

RESERVE BANK OF INDIA (RBI)



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RESERVE BANK OF INDIA

INTRODUCTION

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- The RBI is the backbone of Indian economy and its share capital was Rs. 5crore, divided into 5lakhs full paid up shares of Rs. 100 each.
- Reserve Bank of India is the Central Bank of India, which was established on the recommendation of Hilton Young Commission on 1 April, 1935(in accordance with the provisions of RBI Act,1934) and was nationalized in 1949. RBI is wholly owned by government of India. The Central Office of the Reserve Bank was initially in Calcutta but was permanently moved to Mumbai in 1937.
- Zonal offices of RBI located at 4 places, namely Chennai, Kolkata, Mumbai(Head Office)& Delhi.

ORGANISATION OF MANAGEMENT

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- RBI is managed by the Central Board of Directors.
- Presently, there are 21 members.
- Governor – for period of 5 years.
- Four Deputy Governors- for the period of 5 years.
- Four Directors- (each nominated by local boards).
- Ten Directors (each nominated by Government of India).
- Two government officers(Appointed by Ministry of Finance).
- Since its establishment in 1935, by the British colonial government, 25 people have worked as the Governor of the Reserve Bank of India so far.

FAST FACT ON RBI

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- First Governor of Reserve Bank of India(RBI)-Osborne Smith.
- First Deputy Governor of Reserve Bank of India(RBI)-James B. Taylor.
- Previous Governor of RBI- Urjit Patel (4 Sept 2016- 11 Dec 2018).
- Present Governor of RBI- Shaktikant Das.
- Present Deputy Governor of RBI- Shri M.K. Jain, Shri B. P. Kanungo, Dr. Viral V. Acharya and Shri N. S. Vishwanathan.
- Establishment -1st April 1935 under RBI Act 1934.
- RBI Establishment on the recommendation of – Hilton young commission (or royal commission).
- Nationalization of Reserve Bank of India(RBI)- in 1949 under Banking Regulation Act 1949.
- Zonal offices of RBI Located at-4 places namely Chennai, Kolkata, Mumbai & Delhi.

FAST FACT OF RBI

- The inaugural Officerholder was the British banker Sir Osborne Smith, while Sir C. D. Deshmukh was the first Indian Governor. Holding office for over the seven years, Sir Benegal Rama Rau was the longest(2754 days) serving governor, while Amitav Ghosh's 20 days term is the shortest.
- The bank's fifteenth governor, Dr Manmohan singh, later become India's thirteenth prime minister.
- Shaktikant Das is the twenty-fifth governor of the Reserve bank of India.

FUNCTION OF RESERVE BANK

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RBI, like any other bank performs almost all traditional Central Banking functions:-

- Monetary authority.
- Financial Supervision(under guidance of BFS-Nov 1994).
- The issuer of currency.
- The issuer of Banking license.
- Banker's to the government.
- Banker's bank
- Lender of last resort.
- Money supply and Controller of credit.
- Manager of foreign exchange (Foreign Exchange Reserve, FOREX.
- Regulatory functions.
- Collection and Publication of Data(RBI bulletin-monthly publication).
- Developmental and promotional functions(helps in setting up IFCI, SFC's, UTI etc.

MONETARY POLICY COMMITTEE (MPC)

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Monetary policy committee (MPC) is a 6 members committee formed after the amendment in the RBI Act, 1934 through the Finance Act, 2016. The basic objective of MPC is to maintain price stability while accelerating the growth rate of the economy.

MEANING:-

Monetary policy (bi- monthly) refers to the policy of the Reserve bank of India with regard to the use of monetary instruments under its control to achieve the goals of GDP growth and lower inflation rate. The RBI is authorized to made monetary policy under the reserve bank of India Act, 1934.

MEANING OF MONETARY POLICY COMMITTEE(MPC)

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- The monetary policy committee(MPC) is the body of the RBI, headed by the Governor, responsible for taking the important monetary policy decision about setting the repo rate.
- Repo rate is the policy instrument in monetary policy that helps to realize the set inflation target by the RBI.
- The monetary policy committee(MPC) constituted by the central government under section 45ZB.
- The MPC determines the policy interest rate required to achieve the inflation target.
- The Reserve bank's monetary policy department(MPD) assist the monetary policy committee (MPC)in forming the monetary policy.

