



“RBI, THE CUSTODIAN OF INDIAN ECONOMIC AND FINANCIAL SYSTEM”

Dr. Vijay Singh Negi

Asso. Professor

HOD Dept. OF Commerce

Govt. PG College , Dakpathar, Vikasnagar
Dehradun.

ABSTRACT

Since whilst India was given its independence in 1947, the stumbling block in the front of the policymakers became to fight the poverty which became inherited from the Britishers and a few which took delivery all through the partition. The troubles had been many however the answer became implicitly and explicitly the same, that is, to enhance the Indian financial system so the great of lifestyles and in line with capita profits of a person should flourish. Economy is called as veins and the blood flowing in the ones veins is not anything however cash. The cash and it circulation is the oxygen for any financial system and controlling it's miles one of the maximum essential part. The Reserve Bank of India (RBI) became installed in the year 1935 according with the Reserve Bank of India Act, 1934. The Reserve Bank of India is the central Bank of India entrusted with the multidimensional function. It plays essential economic features from difficulty of forex be aware to protection of economic balance in the country. Initially the Reserve Bank of India became a personal shareholder's business enterprise which became nationalized in 1949. Its affairs are ruled through the Central Board of Directors appointed through the Government of India. Since its inception the Reserve Bank of India had performed an essential function withinside the monetary improvement and economic balance withinside the country. This paper is a try discover into the function, features, and contribution of RBI in Indian Economy. RBI, on the grounds that its inception, has been gambling key function in the method of economic, banking and economic guidelines vital for Indian financial system. No Department has witnessed the diverse levels of transition of Indian banking machine from a closed one to well-liberalized one (specially on the grounds that mid-1990s) from nearer quarters than the Department of Banking Operations and Development - popularly known as DBOD.

To facilitate the transition process and in order to effectively perform its varying roles in the changing banking scenario, from 'regulator' to 'facilitator' over the period, Department has

undergone various organizational changes and so also in its activities, approach and functioning.

KEYWORDS: Facilitator, Regulator, Monetary Stability, DBOD.

INTRODUCTION

The Reserve Bank of India (RBI) was established in the year 1935 according with the Reserve Bank of India Act, 1934. The Reserve Bank of India is the imperative Bank of India entrusted with the multidimensional position. It plays crucial financial capabilities from problem of foreign money be aware to upkeep of financial balance in the country. Initially the Reserve Bank of India changed into a personal shareholder's agency which changed into nationalized in 1949. Its affairs are ruled via way of means of the Central Board of Directors appointed via way of means of the Government of India. Since its inception the Reserve Bank of India had performed a crucial position in the monetary improvement and financial balance withinside the country. The Royal Commission on Indian Currency and Finance appointed on August 25, 1925 has counselled the status quo of the Central Bank in India, later the Indian Central Banking Enquiry Committee, 1931 harassed the status quo of the Central Bank in India. The Reserve of Bank changed into hooked up on April 1, 1935 below the Reserve Bank of India Act, 1934. The principal item of Reserve of India is, "to modify the difficulty of Bank notes and the retaining of reserves on the way to securing financial balance in India and normally to function the foreign money any credit score machine of the country to its advantage" The Reserve Bank of India changed into hooked up as a personal shareholder's financial institution. The Central workplace of Reserve Bank of India changed into to begin with positioned in Calcutta which changed into later shifted to Bombay. The Reserve Bank of India issued first of its foreign money notes in January 1938 in de nomination of Rs. Five and Rs.10 and later in the equal denomination of Rs.100, Rs. one thousand and Rs. Ten thousand had been issued Post Independence the Reserve Bank of India changed into nationalized in the year 1949 through the Reserve Bank (Transfer of Public Ownership) Act, 1948 and all stocks had been transferred to Central Government. The Reserve financial institution of India is constituted for the control of foreign money and for sporting the enterprise of banking according with provisions of the Act. It is a frame company having perpetual succession, common seal and may be sued or sue in its name. The standard supervision and path of the affairs of the Reserve Bank is entrusted with Central Board of Directors. RBI have historically sought to pursue a first-rate balancing act of selling charge balance whilst retaining the financial system on a sustainable boom path. More recently, with the approaching of age of globalization and with it massive and fickle cross-country glide of capital, monetary balance has been brought to the balancing act. As any aspiring juggler will be aware, it's miles plenty tougher to stability 3 balls withinside the

air than two. Moreover, whilst capital flows start to boom in significance with a view to probably effect the change charge or even result in massive will increase in internet overseas belongings in the banking machine, the strain on turning in the intention of rate cum monetary balance will become probably plenty greater challenging.

