



ROLE OF RESERVE BANK OF INDIA IN INDIAN ECONOMY

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ABSTRACT

The Reserve Bank of India (RBI) was established in the year 1935 in accordance with the Reserve Bank of India Act, 1934. The Reserve Bank of India is the central Bank of India entrusted with the multidimensional role. It performs important monetary functions from issue of currency note to maintenance of monetary stability in the country. Initially the Reserve Bank of India was a private share holder's company which was nationalized in 1949. Its affairs are governed by the Central Board of Directors appointed by the Government of India. Since its inception the Reserve Bank of India had played an important role in the economic development and monetary stability in the country. This paper is an attempt to explore the role, functions, and contribution of RBI in Indian Economy. Evolution of RBI: The Royal Commission on Indian Currency and Finance appointed on August 25, 1925 has suggested the establishment of the Central Bank in India, later the Indian Central Banking Enquiry Committee, 1931 stressed the establishment of the Central Bank in India. The Reserve Bank was established on April 1, 1935 under the Reserve Bank of India Act, 1934. The main object of Reserve of India is, "to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage". The Reserve Bank of India was established as a private share holder's bank. The Central office of Reserve Bank of India was initially located in Calcutta which was later shifted to Bombay. The Reserve Bank of India issued first of its currency notes in January 1938 in denominations of Rs.5 and Rs.10 and later in the same year denominations of Rs.100, Rs.1000 and Rs.10000 were issued. Post Independence the Reserve Bank of India was nationalized in the year 1949 through the Reserve Bank (Transfer of Public Ownership) Act, 1948 and all shares were transferred to Central Government.

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INTRODUCTION

Functions of Reserve bank of India Functions of may be summarized as given below:

Right to Issue Bank note: The Reserve Bank of India has the sole right to issue bank notes in India. The bank notes are legal tender guaranteed by the Central Government. The issue of bank note is conducted by a separate department called issue department. The Central Government on the recommendation of Central Board specifies denomination of bank notes including discontinuance of bank notes.

Formulates Banking policy: The Reserve is empowered to formulate banking policy in the interest of the public or depositors banking policy in relation to advances and provide direction on the purpose of the advances, margins to be

maintained in a secured advances, the maximum amount of advance may be made, the rate of interest, terms and conditions for advances or guarantees may be given.

Licensing Authority: The Reserve Bank of India is empowered to grant license to commence banking business in India, including the power to cancel a license granted to a banking company. A petition was filed under Article 226 of the Constitution, challenging the constitutional validity of section 22 of the Banking Companies Act, 1949. Section 22 empowers Reserve Bank of India to grant license to Banks and banks which were already in existence on the commencement of the Act have to apply for license before the expiry of six months from commencement. The petitioner contended that the section 22 of the Banking Regulating Act, 1949 is in restraint of trade and business hence unconstitutional. The writ was dismissed and the High Court

declared section 22 of the Banking Regulating Act, 1949 as constitutionally valid and cherished the role of Reserve Bank of India in the economic development of the country. The Madras High Court meticulously said, "The Reserve Bank of India was established with a view to fostering the banking bu

Banker's Bank: The banks listed in second schedule and non schedule banks shall maintain a cash reserve ratio with the Reserve bank of India with a view to securing the monetary stability y in the country. It provides loans and advances in foreign currency to scheduled Banks and to other financial institution. It purchases, sells or discount any bill of exchange or promissory note or makes a loan or advances to schedule bank. Depositor Awareness and Education The Reserve Bank of India has constituted a fund called "Depositor Education and Awareness Fund." The fund is utilized for the promotion of depositors" interest and other purposes in the interest of the depositor. Regulation and Management of Foreign Exchange The Reserve Bank of India is empowered to regulate, prohibit, and restrict dealing in foreign exchange.

Banker to Government: The Reserve Bank of India accepts and makes payment on behalf of Central Government. It carries out its exchange, remittance, management of public debt and other banking function of the Central Government. The Central Government entrusts its money, remittance, exchange and banking transactions in India with the Reserve Bank of India. It deals in repo or reverse repo Reserve Bank of India announces Monetary Policy every year in the Month of April.

This is followed by three quarterly Reviews in July, October and January. But, RBI at its discretion can announce th e measures at any point of time. The Annual Monetary Policy is made up of two parts viz. Part A: macroeconomic and monetary developments; Part B: Actions taken and fresh policy measures. Monetary policy of the RBI deals with almost all other vital topics such as financial stability, financial markets, interest rates, credit delivery, regulatory norms, financial inclusion and institutional developments etc. These are various selective instruments of the monetary policy. However the success of these tools is limited by the availability of alternative sources of credit in economy, working of the Non-Banking Financial Institutions (NBFIs), profit motive of commercial banks and undemocratic nature off these tools. But a right mix of both the general and selective tools of monetary policy can give the desired results.

Other Functions

The Reserve Bank performs a number of other developmental works. These works include the function of clearing house arranging credit for agriculture (which has been transferred to NABARD) collecting and publishing the economic data, buying and selling of Government securities (gilt edge, treasury bills etc)and trade bills, giving loans to the Government buying and selling of valuable commodities etc

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