

RESERVE BANK OF INDIA

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Introduction

- It is the central bank of India
- Established in 01 April 1935 under the RESERVE BANK OF INDIA ACT
- Its head quarter is in Mumbai (Maharashtra)
- Its present Governor is Mr. Shaktikant Das (since Dec12, 2018)
- It has 22 regional offices, most of them in state capitals
- Website: <http://www.rbi.org.in>

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- It was set up on the recommendations of the Hilton Young Commission
- It was started as shareholders bank with a paid up capital of 5 crores
- Initially it was located in Kolkata
- It moved to Mumbai in 1937.
- Initially it was privately owned.

- Since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.
- Its first Governor was Sir Osborne A. Smith April 1, 1935 to June 30, 1937
- The first Indian Governor was “ Sir Chintaman D. Deshmukh” August 11, 1943 to June 30, 1949.

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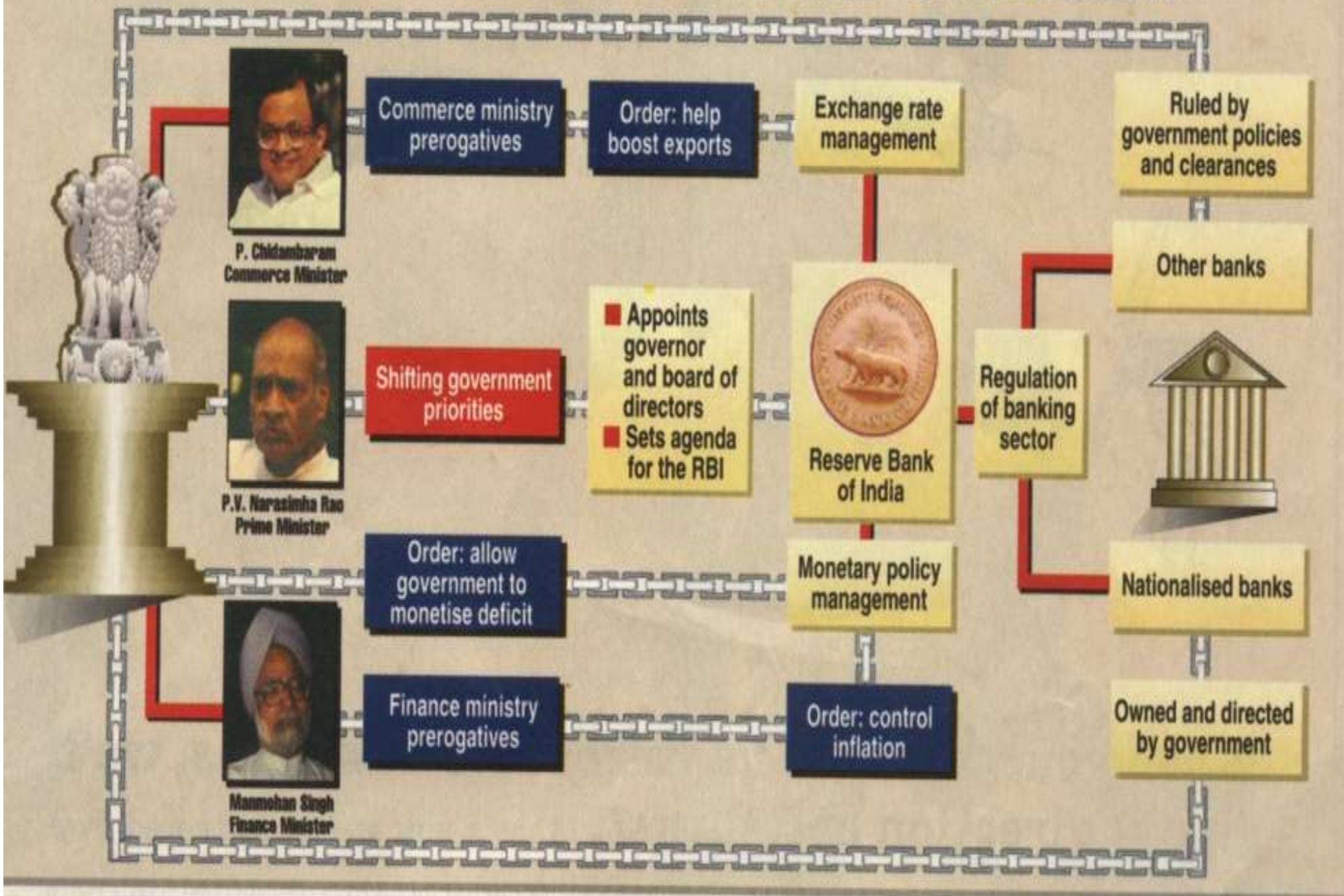
- Dr. Y. V. Reddy Sept.06, 2003 to Sept.05, 2008
- Dr. D. Subbarao Sept.05, 2008 to Sept.04, 2013
- Dr. Raghuram Rajan Sept.04,2013 to Sept.03,2016
- Dr. Urjit Patel Sept.04, 2016 to todote
- On June 27, 2006, the Union Government of India reconstituted the Central Board of Directors of the RBI with 13 members, including Azim Premji and Kumar Manglam Birla