LITERATURE REVIEW

Mohan 2011 elaborated that as with different imperative banks, the RBI is liable for typically most important goals. In pursuit of its first purpose, its miles anticipated to hold home rate balance and in so doing and each time feasible accommodate a bendy boom–inflation stability.

Gokarn 2010 noted the demanding situations in assembly the primary purpose is frequently exacerbated through the reality that withinside the absence of complete autonomy of the primary financial institution, the authorities frequently have a tendency to exert stress at the primary financial institution to pursue pro-boom strategies. With restrained economic area to pursue call for control guidelines and/or withinside the run-as much as elections, this stress may be similarly increased. The mission in assembly the second one purpose, economic balance includes amongst others, getting the proper stability among financial coverage and macro-prudential control.

Chippa and Sagar (1981) mentioned the versions in the stage of banking improvement in Eighteen States in 1977 and studied its courting with different social, monetary and infrastructural variables. The evaluation found out that literacy price observed through the infrastructural improvement emerged because the maximum dominant variables influencing the extent of banking improvement.

Kumar and others (1987) tried to look at the enlargement of business banking centres and volume of disparity in agriculture financed through the industrial banks in numerous states of India.

OBJECTIVES AND RESEARCH METHODOLOGY

OBJECTIVES OF STUDY:

1. To explore the evolution of Reserve Bank of India (RBI): This research study will help us understand that how RBI has emerged and evolved as the central bank and the custodian of Indian Economy.
2. To analyse the role and functions of RBI in Indian economy: This study also includes the brief functions and different sectoral roles of RBI.
3. To assess the Monetary Control Methods of RBI: One of the main functions of the RBI is to assess and create a monetary policy in order to control the money supply in economy which directly impacts the inflation and/or deflation.

FUNCTIONS OF RESERVE BANK OF INDIA:

Functions of may be summarized as given below:

Banker to Government:

The Reserve Bank of India accepts and makes charge on behalf of Central Government. It incorporates out its change, remittance, control of public debt and different banking characteristic of the Central Government. The Central Government entrusts its money, remittance, change and banking transactions in India with the Reserve Bank of India. It offers in repo or reverse repo.

Right to Issue Bank note:

The Reserve Bank of India has the only proper to trouble financial institution notes in India. The financial institution notes are felony smooth assured through the Central Government. The trouble of financial institution be aware is performed through a separate branch referred to as trouble branch. The Central Government on the advice of Central Board specifies denomination of financial institution notes such as discontinuance of financial institution notes. The Central Government approves design, shape and cloth of Bank notes on attention of tips of the Central Board.

Formulates Banking policy:

The Reserve is empowered to formulate banking coverage withinside the hobby of the general public or depositors banking coverage in terms of advances and offer path at the reason of the advances, margins to be maintained in a secured strengthen, the most quantity of strengthen can be made, the price of hobby, phrases and situations for advances or ensures can be given.

Licensing Authority:

The Reserve Bank of India is empowered to furnish license to begin banking commercial enterprise in India, such as the strength to cancel a license granted to a banking company. A petition became filed under Article 226 of the Constitution, challenging the constitutional validity of segment 22 of the Banking Companies Act, 1949. Section 22 empowers, Reserve Bank of India to furnish license to Banks and banks which have been already in life at the graduation of the Act should practice for license earlier than the expiry of six months from begin. The petitioner contended that the segment 22 of the Banking Regulating Act, 1949 is in restraint of alternate and commercial enterprise subsequently unconstitutional. The writ became disregarded and the High Court declared segment 22 of the Banking Regulating Act, 1949 as constitutionally legitimate and loved the function of Reserve Bank of India withinside the financial improvement of the country. The Madras High Court meticulously said, "The Reserve Bank of India became installed so that you can fostering the banking commercial enterprise and now no longer for impeding the increase of such commercial

enterprise. The powers vested in it under Section 22 aren't one invested with a trifling officer of the Bank. The requirements for the exercising of the strength had been laid down in Section 22 itself. The Reserve Bank is a non-political frame worried with the price range of the country. When a strength is given to this type of frame under a statute which prescribes the rules of a Banking Company, it is able to be assumed that such strength could be exercised in order that genuine: banking worries might be allowed to characteristic as a financial institution, whilst establishments masquerading as banks or the ones run-on unsound traces or which could have an effect on the pastimes of the general public might be weeded out.”

