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# Roles & Functions of Reserve Bank of India GK Notes for Bank & SSC in PDF

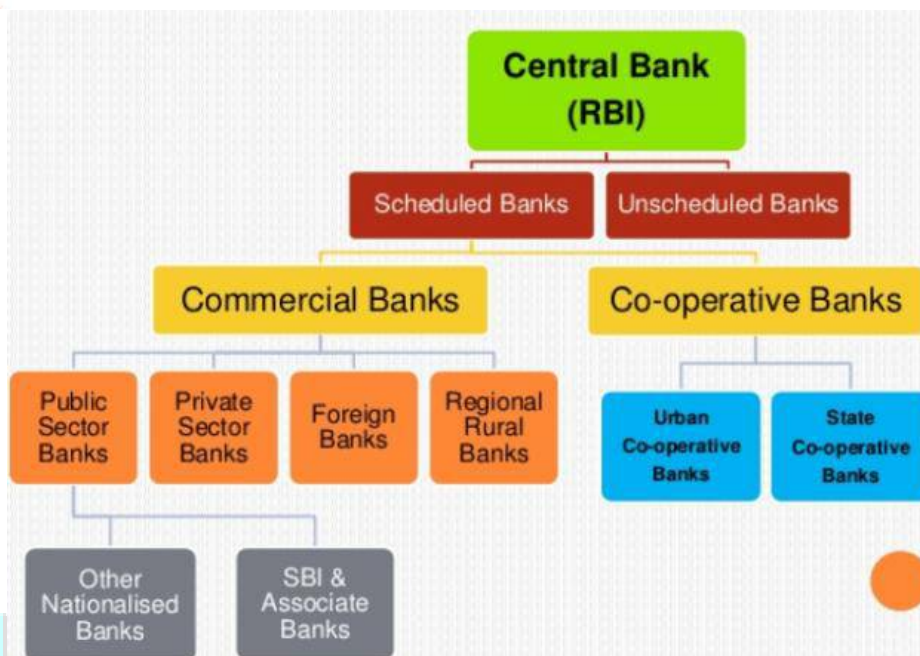
During your preparation for various Government Recruitment Exams, it is important that you study & get well-versed with Current Affairs & General Awareness. Being aware of your surroundings will help you score more marks in your exams. It is crucial that you be familiar with Banking & Finance terms & have a basic knowledge about RBI, to begin with. Read the article on Roles & Functions of Reserve Bank of India. Know all details on the Probationary, Supervisory Role, the Organisational Structure & more! You can practice more through [Online Mock Tests](#).

## Roles & Functions of Reserve Bank of India - Introduction

India is one of the **fastest growing economies** in the world, with a population over 1.2 Billion, has become the hub for global investment. There are various factors that influence and control Indian economy, one such being, The RBI, **one of the oldest institution** behind the success of our economy.

The **RBI is the backbone of Indian economy** and because of it, growth in Exports, FOREX, Capital Markets and other sectors of the economy are all happening. It plays an important role in strengthening, developing and diversifying the country's economic and financial structure. It is the apex bank in the **Indian Banking System**.





The Reserve Bank of India (RBI) is **India's Central banking institution**, which controls the monetary policy of the Indian rupee. The Reserve Bank of India was established on April 1, 1935, in accordance with the provisions of the Reserve Bank of India Act, 1934. Though originally privately owned, since nationalisation in 1949, the Reserve Bank is fully owned by the Government of India.

**The Preamble of the Reserve Bank of India describes the basic Functions of Reserve Bank of India 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; to have a modern monetary policy framework to meet the challenge of an increasingly complex economy, to maintain price stability while keeping in mind the objective of growth."*

