

The Central Bank of India: RBI at a Glance

The Reserve Bank of India is India's central bank. It is the apex body of banking sector in India. It supervises controls and regulates the activities of commercial banks. It acts as bankers' bank. It also acts as banker, agent and advisor in all financial and monetary matters to the government. A central bank is also the custodian of the foreign currency reserves and manages exchange stability and exchange control and other restrictions imposed by the state. It formulates the monetary and credit policy (such as availability, cost and use of money).

- It was established on April 1, 1935 in accordance with the provision of the Reserve Bank of India Act 1934.
- The RBI was setup on the recommendation of the **"Hilton Young Commission"** also known as the **"Royal Commission on Currency and Finance"**.
- The committee submitted its report in the year 1926, though the bank was not set up for 9 years.
- It was nationalised on Jan 1, 1948 as government acquired the private share holdings.
- Its central office was initially established at Kolkata but it was permanently moved to Mumbai in 1937.
- Its Head office is at Mumbai, Four local head offices at Mumbai, Kolkata, Delhi, and Chennai and 22 Regional offices.
- **Note:** The first central bank in the world: Riksbank Sweden in 1896. But in the light of functions, Bank of England is the first Central bank 1694.

Structure, Organization and governance of RBI

The RBI is wholly owned by the Govt. of India. The 21-member strong central board of Directors oversees/supervises the bank's business. It delegates specific functions through its committees and sub-committees.

Central Board of Directors

Official Directors	
1 Governor	Dr Raghuram G Rajan
4 Deputy Governor	KC Chakrabarty, Anand Sinha, Harun Rashed Khan, Urjit R Patel
Non- Official Directors	
2 Representatives	Finance Ministry Representative
10 Government Nominated Directors	With Specialization in Various Segments of the Economy
4 Local Board of Directors	For each local head office

Governor and Deputy Governors of RBI at Present

- RBI Governor **Dr Raghuram Govind Rajan**
- Deputy governor_1 **KC Chakrabarty**
- Deputy governor_2 **Anand Sinha**
- Deputy governor_3 **Dr HR Khan**
- Deputy governor_4 **Dr Urjit R Patel**

The Key Policy Rates and Reserve Ratio of RBI (As on 25th October)

CRR	4%
SLR	23%
Repo	7.25%
Reverse Repo	6.25%
Bank Rate	9.0%
MSF	9.0%
Base Rate	9.70-10.25%

1. Bank Rate:

The interest rate charges by a central bank to commercial banks for very short term loans.

Current Bank Rate is: 10.25 %

2. Repo:

Repo is "Repurchase Agreement". An agreement to sell a security for a specified price and to buy it back later at another specified price. A repo is essentially a secured loan.

3. Repo Rate:

Whenever the banks have any shortage of funds they can borrow it from RBI. Repo rate is the rate at which commercial banks borrow rupees from RBI. A reduction in the repo rate will help banks to get money at cheaper rate. When the repo rate increases borrowing from RBI becomes more expensive.

Current Repo Rate is: 7.25 %

4. Reverse Repo Rate:

Reverse Repo rate is the rate at which RBI borrows money from commercial banks. Banks are always happy to lend money to RBI since their money is in the safe hands with a good interest. An increase in reverse repo rate can cause the banks to transfer more funds to RBI due to this attractive interest rates.

Current R Repo Rate: 6.25%

5. CRR (Cash Reverse Ratio):

CRR is the amount of funds that the banks have to keep with RBI. If RBI increases CRR, the available amount with the banks comes down. RBI is using this method (increase of CRR), to drain out the excessive money from the banks.

Current CRR – 4%

6. SLR (Statutory Liquidity Ratio):

SLR is the amount a commercial bank needs to maintain in the form of cash, or gold, or govt. approved securities (Bonds) before providing credit to its customers. SLR rate is determined and maintained by RBI in order to control the expansion of the bank credit.

Current SLR is 23%

7. Need of SLR:

With the SLR, the RBI can ensure the solvency of a commercial bank. It is also helpful to control the expansion of the Bank credits. By changing SLR rates, RBI can increase or decrease bank credit expansion. Also through SLR, RBI compels the commercial banks to invest in the government securities like govt. bonds.

8. Main Use of SLR:

SLR is used to control inflation and propel growth. Through SLR rate the money supply in the system can be controlled effectively.

9. Base Rate:

Earlier it was known as BPLR. On the recommendation of Deepak Mohanty Committee it changed into Base Rate in the year 2006. It is the minimum rate below which loan can't be sanctioned. But it is violated on some cases such as agricultural loan, loans to SCs & STs and loan to its employees. The minimum and maximum Base rate is decided by the RBI whereas the exact base rate is decided by the board of directors of a concerned bank. For example the base rate of PNB is decided by the Board of Directors of PNB.

Main Functions of RBI

The followings are the main functions of RBI:-

1. Monetary Authority: Maintains price stability ensuring adequate flow of credit to the productive sectors of the economy to support economic growth and ensure financial stability.

2. Regulator and Supervisor of the Financial System: Prescribes broad parameters of banking operations within which the country's banking and financial system functions.

3. Manager of foreign exchange: Facilitates external trade and payments and promotes orderly development and maintenance of foreign exchange market in India.

4. Issuer of Currency: Issues and exchanges or destroys currency and coins not fit for circulation.

5. Banker to the Government: Performs merchant banking functions for the central government and state governments and also acts as their banker.

6. Banker to Banks: Maintain banking accounts of all scheduled banks. The reserve bank provides product and services for the nation's banks similar to what banks offers their own customers.

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

8. Remittances Facilities: Banks and Government Departments can use these (NEFT/RTGS) facilities to transfer funds.

9. Loans and Advances: The RBI provides short-term loans and advances to banks to banks and financial institutions, when necessary, to facilitate lending for specified purposes.

10. Lender of the Last Resorts: The RBI provides liquidity to banks unable to raise short-term liquid resources from the interbank market. Like other central banks, the RBI considers this as a critical function because it protects the interest of depositors, which, in turn, has a stabilizing impact on the financial system and on the economy as a whole.

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