunction of them would cause a destabilisation impact on the economy.

Since the initiation of new economic policy in the nineties of the last century the RBI has crafted a policy of withdrawing itself from the operation of many of its aforesaid core functions which are statutorily or historically devolved on it.

The mechanism that has been devised for implementing the said policy rests on mainly three channels:

INDISCRIMINATE OUTSOURCING

INDISCRIMINATE DOWNSIZING

NON- EXPANSION OF ITS GEOGRAPHICAL REACH

As a consequence of this policy decision an alarming situation has eclipsed the country's central bank-the RBI. Wantonly outsourcing its activities and totally stopping recruitment at base level aiming at complete elimination of Class III staff, the RBI is shrinking very fast.

We are constrained to draw your kind attention to the following:

The Currency Management is an important area of activities of RBI, which is of utmost national concern. Imprudent policy decisions have wrought havoc in the most vital area of currency management i.e. processing of soiled banknotes at RBI's end for replacement by fresh currency. Currency Verification and processing System(CVPS), a fully mechanized system has been installed at a cost of hundreds of crores of rupees replacing the manual operations of counting, scrutiny and detection of counterfeits. But the faulty implementation of the system has resulted in failure in detecting fake bank notes, which are getting legalised in the process. Its installed capacity proved inadequate to cope with the growing volume of soiled notes resulting in outright shredding of huge volume of soiled bank notes including fake notes, which, not being detected, are being treated at par with good notes. Unfortunately, outright shredding of soiled bank notes without counting and proper scrutiny violates the assurance given in writing by the then Hon'ble Finance Minister, Shri Jaswant Sinha vide his letter dated May 08, 2002 that installation of CVPS would ensure 100% examination of soiled notes before destruction. All this provides a hey-day to counterfeiters of currency, mostly from abroad, putting in jeopardy the country's currency security as is evident from the concerns expressed recently by the CBI. Bank, however, ignores Association's implementable cogent suggestions in this regard.

Public Debt of State and Central Govts. are managed and guaranteed by RBI. This has ensured a hassle free mobilization of public debt for all states, big or small. Now, the states are being asked to fend for themselves. This will affect the economically weak states as without RBI guarantee their bonds will not sell or their borrowings will be costly. Disparity between states will widen and disquiet will spread. As the existing legal position does not permit the RBI to do so, the public debt separation act has been prepared by RBI. In nation's interest, RBI has to be desisted.

RBI is the banker to the State Govts. and Central Govt. However, it is now forcing them to withdraw their accounts and go elsewhere for service including private sector banks, though the concerned departments of RBI are technically fully equipped with quality tech savvy staff to serve the clientele.

RBI is the regulator and supervisor of banking system. To discharge this responsibility RBI is required to inspect the banks as to their adherence to regulatory guidance. The regulatory aspects are being made stringent, while the vital part of regulation, the on-site inspection, is being totally outsourced to chartered accountant firms, thus making regulation virtually meaningless. The role of much touted CA firms in Global Trust Bank fiasco is too fresh in memory. The proper supervision in a liberal regulatory regime needs emphasis to maintain the stability of banking system in a volatile global financial situation. In this connection, we like to draw your kind attention that the Joint Parliamentary Committee (JPC) constituted by the Parliament in the year 1992 for investigating the role of various authorities in the then security scam came down heavily on the top executives including the Governor and Deputy Governors of RBI for their dereliction and negligence in exercising strict monitoring and supervision over banks in accordance with the RBI's own guidelines. JPC was constrained to observe that liberalisation without adequate check and balance would be unmitigated disaster. The policy as is now being

pursued by the RBI hierarchy will weaken the "check and balance" as emphasised by the JPC with consequential ramifications.

Fly-by-night chit fund companies euphemistically called Non-Banking Financial Companies should be subjected to stringent supervision and monitoring by RBI to safeguard the huge deposits collected by these companies from the common people. As usual, RBI is shirking this responsibility. The Bank has worked out parameters, which have conveniently kept out overwhelming majority of the NBFCs from the ambit of its supervision. When depositors are cheated of their hard-earned money by these companies, RBI remain passive onlooker, unfortunately.

A lot of foreign money is entering the country. The source and end-use of such money is of vital security concern. RBI is supposed to regularly inspect the authorised dealers of foreign currency. For last 3 years no such inspection has taken place. Departments blame staff shortage, which is true as RBI has stopped base level recruitment for last fifteen years almost, while existing staff are retiring, normally and voluntarily, or are being promoted. A vital job is simply not done, which seems to be of no concern to RBI.