**The RBI has four zonal offices at:**

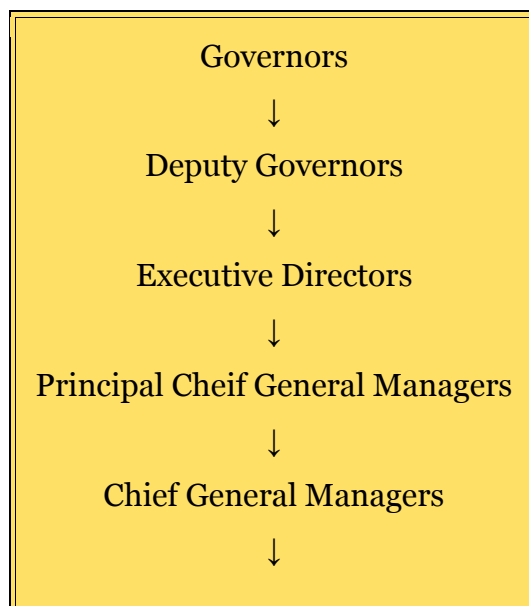


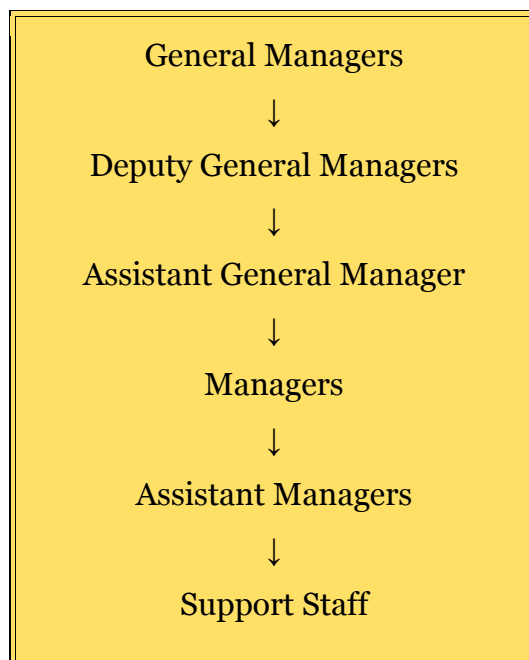
1. Chennai
2. Delhi
3. Kolkata
4. Mumbai

**It has 20 regional offices and 11 Sub-offices.**

## Organizational Structure of RBI:

- The Reserve Bank's affairs are governed by a central board of directors. The board is appointed by the Government of India for a period of four years.
- **Full-time officials:** Governor and not more than four Deputy Governors. The current Governor of RBI is **Mr Urjit Patel**.
- There are **4 Deputy Governors**, BP Kanungo, S S Mundra, N S Vishwanathan and Viral Acharya.
- **Nominated by Government:** ten Directors from various fields and two government Officials
- Others: **four Directors** – one each from four local boards.





## Functions of Reserve Bank of India in Indian Banking System

1. **Monetary Authority:** It controls the supply of money in the economy to stabilize exchange rate, maintain healthy balance of payment, attain financial stability, control inflation, strengthen banking system
2. **The issuer of currency:** The objective is to maintain the currency and credit system of the country to maintain the reserves. It has the sole authority in India to issue currency. It also takes action to control the circulation of fake currency.
3. **The issuer of Banking License:** As per Sec 22 of Banking Regulation Act, every bank has to obtain a Banking license from RBI to conduct banking business in India.
4. **Banker's to the Government:** It acts as banker both to the central and the state governments. It provides short-term credit. It manages all new issues of government loans, servicing the government debt outstanding and nurturing the market for government's securities. It advises the government on banking and financial subjects.



5. **Banker's Bank:** RBI is the bank of all banks in India as it provides the loan to banks/bankers, accept the deposit of banks, and rediscount the bills of banks.
6. **Lender of last resort:** The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis.
7. **Banker and debt manager of government:** RBI keeps deposits of Governments free of interest, receives and makes payment, carry exchange remittances, and help to float new loans and manage public debt, act as an advisor to Government.
8. **Money supply and Controller of Credit:** To control demand and supply of money in Economy by Open Market Operations, Credit Ceiling, etc. RBI has to meet the credit requirements of the rest of the banking system. It needs to maintain price stability and a high rate of economic growth.
9. **Act as clearinghouse:** For settlement of banking transactions, RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.
10. **Manager of foreign exchange:** It acts as a custodian of FOREX. It administers and enforces the provision of Foreign Exchange Management Act (FEMA), 1999. RBI buys and sells foreign currency to maintain the exchange rate of Indian rupee v/s foreign currencies.
11. **Regulator of Economy:** It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.
12. **Managing Government securities:** RBI administers investments in institutions when they invest specified minimum proportions of their total assets/liabilities in government securities.
13. **Regulator and Supervisor of Payment and Settlement systems:** The Payment and Settlement systems Act of 2007 (PSS Act) gives RBI oversight authority for the payment and settlement systems in the country. RBI focuses on the development and functioning of safe, secure and efficient payment and settlement mechanisms.
14. **Developmental Role:** This role includes the development of the quality of banking system in India and ensuring that credit is available to the productive sectors of the economy. It provides a wide range of promotional functions to support national objectives. It also includes establishing institutions designed to build the country's





financial infrastructure. It also helps in expanding access to affordable financial services and promoting financial education and literacy

