ISSN (Online) 2456 -1304

International Journal of Science, Engineering and Management (IJSEM)
Vol 1, Issue 6, October 2016

A Study on Role of "Reserve Bank of India" in the Growth of Indian Economy

[1] Dr. S. Kanthimathinathan
Chief Finance Manager, ITI Limited,
(Government of India Undertaking) N.S.Unit- Dooravaninagar, Bangalore-560016.

***Abstract*- Evolution of Central Banking is essentially a twentieth century phenomenon as there were only about a dozen Central Banks in the world at the turn of the twentieth century. In contrast, at present there are nearly 160 Central Banks. This is not surprising since the need for Central Banks obviously emerged, as banking became more complex, while becoming an increasingly important part of the economy over time. Firstly, many problems experienced by Banks and their depositors inevitably led to cries for their regulation. Second, Central Banks are essentially a nation's phenomenon. Third, it is useful to recall some of the reasons for the origin of Central Banks to issue currency to be a banker and lender to the government to regulate and supervise the Banks and Financial entities and to serve as a lender of last resort.**

The Indian Banking System is headed by the Reserve Bank of India which is the monetary authority of the Country and performs the role of Central Banking which was established in the year 1 st April, 1935 under the RBI act 1934.The Banking system may be classified into the categories of Scheduled Commercial Banks, Non-Scheduled Commercial Banks, Co-operative Banks and Development Banks. The RBI is authorized to carry on and transact several kinds of business as provided in section 17 of the RBI act 1934.As per section 22 of the act, no company shall carry on Banking business in India unless it holds a license issued in that behalf by the RBI and any such license may be issued subject to such conditions as the RBI may think fit to impose. According to Section 23 of the Act, no Banking Company shall open a new place of business in India or change otherwise than within the same city, town or village, the location of an existing place of business situated in India without obtaining the prior permission of the RBI.

RBI is playing an important role in the growth of Indian Economy as well as which is treated as the spinal guard of the Indian financial system. In this context a study has undertaken to analyze structure of the management, functions and developmental activities are performing by RBI in recent years.

***Key Words*:-- central banking, lender of last resort, growth of Indian Economics, functions, developments etc.**

I. INTRODUCTION

The Bill was passed in 1934 and the RBI Act came into force on January 1, 1935. The Reserve Bank was inaugurated on April 1, 1935.Central banks occupy a pivotal position in the institutional fabric of an economy. The functions of a modern Central Bank are vastly different from what was expected from the early Central Banks founded in Europe in the seventeenth century. The evolution of central banking in the Indian context has its own specificity. The RBI, while discharging its statutory responsibilities, has played a crucial role in the nation building process, particularly in the development of the financial sector. In fact, institution building constitutes a distinguishing feature of Central Banking in India. This following section describes the evolution of central banking in India over the period of seventy years since the inception of the Reserve Bank in 1935. For analytical convenience, the entire period 1935-2005 is sub-divided into three broad phases: foundation phase (1935-1950), development phase (1951-1990) and reform phase (1991 onwards).

II. DEFINITION

The Banking Regulations Act, 1949 empower the Reserve Bank of India to control the banking institutions of India. In generally the Bank is defined as:

- "A Bank is what a Bank does" This is a simple definition.
- Oxford Dictionary defines a bank as "an establishment for custody of money, which it pays out on customer's order."
- According to Prof. Sayers, "A bank is an institution whose debts are widely accepted in settlement of other people's debts to each other." In this definition Sayers has emphasized the transactions from debts which are raised by a financial institution.
- According to the Indian Banking Company Act 1949, "A banking company means any company which transacts the business of banking. Banking

ISSN (Online) 2456 -1304

International Journal of Science, Engineering and Management (IJSEM)
Vol 1, Issue 6, October 2016

means accepting for the purpose of lending or investment, of deposits of money from the public, repayable on demand or other wise and withdraw able by cheque, draft or otherwise.