Banker's Bank

The banks indexed in 2nd agenda and non-agenda banks shall preserve a reserve ratio with the Reserve financial institution of India so that you can securing the economic balance in the country. It presents loans and advances in overseas forex to scheduled Banks and to different economic organization. It purchases, sells or cut price any invoice of change or promissory be aware or makes a mortgage or advances to agenda financial institution.

Depositor Awareness and Education

The Reserve Bank of India has constituted a fund referred to as “Depositor Education and Awareness Fund.” The fund is applied for the promoting of depositors” hobby and different functions in the interest of the depositor.

Regulation and Management of Foreign Exchange

The Reserve Bank of India is empowered to regulate, prohibit, and limitation dealing in forex. It troubles license to banks and different organization to behave because the legal employer withinside the forex marketplace The capabilities of the Reserve Bank nowadays may be classified as follows:

- Monetary and Credit policy
- Foreign exchange management
- Currency management

MONETARY POLICY OF RBI:

RBI works as the economic authority of India and there via way of means of operates the economic coverage. Reserve Bank of India broadcasts Monetary Policy each year withinside the Month of April. This is accompanied by 3 quarterly Reviews in July, October and January. But, RBI at its discretion can announce the measures at any factor of time. The Annual Monetary Policy is made of components viz.

Part A: macroeconomic and economic tendencies;

Part B: Actions taken and sparkling coverage measures. Monetary coverage of the RBI offers with nearly all different important subjects inclusive of economic stability, economic markets, interest rates, credit score delivery, regulatory norms, economic inclusion and institutional tendencies etc. Objectives of the economic coverage: Monetary coverage refers to an umbrella of operations used for the manager of cash deliver in the economic system with large goal to preserve monetary and economic stability; and make certain ok economic assets for the motive of development. These targets of the economic coverage in India have long past thru a manner of slow evolution and may be similarly elevated to retaining rate stability, adequate waft of credit score to effective sectors, promoting of effective investments & trade, promoting of exports and monetary growth.

INSTRUMENTS OF MONETARY POLICY:

The tool of economic coverage is equipment or devise that are utilized by the economic authority with a purpose to reap a few predetermined objectives. There are forms of instruments of the economic policy as proven below.

(A) Quantitative Instruments

The Quantitative Instruments also are referred to as the General Tools of economic coverage. This equipment is associated with the Quantity or Volume of the cash. The Quantitative Tools of credit score manipulate also are referred to as General Tools for credit score manipulate. They are designed to adjust or manipulate the overall quantity of financial institution credit score withinside the financial system. This equipment is oblique in nature and are hired for influencing the amount of credit score withinside the country. The standard device of credit score control comprises of following instruments.

I. Bank Rate Policy (BRP)

The Bank Rate Policy (BRP) is a totally critical approach used in the economic coverage for influencing the quantity or the amount of the credit score in a country. The financial institution charge refers to rate at which the central financial institution (i.e RBI) rediscounts payments and prepares of business banks or presents increase to business banks towards permitted securities. It is "the same old charge at which the financial institution is ready to shop for or rediscount payments of trade or different business paper eligible for buy under the RBI Act". The Bank Rate influences the real availability and the price of the credit score. Any change in the financial institution charge always brings out a resultant alternate in the price of credit score to be had to business banks. If the RBI will increase the financial institution charge than it reduces the quantity of business banks borrowing from the RBI. It deters banks from in addition credit score growth because it turns into a greater expensive affair. Even with extended financial institution charge the real hobby fees for a short-time period lending cross up checking the credit score growth. On the opposite hand, if the RBI

reduces the financial institution charge, borrowing for business banks may be smooth and cheaper. This will raise the credit score creation. Thus, any extrude withinside the financial institution charge is commonly related to the ensuing modifications withinside the lending charge and in the marketplace rate of interest. However, the performance of the financial institution charge as a tool of economic coverage relies upon on present banking network, interest elasticity of funding demand, size and strength of the cash marketplace, worldwide waft of funds, etc.

