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SECTION – A: FINANCIAL AWARENESS



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Financial Awareness: Section –A

TOPIC- Reserve Bank of India

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HISTORY OF BANKING SYSTEM

Bank of Hindustan in 1770, was the first bank in India and further the Banking Phase has divided into 3 Phase.

Phase I: Early phase to Nationalization of Banks in 1969

(Three Presidency banks were set by East India Company- Bank of Calcutta (1806), Bank of Bombay (1840) and the Bank of Madras (1843)

These worked as quasi central banks

Phase II: From Nationalization of India banks in 1969 up to LPG reforms in 1991

Phase III: From LPG & Recommendation of Narsimham committee Reforms 1991 to TODAY

RESERVE BANK OF INDIA

- Apex institution of country's monetary and financial system who regulates India Money Market (Bank & NBFCs).
- On the recommendation of "YOUNG & HILTON COMMITTEE" (Royal Commission) RBI established on 1st of April 1935 under RBI act 1934 with a capital of 5cr in KOLKATTA.
- Nationalization of RBI was on 1st of January 1949.
- RBI also acted as central Bank of BURMA'S & PAKISTAN & Bangladesh.
- Initially **Headquarter** of RBI was in KOLKATTA but further shift to **MUMBAI** in 1937.
- Initially the symbol of RBI was Lion and **PALM Tree & TIGER**.
- HQ- MUMBAI and 19 regional offices.
- Administration through center board of Directors consisting of 21 members including Governer.
 - *1-governer
 - *4-Dy. Governer. (at Present only 3 are working)
 - A. B P Kanungo
 - B. Mahesh Kumar Jain
 - C. M D Patra
 - *14- Board of member
 - *1- Government official
- **1st** governor of RBI- SIR. A. O. SMITH (35-37) followed by James Taylor Who was 2nd governor of RBI.
- **1ST** Indian governor- C. D. DESHMUKH. (43-49)
- Present Governor is **SHAKTIKANT DAS*** 25TH Governor.
- **Financial YEAR of RBI starts from** 1ST JULY.
- Only overseas Branch of RBI is in London (England).

RBI FUNCTION

- Sole authority of issue of currency (**except one rupee note**) (one rupee note dually signed by finance secretary & present FS is **AJAY BHUSHAN PANDEY***)
 - Distributor of ONE rupee coin.
 - **BANKER's Bank.**
 - Representing India at IMF & WORLD BANK.
 - ADVISORY body of government of India.
 - Custodian and manager of foreign exchange.
 - **Lender to last RESORT.**
 - Granting licenses to banks & NBFC. (whereas Nationalization of Banks is role of GOI)
 - Banker to the government
 - Controlling NDTL (Net Demand and Time Liability) of Banks.
 - **11. Credit control of RBI: / Monetary policy:** 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. (OBJ- Maintaining price stability, Ensuring adequate flow of credit)
- *Note-** Nationalization of Bank is not the function of RBI, it is the part of Government of India only.

MONETARY POLICY	FISCAL POLICY
Monetary policy is carried out by RBI.	Fiscal policy is the policy that determines by government.
Tools of RBI to maintain flow	Tools of GOI to maintain expenses
The main aim of RBI's monetary policy is to keep a check on inflation and maintain an optimum level of GDP growth at the same time.	The purpose of the fiscal policy is to promote economic growth as well, and during times of recession when government increases its spending or cuts taxes
Has to be framed Bimonthly i.e 15th each	Depend on Government expense meet.
<u>AIM</u>	<u>AIM</u>
<ul style="list-style-type: none"> a) Rapid Economic Growth b) Price Stability c) Exchange Rate Stability d) Balance of Payments(BOP) e) Full Employment f) Equal Income Distribution 	<ul style="list-style-type: none"> a) Economic Stability b) Price Stability c) Capital formation & growth d) Full Employment e) Encouraging investment f) Equal Income Distribution

MONETARY POLICY

QUALITATIVE INSTRUMENT

QUALITATIVE INSTRUMENT

Margin requirement	Bank rate
Credit regulation	Repo rate
Publicity	Reverse rate
Credit rationing	CRR (cash reserve ratio)
Moral suasion	SLR (statutory liquidity ratio)
Direct action	OMO (open market operation)
Control by directives	MSF (marginal standing facility)
-	LAF (Liquidity Adjustment Facility)

Direct Instrument:-

1. CRR (CASH RESERVE RATIO):-

- A Commercial bank is required to keep a certain percentage of its total deposit with the RBI in cash.
- The ratio of net demand and time liabilities of banks that they are required to keep with the RBI.

Now it is 3%*

2. SLR (STATUTORY LIQUIDITY RATIO):-

- It is that ratio /percentage of its total deposits which a commercial bank has to maintain with itself at any given point of time in the form of cash, gold or government securities.
- The share of net demand and time liabilities that banks must maintain in safe and liquid assets, such as government securities, cash and gold.

Now it is 18%*

INDIRECT INSTRUMENT:-

3. BANK RATE: - Rate at which RBI extends credit to commercial banks for long term purpose >90 days. Now it is 4.25%*

- The rate at which RBI purchase or rediscounts bills of exchange of commercial banks is called BANK RATE.

4. REPO RATE: - It is the rate at which banks borrow money from RBI for short term needs <90 days Period. Now it is 4%*

5. REVERSE REPO RATE: - it is the rate at which RBI borrows money from other commercial banks. Now it is 3.35%*.

Thanks

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