STUDY NOTES · BASIC CONCEPT

Why is RBI Act 1934 is being reviewed for BRICS 2027 agenda? What are other Agendas of BRICS?

International Relations

26 May 2029

The Government of India has placed the comprehensive review of the Reserve Bank of India (RBI) Act and the establishment of currency swap arrangements with BRICS nations as key priorities in its FY27 policy agenda. This move signals a significant shift in India's monetary policy framework and its approach toward de-dollarization in international trade.

The review of the RBI Act, which has undergone multiple amendments since its original enactment in 1934, aims to modernize the central bank's regulatory framework to align with contemporary economic challenges, digital currency advancements, and evolving global financial systems.

BECOME IAS
AI-Powered UPSC Preparation by ZINKPOT

Simultaneously, the currency swap mechanism with BRICS partners — Brazil, Russia, India, China, South Africa, and newly inducted members — seeks to facilitate bilateral trade settlements in local currencies, reducing dependency on the US dollar and mitigating exchange rate risks. These twin initiatives reflect India's broader strategic vision of strengthening domestic monetary governance while deepening South-South financial cooperation and asserting greater autonomy in the global economic order.

The Reserve Bank of India (RBI) has outlined a forward-looking roadmap for the 2026–27 fiscal year (FY27). At the heart of this strategy is a dual focus: modernizing India's foundational financial framework by reviewing the RBI Act of 1934 and driving local-currency cross-border trade efficiency through BRICS digital currency linkages and currency swaps.

The core details, driving forces, and mechanics behind these major agenda items are broken down below.

1. Review of the RBI Act (1934)

The RBI Act is the legislative foundation of India's central banking system. However, a law written nearly a century ago struggles to keep pace with an era defined by AI, tokenization, and digital cash.

The Reasons Behind the Review

- Accommodating Digital Innovation: The current Act was structured around physical cash and traditional ledger systems. The RBI needs explicit, modernized legal backing to scale up the Central Bank Digital Currency (CBDC), run cross-border digital currency pilots, and legally define asset tokenization.
- Technological Overhaul: The RBI is transitioning to e-Kuber 3.0 (its next-generation core banking system) and creating a unified enterprise platform driven by an institutional-grade AI ecosystem. The legislative framework must align with automated, data-heavy central banking functions.
- Regulatory & Consumer Protections: The financial fraud landscape has evolved. The RBI plans to implement consumer-centric defenses like a digital "kill switch" (allowing users to immediately freeze all digital transactions in case of fraud). The review ensures these deep regulatory interventions stand on rock-solid legal ground.

BECOME IAS
AI-Powered UPSC Preparation by ZINKPOT

2. Currency Swaps & CBDC Linkages with BRICS

As India plays a leading role in the BRICS finance track, the RBI has proposed a groundbreaking initiative: linking the Central Bank Digital Currencies (CBDCs) of BRICS member nations and using bilateral currency swap arrangements to handle trade.

The Details: How the Mechanism Works

Instead of building a single, shared "supernational" BRICS currency (an idea previously floated and discarded), the RBI's strategy focuses on interoperability.

Under this framework, India’s e-Rupee (e-₹) would connect directly with other nations' sovereign digital currencies—such as China's Digital Yuan or Brazil's Drex. To prevent the technical and economic friction that usually slows down multi-currency trade, the RBI is introducing a parallel mechanism:

Bilateral Currency Swaps: Central banks will trade local currencies directly.

Frequent Settlements: To prevent huge, unmanageable trade deficits, transactions will be settled cleanly on a strict weekly or monthly basis.

The Crucial Reasons Behind the Move

Reducing Transaction Costs & Delays: Traditional international trade relies on correspondent banking networks and the SWIFT messaging system. This process requires converting local currencies into US Dollars and back again, which adds middleman fees and takes days to settle. Interoperable CBDCs allow near-instantaneous, direct peer-to-peer settlements between central banks.

Solving the "Rupee Accumulation" Problem: Previous attempts to trade in local currencies hit massive roadblocks. For instance, when India bought Russian oil in rupees, Russia accumulated massive rupee balances that it couldn't easily spend, forcing the RBI to let them invest those funds into local Indian bonds. Direct currency swap lines combined with frequent digital settlements resolve these liquidity imbalances before they pile up.

Strategic Autonomy (Without "De-Dollarization"): Rising global geopolitical tensions and the weaponization of the SWIFT network have made the Global South cautious. Linking digital currencies builds a parallel, resilient safety net.

BECOME IAS
AI-Powered UPSC Preparation by ZINKPOT

The RBI's Balanced Stance: The central bank has explicitly clarified that this framework is designed purely to lower friction and shield India from external shocks—not to launch an ideological war against the US Dollar or push for total de-dollarization.

What to Expect Next?

This agenda marks a shift from purely managing internal monetary policy to aggressively positioning India's digital infrastructure on the global stage. While the domestic legal reforms under the RBI Act will progress through parliament, the technical and governance rules for the BRICS digital network will be the defining centerpiece of the upcoming BRICS Summit hosted by India.

PURPOSE OF THE REVIEW (Summary)

1. Modernization of the Legal Framework: The RBI Act of 1934 is being reviewed to address outdated provisions and incorporate regulations relevant to fintech, digital lending, and cryptocurrency oversight.

2. Strengthening Monetary Policy Tools: The review aims to provide the RBI with enhanced instruments for inflation targeting, liquidity management, and financial stability in an increasingly interconnected global economy.
3. Digital Currency Regulation: With the pilot launch of the e-Rupee (CBDC), the revised Act is expected to provide a robust legal foundation for the issuance, circulation, and regulation of digital currencies.
4. Regulatory Autonomy: The review seeks to reinforce the operational independence of the RBI while ensuring better coordination with the government on fiscal and monetary policy alignment.
5. Enhanced Supervisory Powers: The updated framework is likely to grant the RBI broader authority over non-banking financial companies (NBFCs), payment aggregators, and emerging financial intermediaries.
6. Consumer Protection: Strengthening grievance redressal mechanisms and data privacy norms for banking customers is a core focus area of the proposed amendments.

BECOME IAS
AI-Powered UPSC Preparation by ZINKPOT