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***B. Com part -2 subsidiary paper -4 Monetary Theories and financial institutions***

***Unit -3 commercial Bank lecture-5***

## ***Reserve Bank of India***

### ***Introduction :***

***In the monetary system of all countries, the central bank occupies an important Place. The Central bank of a country enjoys a special status in the banking structure Of the country. It is an apex institution of the monetary system, which seeks to Regulate the functioning of the commercial banks of a country. It is a monetary Authority of the country and has to function in a manner so as to promote economic Stability and development. The Central Bank of India is called the Reserve Bank of India which was set up in 1935.***

***Macro economic environment in India is affected by the monetary policy and Fiscal policy. Monetary policy refers to the regulation and control of money supply And credit by the***

*monetary authority of a country. This chapter analyzes history of Reserve Bank of India, functions of RBI, instruments of credit control and main Features of Reserve Bank of India.*

### ***Objectives of RBI:***

- i) To discuss the functions of Reserve Bank of India.*
- ii) To study various instruments of credit control.*
- iii) To acquaint the readers with the main features of monetary policy Since independence.*

### ***History of Reserve Bank of India :***

*The Reserve Bank of India was inaugurated on 1<sup>st</sup> April, 1935 under the Reserve Bank of India, Act, 1934. It was inaugurated with a share capital of Rs. 5 Crore, divided into shares of Rs.100 each fully paid. In the beginning, the entire Share capital was owned by private share holders.*

***The Reserve Bank was nationalized In 1949. The Banking Regulation Act, 1949 is an important landmark in the history Of Central Banking in the country. This act armed the Reserve Bank of India with Special power of exercising direct control over the operations of the Commercial Banks of India.***

***The general superintendence and direction of the bank is entrusted to Central Board of Directors of 20 members, consisting of the Governor and 4 Deputy Governors. Besides the Central Board, there are four local boards with headquarters At Bombay, Calcutta, Madras and New Delhi.***

### ***Functions of Reserve Bank of India :***

***Reserve Bank of India is the Central Bank of the country. It is the apex of the Banking institutions. The Reserve Bank of India was inaugurated in April 1935, since Its inception in 1935 as a private share holder 's bank and its nationalization in 1949, Working and functions of the Reserve Bank have been expanded a lot. By the Reserve Bank of India Act of 1934, all the important functions of a central bank have Been entrusted to the Reserve Bank of India.***

***As the central banking authority, the Reserve Bank of India performs numerous functions. It is the apex monetary and***

*Financial institution responsible for the efficient working of the monetary mechanism, Which is indispensable for the rapid development of a country 's economy. One of Following functions is the regulation and control of the aggregate money supply –*

*Currency and credit in the economy. The Reserve Bank of India Act, 1934 and Banking regulation Act, 1949 have in effect armed the Reserve Bank of India with Almost dictatorial powers over the country 's banking system with regard to the*

*Regulation and control of money supply and credit in the country.*

*Following are the Important functions of a central bank, i.e. Reserve Bank of India-*

- i) Monopoly of Note-issue*
- ii) Banker to Government*
- iii) Banker 's bank and supervision of banks*
- iv) Controller of credit*

## v) Custodian of foreign exchange reserves

### **Monopoly of Note-issue :**

*Under Section 22 of the Reserve Bank of India Act, the Reserve Bank has The sole right for the issue of currency in India other than one rupee coins and notes And subsidiary coins. The Reserve Bank follows the minimum reserve system of Note issue.*

*According to Reserve Bank of India (Second Amendment) Act, 1957, Reserve Bank of India is required to maintain gold and foreign exchange reserves Of Rs.200 Crore, of this the value of gold was not to be less than Rs.115 Crore and The balance of Rs.85 Crore to be held in the form of foreign securities. In India with The exception of 1 rupee notes, which are issued by the ministry of finance of the Government of India, the entire note issue is done by the Reserve Bank of India.*

*Thus Central bank of the country i.e. Reserve Bank of India has the monopoly of Issuing notes or paper currency to the public.*

### **Banker to the Government :**

*The second important function of the Reserve Bank of India is to act as a Government banker, agent and adviser. As a banker to the Government, the Reserve Bank performs various functions such as transacting the general banking business of the Government, managing treasury bills, selling treasury bills, making advances to the Central and State Government and acting as an advisor to the Government not only in banking and financial matters, but also on a wide range of economic issues etc. All the balances of the Government are kept with the Central bank. On these balances the Central bank pays no interest. Thus, the Central bank performs a number of services to the Government.*