



A Critical Analysis on Function & Role of Reserve Bank of India and Its Impact on Economic development of India

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Abstract

The Reserve Bank of India is the Central bank of India. It was established on 1 April 1935 under a special act of the parliament, “The Reserve Bank of India Act 1934”. In the beginning, the headquarters of RBI was established in Calcutta. However, soon after, in 1937, it was permanently shifted to Mumbai.

As of October 2021, the Governor of the Reserve Bank of India is Mr. Shaktikanta Das. He is the 25th RBI Governor. It is responsible for determining the country’s monetary policy.

Reserve Bank of India is the Regulator of India’s Banking System and therefore is the most prominent bank in our country. It is also the central bank and plays a crucial role in the Indian Economy.

Reserve Bank of India is playing an important and vital role in the economic development of India. The RBI handles many functions, including implementing monetary policy and issuing currency. India has reported some of the best gross domestic product (GDP) growth rates in the world. We are going to study on functions and role of Reserve Bank of India and its impact on economic development of India.

Keywords: - RBI, Organization and Management, Functions & Role, and Its Impact on Economic Development of India.

Introduction

The Reserve Bank of India was established on April 1, 1935 in accordance with the provisions of the Reserve Bank of India Act, 1934. The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated. Though originally privately owned, since nationalization in 1949, the Reserve Bank is fully owned by the Government of India.

Reserve Bank of India regulates the issue of bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country. Reserve Bank of India has a modern monetary policy framework to meet the challenge of an increasingly complex economy. Reserve Bank of India maintains price stability while keeping in mind the object of economic development of India.

The economy of India is a middle-income developing market economy. It is the world’s sixth-largest economy by nominal GDP and the third-largest by purchasing power parity (PPP). The start of the 21st century, annual average GDP growth has been 6% to 7% and from 2013 to 2018, India was the world’s fastest growing major economy.

The Reserve Bank of India is India’s Central bank and regulatory body responsible for regulation of the Indian banking system. It is under the ownership of industry of finance, government of India. It is responsible for the issue and supply of the Indian

rupee. it also manages the country's main payment systems and works to promote its economic development. We are going to study on functions and role of Reserve Bank of India and Its Impact of Economic Development of India.

Objects of Study: -

The Main Object of Study

1. Identify the Function and Role of Reserve Bank of India.
2. Identify the Organization and Management.
3. Analyze its Impact on Economic Development of India.

Review of Literature

Mandeep K. B. (2017), "RBI's Developmental role includes ensuring credit to productive sectors of the economy, creating institutions to build financial infrastructure, and expanding access to affordable financial services, it also plays an active role in encouraging efficient customer service throughout the banking industry.

This Research Topic "A Critical Analysis on Functions & Role of Reserve Bank of India and Its Impact on Economic Development of India" is Unique and different from still have been studied Yet. The Research Topic Analysis on Functions and Role of Reserve Bank of India and Identify the Organization and Management and Its Impact on Economic Development of India.

Research Methodology

1. The Present Study base of Secondary Data has been collected from different related websites, Magazines, Journals and Newspapers.
2. The study has been conducted with reference to the data related to Functions and Role of Reserve of Bank.
3. The study is based upon secondary information collected from various annual reports of RBI and Economic Survey 2021-22

Reserve Bank of India

The origins of the Reserve Bank of India can be traced to 1926, when the Royal Commission on Indian Currency and Finance – also known as the Hilton-Young Commission – recommended the creation of a central bank for India to separate the control of currency and credit from the Government and to augment banking facilities throughout the country. The Reserve Bank of India Act of 1934 established the reserve Bank and set in motion a series of actions culminating in the start of operations in April 1, 1935. Since then, the Reserve Bank's role and factions have undergone numerous changes, as the nature of the Indian economy and financial sector changed.

Organization and Management

The Reserve Bank's affairs are governed by central board of directors. The board is appointed by the Government of India for a period of Four years, under the Reserve bank of India Act.

- **Official Directors:** - Governor and not more than four Deputy Governor,

The current Governor of RBI is Mr. ShaktiKant Das

There is 4 Deputy Governors presently –

1. Shri Mahesh Kumar Jain
2. Dr. M.D. Patra
3. Shri M. Rajeshwar Rao
4. Shri T. Rabi Sankar

- **Non-Official Directors**

1. Nominated by Government: - Ten Directors from various filed and two Government Official
2. Others: - Four Directors – one each from four local boards.

Functions of the Reserve Bank

The functions of the Reserve Bank can be categorized as follows

- Monetary policy
- Regulation and supervision of the banking and non-banking financial institutions, including credit information companies.

- Regulation of money, forex and government securities markets as also certain financial derivatives.
- Debt and cash management for Central and State Governments.
- Management of foreign exchange reserves.
- Foreign exchange management – current and capital account management
- Banker to banks
- Banker to the Central and State Governments
- Oversight of the payment and settlement systems.
- Currency Management.
- Developmental role
- Research and Statistics

Role of Reserve Bank of India in Economic Development of India.

Reserve Bank of India has 7 Primary functions has an objective of managing a particular part of the economy.