COMPOSITION OF MONETARY POLICY COMMITTEE

BY- AJAY SIR

- The 6 member monetary policy committee(MPC) constituted by the central government as per the sec45ZB of the amendment RBI act 1934.
- The first meeting of the monetary policy committee(MPC) was held on in Mumbai on October 3,2016.
- Three of the members are from the RBI while the other three members are appointed by the government.
- The committee is to meet at least four times a year and make public its decisions following each meeting.
- The quorum for the meeting of the MPC is four members, decisions will be taken on the basis of majority vote.

OBJECTIVES OF MONETARY POLICY OF INDIA

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- Growth with the stability.
- Regulation, supervision and development of financial stability.
- Promoting priority sector.
- Generation of Employment
- External stability
- Encouraging Saving and Investment
- Redistribution of Income and wealth.
- Regulation of NBFIs.

CREDIT CONTROL BY RBI

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Credit control is one of the principal functions of RBI. Credit control means expansion and contraction of credit. The various methods employed by the RBI to control credit creation power of the commercial banks can be classified in two groups, viz. quantitative controls and qualitative controls.

1. Quantitative Credit Control

Quantitative or traditional methods of credits control includes banks rate policy, open market operations and variable reserve ratio.

BANK RATES

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- Bank rate is the rate of interest charged by the Central Bank of India against loans offered to commercial banks. Bank rate is usually higher than the repo rate.
- Unlike repo rate, bank rate directly affects the end user, in this case the customer, as high bank rates mean high lending rates.
- When banks pay high interest rate to obtain loan from RBI, they in return charge the customer high interest rate to obtain loan from RBI, they in return charge the customer high interest rate to break even.
- Also known as “Discount Rate”.
- Bank rate is a powerful tools used by the RBI to control liquidity and money supply in the market.
- The current bank rate is the same as Marginal standing Facility Rate i.e. 5.65%.

OPEN MARKET OPERATION

- Open market operations refers to the sale and purchase of securities by central bank.
- A sale of securities by the central bank i.e. the purchase of securities by commercial banks, results in a fall in the total cash reserves of the later.
- A fall in the total cash reserves is leads to a cut in the credit creation power of the commercial banks with reduced cash reserves at their command the commercial bank can only create lower volume of credit.
- Thus, a sale of securities by the central bank serves as an anti-inflationary measure of control, likewise, of a purchase securities by the central bank results in more cash flowing to the commercial banks.

CASH RESERVE RATIO

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- Banks are required to retain a certain percentage of their net deposits and time liabilities(NDTL) as liquid cash.
- However, banks prefer to deposits this liquid cash with the Reserve bank of India, which is equivalent to having cash in hand.
- The percent of the deposits that should be kept aside by banks is called cash reserve ratio.
- CRR is fixed by the Reserve Bank of India.

Statutory Liquidity Ratio

Statutory liquidity ratio refers to that portion of total deposits which a commercial bank has to keep with itself in the form of liquid assets viz. cash, gold or approved government securities.

By changing this ratio, the central bank control the credit in the economy. If it wants to discourage credit in the economy, it increases these ratios and if it wants to encourage credit in the economy, it decreases these ratios.

REPO AND REVERSE REPO RATE

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- Repo means sale and Repurchase agreement .
- Repo is a swap deal involving the immediate sale of securities and simultaneous purchase of those securities at a future date, at a predetermined price.
- Repo rates help commercial banks to acquire funds from RBI by selling securities and also agreeing to repurchase at a later date.
- Repo and reverse repo operations are used by RBI in the Liquidity Adjustment facility .
- RBI contracts credit by increasing the repo and reverse repo rates and by decreasing them it expands credit.

QUALITATIVE CREDIT CONTROL

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The qualitative or selective method of credit control are adopted by the central bank in its pursuit of economic stabilization and as part of credit management. The qualitative credit instruments are:-

- Margin requirement
- Maximum limit of loans
- Rationing of Credit
- Moral suasion
- Consumer credit regulation

MARGIN REQUIREMENT

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- It is difference between value of collateral security and amount of loans offered.
- The commercial banks generally advance loans to their customers against some security or securities offered by the borrower and acceptable to banks.
- Changes in margin requirements are designed to influence the flow of credit against specific commodities .
- A rise in the margin requirement results in a contraction in the borrowing value of the security.
- Similarly, a fall in the margin requirement results in expansion in the borrowing value of the security.

