



# GOVERNMENT OF ANDHRA PRADESH COMMISSIONERATE OF COLLEGIATE EDUCATION



**Reserve Bank of India**

**Central Banking**

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# RESERVE BANK OF INDIA

## India's Central Bank

### **Learning Objectives**

- Introduction to RBI
- Preamble
- The Key Functions of RBI

# Introduction

- ❖ Reserve Bank of India (RBI) is the Central Bank Of India. It was established in “1<sup>st</sup> April 1935” under the “Reserve Bank of India Act 1934”.
- ❖ Its headquarter is at Mumbai (Maharashtra).
- ❖ Main objective of RBI is to maintain the nations monetary and financial stability.

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

It is also called as Royal Commission on Indian Currency and Finance.

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

- Since nationalization in 1949, the Reserve Bank is fully owned by the Government of India

- It has 28 regional offices, most of them in state capitals.
- Its affairs are governed by the Central Board of Directors appointed by the Government of India.
- Central Office of RBI is initially located in **Calcutta**, Permanently moved to Mumbai in 1937.
- The RBI also acted as Burma's (now Myanmar) central bank until April 1947.
- After the Partition of India in August 1947, the bank served as the central bank for Pakistan until June 1948.

## Preamble

The preamble of the Reserve Bank of India describe 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; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth."**

# Governors



**Sir Osborne A. Smith**  
April 1, 1935 to June 30, 1937



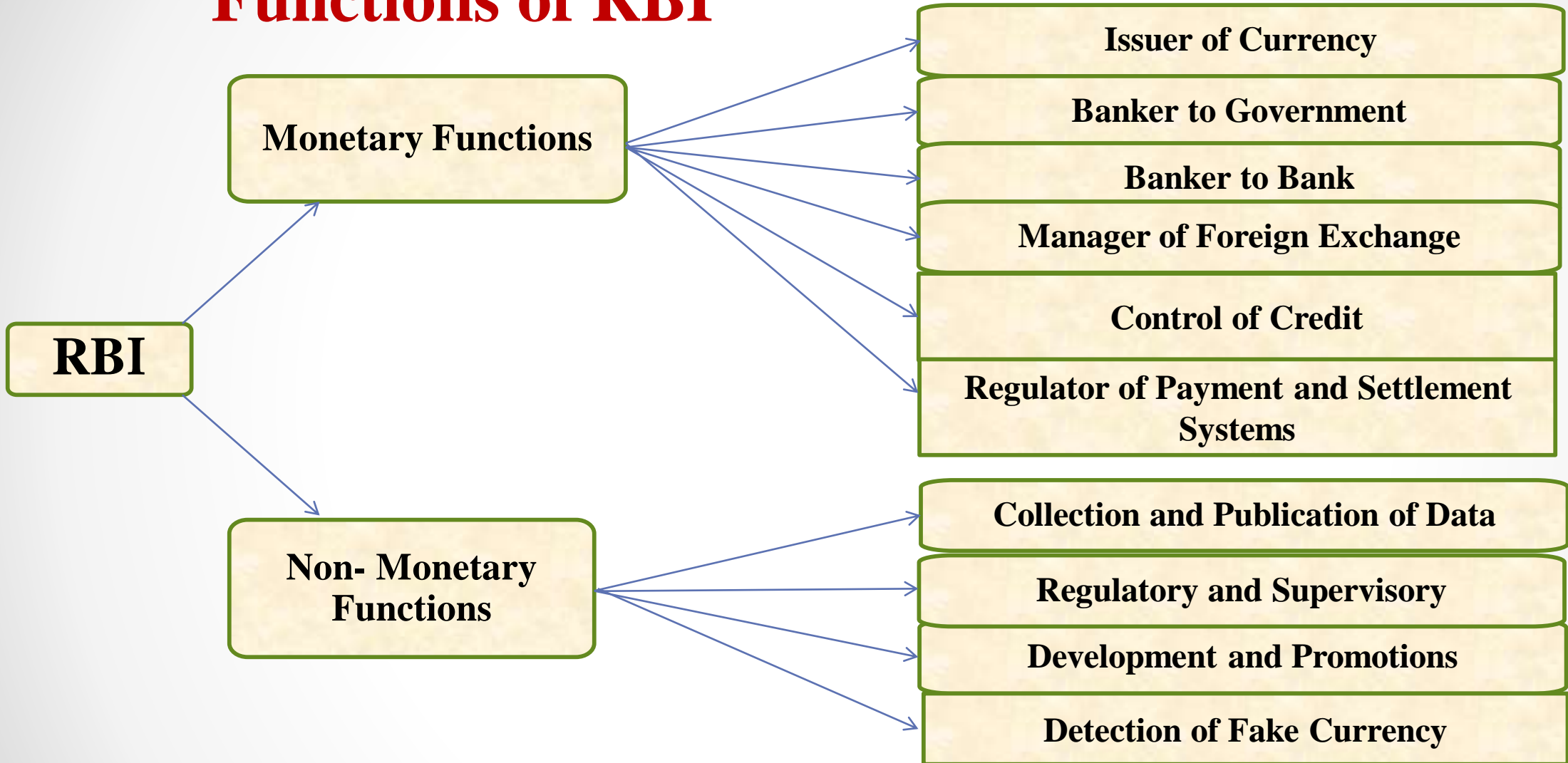
**Sir Chintaman D. Deshmukh**  
August 11, 1943 to June 30, 1949



**Shaktikanta Das**  
12 December 2018 Onwards



# Functions of RBI





# Monetary Functions

- RBI is the Main monetary authority of the country.
- It formulates, implements and monitors the monetary policy as well as it has to ensure an adequate flow of credit to productive sectors.