Preamble

The preamble of RBI describes the basic functions of RBI as:-

“.... To regulate the issue of bank notes and keeping of reserves with the view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.”

HOW THE RBI IS CHAINED TO THE GOVERNMENT



Organisation of RBI

- Central Board
- Local Board

Contd...

- The RBI's affairs are governed by a central board of directors. The Board is appointed by the Government as per the RBI Act.
- Appointed / nominated for a period of four years.
- Constitution:
 - Official Directors
 - . Full time: Governor and not more than 4 Deputy Governor

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- Non Official Directors
 - Nominated by Government: 10 Directors from various fields and one government official
 - Others : 4 Directors – one each from 4 local boards
- Functions: General supreintendence and direction of the Bank's affairs

Local Board

- One each for the 4 regions of the country in Mumbai, Kolkata, Chennai and New Delhi
- Membership:
 - Consist of 5 members each
 - Appointed by the Central Government
 - For a term of 4 years

Local Board (2 of 2)

- Functions: to advise the Central Board on local matters and to represent territorial and economic interest of local cooperative and indigenous banks
- To perform such other functions as delegated by central board from time to time.

Functions of RBI

- Monetary Authority
- Regulator and supervisor of Financial system
- Manager of FOREX
- Issuer of currency
- Developmental role

Formulate Monetary Policy

- Objective: to maintain price stability and ensuring adequate flow of credit in the economy

What RBI does?

It formulates, implements and monitors the monetary policy.

Instruments: Qualitative and quantitative.

Quantitative Measures

- Bank Rate are also called discount rate. It also includes repo rate.
- Open Market Operations as buying and selling of Government securities.
- Variable Reserve Ratio : it includes CRR and SLR.

Qualitative Measures

- Margin requirements
- Moral suasion
- Rationing of Credit

Regulate and Supervise the financial system

- Objective:

To maintain public confidence in the system, protect depositor's interest & provide cost effective banking services to the public.

What RBI does?

- Prescribes broad parameter of banking within which the country's banking and financial system functions.
- The RBI perform this function under the guidance of Board for Financial Supervision (BFS)
- Lender of last resort

Manager of FOREX

- Objective : to facilitate external trade and payment and promote orderly development and maintenance of FOREX market in India.

What RBI does?

- It acts as a custodian and manages FEMA, 1999.
- It buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies
- Dollar deposits - LIBOR

Issue of Currency

- Objective : to ensure adequate quantity of supplies of currency notes and coins in good quantity

What RBI Does?

- Issues new currency and destroys currency and coins not fit for circulation
- It has to keep in forms of gold and foreign securities as per statutory rules against notes & coins issued.

Developmental Role

Objective: to develop the quality of banking system in India.

What RBI does?

Provide a wide range of promotional functions to support national objective.

To establish financial Institutions of national repute like NABARD, IDBI etc.

Subsidiaries

- Fully owned:

NHB, DICGC, Bhartiya Reserve Bank Note Mudran Private Ltd. (BRBNMPL)

Major stakes:

NABARD

- The RBI has recently divested its stake in SBI to the GoI.
- RBI has also set up some training centres.

