

Course Name:-B.A.LLB-IVth Sem

Subject:-Economics-IV

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Topic: - Reserve Bank of India

RBI – Reserve Bank of India

The Reserve Bank of India (RBI) is India's central bank, also known as the banker's bank. The RBI controls monetary and other banking policies of the Indian government. The Reserve Bank of India (RBI) was established on April 1, 1935, in accordance with the Reserve Bank of India Act, 1934. The Reserve Bank is permanently situated in Mumbai since 1937.

This article covers the following:

1. Establishment of Reserve Bank of India
2. Organisation Structure of RBI
3. Objectives
4. Legal Framework

5. Major Functions

6. Policies

Establishment of Reserve Bank of India

The Reserve Bank is fully owned and operated by the Government of India.

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

- Regulating the issue of Banknotes
- Securing monetary stability in India
- Modernising the monetary policy framework to meet economic challenges

The Reserve Bank's operations are governed by a central board of directors, RBI is on the whole operated with a 21-member central board of directors appointed by the Government of India in accordance with the Reserve Bank of India Act.

The Central board of directors comprise of:

- Official Directors – The governor who is appointed/nominated for a period of four years along with four Deputy Governors
- Non-Official Directors – Ten Directors from various fields and two government Official

Organisation Structure

Central Board of Directors



Objectives

The primary objectives of RBI are to supervise and undertake initiatives for the financial sector consisting of commercial banks, financial institutions and non-banking financial companies (NBFCs).

Some key initiatives are:

- i. Restructuring bank inspections
- ii. Fortifying the role of statutory auditors in the banking system

Legal Framework

The Reserve Bank of India comes under the purview of the following Acts:

- Reserve Bank of India Act, 1934
- Public Debt Act, 1944
- Government Securities Regulations, 2007
- Banking Regulation Act, 1949
- Foreign Exchange Management Act, 1999
- 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

Major Functions of RBI

Monetary Authority

- Formulating and implementing the national monetary policy.
- Maintaining price stability across all sectors while also keeping the objective of growth.

Regulatory and Supervisory

- Set parameters for banks and financial operations within which banking and financial systems function.
- Protect investors interest and provide economic and cost-effective banking to the public.

Foreign Exchange Management

- Oversees the Foreign Exchange Management Act, 1999.
- Facilitate external trade and development of foreign exchange market in India.

Currency Issuer

- Issues, exchanges or destroys currency and not fit for circulation.
- Provides the public adequately with currency notes and coins and in good quality.

Developmental role

- Promotes and performs promotional functions to support national banking and financial objectives.

Related Functions

- Provides banking solutions to the central and the state governments and also acts as their banker.
- Chief Banker to all banks: maintains banking accounts of all scheduled banks.

RBI Annual publications

Annual Report – The annual report is a statutory report of the Reserve Bank of India that is released every year. This report consists of valuation and progress of the Indian economy. Overview of the economy, the working of the Reserve Bank during that year and the RBI's projected vision and agenda for the following year along with the annual accounts of the Reserve Bank

Report on Trend and Progress of Banking in India – This document is an assessment of the policies and progress of the financial sector for the preceding year.

Lectures – The Reserve Bank of India has constituted three annual lectures. Two of these lectures are conducted by past Governors of the Reserve Bank and one lecture is by a noted economist.

Report on Currency and Finance – This report is documented and presented by the staff of Reserve Bank of India bank and focusses on a particular theme and presents a detailed economic analysis of the issues related to the theme. ***Handbook of Statistics on the Indian Economy***

– This report is an important initiative by the Reserve Bank to improve

data distribution. It is a resourceful storehouse of major statistical information.

State Finances: A Study of Budgets – The report is an essential source of segregated state-wise financial data and provides an analytical data-driven conceptualisation on the fiscal position of state governments across India. These data inputs are used to analyse specific issues of relevance.

Statistical Tables Relating to Banks in India – This annual publication contains holistic timeline data with regards to the Scheduled Commercial Banks (SCBs) of India. The report also covers the information of balance sheets and performance indicators for each SCB in India. The journal also includes segregated data sources on some essential factors relating to bank-wise, bank group-wise and state-wise level of information.

Basic Statistical Returns – This is another data-focused yearly journal which represents complex information on the number of offices, employees, deposits and credit of Scheduled Commercial Banks in minute levels of detail such as, region-wise, state-wise and district-wise information. This information also trickles down to the population and credit requirements in each bank.

RBI Policies

Repo Rate Repo or repurchase rate is the benchmark interest rate at which the RBI lends money to all other banks for a short-term. When the repo rate increases, borrowing from RBI becomes more expensive

and hence customers or the public bear the outcome of high-interest rates. **Reverse Repo Rate (RRR)** Reverse Repo rate is the short-term borrowing rate at which RBI borrows money from other banks. The Reserve Bank of India uses this method to reduce inflation when there is excess money in the banking system. **Cash Reserve Ratio (CRR)** is the particular share of any bank's total deposit that is mandatory and to be maintained with the Reserve Bank of India in the form of liquid cash. **Statutory liquidity ratio (SLR)** Leaving aside the cash reserve ratio, banks are required to maintain liquid assets in the form of gold and approved securities. A higher SLR disables the banks to grant more loans.

Payment System Initiatives

- The Reserve Bank has taken many steps towards initiating and updating secure and sustainable methods of payment systems in India to meet public requirements.
- Currently, payment methods in India consist of paper-based instruments, electronic instruments and other instruments, such as pre-paid system (e-wallets), mobile internet banking, ATM-based transactions, Point-of-sale terminals and online transactions.

Paper-based Payments

- Use of paper-based instruments such as cheques and demand drafts accounts for nearly 60% of the volume of total non-cash

transactions in India. These forms of payments have been steadily decreasing over a period of time due to the electronic modes of payments gaining popularity due to the comparative convenience, safety and overall efficiency.

- Magnetic Ink Character Recognition (MICR) technology was introduced by RBI in the paper-based payment method for speeding up and bringing in efficiency in the processing of cheques.
- A separate clearing system for paper-based payment method was introduced for clearing cheques of high-value ranging from rupees one lakh and above. Also, the introduction of cheque truncation (CTS) system restricts the physical movement of cheques and utilises images for enhanced secure payment processing.

Electronic Payments

The initiatives taken by the Reserve Bank in the domain of electronic payment systems are immense and vast. The types of electronic forms of payment by the RBI are as follows:

- *Electronic Clearing Service (ECS)* – This enables customer bank accounts to be credited with a specified value and payment on a set date. This makes EMIs, or other monthly bills hassle free.
- National Electronic Clearing Service (NECS) – This facilitates multiple advantages to beneficiary accounts with destination branches against a single debit of the account of the sponsor bank.

- *Electronic Funds Transfer (EFT)* – This retail funds transfer system was to enable an account holder of a bank to electronically transfer funds to another account holder with any other intermediate or participating bank.
- *National Electronic Funds Transfer (NEFT)* – A secure system to facilitate real-time fund transfer between individuals/corporates.
- *Real Time Gross Settlement (RTGS)* – A funds transfer function in which transfer of money takes place from one bank to another on a real-time basis without delaying or netting with any other transaction.
- *Clearing Corporation of India Limited (CCIL)* – This system is for banks, financial institutions, non-banking financial companies and primary dealers, to serve as an industry service mechanism for clearing settlement of trades in money market, government securities and foreign exchange markets.
- *The RBI* (Reserve Bank of India) has made changes to the Prepaid Payment Instruments (PPI) also known as e-wallets. These changes include KYC – known your customer compliance. KYC is the process of collecting user details by the service provider and verifying the same with the respective government bodies.