* Central bank is responsible for keeping the external value of country's currency stable.

* In case of any fluctuations the central bank, in order to minimize the, may have to buy or foreign currency in the market.

* The purpose of maintaining cash reserve was two folds as (i) to maintain confidence in domestic currency.

  (ii) To meet emergency requirment of foreign exchange.

** Bank rate policy.

* Bank rate is the rate at which the central bank lends to commercial banks lend to their customers.

* Bank rate and rates of interest directly related.

* If there is an increase in the bank rate, then commercial banks more for the financial accomodation by the central bank.
* As a result they would rise the rate of interest.
* Central bank tries to control credit by making changes in the bank rate.
* An increase in the bank rate raises the cost of credit (rate of interest) and credit becomes expensive.