15. **Publisher of monetary data and other data:** RBI maintains and provides all essential banking and other economic data, formulating and critically evaluating the economic policies in India. RBI collects, collates and publishes data regularly.
16. **Exchange manager and controller:** RBI represents India as a member of the International Monetary Fund [IMF]. Most commercial banks are authorized dealers of RBI
17. **Banking Ombudsman Scheme:** RBI introduced the Banking Ombudsman Scheme in 1995. Under this scheme, the complainants can file their complaints in any form, including online and can also appeal to the RBI against the awards and the other decisions of the Banking Ombudsman
18. **Banking Codes and Standards Board of India:** To measure the performance of banks against Codes and standards based on established global practices, the RBI set up the Banking Codes and Standards Board of India (BCSBI).
19. **Fair Practices Codes For Lenders:-** RBI formulated the Fair Practices Code for Lenders which was communicated to banks to safeguard the rightful interest of the borrowers

## Role of RBI in Economic Development

1. Development of banking system
2. Development of financial institutions
3. Development of backward areas
4. Economic stability
5. Economic growth
6. Proper interest rate structure

## Promotional Role of RBI

1. Promotion of commercial banking



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2. Promotion of cooperative banking
3. Promotion of industrial finance
4. Promotion of export finance
5. Promotion of credit to weaker sections
6. Promotion of credit guarantees
7. Promotion of differential rate of interest scheme
8. Promotion of credit to priority sections including rural & agricultural sector

## Supervisory Functions of Reserve Bank of India

1. Granting license to banks & controlling the opening of new branches
2. Bank Inspection
3. Control over Non-Bank Financial Institutions: The Non- Bank Financial Institutions are not influenced by the working of a monetary policy. RBI has a right to issue directives to the NBFIs from time to time regarding their functioning.
4. Implementation of the Deposit Insurance Scheme: In order to protect the deposits of small depositors, RBI work to implement the Deposit Insurance Scheme in case of a bank failure. (For bank deposits below 1 Lakh.)

## Prohibitory Functions of Reserve Bank of India

1. It cannot provide any direct financial assistance to any industry, trade or business
2. It cannot purchase its own share
3. It cannot purchase shares of any commercial and industrial undertaking
4. It cannot purchase any immovable property
5. It cannot give loans on the security of shares and property

## Functions of Reserve Bank of India - General Terms





- **Monetary policy** refers to the use of certain regulatory tools under the control of the RBI in order to regulate the availability, cost and use of money and credit.
- **Cash Reserve Ratio (CRR):** Banks are required to hold a certain proportion of their deposits in the form of cash with RBI. RBI uses CRR either to drain excess liquidity from the economy or to release additional funds needed for the growth of the economy.
- **Statutory Liquidity Ratio (SLR):** SLR is the amount that commercial banks are required to maintain in the form of gold or government approved securities before providing credit to the customers.
- **Repo Rate:** The rate at which the RBI is willing to lend to commercial banks is called Repo Rate. Whenever banks have any shortage of funds they can borrow from the RBI, against securities. If the RBI increases the Repo Rate, it makes borrowing expensive for banks and vice versa. As a tool to control inflation, RBI increases the Repo Rate, making it more expensive for the banks to borrow from the RBI with a view to restricting the availability of money. Similarly, the RBI will do the exact opposite in a deflationary environment.
- **Reverse Repo Rate:** The rate at which the RBI is willing to borrow from the commercial banks is called reverse repo rate. If the RBI increases the reverse repo rate, it means that the RBI is willing to offer lucrative interest rate to banks to park their money with the RBI. This results in a decrease in the amount of money available for banks customers as banks prefer to park their money with the RBI as it involves higher safety. This naturally leads to a higher rate of interest which the banks will demand from their customers for lending money to them.

**The Repo Rate and the Reverse Repo Rate are important tools with which the RBI can control the availability and the supply of money in the economy.**

**Fiscal Policy:** It is related to direct taxes and government spending. When direct taxes increased and government spending increased than the disposable Income of the people reduces and hence the demand reduces.





- On the basis of an assessment of the current and evolving macroeconomic situation at its meeting today, the Monetary Policy Committee (MPC) decided to keep the policy repo rate under the liquidity adjustment facility (LAF) unchanged at 6.0 percent.
- Consequently, the reverse repo rate under the LAF remains at 5.75 percent, and the marginal standing facility (MSF) rate and the Bank Rate at 6.25 percent.
- The decision of the MPC is consistent with a neutral stance of monetary policy in consonance with the objective of achieving the medium-term target for consumer price index (CPI) inflation of 4 percent within a band of +/- 2 percent while supporting growth

Policy Repo Rate	6.00%
Reverse Repo Rate	5.75%
Marginal Standing Facility Rate	6.25%
Bank Rate	6.25%
CRR	4%
SLR	19.5%
Base Rate	8.95% - 9.45%
MCLR	7.70% - 8.05%
Savings Deposit Rate	3.50% - 4.00%
Term Deposit Rates > 1 year	6.00% - 6.75%

Now that you know in detail about Roles & Functions of Reserve Bank of India, read more such articles on General Knowledge & Current Affairs.



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