III.OBJECTIVES OF THE STUDY

The study defines the following objectives:
1. To study the important Role of Central Bank in Modern Banking Sector.
2. To analyze the Performance and Functions of Central Bank
3. To analyze the important developmental activities by Central Bank in India.
4. To give suitable suggestions and recommendations to overcome the above said problems and how to improve the services of Central Banks. (RBI)

IV. SCOPE OF THE STUDY

This study has undertaken to analyze the Functions, Structures, Management and review the drawback from their important functions of Central Banks being rendered to the public at present. Here Central Banks mean all branches of Reserve Bank of India have established in different part of the country.

V.REVIEW OF LITERATURE-CASE STUDIES

In order to obtain conceptual knowledge about the subjects, the relevant literature consisting of text books, research articles and research studies were reviewed. Any study on a new subject always throws light on some existing new information. But it can be appreciated only when studies in consonance with the past knowledge is related with the contemporary new thinking in the subjects. So the existing studies provided the foundation for the study. The literature of the studies is vast and varied, some of the important case studies have been presented below which are relevant to this study.

1. Chandradhar Goswami v.The Gauhati Bank LTD-AIR (1967) SC 1058=1967(1) SCR 898

2. Satyanarayana v. Punjab National Bank. 9 AIR (1977) Cal.280

3.Rustom Cowasjee Cooper v. Union of India (AIR 1970 SC 564 =1970 (1) SCC 248

4.Lord Dunadin in Great Western Railway Company v.London and Country Banking Company Limited (10TLR (1894)386.

5. Mathews v .Williams Brown & Co (10 TLR (1894) 386.
6.Ladbroke v. Todd (1914) 30 TLR 433.

7. Commissioner of Taxation v.English Schotish and Australian Bank (1920) AC 683

8. Lloydes Bank Ltd v,E.B. Savory & Co (1933) AC 201

VI. ORGANIZATION, MANAGEMENT AND STRUCTURE OF RBI

The RBI is wholly owned by the Government of India. The Central Board of Directors oversees the Reserve Bank's business.

***About the Central Board*:** The Central Board has primary authority for the oversight of the Reserve Bank. It delegates specific functions to its committees and sub-committees.

Central Board of Directors by the Numbers:
Official Directors:
a) 1 Governor and
b) 4 Deputy Governors, at a maximum.

Non-Official Directors:
a) 4 directors-nominated by the Central Government to represent each local board;
b) 10 directors nominated by the Central Government with expertise in various segments of the economy; and
c) 1 representative of the Central Government.

Number of Meetings:
a)6 meetings-at a minimum-each year; and
b) 1 meeting-at a minimum-each quarter.
The details about the central board and its committees and sub-committees include the following:

***Central Board*:** Includes the Governor, Deputy Governors and the nominated Directors and a government Nominee-Director.

Committee of Central Board:
Oversees the current business of the central bank atypically meets every week, on Wednesdays. The agenda focuses on current business, including approval of the weekly statement of accounts related to the Issue and Banking Departments.

Board for Financial Supervision:

ISSN (Online) 2456 -1304

International Journal of Science, Engineering and Management (IJSEM)
Vol 1, Issue 6, October 2016

Regulates and supervises commercial banks, Non-Banking Finance Companies (NBFCs), development finance institutions, urban co-operative banks and primary dealers.

Board for Payment and Settlement Systems:
Regulates and supervises the payment and settlement systems.
***Sub-committees of the Central Board*:**
Includes those on Inspection and Audit; Staff; and Building. Focus of each sub-committee is on specific areas of operations.

Local Boards:
In Chennai, Kolkata, Mumbai and New Delhi, representing the country's four regions. Local board members, appointed by the Central Government for four-year terms, represent regional and economic interests and the interests of co-operative and indigenous banks.

Management and Structure of RBI:
The Governor is the Reserve Bank's chief executive. The Governor supervises and directs the affairs and business of the Reserve Bank. The management team also includes Deputy Governors and Executive Director

The RBI is made up of
26 Departments: These focus on policy issues in the Reserve Bank'sfunctional areas and internal operations.

