



FUNCTION OF RESERVE BANK OF INDIA

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Abstract:

As a central bank, the Reserve Bank has significant powers and duties to perform. For smooth and speedy progress of the Indian Financial System, it has to perform some important tasks. Among others it includes maintaining monetary and financial stability, to develop and maintain stable payment system, to promote and develop financial infrastructure and to regulate or control the financial institutions. For simplification, the functions of the Reserve Bank are classified into the traditional functions, the development functions and supervisory functions.

Keywords: R.B.I, Central bank of India, economic development

1. Introduction:

The Reserve Bank of India (RBI) was established in the year 1935 in accordance with the Reserve Bank of India Act, 1934. The Reserve Bank of India is the central Bank of India entrusted with the multidimensional role. It performs important monetary functions from issue of currency note to maintenance of monetary stability in the country. Initially the Reserve Bank of India was a private share holder's company which was nationalized in 1949. Its affairs are governed by the Central Board of Directors appointed by the Government of India. Since its inception the Reserve Bank of India had played an important role in the economic development and monetary stability in the country. (Patel Vipul 2013)

2. Objectives of study:

1. To explain to importance Reserve Bank of India (RBI).
2. To study the functions of RBI.
3. Functions of Reserve bank of India: (Bansal Mandeep 2017)

A. Traditional Functions of RBI:

Traditional functions are those functions which every central bank of each nation performs all over the world. Basically these functions are in line with the objectives with which the bank is set up. It includes fundamental functions of the Central Bank. They comprise the following tasks

1. Banker to Government:

The Reserve Bank of India accepts and makes payment on behalf of Central Government. It carries out its exchange, remittance, management of public debt and other banking function of the Central Government. The Central Government entrusts its money, remittance, exchange and banking transactions in India with the Reserve Bank of India. It deals in repo or reverse repo.

2. Right to Issue Bank note:

The Reserve Bank of India has the sole right to issue bank notes in India. The bank notes are legal tender guaranteed by the Central Government. The issue of bank note is conducted by a separate department called issue department. The Central Government on the recommendation of Central Board specifies denomination of bank notes including discontinuance of bank notes. The Central Government approves design, form and material of Bank notes on consideration of recommendations of the Central Board.

3. Formulates Banking policy:

Empowered to formulate banking policy in the interest of the public or depositors banking policy in relation to advances and provide direction on the purpose of the advances, margins to be maintained in a secured advances, the maximum amount of advance may be made, the rate of interest, terms and conditions for advances or guarantees may be given.

4. Exchange Rate Management:

It is an essential function of the RBI. In order to maintain stability in the external value of rupee, it has to prepare domestic policies in that direction. Also it needs to prepare and implement the foreign exchange rate policy which will help in attaining the exchange rate stability. In order to maintain the exchange rate stability it has to bring demand and supply of the foreign currency (U.S Dollar) close to each other.

5. Banker's Bank:

The banks listed in second schedule and non schedule banks shall maintain a cash reserve ratio with the Reserve bank of India with a view to securing the monetary stability in the country. It provides loans and advances in foreign currency to

scheduled Banks and to other financial institution. It purchases, sells or discount any bill of exchange or promissory note or makes a loan or advances to schedule bank.

6. Depositor Awareness and Education:

The Reserve Bank of India has constituted a fund called “Depositor Education and Awareness Fund.” The fund is utilized for the promotion of depositors’ interest and other purposes in the interest of the depositor.

7. Regulation and Management of Foreign Exchange:

The Reserve Bank of India is empowered to regulate, prohibit, and restrict dealing in foreign exchange. It issues license to banks and other institution to act as the authorized agency in the foreign exchange market the functions of the Reserve Bank today can be categorized as follows:

1. Monetary and Credit policy
2. Foreign exchange management
3. Currency management
4. Banker to banks & Lender of the last resort
5. Banker to the Central and State Governments
6. Central clearing house of payment and settlement systems
7. Performing developmental and promotional functions.

