

Unit-I

Lecture-16

Important Functions of RBI (Reserve Bank of India)

1. Issue of Notes —The Reserve Bank has a monopoly for printing the currency notes in the country. It has the sole right to issue currency notes of various denominations except one rupee note (which is issued by the Ministry of Finance).

The Reserve Bank has adopted the Minimum Reserve System for issuing/printing the currency notes. Since 1957, it maintains gold and foreign exchange reserves of Rs. 200 Cr. of which at least Rs. 115 cr. should be in gold and remaining in the foreign currencies.

2. Banker to the Government—The second important function of the Reserve Bank is to act as the Banker, Agent and Adviser to the Government of India and states. It performs all the banking functions of the State and Central Government and it also tenders useful advice to the government on matters related to economic and monetary policy. It also manages the public debt of the government.

3. Banker's Bank:- The Reserve Bank performs the same functions for the other commercial banks as the other banks ordinarily perform for their customers. RBI lends money to all the commercial banks of the country.

4. Controller of the Credit:- The RBI undertakes the responsibility of controlling credit created by commercial banks. RBI uses two methods to control the extra flow of money in the economy. These methods are quantitative and qualitative techniques to control and regulate the credit flow in the country. When RBI observes that the economy has sufficient money supply and it may cause an inflationary situation in the country then it squeezes the money supply through its tight monetary policy and vice versa.

5. Custodian of Foreign Reserves:-For the purpose of keeping the foreign exchange rates stable, the Reserve Bank buys and sells foreign currencies and also protects the country's foreign exchange funds. RBI sells the foreign currency in the foreign exchange market when its supply decreases in the economy and vice-versa. Currently, India has a Foreign Exchange Reserve of around US\$ 487 bn.

6. Other Functions:-The Reserve Bank performs a number of other developmental works. These works include the function of clearinghouse 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. It also acts as the representative of the Government in the International Monetary Fund (I.M.F.) and represents the membership of India.

Monetary Policy of India

Monetary Policy of India is formulated and executed by Reserve Bank of India to achieve specific objectives. It refers to that policy by which central bank of the country controls (i) the supply of money, and (ii) cost of money or the rate of interest, with a view to achieve particular objectives.

In the words of D.C. Rowan, "The monetary policy is defined as discretionary act undertaken by the authorities designed to influence (a) the supply of money, (b) cost of money or rate of interest, and (c) the availability of money for achieving specific objective."

Thus, monetary policy of India refers to that policy which is concerned with the measure taken to regulate the volume of credit created by the banks. The main objectives of monetary policy are to achieve price stability, financial stability and adequate availability of credit for growth.

Following are the main elements of the monetary policy of India:

- i. It regulates the stocks and the growth rate of money supply.
- ii. It regulates the entire banking system of the economy.
- iii. It determines the allocation of loans among different sectors.
- iv. It provides incentives to promote savings and to raise the savings-income ratio.
- v. It ensures adequate availability of credit for growth and tries to achieve price stability.