

RBI - Reserve Bank of India

The Reserve Bank of India (RBI) is India's central bank. It controls the monetary policy of the national currency, the Indian rupee. The basic functions of the RBI are the issuance of currency, to sustain monetary stability in India, to operate the currency and maintain the country's credit system. This topic is one of the most important parts of UPSC Indian Economy in the [UPSC Syllabus](#).

The RBI is an important tool in the development strategy of the Indian government. UPSC has asked several questions regarding RBI functions, objectives, monetary regulations, etc. especially in [UPSC IAS Prelims Exam](#).

Reserve Bank of India Timeline

Year Event

1934 The British enacted the Reserve Bank of India Act

1935 Reserve Bank of India was established on 1st of April in Calcutta

1937 Reserve Bank of India was permanently moved to Mumbai

1949 Got nationalised after independence. The bank was held by private stakeholders before this.

In the year 2016, the original RBI Act of 1934 was amended and that provided the statutory basis for the implementation of the flexible inflation-targeting framework.

What is RBI?

RBI is an institution of national importance and the pillar of the surging Indian economy. It is a member of the IMF. Recently, RBI has launched a website named <https://paisaboltahai.rbi.org.in/> to raise awareness among masses about fake notes in the market.

- The concept of Reserve Bank of India was based on the strategies formulated by Dr. Ambedkar in his book named "The Problem of the Rupee – Its origin and its solution".
- This central banking institution was established based on the suggestions of the "Royal Commission on Indian Currency & Finance" in 1926. This commission was also known as **Hilton Young Commission**.
- In 1949, the Reserve Bank of India was nationalized and became a member bank of the Asian Clearing Union.
- RBI regulates the credit and currency system in India.
- The chief objectives of the RBI are to sustain the confidence of the public in the system, protect the interests of the depositors, and offer cost-effective banking services like cooperative banking and commercial banking to the people.



The Preamble of Reserve Bank of India

The Preamble of the Reserve Bank of India describes the basic functions of the Reserve Bank as:

“...to regulate the issue of Bank Notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage.”

Functions of Reserve Bank of India

The main functions of the Reserve Bank of India are as follows:

Monetary Authority

- Implementation of monetary policies.
- Monitoring the monetary policies
- Ensuring price stability in the country considering the economic growth of the country

Also, read about the [Monetary Policy Committee \(MPC\)](#) and know more about this six-member committee.

Regulator and administrator of the financial system

- The RBI determines comprehensive parameters of banking operations.
- These methods are responsible for the functioning of the country’s banking and financial system.
Methods such as:
 - License issuing
 - Liquidity of assets
 - Bank mergers
 - Branch expansion, etc.

Managing Foreign Exchange

- RBI manages the [FOREX Reserves](#) of India.
- It is responsible for maintaining the value of the Rupee outside the country.
- It aids foreign trade payment.

Issuer of currency

- The Reserve Bank of India is responsible for providing the public with a sufficient supply of currency notes and coins.
- The quality of currency notes and coins is also taken care of by the RBI.
- RBI is in charge of issuing and exchanging of currency and coins.
- Also, the destruction of currency and coins that are not fit for circulation.

Developmental role

- Promotional functions that support national objectives are organised by RBI that encourage rural and agricultural economic development.
- The RBI will regularly issue directives to the commercial banks to lend loans to small-scale industrial units.

Composition of RBI

- Reserve Bank of India is controlled by a central board of directors. The directors are appointed for a 4-year term by the Government of India in keeping with the Reserve Bank of India Act.
- The Central Board consists of:
 - Governor
 - 4 Deputy Governors
 - 2 Finance Ministry representatives
 - 4 directors to represent local boards headquartered at Mumbai, Kolkata, Chennai and New Delhi
- The executive head of RBI is Governor.
- The Governor is accompanied by 4 deputy governors.
- The First Governor of RBI was Sir Osborne Smith and the First Indian Governor of RBI was CD Deshmukh.
- The First woman Deputy Governor of RBI was KJ Udeshi.
- The only Prime Minister who was the Governor of RBI was Manmohan Singh.

Zonal Offices

- RBI has four zonal offices: New Delhi for North, Chennai for South, Kolkata for East and Mumbai for West.
- The Reserve Bank of India has 19 regional offices and 11 sub-offices at present.
- The bank has two training colleges for its officers:
 - Reserve Bank Staff College at Chennai
 - College of Agricultural Banking at Pune.

UPSC Questions related to Reserve Bank of India

How many reserve banks are there in India?

The Reserve Bank of India has offices at 31 locations all across the country.

What are the functions of Reserve Bank of India?

- The main functions of the Reserve Bank of India are as follows:
- Monetary Authority
- Regulator and administrator of the financial system
- Managing Foreign Exchange
- Issuer of currency
- Developmental role