1. **Issuer of Currency:** - The RBI has the sole right to issue new currency notes and coins, exchanges or destroy currency not fit for circulation.

Objective: - To give the public adequate quantity of supplies of currency notes and coins and in good quality.

2. **Monetary Authority:** - RBI formulates, implements and monitors the monetary policy. This policy is the most important tool that the RBI has. Using this policy RBI manages the interest rates offered by banks on loans and deposits and which affects the inflation and deflation in the country. In simple words, lower rates give rise to higher inflation and vice versa.

Objective: - To maintain price stability while keeping in mind the objective of growth.

3. **Manager of Foreign Exchange:** - RBI also manages the flow of foreign currency in Indian economy by enforcing the foreign Exchange Management Act, 1999, As part of this function, the RBI makes sure that the exchange rate value of Indian national rupee is maintained in the international markets.

Objective: - To facilitate external trade and payment and promote orderly development and maintenance of foreign exchange market in India.

4. **Regulator and Supervisor of the Financial System:** - RBI prescribes broad parameters of banking operations within which the country's banking and financial system functions. It makes sure that the banks are following the issued guidelines by overlooking their financial operations and in cases of banking failures, RBI comes ahead to safeguard the depositor's money by bailing out the distressed bank.

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

5. **Regulator and Supervisor of Payment and Settlement Systems:** - RBI introduces and upgrades safe and efficient modes of payment systems in the country to meet the requirements of the public at large. This includes implementing various advanced technologies like the NEFT, RTGS or the latest Unified Payment Interface (UPI) or overlooking the operations of National Financial Switch (NFS) which is necessary for ATMs.

Objectives: - To maintain public confidence in payment and settlement system

6. **Related Functions:** - Banker to the Government – performs merchant banking function for the central and the state governments, also acts as their banker. This includes dealing with financial securities issued by the Government like treasury bills, infrastructure bonds, etc.

Objectives: - Banker to the banks – To maintain banking accounts of all scheduled banks. This includes managing the minimum reserve capital balance required to be held by the banks with the RBI.

7. **Developmental Role:** - Performs a wide range of promotional functions to support national

Objectives: - This includes work like providing timely credit to the productive sectors of the economy, creating institutions to build financial infrastructure like UPI, NEFT, etc., expanding access to affordable financial services and working on financial inclusion of all classes of the society.

Impact on Economic Development of India.

The Reserve Bank of India and the Indian Economy

As with all economies, the central bank plays a key role in managing and monitoring the monetary policies effecting both commercial and personal finance as well as the banking system.

The bank effected a demonetization of the Indian rupee (INR) in 2016, removing Rs. 500 and Rs. 1000 notes from circulation, eliminated merely 86% of its money overnight. The move aimed to stop counterfeiting, hoarding, and terrorism-related activities. Another major motivation was to stop tax evasion in a country where on only 1% citizens reportedly paid income taxes in 2013

The analysis following this decision shows some wins and losses. The demonetization of the specified currencies caused cash shortages and chaos while also requiring extra spending from the RBI from printing more money. On the other hand, tax collection increased, which resulted from greater consumer reporting transparency.

The central bank must also grapple with slightly volatile inflation rate. The RBI Act of 1934 requires the bank and the federal government to consult with one another to come up with a suitable inflation target. As of April 2021, the RBI reported a target rate of 4% the highest level reaching 6% while the lowest hung in around 2% This target will remain for the five-year period from April 1, 2021, to March 31, 2026.

India policy repo rate remained steady at 4%. This is the interest rate that the central bank lends money to nation's commercial banks. The RBI took drastic steps to address the economic and financial issues that resulted from the COVID-19 pandemic. The rate dropped 2% from April 2019, when the bank set at 6% Credit rate remained relatively high in India prior to that time, despite the central bank's positioning, which has been limiting borrowing across the economy.

Conclusions

Reserve Bank of India executes Monetary Policy for Indian Economy. The RBI formulates, implements and monitors the monetary policy. The Monetary policy committee (MPC) is entrusted with the task of fixing the benchmark policy interest rate (repo rate) for inflation targeting.

The Main objectives of monitoring monetary policy are;

1. Maintaining price stability while keeping in mind the objective of economic growth of India.
2. Inflation control (containing inflation at 4%, with a standard deviation of 2%)
3. Control on bank credit.
4. Interest rate control.

India's economy experienced a significant degree of growth since the early 2000s. According to the World Bank. the country implemented policies to help get more than 90 million people out of poverty between 2011 and 2015.

Despite its rapid growth rate, the Indian economy has weakened-both before and during the global COVID-19 pandemic hit. A weak financial sector and a drop in private consumption led to a drop in growth from 8.3% to 4% between 2017 and 2020. The World Bank estimated India's GDP to be more than \$2.62 billion as of 2020, making it the Sixth-largest in the world after the U.S., China, Japan, Germany and the United Kingdom.

This figure is expected to grow, with the most apparent effect sometime in 2022. The World Bank estimates growth to stabilize around 7% by that point. This will likely be due to a greater concentration on fiscal and monetary policy to help boost struggling individuals and businesses, as well as greater spending on health and welfare.

At the end, we can say that Reserve Bank of India is Playing Important and Crucial role in Economic Development of India.

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