



GOVERNMENT OF ANDHRA PRADESH COMMISSIONERATE OF COLLEGIATE EDUCATION



Interface between RBI and Banks

Central Banking

K.UTTAMSAGAR M.Com

Govt. Degree College, Porumamilla
Email. Id : uttamsagar8@gmail.com

Learning Objectives

To learn about the Interface between RBI and Banks, Monetary Policy, Agriculture credit, Industrial finance, Foreign Trade, Financial system.

Interface between RBI and Banks

The role of RBI remained for a regulatory body for a long time but for the economic development, Reserve bank has been called upon to play a key role in developmental programs with other banks. Reserve bank role also includes establishing different institutions and banks which builds the economic growth and development.

Reserve Bank and Commercial Banks

RBI holds the apex position in the banking structure. It serves as the leader of the banking system and the money market. It regulates all commercial banks, Financial Institutions and non-banking finance companies working in India. RBI is a banker to banks and acts as a lender of last resort.

All scheduled banks have to maintain current accounts with Reserve Bank of India for clearing house settlement, maintaining cash reserve and inter-bank transactions etc. In recent years the RBI is guiding commercial banks effectively in investing their funds of productive purpose in creating and expanding banking facilities to rural areas.

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

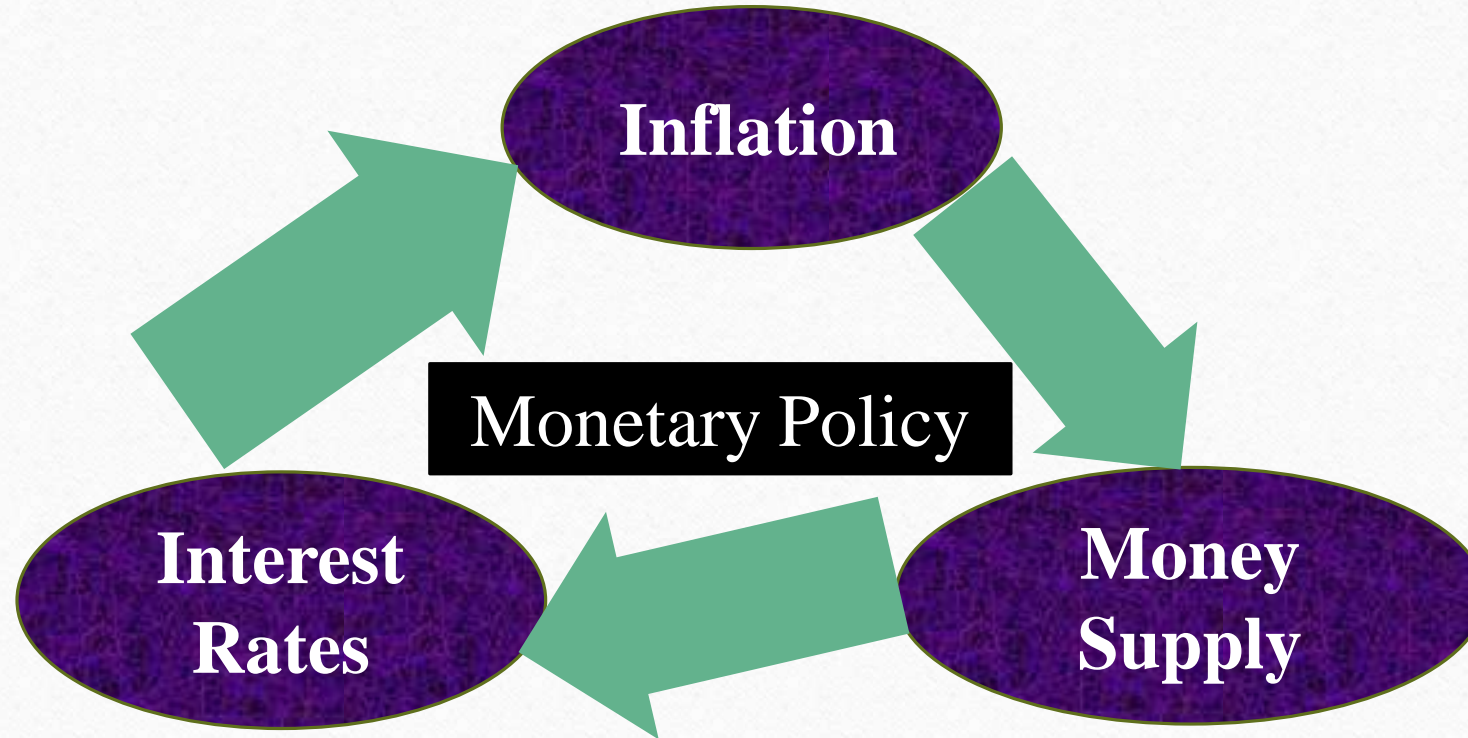
Ex:APGVB,APGB

Rural Co-op

Reserve Bank and Monetary Policy:

- ❖ The Reserve Bank of India Act, 1934, describes RBI “to regulate the issue of bank notes and the keeping of reserves with a view to securing monetary stability in India”.
- ❖ Moreover, this role has been restated as per the amendment in the RBI Act in May 2016, according to which “the primary objective of the monetary policy is to maintain price stability, while keeping in mind the objective of growth”.

Monetary policy is the process by which RBI regulates money supply and credit in the economy. RBI is the apex institute which monitors the monetary policy of India and stabilize the price by controlling Inflation.



It is RBI's endeavour to ensure price stability under flexible inflation targeting regime and also focus on growth.

RBI Instruments of Monetary Policy Include:

- ❖ Open market operations, CRR, SLR, Bank rate policy, Credit ceiling, Moral Suasion, Repo rate and reverse repo rates to keep the monetary stability.

Reserve Bank and Agricultural credit

RBI provides agricultural finance but it does not assist directly to farmers. It Provide finance of long and medium term through state co-operative banks and the state government and rural banks. RBI finances and encourages different banks and financial intermediaries to the credit of agriculture.

National Bank for Agriculture and Rural Development (NABARD) has been set up as apex bank for agriculture credit under the recommendations of Sivaraman Committee on 12 July 1982. NABARD is the most important institution in the country which looks after the development of the cottage industry, small scale industry and village industry, and other rural industries.

It promotes the various developmental activities in rural areas. It refines the financial institutions which finance the rural sector. Regional Rural Banks (RRBs) also provide the loans to farmers for agriculture activities.



https://commons.wikimedia.org/wiki/File:NABARD_.jpg



https://commons.wikimedia.org/wiki/File:Agriculture_in_Vietnam_with_farmers.jpg

Reserve Bank and Industrial Finance

Rapid industrial growth is the key to faster economic development. RBI assists the industries through development banks and owns the part in industrial finance corporation and that of state financial corporations. It also established a department to finance and monitor the industrial activities. RBI provides adequate and timely availability of credit to small, medium and large industries. RBI has always been instrumental in setting up special financial institutions such as ICICI, IDBI and SIDBI etc.

Reserve Bank and Foreign Trade

RBI has sponsored many schemes under which term loans are given to exporters. It rediscounts export bills of a longer use at concessional rates. RBI encourages EXIM bank for export and imports of foreign trade.



https://commons.wikimedia.org/wiki/File:M._taqi.jpg

Reserve Bank and 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 banking and non-banking and other developmental institutions which cater the credit requirements of diverse sectors to strengthen the financial system and the economy.