Research work on RBI and its credit control policy and instruments

Shubham Lonkar
shubhamlonkar96@gmail.com
Indore Institute of Law, Indore, Madhya Pradesh

ABSTRACT

The RBI most important goal is to maintain monetary stability - moderate and stable inflation in India. The RBI uses monetary policy to maintain price stability and an adequate flow of credit. Rates which the Indian central bank uses for this are the bank rate, repo rate, reverse repo rate and the cash reserve ratio. The Reserve Bank of India (RBI) raised repo and reverse repo rates 13 times in the previous year. RBI also deregulated savings bank deposit rate with immediate effect. This step was taken to arrest rising inflation in Asia's third-largest economy. But this RBI's decision to hike short-term lending and borrowing rates could lead to higher interest rates and impact the growth momentum of the economy.

Keywords— Monetary policy

1. RESEARCH AIM

This research paper aims at discussing the role of Reserve Bank of India as a body to regulate the monetary and credit system of the Country.

The study will primarily focus on the objective and function of Reserve Bank of India to control money in the market.

It will examine various regulatory measures taken by RBI for the regulation of money in the market. The study revolves around the various initiatives taken by RBI to develop more efficient, integrated payment system.

2. SCOPE OF THE RESEARCH

This study will mainly cover:

- Acceptance of demand deposit, i.e. current deposit and saving bank deposits
- Payments and remittance services through various channels.
- Internet banking
- To study the measures taken up by RBI to control money flow in the market.

3. RESEARCH METHODOLOGY

The present case study is based on both primary and secondary data in nature. The data is various published sources such as RBI Act 1934; reports, financial journals, finance articles, regulations and circulars issued by RBI.

4. RESEARCH QUESTIONS

- What is the role of RBI?
- What are the functions of RBI?
- What are the instruments credit controls?

5. INTRODUCTION

Reserve Bank of India is also known as India's Central Bank. It was established on 1st April 1935. Although the bank was initially owned privately, it has been taken up the Government of India ever since it was nationalized. The bank has been vested with the immense responsibility of reviewing and reconstructing the economic stability of the country by formulating economic policies and ensuring a proper exchange of currency. In this regard, the Reserve Bank of India is also known as the banker of banks.

The Central Office of the Reserve Bank was initially established in Calcutta but was permanently moved to Mumbai in 1937. The Central Office is where the Governor sits and where policies are formulated.

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.” The Preamble of the RBI speaks about the basic functions of the bank. It deals with the issuing the bank notes and keeping reserves in order to secure monetary stability in the country. It also aims at operating and boosting up the currency and credit infrastructure of India.
6. ROLE AND FUNCTION OF RESERVE BANK OF INDIA

- **Monetary Authority**: Formulates, implements, and monitors the monetary policy for
  1. Maintaining price stability, keeping inflation in check
  2. Ensuring adequate flow of credit to productive sectors.

- **Regulator And Supervisor Of The Financial System**: It lays out parameters of banking operations within which the country's banking and financial system functions for:
  1. maintaining public confidence in the system,
  2. protecting depositors’ interest ;
  3. Providing cost-effective banking services to the general public.

- **Regulator And Supervisor Of The Payment Systems**:
  1. Authorizes the setting up of payment systems;
  2. Lays down standards for working on the payment system;
  3. Lays down policies for encouraging the movement from paper-based payment systems to electronic modes of payments.
  4. Setting up of the regulatory framework of newer payment methods.
  5. Enhancement of customer convenience in payment systems.
  6. Improving security and efficiency in modes of payment.

- **Manager of Foreign Exchange**: RBI manages forex under the FEMA- Foreign Exchange Management Act, 1999.
  1. facilitate external trade and payment
  2. Promote the development of foreign exchange market in India.

- **Issuer Of Currency**: RBI issues and exchanges currency as well as destroys currency & coins not fit for circulation to ensure that the public has an adequate quantity of supplies of currency notes and in good quality.

- **Developmental Role**: RBI performs a wide range of promotional functions to support national objectives. Under this, it set up institutions like NABARD, IDBI, SIDBI, NHB, etc.

- **Banker to the Government**: Performs merchant banking function for the central and the state governments; also acts as their banker.

- **Banker to banks**: An important role and function of RBI are to maintain the banking accounts of all scheduled banks and acts as the banker of last resort.

7. INSTRUMENT OF CREDIT CONTROL
There are two methods for credit control:
  1. Quantitative or General method
  2. Qualitative or Selective method

7.1 Quantitative or General Method: It includes
  - Bank Rate
  - Open Market
  - Change In Cash
  - Cash Reserve Ratio (CRR)
  - Repo And Reserve Repo Ratio
  - Statutory Liquidity Ratio

7.2 Qualitative Or Selective Method: It includes
  - Selective Credit Control
  - Direct Action
  - Moral Persuasion
  - Rationing Of Credit

8. CONCLUSION
- The RBI plays important role in achieving economic growth of developing country. It promotes economic growth with stability; it also helps in attaining full employment balance of payment and in stabilizing the exchange rate.
- RBI is the autonomous body promoted by the government of India and it’s headquartered at Mumbai
- RBI operates a number of government mints that produce coins and currency.
- RBI is also a regulator of banking and nonbanking financial institutions.
- It controls monetary policy and regulates money in the market.

9. REFERENCES
[1] scribd.com
[3] firstpost.com