B. Promotional Functions of RBI:

Along with the routine traditional functions, central banks especially in the developing country like India have to perform numerous functions. These functions are country specific functions and can change according to the requirements of that country. The RBI has been performing as a promoter of the financial system since its inception. Some of the major development functions of the RBI are maintained below.

1. Development of the Financial System:

The financial system comprises the financial institutions, financial markets and financial instruments. The sound and efficient financial system is a precondition of the rapid economic development of the nation. The RBI has encouraged establishment of main banking and non-banking institutions to cater to the credit requirements of diverse sectors of the economy.

2. Development of Agriculture:

In an agrarian economy like ours, the RBI has to provide special attention for the credit need of agriculture and allied activities. It has successfully rendered service in this direction by increasing the flow of credit to this sector. It has earlier the Agriculture Refinance and Development Corporation (ARDC) to look after the credit, National Bank for Agriculture and Rural Development (NABARD) and Regional Rural Banks (RRBs).

3. Provision of Industrial Finance:

Rapid industrial growth is the key to faster economic development. In this regard, the adequate and timely availability of credit to small, medium and large industry is very significant. In this regard the RBI has always been instrumental in setting up special financial institutions such as ICICI Ltd. IDBI, SIDBI and EXIM BANK etc.

4. Provisions of Training:

The RBI has always tried to provide essential training to the staff of the banking industry. The RBI has set up the bankers' training colleges at several places. National Institute of Bank Management i.e. NIBM, Bankers Staff College i.e. BSC and College of Agriculture Banking i.e. CAB is few to mention.

5. Collection of Data:

Being the apex monetary authority of the country, the RBI collects process and disseminates statistical data on several topics. It includes interest rate, inflation, savings and investments etc. This data proves to be quite useful for researchers and policy makers.

6. Publication of the Reports:

The Reserve Bank has its separate publication division. This division collects and publishes data on several sectors of the economy. The reports and bulletins are regularly published by the RBI. It includes RBI weekly reports, RBI Annual Report, Report on Trend and Progress of Commercial Banks India., etc. This information is made available to the public also at cheaper rates.

7. Promotion of Banking Habits:

As an apex organization, the RBI always tries to promote the banking habits in the country. It institutionalizes savings and takes measures for an expansion of the banking network. It has set up many institutions such as the Deposit Insurance Corporation-1962, UTI-1964, IDBI-1964, NABARD-1982, NHB-1988, etc. These organizations develop and promote banking habits among the people. During economic reforms it has taken many initiatives for encouraging and promoting banking in India.

8. Promotion of Export through Refinance:

The RBI always tries to encourage the facilities for providing finance for foreign trade especially exports from India. The Export-Import Bank of India (EXIM Bank India) and the Export Credit Guarantee Corporation of India (ECGC) are supported by refinancing their lending for export purpose.

C. Supervisory Functions of RBI:

The reserve bank also performs many supervisory functions. It has authority to regulate and administer the entire banking and financial system. Some of its supervisory functions are given below.

1. Granting license to banks:

The RBI grants license to banks for carrying its business. License is also given for opening extension counters, new branches, even to close down existing branches.

2. Bank Inspection:

The RBI grants license to banks working as per the directives and in a prudent manner without undue risk. In addition to this it can ask for periodical information from banks on various components of assets and liabilities.

3. Control over NBFIs: The Non-Bank Financial Institutions are not influenced by the working of a monetary policy. However RBI has a right to issue directives to the NBFIs from time to time regarding their functioning. Through periodic inspection, it can control the NBFIs.

4. Implementation of the Deposit Insurance Scheme: The RBI has set up the Deposit Insurance Guarantee Corporation in order to protect the deposits of small depositors. All bank deposits below Rs. One lakh are insured with this corporation. The RBI work to implement the Deposit Insurance Scheme in case of a bank failure.

D. Other Functions:

The other functions relate to regular publication of reports on banking and currency, conducting the clearing houses, developing bill market, appointing committees and commissions on various economic aspects of the country.

Conclusion:

Thus it is found that the Reserve Bank of India plays every important role in the economy. The scope of functions of Reserve Bank of India has been increasing both geographically and functionally.

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