***26 Regional Offices and Branches*:** These are the Reserve Bank'soperational arms and customer interfaces, headed by Regional Directors. Smaller branches / sub-offices are headed by a General Manager / Deputy General Manager.

Training Centres: The Reserve Bank Staff College at Chennaiaddresses the training needs of RBI officers; the College of Agricultural Banking at Pune trains staff of Co-operative and Commercial Banks, including Regional Rural Banks.

***Research institutes*:** RBI-funded institutions to advance trainingand research on banking issues, economic growth and banking technology, such as, National Institute of Bank Management (NIBM) at Pune, Indira Gandhi Institute of Development Research (IGIDR) at Mumbai, and Institute for Development and Research in Banking Technology (IDRBT) at Hyderabad.

Subsidiaries: Fully-owned subsidiaries include National HousingBank (NHB), Deposit Insurance and Credit Guarantee Corporation (DICGC), Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL). The Reserve Bank also has a majority stake in the National Bank for Agriculture and Rural Development (NABARD).

VII.FUNCTIONS OF RBI

The Reserve Bank is the umbrella network for numerous activities, all related to the nation's financial sector, encompassing and extending beyond the functions of a typical central bank. This section provides an overview of primary activities of RBI as given below:

- ❖ Monetary Authority
- ❖ Issuer of Currency
- ❖ Banker and Debt Manager to Government
- ❖ Banker to Banks
- ❖ Regulator of the Banking System
- ❖ Manager of Foreign Exchange
- ❖ Regulator and Supervisor of the Payment and Settlement Systems
- ❖ Developmental Role

1) Monetary Authority:
Monetary policy refers to the use of instruments under the control of the central bank to regulate the availability, cost and use of money and credit. The goal of monetary policy is to achieve specific economic objectives such as low and stable inflation and promoting growth. The main objectives of monetary policy in India are:

a) Maintaining price stability;

b) Ensuring adequate flow of credit to the productive sectors of the economy to support economic growth

c) Financial stability.

The relative emphasis among the objectives varies from time to time, depending on evolving macro-economic developments. The operating framework is based on a multiple indicator approach. This means that RBI monitors and analyses the movement of a number of indicators including interest rates, inflation rate, money supply, credit, exchange rate, trade, capital flows and fiscal position, along with trends in output as it develops its policy perspectives. The Reserve Bank's Monetary Policy Department (MPD) formulates monetary policy. The Financial Markets Department (FMD) handles day-to-day liquidity management operations. There are several direct and indirect instruments that are used in the formulation and implementation of monetary policy.

A) Direct Instruments:

a) Cash Reserve Ratio (CRR): CRR is the share of net demand andtime liabilities that banks must maintain as cash balance with the Reserve Bank. This to ensure that banks have sufficient cash to cover customer withdrawals. This ratio will be adjusted on occasion, as an instrument of monetary policy, depending on prevailing conditions. RBI's centralized and computerized system allows for efficient and accurate monitoring of the balances maintained by banks with it.

b) Statutory Liquidity Ratio (SLR): The share of net demand andtime liabilities that banks must maintain in safe and liquid assets, such as, government securities, cash and gold.

***c) Refinance facilities*:** Sector-specific refinance facilities (e.g., againstlending to export sector) provided to banks.

B) Indirect Instruments

a) Liquidity Adjustment Facility (LAF): Consists of daily infusionor absorption of liquidity on purchase basis, through repo (liquidity injection) and reverse repo (liquidity absorption) auction operations, using government securities as collateral.

b) Open Market Operations (OMO): Outright sales/purchases ofgovernment securities, in addition to LAF, as a tool to determine the level of liquidity over the medium term.

c) Market Stabilization Scheme (MSS): This instrument for monetary management was introduced in 2004. Liquidity of a more enduring nature arising from large capital flows is absorbed through sale of short-dated government securities and treasury bills. The mobilized cash is held in a separate government account with the Reserve Bank

***d) Repo/reverse repo rate*:** These rates under the Liquidity Adjustment Facility (LAF) determine the corridor for short-term money market interest rates. In turn, this is expected to trigger movement in other segments of the financial market and the real economy.

