

Reserve Bank of India (RBI)

Basic Facts

- **India's Central Bank**
- **Established:** 1 April 1935
- **Based on:** Hilton Young Commission (1926)
- **Act:** Reserve Bank of India Act, 1934
- **Initial HQ:** Calcutta → shifted to Mumbai (1937)
- **Nationalised:** 1 January 1949
 - Under the **RBI (Transfer to Public Ownership) Act, 1948**

Historical Points

- First British colony to establish its own central bank
- RBI acted as:
 - Central Bank of **Burma (Myanmar)** till April 1947
 - Central Bank of **Pakistan** till June 1948
- **First Governor:** Sir Osborne Arkell Smith
- **First Indian Governor:** Sir C.D. Deshmukh

Objectives of RBI

- Maintain **monetary stability**
- Ensure **financial stability**
- Manage **currency and credit**
- Support **economic growth**
- Promote **financial inclusion**
- Regulate financial institutions

Acts Administered by RBI

- RBI Act, 1934
- Banking Regulation Act, 1949
- FEMA, 1999
- Government Securities Act, 2006
- Payment and Settlement Systems Act, 2007
- SARFAESI Act, 2002 (Chapter II)
- Credit Information Companies Act, 2005
- Factoring Regulation Act, 2011

Organisational Structure

Central Board of Directors

- **Total Members:** 21

- **Term:** 4 years
- **Composition:**
 - Governor
 - Up to 4 Deputy Governors
 - 10 non-official members (various fields)
 - 4 representatives from Local Boards
 - 2 Government officials

Local Boards

- **Regions:** West, East, North, South
- **Members:** 5 per board
- **Appointed by:** Central Government
- **Term:** 4 years

RBI Offices

- **Central Office:** Mumbai
- **Zonal Offices (4):**
 - Mumbai (West)
 - Delhi (North)
 - Chennai (South)
 - Kolkata (East)
- **Regional Offices:** ~22 (mostly state capitals)

Governor of RBI

- **Appointed by:** Government of India
- **Powers derived from:** RBI Act, 1934
- **Current Governor (as given):** Sanjay Malhotra
- **Role:** Monetary policy, financial stability, representation at global forums

Core Functions of RBI

1. Monetary Authority

- Formulates and implements monetary policy
- Tools:
 - Repo rate
 - Reverse repo
 - Open Market Operations (OMOs)

2. Regulator & Supervisor

- Regulates banks, NBFCs, and financial institutions
- Protects depositors' interests

3. Issuer of Currency

- Issues, exchanges, and destroys currency notes

- **Digital Rupee (₹):** CBDC (Retail & Wholesale)

4. Manager of Foreign Exchange

- Implements **FEMA, 1999**
- Manages the forex market & reserves

5. Banker to Government

- Manages public debt
- Issues government securities

6. Banker to Banks

- Maintains accounts of scheduled banks
- **Lender of Last Resort**

7. Regulator of Payment Systems

- Oversees UPI, RTGS, NEFT, etc.

8. Developmental Role

- Financial inclusion
- Rural credit
- Banking outreach

RBI Publications

- Annual Report
- Financial Stability Report (FSR)
- Monetary Policy Report (MPR)
- Handbook of Statistics on the Indian Economy

RBI Surplus Transfer

- Surplus = Income – Expenditure
- Part retained as **equity capital**
- Remaining transferred to the Central Government

Debate:

- Government: wants a higher surplus transfer
- RBI: fears inflation, reduced financial buffer

RBI Autonomy

- Operational independence in monetary policy
- **Section 7(1), RBI Act 1934:**
 - Govt can issue directions in the public interest (after consultation)

RBI Significance

- Inflation control (flexible inflation targeting)
- Forex reserve management
- Currency management (e.g., 2016 demonetisation)
- Financial inclusion (PMJDY)

Criticism of RBI

- Government interference
- Conservative monetary stance
- NBFC regulation challenges
- Growth vs inflation trade-off

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