ii. Open Market Operation (OMO)

Open marketplace operations discuss with the sale and buy of securities withinside the cash marketplace through the vital financial institution of the country. When costs begin growing and there may be a want to govern them, the vital financial institution sells securities. The reserves of business banks are decreased and they may be now no longer in a role to lend greater to the enterprise network or standard public. Further funding is discouraged and the upward push in costs is checked. Contrariwise, while recessionary forces begin in the financial system, the vital financial institution buys securities. The reserves of business banks are raised so that they lend greater to the enterprise network and the overall public. It in addition increases Investment, output, employment, profits and demand withinside the financial system subsequently the fall in rate is checked.

iii. Changes in Reserve Ratios:

Under this method, CRR and SLR are most important deposit ratios, which lessen or boom the idle coins stability of business banks. Every financial institution is needed through regulation to hold a sure percent of its general deposits withinside the shape of a reserve fund in its vaults and additionally a sure percent with the vital financial institution. When costs are growing, the vital financial institution increases the reserve ratio. Banks are required to hold greater with the vital financial institution. Their reserves are decreased and that they lend much less. The quantity of funding, output and employment are adversely affected. In the alternative case, while the reserve ratio is lowered, the reserves of business banks are raised. They lend greater and the monetary pastime is favourably affected.

2. Selective or Qualitative Credit Controls:

Selective credit score controls are used to persuade precise forms of credit score for unique purposes. They normally take the shape of converting margin necessities to govern speculative sports within the financial system. When there may be a brisk speculative activity in the economy or especially sectors in certain commodities and costs begin growing, the vital financial institution increases the margin requirement on them.

a. Change in Margin Money:

The end result is that the debtors are given much less cash in loans towards special securities. For instance, elevating the margin requirement to 70% manner that the pledger of securities of the fee of Rs 20,000 may be given 30% in their fee, i.e. Rs 6,000 as a loan. In case of a recession in a selected sector, the vital financial institution encourages borrowing

through decreasing margin necessities. b. Moral Suasion: Under this method, RBI urges business banks to assist in controlling the delivery of cash in the financial system.

b. Moral Suasion: Under this method, RBI urges commercial banks to help in controlling the supply of money in the economy.

RESEARCH METHODOLOGY

It's continually crucial to be vital of the statistics offered in sources, mainly because the cloth could have been accumulated to deal with a distinctive hassle place. also, numerous secondary sources do not without problems describe troubles comparable because the reason of a study, how the information has been accumulated, analysed and interpreted making it sensitive for the experimenter to evaluate their utility. In order to deal with this hassle, I've attempted to triangulate the secondary information through the usage of multitudinous impartial sources. The statistics approximately the hassle is accumulated from the Research Journals, Trade Magazines, Annual Reports of Banks and the Internet. For assessing the Role, Functions and Monetary Control types of RBI, we have got focused on as current cloth as possible. In order to get entry to the rearmost trends on this place we have got used some of composition s posted in educational journals and exchange magazines. We've extensively utilized secondary statistics from Internet grounded dialogue forums.

RESEARCH DISCUSSION AND FINDINGS:

As with all economies, the valuable financial institution performs a key position in dealing with and tracking the economic rules affecting each industrial and private finance in addition to the banking system. The financial institution affected a demonetization of the Indian rupee (INR) in 2016, eliminating Rs. 500 and Rs. a thousand notes from circulation, removed almost 86% of its cash overnight. The circulate aimed to prevent counterfeiting, hoarding, and terrorism-associated activities. Another main motivation became to prevent tax evasion in a rustic wherein most effective 1% of residents reportedly paid earnings taxes in 2013. The evaluation following this selection indicates a few wins and losses. The demonetization of the desired currencies induced coins shortages and chaos even as additionally requiring greater spending from the RBI for printing extra cash. On the opposite hand, tax series increased, which resulted from extra client reporting transparency. The valuable financial institution ought to additionally grapple with a barely risky inflation price. The RBI Act of 1934 calls for the financial institution and the federal authorities to visit each other to give you an appropriate inflation goal. As of April 2021, the RBI suggested a goal price of 4%—the best degree achieving 6% even as the bottom hung in round 2%. This goal will stay for the five-12 months length from April 1, 2021, to March 31, 2026. India's coverage repo price remained regular at 4%. This is the hobby price that the valuable financial institution lends cash to the nation's industrial banks. The RBI took drastic steps to deal with the monetary

and economic problems that resulted from the COVID-19 pandemic. The price dropped 2% from April 2019, whilst the financial institution set it at 6%. Credit charges remained pretty excessive in India previous to that time, notwithstanding the valuable financial institution's positioning, which has been proscribing borrowing throughout the economy.