# 1. Issuer of Currency

Reserve Bank of India has the sole right to issue the currency notes except one rupee notes which are issued by Government of India, Ministry of Finance.

- Design, prints and distributes the currency.
- The bank destroys currency and coins not fit for circulation.
- Ensuring an adequate supply of clean and genuine notes.

- There are four printing presses to print currency notes by RBI. They are at Dewas in Madhya Pradesh, Nasik in Maharashtra, Mysore in Karnataka, and Salboni in West Bengal.
- Coins are minted by the Government of India. The Reserve Bank is the agent of the Government for distribution, issue and handling of coins.
- Four mints are in operation: Mumbai, Noida, Kolkata, and Hyderabad.

## **2.Banker To Government**

RBI plays a key role in managing the government's financial transactions. Like individuals, businesses and banks, governments need a banker to carry out their financial transactions in an efficient and effective manner.

As a banker to the central and state government, the Reserve Bank maintains its accounts, receives money into and makes payments out of these accounts and facilitates the transfer of government funds. It advises Government on all monetary matters and also provides Ways & Means advances.

## **3. Banker To Bank**

Like individual consumers, banks need their own mechanism to transfer funds and settle inter-bank transactions such as borrowing from and lending to other banks and customer transactions.

As the banker to banks, the Reserve Bank fulfils this role.

- Enables the smooth, swift and seamless clearing and settlement of inter-bank obligations.

- Providing an efficient means of funds transfer for banks.
- Enabling banks to maintain their accounts for purpose of statutory reserve requirements and maintain transaction balances.
- It keeps deposits of commercial banks and acts as lender of last resort by providing financial assistance in various ways.

## 4. Manager of Foreign Exchange

- 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.



The Reserve Bank plays a key role in the regulation and development of the foreign exchange market and assumes three broad roles relating to foreign exchange:

- Regulating transactions related to the external sector and facilitating the development of the foreign exchange market
- Ensuring smooth conduct and orderly conditions in the domestic foreign exchange market
- Managing the foreign currency assets and gold reserves of the country

## **5. Control of Credit**

Credit control is a major weapon of the RBI used to control Demand & Supply of money in the economy.

RBI can fix interest rates (including Bank Rate) and also exercise selective credit controls in order to control inflation and money supply for ensuring growth of the economy & ensuring price stability.

Various methods such as change in cash reserve ratio, Statutory Liquidity Ratio, stipulation of margin on securities, directs credit guidelines etc. are used for this purpose.

Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.

## **6. Regulator of Payment and Settlement Systems:**

- Payment and settlement systems play an important role in improving overall economic efficiency.
- In India there are several payments systems like ECS, Credit Card, Debit Card, RTGS, NEFT, IMPS and UPI. All these payments system are covered by Payment and Settlement Systems Act, 2007.
- The overall objective of RBI is to provide fast, safe and efficient payment system for the public.

## **ii. Non monetary Functions**

Besides performing the traditional functions, the Reserve Bank of India also perform the following functions:

- 1.Collection and publication of data
- 2.Regulatory and Supervisory
- 3.Development and Promotions.
- 4.Detection of fake currency

## **1.Collection and Publication of Data**

It gathers and analyses the data of banking, currency, foreign exchange reserves to make the policy decisions. It publishes the Reserve Bank of India Bulletin.

## **2.Regulatory and Supervisory**

The RBI Act & the Banking Act have both conferred extensive powers of regulations & supervisions to the RBI over banks to check malpractices & protect interests of the investors.



Reserve Bank Of India

Schedule Banks

Non-Schedule Banks

Commercial Banks

Co-operative Banks

Public Sector Banks

Private Sector Banks

Foreign Banks

Regional Rural Banks

Urban Co-op

Ex:SBI,BOI,PNB

Ex:Axis bank,Yes bank

Ex:RBS,AFM

Ex:APGVB,APGB

Rural Co-op

### **3.Development And Promotion**

The RBI has been aiding for development, promoting savings & banking habits. Development of the institutional agriculture & other rural activities has been an area of focus right from its inception.

## 4. Detection of Fake Currency

- ❖ RBI Provides information about identifying fake currency.
- ❖ To curb the counterfeit money problem in India, RBI has launched the website to raise awareness among masses about fake banknotes in the market.

[www.paisaboltahai.rbi.org.in](http://www.paisaboltahai.rbi.org.in)