***e) Bank rate*:** It is the rate at which the Reserve Bank is ready to buyor rediscount bills of exchange or other commercial papers. It also signals the medium-term stance of monetary policy.

f) Open and Transparent Monetary Policy-Making The Reserve Bank explains the relative importance of its objectives in a given context in a transparent manner, emphasizes a consultative approach in policy formulation as well as autonomy in policy operations and harmony with other elements of macroeconomic policies. The monetary policy formulation is aided by advice and input from:

- Technical Advisory Committee on Monetary Policy
- Pre-policy consultations with bankers, economists, market partici-pants, chambers of commerce and industry and other stakeholders
- Regular discussions with credit heads of banks
- Feedback from banks and financial institutions

RBI monitor the developments in global financial markets, capital flows, the government's fiscal position and inflationary pressures, with an eye toward encouraging strong and sustainable economic growth.

VIII. ISSUER OF CURRENCY:

The RBI is the nation's sole note issuing authority. Along with the Government of India, RBI is responsible for the design and production and overall management of the nation's currency, with the goal of ensuring an adequate supply of clean and genuine notes. The Reserve Bank also makes sure there is an adequate supply of coins, produced by the government. In consultation with the government, RBI routinely addresses security issues and targets ways to enhance security features to reduce the risk of counterfeiting or forgery.

The Department of Currency Management in Mumbai, in cooperation with the Issue Departments in the Reserve Bank's regional offices, oversees the production and manages the distribution of currency. Currency chests at more than 4,000 bank branches, typically commercial banks, contain adequate quantity of notes and coins so that currency is accessible to the public in all parts of the country. The Reserve Bank has the authority to issue notes up to value of Rupees Ten Thousand.

Four printing presses actively print notes: Dewas in Madhya Pradesh, Nasik in Maharashtra, Mysore in Karnataka, and Salboni in West Bengal. The presses in Madhya Pradesh and Maharashtra are owned by the Security Printing and Minting Corporation of India (SPMCIL), a wholly owned company of the Government of India. The presses in Karnataka and West Bengal are set up by BRBNMPL, a wholly owned subsidiary of the Reserve Bank. Coins are minted by the Government of India. RBI is the agent of the Government for distribution, issue and handling of coins. Four mints are in operation: Mumbai, Noida in Uttar Pradesh, Kolkata, and Hyderabad.

IFERP
ISSN (Online) 2456 -1304

International Journal of Science, Engineering and Management (IJSEM)
Vol 1, Issue 6, October 2016

RBI's Anti-Counterfeiting Measures Continual upgrades of bank note security features. Public awareness campaigns to educate citizens to help prevent circulation of forged or counterfeit notes. Installation of note sorting machines.

RBI's Clean Note Policy:

Education campaign on preferred way to handle notes: no stapling, writing, excessive folding and the like. Timely removal of soiled notes use of currency verification and processing systems and sorting machines. Exchange facility for torn, mutilated or defective notes at currency chests of commercial banks and in Reserve Bank issue offices. Focus continues on ensuring availability of clean notes and on strengthening the security features of bank notes. Given the volumes involved and costs incurred in the printing, transport, storage and removal of unfit/soiled notes, the RBI is evaluating ways to extend the life of bank notes, particularly in the lower denominations. For example, RBI is considering issues of `10 banknotes in polymer.

***Banker and Debt Manager to Government*:**

Managing the government's banking transactions is a key RBI role. Like individuals, businesses and banks, governments need a banker to carry out their financial transactions in an efficient and effective manner, including the raising of resources from the public. As a banker to the central government, the Reserve Bank maintains its accounts, receives money into and makes payments out of these accounts and facilitates the transfer of government funds. RBI also acts as the banker to those state governments that have entered into an agreement with it.
The role as banker and debt manager to government includes several distinct functions:

Undertaking banking transactions for the central and state governments to facilitate receipts and payments and maintaining their accounts. Managing the governments' domestic debt with the objective of raising the required amount of public debt in a cost-effective and timely manner. Developing the market for government securities to enable the government to raise debt at a reasonable cost, provide benchmarks for raising resources by other entities and facilitate transmission of monetary policy actions.

