STRUCTURE AND FUNCTIONS OF RESERVE BANK OF INDIA

INTRODUCTION

- It is the Central Bank of India Established in "**1st April 1935**" under the "**RESERVE BANK OF INDIA ACT**".

- It has "**22 Regional Offices**", most of them in State capitals.

BRIEF HISTORY

- It was set up on the recommendations of the "**Hilton Young Commission**".

- It was started as **Share-Holders Bank** with a paid up capital of **5 crores**.

- Initially it was located in **Kolkata.**

- It moved to **Mumbai** in **1937**.

- Initially it was **Privately Owned**.

- Since **Nationalization in 1949**, the Reserve Bank is fully owned by the Government of India.

PREAMBLE

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."

FUNCTIONS OF RBI

- Issue of currency
- Development role
- Banker to government
- Banker to bank
- Role of RBI in inflation control
- Formulate monetary policy
- Manager of foreign reserve
- Clearing house functions
- Regulations of banking system

Issue of Currency

- To ensure adequate quantity of supplies of currency notes and coins of good quality.
- Issues new currency and destroys currency and coins not fit for circulation.
- It has to keep in forms of gold and foreign securities as per statutory rules against notes & coins issued.

Developmental Role

- To develop the quality of banking system in India.
- Performs a wide range of promotional functions to support national objectives.
- To establish financial institutions of national importance, for e.g: NABARD,IDBI etc.

Banker to the Government:

- Performs all banking function for the central and the state governments and also acts as their banker excepting that of Jammu and Kashmir. It makes loans and advances to the States and local authorities. It acts as adviser to the Government on all monetary and banking matters.

Banker to banks:

- Maintains banking accounts of all scheduled banks.

- RBI also regulates the opening /installation of ATM Fresh currency notes for ATMs are supplied by RBI.

- RBI regulates the opening of branches by banks.

- It ensures that all the **N.B.F.S** follow the Know Your Customer guidelines.

- The Reserve Bank of India also regulates the trade of gold. Currently **17 Indian banks** are involved in the trade of **gold** in India.

- RBI has invited applications from more banks for direct import of gold to curb **illegal trade** in gold and increase competition in the market.

- Collection and publication of data.

- It issues guidelines and directives for the **commercial banks.**

Role of RBI in inflation control

- Inflation arises when the demand increases and there is a shortage of supply There are two policies in the hands of the RBI.
- Monetary Policy: It includes the interest rates. When the bank increases the interest rates than there is reduction in the borrowers and people try to save more as the rate of interest has increased.
- Fiscal Policy: It is related to direct taxes and government spending. When direct taxes increased and government spending increased than the disposable Income of the people reduces and hence the demand reduces.

Formulate monetary policy

- Maintain price **stability** and ensuring **adequate flow** of credit in the economy.

- It formulates implements and monitors the **monetary policy**.

- Instruments: qualitative & quantitative.

Quantitative Measures

- Quantitative Measures “**BANK RATE”** also called “**Discount Rate”**.
- It also includes “**Repo Rate**”.
- **“Open Market Operations”** buying and selling of government securities.
- **“Variable Reserve Ratio”** it includes **C.R.R** and **S.L.R**

Qualitative Measures

1. **Direct Action**
2. **Moral persuasion**
3. **Legislation**
4. **Publicity**

BANK RATE

- It's the interest rate that is charged by a **country's central bank** on loans and advances to control money supply in the economy and the banking sector.

- This is typically done on a quarterly basis to control **inflation** and stabilize the country's **exchange rates**.

- A fluctuation in **bank rates Triggers a Ripple-Effect** as it impacts every sector of a country's economy.

- A change in bank rates affects customers as it influences **Prime Interest Rates** for personal loans.

REPO RATE

- Whenever the banks have any shortage of funds they can borrow it from the central bank. Repo rate is the rate at which our **banks borrow currency** from the central bank.

- A reduction in the repo rate will help banks to get Money at a **cheaper rate**.

- When the repo rate increases borrowing from the central bank becomes **more expensive**.

- In order to increase the liquidity in the market, the central bank does it.

REVERSE REPO RATE

- It’s the rate at which the banks park **surplus funds** with reserve bank.

- While the Repo rate is the rate at which the banks **borrow** from the central bank.

- It is mostly done , when there is surplus liquidity in the market by the central bank.

CRR (Cash Reserve Ratio)

- Cash Reserve Ratio (CRR) is the amount of Cash(liquid cash like gold)that the banks have to keep with RBI.

- This Ratio is basically to secure solvency of the bank and to drain out the excessive money from the banks.

SLR (Statutory Liquidity Ratio)

- It is the amount a commercial bank needs to maintain in the form of cash, or gold or govt. approved securities (Bonds) before providing credit to its customers.

- SLR rate is determined and maintained by the RBI (Reserve Bank of India) in order to control the expansion of bank credit.

Quantitative Methods:

- **Marginal Requirement:** Marginal Requirement of loan can be increased or decreased to control the flow of credit for e.g. – a person mortgages his property worth Rs. 1, 00,000 against loan. The bank will give loan of Rs. 80,000 only. The marginal requirement here is 20%. In case the flow of credit has to be increased, the marginal requirement will be lowered.
- **Rationing of credit:** Under this method there is a maximum limit to loans and advances that can be made, which the commercial banks cannot exceed.
- **Publicity:** RBI uses media for the publicity of its views on the current market condition and its directions that will be required to be implemented by the commercial banks to control the unrest.
- **Direct Action**: Under the banking regulation Act, the central bank has the authority to take strict action against any of the commercial banks that refuses to obey the directions given by Reserve Bank of India.
- **Moral Suasion:** This method is also known as "Moral Persuasion" as the method that the Reserve Bank of India, being the apex bank uses here, is that of persuading the commercial banks to follow its directions/orders on the flow of credit.

Manager of Foreign Exchange

- To facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

- It acts as a custodian and Manages the **Foreign Exchange Management Act,(FEMA) 1999.**

- RBI buys and sells foreign currency to maintain the exchange rate of Indian Rupee v/s foreign currencies like the US Dollar, Euro, Pound and Japanese yen.

Regulation of Banking System

The prime duty of the reserve Bank is to regulate the banking system of our country in such a way that the people of the country can trust in the banking Up to perform its duty.

The Reserve Bank has following powers in this regard:

- **Licensing:**

According to the section 22 of the Banking Regulation Act, every bank has to obtain license from the Reserve Bank. The Reserve Bank issues such license only to those banks which fulfill condition of the bank.

- **Management:**

  Section 10 of the Banking Regulation Act embowered the Reserve Bank to change manager or director of any bank if it considers it necessary or desirable.

- **Branch Expansion:**

  Section 23 requires every bank to take prior permission from Reserve Bank to open new places of business in India.

- **Power of inspection of Bank:**

  Under Section 35, the Reserve Bank may inspect any bank and its books and accounts either at its own initiative or at the instance of the Central Government.

- 1000= 1 Thousand
  Thousand x 1000 =1 Million
  Million x 1000 =1 Billion
  Billion x 1000 =1 Trillion

thank
you