

In the realm of banking and finance, the Reserve Bank of India (RBI) stands as a pillar of stability and economic governance. For those aspiring to excel in bank exams, understanding the RBI's structure, functions, and impact on the Indian economy is of paramount importance. Embark on a journey to unravel the intricacies of this esteemed institution, delving into its rich history, pivotal role in monetary policy formulation, and regulatory oversight of the banking system. Discover the nuances of currency management, payment systems, and financial inclusion initiatives spearheaded by the RBI, empowering you to navigate the complexities of banking exams with confidence.

The Reserve Bank of India, chiefly known as RBI, is India's central bank and regulatory body responsible for regulation of the Indian banking system. It is under the ownership of Ministry of Finance, Government of India. It is responsible for the control, issue and maintaining supply of the Indian rupee. It also manages the country's main payment systems and works to promote its economic development. Now, let's start with the **history of Reserve Bank of India**.

History of Reserve Bank of India

Central Bank is a national bank which performs for country's government and India's central bank is Reserve Bank of India. RBI was established under The Reserve Bank of India Act, 1934 on the recommendations of Hilton Young (also known as Royal Commission) and RBI started its operations from 1 April, 1935. At the time of establishment its headquarters was located in Kolkata, later it was shifted to Mumbai in 1937.

Formerly, RBI was performing functions of Central bank of Pakistan (up to 30 June, 1948) & Burma (up to April, 1947) also. Initially, RBI was constituted as a private shareholders' bank with a fully paid-up share capital of Rs.5 crore. It was nationalized on January 1, 1949. At the time of Establishment, Accounting year of RBI was January to December but in 1940, it was changed to July to June. In 2020, it was again changed to April to March.



[Source: RBI]

Let's check out some facts about RBI.

Some Facts about Reserve Bank of India

Reserve Bank of India	
RBI Logo	Tiger & Palm Tree
1st Governor of RBI	Osborne Smith (1 April 1935 – 30 June 1937)
1st Indian Governor of RBI	C D Deshmukh (11 Aug 1943 – 30 June 1949)
Maximum Duration as RBI's Governor	Benegal Rama Rau (1 July 1949 – 14 Jan 1957) (7 years, 197 days)
Minimum Duration as RBI's Governor	Amitav Ghosh (15 Jan 1985 – 4 Feb 1985) (20 days)
25th Governor of RBI	Shaktikanta Das (From 12 December 2018)



Shaktikanta Das is the Governor of RBI till now. So, we've understood the history and structure of RBI, now let's discuss the structure and functions of RBI.



[Source: The Economic Times]

Structure of Reserve Bank of India

Let's discuss about the **Central Board of Directors** first.

Central Board of Directors:

The Board is constituted by co-opting four Directors from the Central Board as Members. The Deputy Governors of the Reserve Bank are ex-officio members. One Deputy Governor, traditionally, the Deputy Governor in charge of supervision, is nominated as the Vice-Chairman of the Board.

The chronology of the directors is given below:

Governor ⇒ Deputy Governors ⇒ Executive Directors ⇒ Principal Chief General Managers ⇒ Chief General Managers ⇒ General Managers ⇒ Deputy General Managers ⇒ Assistant General Managers ⇒ Managers ⇒ Assistant managers ⇒ Support Staff

By 2023, the Governor and Deputy governors of RBI are:

Governor of RBI: Shaktikanta Das

Deputy Governors of RBI: M. K. Jain, Dr. M. D. Patra, M. R. Rao, T. R. Shankar

Central Board of Directors consists of 21 members:

1. Governor: **1 Member**
2. Deputy Governor: **4 Members**
3. Members from Finance Ministry representatives (Economic Affairs Secretary & Finance Secretary): **2 Members**
4. Government Nominated Directors: **10 Members**
5. Directors from local boards (i.e. Mumbai, Kolkata, Chennai & Delhi): **4 Members**



[Source: Wikipedia]

Functions of Reserve Bank of India

These are the 8 main functions of RBI:

- 1. Issuer of Currency:** According to Sec 22 of RBI Act, 1934, RBI is the sole authority which controls the money flow in the market. RBI issues all currency notes except 1 Rupee note and coins. RBI issues currency following Minimum Reserve System. Denominations of Notes that can be issued by RBI are stated under Section 24 of RBI Act, 1934.
- 2. Review Monetary Policy:** RBI has the power to review Monetary Policy after every 2 months (bi-monthly). To control Inflation in the market RBI uses different tools of Monetary Policy.
- 3. Banker and Debt Manager to Government (WMA):** As banker to the Government, the Reserve Bank works out the overall funds position and sends daily advice showing the balances in its books, Ways and Means Advances (WMA) granted to the government and investments made from the surplus fund.
- 4. Banker to Banks:** RBI is the Lender of Last Resort to all scheduled commercial banks. The Reserve Bank provides Short-term loans and advances to banks, when necessary.
- 5. Financial Regulation and Supervision:** RBI keeps an Eye on banks so that they won't fail in performing their functions, supervise and assist banks so that they can perform well and serve the economy. RBI monitors Bank frauds and overseeing issues in house-keeping in PSBs (Public Sector Banks) including reconciliation of entries in inter-branch and inter-bank accounts and balancing of books of accounts.
- 6. FOREX Management:** RBI is also a regulator of Foreign Exchange Reserve (FOREX) Management in India. It controls the inflow and outflow of foreign reserves and it also maintains the reserve of foreign currencies of different countries.
- 7. Market Operations:** Open Market Operations (OMOs) are purchase & sale of Government securities (G-Secs) by RBI on the Government's behalf. In the situation of excess liquidity in the market, RBI issues these securities through Auctions.

Know Everything about Reserve Bank of India for Bank Exams

8. Payment & Settlement Systems: In India, the payment and settlement systems are regulated by the Payment and Settlement Systems Act, 2007 (PSS Act). In terms of Section 4 of the PSS Act, no person other than the Reserve Bank of India (RBI) can commence or operate a payment system in India unless authorized by RBI. Banks are the part of PSS.



[Source: Telegraph India]

Have you heard about demonetization in India in 2016? Yes, undoubtedly we have all been through this. Do you know, this demonetization was not the first time in India?

Demonetization in India

Demonetization is a process of stripping a currency unit of its status as a legal tender. In other words, it means abolishing of Legal tender of Currency. Reasons of Demonetization can be to control Inflation, Black money in the market, etc. This table shows Demonetization of currency in India:

Year of Demonetization	Denomination	Governor
1946	Rs. 1000 & 10,000	C D Deshmukh
1978	Rs. 1,000, 5,000 & 10,000	I G Patel
2016	Rs. 500 & 1,000	Urjit Patel



[Source: Business Standard]

RBI Act 1934: RBI Incorporation

Reserve Bank of India Act, 1934 is the legislative act under which the Reserve Bank of India was formed. This act along with the Companies Act, which was amended in 1936, was meant to provide a framework for the supervision of banking firms in India.

There are various sections in the RBI Act, some of the important sections are mentioned below:

2 (e): Scheduled Bank means a bank whose name is included in the 2nd schedule of RBI Act 1934.

7: Central government can legislate the functioning of the RBI through the RBI board, and the RBI is not an autonomous body.

17: Defines various types of business which RBI may perform, which include acceptance of deposit without interest from Central/State government, any other institution. Purchase or sell foreign exchange, securities, grant loans etc.

18: Provides Emergency loans to banks.

20: RBI is a Banker to Government It performs various functions for the Government of India. It transacts Government business and manages public debt of the Central Government.

22: RBI has the exclusive rights to issue currency notes in India.

23: Bank notes shall be issued by Issues Department.

24: Denomination of notes (2, 5, 10, 20, 50, 100, 200, 500, 1000, 5000, 10000). Central Government may direct discontinuance or non-issue of bank note of any denomination.

26: This section Describes the legal tender character of Indian bank notes.

28: RBI to form rules regarding the exchange of damaged & imperfect/Soiled & Mutilated notes.



42 (1): Every scheduled bank must have an average daily balance with the RBI. The amount of the deposit shall be more than a certain percentage of its NDTL (net demand and time liabilities).

Nationalization of RBI

The Reserve Bank of India was nationalized with effect from 1st January, 1949 on the basis of the Reserve Bank of India (Transfer to Public Ownership) Act, 1948. All shares in the capital of the Reserve Bank of India were deemed transferred to the Central Government on payment of compensation.