At the end of each day, our electronic system automatically consolidates all of the government's transactions to determine the net final position. If the balance in the government's account shows a negative position, RBI extends a short-term, interest-bearing advance, called a Ways and Means Advance,WMA, the limit or amount for which is set at the beginning of each financial year in April.

***The RBI's Government Finance Operating Structure*:** The RBI's Department of Government and Bank Accounts oversees governments' banking related activities. This department encompasses

***Public accounts departments*:** manage the day-to-day aspects of our Government's banking operations. The Reserve Bank also appoints commercial banks as its agents and uses their branches for greater access to the government's customers.

Public debt offices: provide depository services for government securities for institutions and service government loans.

***Central Accounts Section at Nagpur*:** Consolidates the government's banking transactions. The Internal Debt Management Department based in Mumbai raises the government's domestic debt and regulates and develops the government securities market. RBI plans to enhance efficient and user-friendly conduct of banking transactions for central and state governments while ensuring cost-effective cash and debt management by deepening and widening of the market for government securities.

***RBI as the Governments' Debt Manager*:** In this role, RBI sets policies, in consultation with the government and determines the operational aspects of raising money to help the government finance its requirements: Determine the size, tenure and nature (fixed or floating rate) of the loan.

- ❖ Define the issuing process including holding of auctions.
- ❖ Inform the public and potential investors about upcoming government loan auctions
- ❖ The Reserve Bank also undertakes market development efforts; in-cluding enhanced secondary market trading and settlement mechanisms, authorization of primary dealers and improved transparency of issuing process to increase investor confidence, with the objective of broadening and deepening the government securities market.

Bankers to Banks:

Like individual consumers, businesses and organizations of all kinds, banks need their own mechanism to transfer funds and settle inter-bank transactions - such as borrowing from and lending to other banks and customer transactions. As the banker to banks,

International Journal of Science, Engineering and Management (IJSEM)
Vol 1, Issue 6, October 2016

the Reserve Bank fulfills this role. In effect, all banks operating in the country have accounts with the Reserve Bank, just as individuals and businesses have accounts with their banks.

As the banker to banks, RBI focuses on Enabling smooth, swift and seamless clearing and settlement of inter-bank obligations. Providing an efficient means of funds transfer for banks. Enabling banks to maintain their accounts with us for purpose of statutory reserve requirements and maintain transaction balances. Acting as lender of the last resort

The RBI provides similar products and services for the nation's banks to what banks offer their own customers. Here's a look at how RBI helps:

***Non-interest earning current accounts*:** Banks hold accounts with the RBI based on certain terms and conditions, such as maintenance of minimum balances. They can hold accounts at each of our regional offices. Banks draw on these accounts to settle their obligations arising from inter-bank settlement systems. Banks can electronically transfer payments to other banks from this account, using the Real Time Gross Settlement System (RTGS).

Deposit Account Department: This department's computerized central monitoring system helps banks manage their funds position in real time to maintain the optimum balance between surplus and deficit centre's.

***Remittance facilities*:** Banks and government departments can usethese facilities to transfer funds.

***Lender of the last resort*:** The Reserve Bank provides liquidity tobanks unable to raise short-term liquid resources from the inter-bank market. Like other central banks, the Reserve Bank considers this a critical function because it protects the interests of depositors, which in turn, has a stabilizing impact on the financial system and on the economy as a whole.

Loans and advances: The Reserve Bank provides short-term loansand advances to banks financial institutions, when necessary, to facilitate lending for specified purposes.RBI is planning to implement core banking solutions for its customers to enhance the safety and efficiency of the payments and settlement services in the country.

