

# **Reserve Bank of India**

Reserve Bank of India (RBI) is the central bank of the country. RBI is a statutory body. It is responsible for the printing of currency notes and managing the supply of money in the Indian economy.

## **Functions of Reserve Bank of India -**

### **1. Issue of Bank Notes:**

The Reserve Bank of India has the sole right to issue currency notes except one rupee notes which are issued by the Ministry of Finance. Currency notes issued by the Reserve Bank are declared unlimited legal tender throughout the country.

This concentration of notes issue function with the Reserve Bank has a number of advantages:

- (i) It brings uniformity in notes issue
- (ii) It makes possible effective state supervision
- (iii) It is easier to control and regulate credit in accordance with the requirements in the economy
- (iv) It keeps faith of the public in the paper currency.

### **2. Banker to Government:**

As banker to the government the Reserve Bank manages the banking needs of the government. It has to-maintain and operate the government's deposit accounts. It collects receipts of funds and makes payments on behalf of the government. It represents the Government of India as the member of the IMF and the World Bank.

### **3. Custodian of Cash Reserves of Commercial Banks:**

The commercial banks hold deposits in the Reserve Bank and the latter has the custody of the cash reserves of the commercial banks.

#### **4. Custodian of Country's Foreign Currency Reserves:**

The Reserve Bank has the custody of the country's reserves of international currency, and this enables the Reserve Bank to deal with crisis connected with adverse balance of payments position.

#### **5. Lender of Last Resort:**

The commercial banks approach the Reserve Bank in times of emergency to tide over financial difficulties, and the Reserve bank comes to their rescue though it might charge a higher rate of interest.

#### **6. Central Clearance and Accounts Settlement:**

Since commercial banks have their surplus cash reserves deposited in the Reserve Bank, it is easier to deal with each other and settle the claim of each on the other through book keeping entries in the books of the Reserve Bank. The clearing of accounts has now become an essential function of the Reserve Bank.

#### **7. Controller of Credit:**

Since credit money forms the most important part of supply of money, and since the supply of money has important implications for economic stability, the importance of control of credit becomes obvious. Credit is controlled by the Reserve Bank in accordance with the economic priorities of the government.