After sixty years of independence our farmers are committing suicides in thousands. This is a national disgrace. Lack of institutional credit is one of the important reasons. The country's banking system has a deposit base of nearly Rs. 3 million crores. RBI is at the apex of the banking system. It has a crucial role in directing, supervising and monitoring flow of credit to the poor, to the needy. It is paying just a lip service without practically any effective role.

Nothing can be more glaring of RBI's lack of concern than the stark fact that even six decades after independence, RBI does not exist in all state capitals. For all the seven states in N.E. region, RBI has the solitary skeletal office in Guwahati! With much persuasion RBI has of late opened offices in Dehradun, Raipur, Ranchi, Shimla, the capitals of Uttarkhand, Chattisgarh, Jharkhand and Himachal Pradesh respectively. However, the staff strength in each place is in single digit only; What job they will perform except being showpieces? This suffices to show RBI's seriousness! These Offices must be made full-fledged ones immediately.

In short, RBI is doing away with and/or outsourcing all operational activities. This vitally affects the banking system and economy. RBI is a top-heavy, jobless institution now. The base level staff strength (Class III) has been drastically brought down from about 17000 in 1995 to below 6,000 in December 2007 while total staff strength comprising all cadres has been curtailed during the same period to less than half of that in 1995. How can it cope up with globalising banking system and expanding economy? It is severely wanting. With increasingly depleting workforce RBI will be a non-entity in no time.

Besides, by stopping recruitment at the level of assistants who are mainly performing the central banking operations, RBI is denying entry to highly educated unemployed youth of the states, as the recruitment in Class III cadre of RBI is state-centric, thereby doing injustice to states' interests. This must be opposed in the interest of the states and being peoples' representative and states' spokesperson, we hope, you will kindly advise RBI to desist from pursuing policy of no recruitment. As per our modest assessment RBI requires another 6000 assistants immediately.

We repeat that policies guiding RBI functions and activities are of paramount importance as they have direct impact on the growth and stability of the financial sector and our national economy. As such, any change in the policies should be with the knowledge of the country's parliament. It should not be left to the exclusive prerogative of the top hierarchy of the RBI

management. We are constrained to point out that in the recent times many changes relating to RBI jobs and functions are taking place keeping the parliament in the dark. Unilaterally, RBI decided to float a private company viz., 'National Payment Corporation of India' to take over the jobs of clearing of cheques from RBI and other public sector banks with effect from 01.04.2006 overriding the RBI Act, 1934. We are grateful to the hon'ble members of the parliament that due to their intervention RBI's original scheme was modified substantially as a Bill titled Payment And Settlement Systems Bill 2006 was approved after scanning by the Standing Committee on Finance and due deliberations in the parliament with some important changes and assurances by the Hon'ble Finance Minister. Such vigil on the part of the parliament will be a check on RBI functioning unilaterally, you will please agree.

We, the RBI workforce, want to save RBI. We have written umpteen times to RBI higher-ups to change its course of actions; we are approaching all concerned. We have met RBI top officials and decision makers a number of times. We have organised state level Conventions of economists, trade unions, politicians, youth, students, women, etc. State Ministers, MPs, MLAs joined us and expressed concerns. A massive march to Parliament was held on July 28, 2007 by RBI employees and officers, which was addressed by several Hon'ble Members of Parliament. A national Convention on Shrinking RBI was held on November 19, 2007 in New Delhi, which was also attended by Members of Parliament and central trade unions. But all these have so far failed to persuade RBI management to activate itself and discharge nationally mandated responsibilities.

It is in the aforesaid grim state of affairs prevailing in the RBI, we have no option but place before you as people's representative the entire matter for your kind consideration and proper action at your esteemed end. If permitted, may we respectfully suggest that a communication from your kindself, either jointly with other Hon'ble Members or severally, may be addressed to the Prime Minister and Finance Minister, Government of India, urging their intervention in the matter of prevalent grave situation in the RBI in order to save RBI as a premier institution of our country restoring its earlier pre-eminent functions as central bank of the country, along with its very important developmental role. This we earnestly solicit.

With regards,

Yours sincerely,

(Samir Ghosh)
General Secretary