Related Functions

- Banker to the Government
- Banker to Banks
- RBI also regulates the opening / installation of ATMs
- Fresh currency notes are supplied by RBI.
- Regulates the opening of the bank branches.
- It ensures that all the Banking and NBFCs follow the KYC guidelines

Related Functions (2 of 2)

- It regulates the trade of Gold. Currently 17 banks are involved in trade of Gold in India. RBI has invited applications from more banks for direct import of Gold to curb illegal trade in gold and increase competition in the market.
- Collection and publication of data.
- It issues guidelines and directives for the commercial banks.

Role of RBI in economic development

- Development of banking system
- Development of financial institutions
- Development of backward areas
- Economic stability
- Economic growth
- Proper interest rate structure
- Miscellaneous

Subsidiaries of RBI

- Fully owned: National Housing Bank(NHB), Deposit Insurance and Credit Guarantee Corporation of India(DICGC), Bharatiya Reserve Bank Note Mudran Private Limited(BRBNMPL).
- Majority stake: National Bank for Agriculture and Rural Development (NABARD)
The Reserve Bank of India has recently divested its stake in State Bank of India to the Government of India.



REMODELLING THE RBI

PROPOSED DEPARTMENTS

Financial System Regulation: Integration and regulation of the financial sector

Monetary Policy Formulation: Monitoring and controlling money supply

Internal Debt Management: Creating a market for government debt

Payment Systems: Improving service by speeding systems

Management Services: Strategic planning and management information systems

Policy Research: Developing analytical models for action

International Operations: Managing foreign exchange reserves and overseas activities

Currency Management: Controls coins and currency operations

Finance: Maintaining and controlling finances and accounts

EXISTING DEPARTMENTS

Administration
Secretary
Currency management
Expenditure & budgetary control
Government & bank accounts
External investments & operations
Premises
Inspection
Legal
Exchange control
Banking operations & development
Supervision
Urban banks
Industrial export & credit
Economic analysis & policy
Statistical analysis & infotech
Credit planning
Financial institutions
Internal debt management
Financial companies' central office
Central security*
Human resource development*
Information technology*

*New

PROPOSED DEPARTMENTS

Supervision: Providing all supervisory functions at a single window

Human Resource Management: Managing people and planning careers

Corporate Communications: Image-building and publicising RBI's policies

Infotech Services: Setting up computer and communications networks

Secretary's Department: Liaison between the RBI and the central government

Legal: Co-ordinating legal action and advising on law-related issues

Premises: Maintaining the RBI's properties

Inspection: Auditing internal accounts

Security: Maintaining bank security

The blueprint for restructuring the RBI, drawn up by consultants A.F. Ferguson & Co. in 1993, has been mothballed under political opposition to accepting the recommendations of a foreign consultancy. The RBI is now trying to implement an internal restructuring plan

CENTRAL BANK AUTONOMY: RBI Vs THE REST

Central Bank	Appointment of Governor	Governor's term of office	Provision for dismissal	Financial freedom	Stated objective	Monetary policy
Bank of England	Appointed by the Crown on the advice of the government	Five years	Government has no power of dismissal except for certain provisions in the Act	Dependent on the government	Promoting the public good	Government decides policy at the broad level
Deutsche Bundesbank	Appointed by the President of Germany	Upto eight years	Governor cannot be removed from office due to political conflict	Independent of the government	Safeguarding the currency through regulation of money supply and credit	Full freedom to formulate policy
Federal Reserve	Chairman appointed by the President of the US	Four years	Consent of Senate required	Independent of the government	Maintaining long-run growth of the monetary and credit aggregate	Full freedom to formulate policy
Reserve Bank of India	Appointed by the central government	No fixed term, but not more than five years	Term can be ended abruptly by the government	Dependent on the government	Multiple objectives, including control of money supply and inflation	Governed by government's consideration

RBI Websites.

- Weekly Statistical Supplement----- www.wss.rbi.org.in
- RBI Bulletin----- www.bulletin.rbi.org.in
- Monetary and Credit Policy----- www.cpolicy.rbi.org.in
- RBI Notifications----- www.notifics.rbi.org.in
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Thank you