INDIA'S GROWTH

India's economic system skilled a tremendous degree of increase for the reason that early 2000s. According to the World Bank, the country carried out rules to assist get extra than ninety million humans out of poverty among 2011 and 2015. Despite its speedy increase rate, the Indian economic system has weakened—each earlier than and in the course of the worldwide COVID-19 pandemic hit. A susceptible economic quarter and a drop in personal intake caused a drop in increase from 8.3% to 4% between 2017 and 2020. The World Bank anticipated India's GDP to be more than \$2.62 billion as of 2020, making it the sixth-biggest in the global after the U.S., China, Japan, Germany, and the United Kingdom. This parent is predicted to grow, with the maximum obvious impact someday in 2022. The World Bank estimates increase to stabilize round 7% through that point. This will probably be because of an extra awareness on economic and economic coverage to assist improve suffering people and businesses, in addition to extra spending on fitness and welfare—all of that is predicted to reduce the blow of the crisis.

SUGGESTIONS:

RBI has played a major role in context of controlling the money flow and maintaining the equilibrium between monetary demand and supply. This results into a vibrant economy. But these neutral factor suits well in unchanged conditions. The dynamic conditions like COVID, where whole economy was under the lockdown, it was sheer brilliance that the RBI has maintained that our economy recovered very promptly when other economies suffer. The suggestion from this research will be to create strong measures regarding NPA and bad banks as the money flow and loans are the backbone of business and for running economy. The other suggestion will be to create more transparency in the Bank rates and focusing more towards Financial Inclusion. The NBFCs are new to Indian market and the fact is inevitable that NBFCs are yet to face hard times. So proper incentives and measures are required for NBFCs as well so that they can also cater in development to Indian economy.

CONCLUSION:

The Reserve Bank of India was established with a purpose to fostering the banking enterprise and now no longer for impeding the boom of comparable enterprise. The powers vested in it under Section 22 are not one invested with a bare officer of the Bank. The norms for the workout of the strength had been laid down in Section 22 itself. The Reserve Bank is a non-political frame involved with the budget of the country. When an authority is contributed to this kind of frame under a statute which prescribes the policies of a Banking Company, it is able to be assumed that comparable strength might be exercised in order that real banking businesses may be allowed to function a bank, at the same time as establishments masquerading as banks or the ones run on misguided strains or which might have an effect on the hobbies of the general public may be weeded out. The Reserve Bank "s experimental element consists of icing credit score to effective sectors of the economy, developing establishments to make economic structure, and increasing get admission to less expensive economic services. It additionally performs an energetic element in encouraging powerful customer provider in the course of the banking industry, in addition to extension of banking provider to all, via the thrust on monetary inclusion. RBI works because the monetary authority of India and there with the aid of using operates the monetary coverage. Reserve Bank of India proclaims Monetary Policy on every occasion in the Month of April. This is accompanied with the aid of using 3 every day Reviews in July, October and January. But, RBI at its discretion can market it the measures at any factor of time. The Annual Monetary Policy is made from corridors viz.

Part A macroeconomic and monetary traits;

Part B behaviour taken and clean coverage measures. Monetary coverage of the RBI offers with almost all different essential motifs comparable as economic stability, economic requests, hobby rates, credit score delivery, regulatory morals, economic addition and institutional traits etc. These are diverse selective devices of the monetary coverage. Nevertheless, the fulfilment of those equipment is restrained with the aid of using the vacuity of quintessential sources of credit score in economy, operating of the Non-Banking Financial Institutions (NBFIs), income cause of marketable banks and undemocratic nature off those equipment. But a proper combination of each the overall and selective equipment of monetary coverage can deliver the favoured results.

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