The nationalization aimed to align the RBI's objectives with national priorities, ensuring a cohesive approach to economic development and financial stability. It empowered the government to steer monetary policy, regulate the banking sector, and manage currency operations effectively. This move reflected the growing consensus that a centralized monetary authority was crucial for a newly independent India to chart its economic destiny.

The nationalization of RBI symbolized a pivotal step towards consolidating India's financial sovereignty, paving the way for a robust and resilient banking system that would serve the nation's aspirations for decades to come.

Banking Regulation Act, 1949

The **Banking Regulation Act, 1949** is legislation in India which regulates all banking firms. Formerly it was passed as the Banking Companies Act 1949, which came into force from 16 March 1949 and later, from 1 March changed to Banking Regulation Act 1949. From 1956, it is applicable in Jammu and Kashmir. Initially, the law was applicable only to banking companies but, from 1965, amendment was made to make it applicable to cooperative banks and to introduce other changes. In 2020, it was amended to include the cooperative banks under the supervision of the Reserve Bank of India.

Under Banking Regulation Act the RBI has many powers. Some of the important powers are mentioned below:

Section 10 BB: Reserve Bank has a power to appoint Chairman of the Board of Directors on a whole-time basis or a Managing Director of a banking company.

Section 21: Reserve Bank has a power to control advances by banking companies. RBI has the powers to decide policies and direct banking companies to follow accordingly.

Section 22: RBI has a power of Licensing of banking companies. All Banking companies need to get a license from RBI for commencement of activities.

Section 30: RBI has a power to order Special audit in the public interest or in the interest of the banking company or its depositors, the RBI may at any time order a special audit of the banking company's accounts.

Let's talk about the **Subsidiaries of RBI** and then we will bind up this blog.

Subsidiaries of RBI

- 1. Deposit Insurance and Credit Guarantee Corporation (DICGC):** DICGC was established on 15 July, 1978 under the DICGC Act, 1961. It provides an insurance facility to our bank account up to 5 Lakh rupees. NBFCs & Primary Co-operative societies are not insured under DICGC.
- 2. Bharatiya Reserve Bank Note Mudran Private Limited (BRBNMPL):** It was established in 1995 for printing new notes in India. It is registered as a Private Limited Company under the Companies Act. The main function of BRBNMPL is to print new notes for RBI. It has two printing presses; one is in Mysore and other is in Salboni. Its headquarters is located in Bengaluru.
- 3. Reserve Bank Information Technology Private Limited (ReBIT):** It was established in July 2016. The primary function of ReBIT is to insure the IT & Cyber Security requirements of Indian Banking Industry.
- 4. Indian Financial Technology & Allied Services (IFTAS):** It was established in 2015 under Section 8 of Companies Act. The main function of IFTAS is to design, deploy and provide IT related services for RBI. It provides digital infrastructure for Indian Banking Industry. Its headquarters is located in Mumbai.

Note: National Housing Bank (NHB) was a subsidiary of RBI till 2019.

As you delve deeper into the intricacies of the Reserve Bank of India (RBI), its multifaceted role in shaping India's economic landscape becomes vividly apparent. The RBI's steadfast commitment to maintaining price stability, fostering financial inclusion, and ensuring a robust banking system has earned it a reputation as a guardian of the nation's economic well-being.



[Source: Hindustan Times]

Comprehensive knowledge of the RBI's structure, functions, and policy initiatives is indispensable for aspiring bankers seeking to excel in competitive exams. Understanding the RBI's influence on interest rates, liquidity management, and exchange rate dynamics empowers candidates to tackle complex financial scenarios with clarity and confidence.



Know Everything about Reserve Bank of India for Bank Exams

The RBI's pursuit of inclusive growth, its unwavering focus on financial stability, and its proactive approach to regulatory oversight make it a cornerstone of India's economic progress. By mastering the intricacies of the RBI's operations and its impact on the financial landscape, aspiring bankers can position themselves as informed and astute contributors to the nation's economic growth.

In our next blog, we will discuss the [Monetary Policy Committee \(MPC\)](#) and the **tools of Monetary Policy**. Till then, Stay tuned!