MAXIMUM LIMIT OF LOANS

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- RBI fix the maximum limit of loans by the commercial banks.
- Regulation of credit is assigned to check the flow of credit for consumer durable goods.

RATIONING OF CREDIT

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RATIONING OF CREDIT:-

It is a method by which the central bank seeks to limit the maximum amount of loans and advances and, also In certain cases, fix ceiling for specific categories of loans and advances.

MORAL SUASION

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- RBI holds meeting with member banks and seek their cooperation in controlling the monetary system of country.
- Moral suasion and credit monitoring arrangement are other methods of credit control.
- The policy of moral suasion will succeed only if the central bank is strong enough to influence the commercial banks in India from 1949 onwards.

CONSUMER CREDIT REGULATION

The regulation of consumer credit consists of laying down rules regarding down payments and maximum maturities of installment credit for the purchase of specified durable consumer goods.

Raising the required down payment limits and shortening of maximum period tend to reduce the demand for such loans and thereby check consumer credit.

Monetary policy rate (as per April 2021)

Indicators	Current Rates
CRR	3.00 %
SLR	18.00 %
Repo Rate	4.00 %
Reverse Repo Rate	3.35 %
Marginal Standing Facility Rate	4.25 %
Bank Rate	4.25 %

SUBSIDIARIES OF RBI

SUBSIDIARIES OF RBI:-

- National Housing Bank(NHB)
- Bhartiya Reserve Bank Note Mudran private Limited(BRBNMPL)
- National Bank for Agricultural and Rural Development(NABARD)
- Deposit Insurance and Credit Corporation(DICGC)

NATIONAL HOUSING BANK (NHB)

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- National Housing Bank was set up on July 9, 1998 under the national Housing Bank Act 1987 as a wholly owned subsidiary of the Reserve Bank to act as an apex level institution for housing.
- To promote a sound healthy, viable and cost effective housing finance system to all segments of the population and to integrate the housing finance system with the overall financial system.
- To promote a network of dedicated housing finance institution to adequately serve various regions and different income groups.
- To augment resources for the sector and channelise them housing .

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- To make housing credit more affordable.
- To regulate the activities of the housing finance companies based on regulatory and supervisory authority derived under the Act.
- To encourage augmentation of supply of build able land and also building materials for housing and to upgrade the housing stock in the country.
- To encourage public agencies to emerge as facilitators and suppliers serviced land for housing.

BHARTIYA RESERVE BANK NOTE MUDRAN PRIVATE LIMITED

- The Reserve bank established BRBNMPL in February 1995 as a wholly owned subsidiary to augment the production of bank notes in India and to enable bridging of the gap between supply and demand for bank notes in the country. The BRBNMPL has been registered as a public limited company under the companies Act, 1956 with its registered and corporate office situated at the Bengaluru. The company manages two presses, one at Mysore in karnataka and the other at Salboni in West bengal.

NABARD

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- National Bank for Agriculture and Rural Development (NABARD) is one of the subsidiaries where the majority stake is held by the Reserve bank. NABARD is apex development bank with a mandate for facilitating credit flow for promotion and development of agriculture, small scale industries.
- Established in 12 July 1982.

DICGC

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DEPOSIT INSURANCE AND CREDIT GUARANTEE CORPORATION:-

- With a view to integrating the functions of deposit insurance and credit guarantee corporation and credit corporation of India were merged and the present deposit insurance and credit corporation came into existence on July 15, 1978.
- The DICGC established under the DICGC Act 1961, as one of the wholly owned subsidiaries of the Reserve bank.
- The DICGC insures all deposits(such as savings, fixed, current and recurring deposits) with eligible banks except the following:-

CONTINUE.....

- i. Deposits of foreign Governments.
- ii. Deposits of central Governments/state Governments
- iii. Inter-bank deposits
- iv. Deposits of the state land development banks with the state cooperative bank.
- v. Any amount due on account of any deposits received outside India.
- vi. Any amount, which has been specially exempted by the corporation with the previous approval of Reserve Bank of India. Every eligible bank depositor is insured up to a maximum of Rs.100000 for both principal and interest amount held by him.