Regulator of the banking system:

Banks are fundamental to the nation's financial system. The central bank has a critical role to play in ensuring the safety and soundness of the banking system, and in maintaining financial stability and public confidence in this system. As the regulator and supervisor of the banking system, the RBI protects the interests of depositors, ensures a framework for orderly development and conduct of banking operations conducive to customer interests and maintains overall financial stability through preventive and corrective measures.

***Developments in Banks In India*:**

The following are the major steps taken by the Government of India to Regulate Banking institutions in the country: -

1949: Enactment of Banking Regulation Act.
1955: Nationalization of State Bank of India.
1959: Nationalization of SBI subsidiaries.
1961: Insurance cover extended to deposits.
1969: Nationalisation of 14 major Banks.
1971: Creation of Credit Guarantee Corporation.
1975: Creation of Regional Rural Banks.
1980: Nationalisation of seven banks with deposits over 200 Crores.

IX.FINDINGS

The important area of banking sector reforms is the broadening of the size of banking units which has already entered its initial frame work with the merger of banks. The first in the series will be the merger of bank of India and the Union Bank of India, which could make the consolidation the second largest bank of the country after state bank of India. Under such an atmosphere, almost all the public sector banks are seeking partners so that they raise their strength to match the global situation and standards. It is not only that the merger of IDBI is impending; even the SBI also has arrived at a merger settlement with its seven subsidiaries. There are some other important banks which are in the lookout for process of merger. These are between the bank of Baroda and the Dena bank, the Indian bank and the Indian Overseas Bank and between Punjab National Banks and IFCI. Besides, Allahabad Bank, the Oriental Bank of Commerce, ICICI Bank of Commerce, ICICI Bank and also looking for partner for adopting merger process. Under the present scenario, if the merger attempts are successful, the reform in the banking system will gain its momentum and is likely to reach its pivotal state and would certainly be in a position for computing with the giant foreign Banks in the atmosphere of globalization.

The Government has also undertaken a systematic attempt for the merger of regional rural banks (RRBs) in all states and accordingly one RRB started to function in all states since 31 st August, 2005 in order to reduce the burden of losses and also to reduce their operating expenses.

X. RECOMMENDATIONS CONCLUSION:

The process of liberalization and globalization the Indian economy initiated since 1991 added several new dimensions to the responsibilities of the Reserve Bank. Along with financial sector reforms, the monetary policy framework has been fine-tuned and the conventional central banking functions including those of currency management and payment and settlement systems have been revamped in tandem with the global trends and domestic expediency. The reform measures in the financial sector and the initiatives taken by the Reserve Bank for developing financial markets to ensure efficient transmission of monetary policy impulses, constituted the hallmark of this phase. The first phase of reforms, guided by the recommendations of the Committee on Financial System, aimed at enhancing the operational flexibility and functional autonomy of the financial sector with a view to fostering efficiency, productivity and profitability. The second phase, based on the recommendations of the Committee on Banking Sector Reforms, focused on strengthening the foundations of the banking system and bringing about structural improvements.

The RBI should lay down guidelines for commercial banks for their dealings with indigenous bankers. The RBI should also indicate periodically the spread between the rate of interest charged by the indigenous bankers from their borrowers and the rate of interest bank charges these bankers. The RBI should regulate the common procedures and guidelines for all interest rate and Bank service charges, between different types of commercial banks are the same. The Central Banks should see that no indigenous banker availing himself of bank credit facilities charges interest rates higher than those based on the spread. The RBI should strengthen their credit rate policies at par with the recent development in international Banking sectors.

REFERENCES

1. Law of Banking -By Dr.S.R.Myneni –Asia Law HousHyderabad-2016 Edition

2. Banking Law and Practices –By Dr.N.M.Swamy - Asia Publication-New Delhi-2011

3. Banking Law and Practices –By Dr.Warshiney –Himalaya Publication- 2014 Edition

4. Law relating to Banking -By N.K. Acharya- Asia Law HousHyderabad-2016 Edition.

5 Web site-RBI Bulletin and Banking Journals.

6. Banking Theory and Practice- By K.C.Shehar-2010