

90 Years of RBI

Why in news?

The Reserve Bank of India (RBI) recently celebrated its 90th year in Mumbai.

What is the history of RBI?

- **About-** RBI is India's central banking institution, which controls the monetary policy of the Indian rupee.
- **Hilton Young Commission-** RBI was set up based on the recommendations of the Royal Commission on Indian Currency and Finance, which was appointed by Lord Reading, then viceroy of India.
- **Established year-** April 1, 1935 in accordance with RBI Act, 1935.
- **Headquarters-** It is moved from Calcutta to Mumbai in 1937.
- **Nationalisation-** The bank was nationalised (fully owned by government) in 1949.

What are the functions of RBI?

- **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, and strengthen banking system.
- **Issuer of currency-** RBI is the sole authority to issue currency, it also takes action to control the circulation of fake currency.
- **Issuer of banking license-** As per Section 22 of Banking Regulation Act, 1949 every bank has to obtain a banking license from RBI to conduct banking business in India.
- **Banker to the government-** It acts as banker to both the Central and the State governments, by providing short term credit and advises the government on banking and financial subject
- **Banker's Bank-** RBI is the bank of all banks in India as it provides loan to banks, accept the deposit of banks, and rediscount the bills of banks.
- **Lender of last resort-** The banks can borrow from the RBI by keeping eligible securities as collateral at the time of need or crisis, when there is no other source.
- **Act as clearing house-** For settlement of banking transactions, RBI manages 14 clearing houses. It facilitates the exchange of instruments and processing of payment instructions.
- **Custodian of foreign exchange reserves-** Manages foreign exchange reserves, administers Foreign Exchange Management Act (FEMA), and maintains exchange rate stability.
- **Regulator of economy-** It controls the money supply in the system, monitors different key indicators like GDP, Inflation, etc.,
- **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.



- **Developmental role-** RBI promotes development of quality banking system, ensures credit availability to productive sectors, establishes financial infrastructure, expand access to financial services and promotes financial literacy.
- **Exchange manager and controller-** Represents India in international monetary organizations like IMF, authorizes commercial banks as dealers.
- **Banking Ombudsman Scheme-** RBI introduced the scheme in 1995 to address complaints against banks, allows complainants to file grievances and appeal decisions.
- **Banking Codes and Standards Board of India (BCBSI) -** To measure the performance of banks against Codes and standards based on established global practices, the RBI has set up the BCSBI.

| Major contributions of RBI | |
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| Initiatives | About |
| Green Revolution Package (1960s-1970s) | It played a pivotal role in supporting this initiative by providing credit facilities to farmers, promoting agricultural mechanisation, and implementing policies to enhance rural credit accessibility. |
| Nationalization of banks, 1969 | It was implemented under the Banking Companies (Acquisition and Transfer of Undertakings) Act of 1970, to better serve the needs of development of the economy in conformity with national policy objectives. |
| Priority Sector Lending, 1972 | It provides timely and sufficient credit to key sectors of the economy that might otherwise face difficulties in accessing funds |
| Liberalization of Indian economy, 1991 | It refers to the series of policy changes aimed at opening up the country's economy to the world, with the objective of making it more market-oriented and consumption-driven. |
| TReDS, 2014 | It is an electronic platform where MSMEs can sell their receivables at a competitive rate to financiers, including banks and non- banking financial companies (NBFCs), through an auction mechanism. |
| Unified Payment Interface (UPI), 2016 | It was launched by the National Payments Corporation of India (NPCI) to provide seamless and instant experience to users across India. |
| Inflation Targeting Framework, 2016 | Under this framework, the RBI set a target for inflation and adjusted monetary policy instruments to achieve it, the banking regulator has set an inflation target of 4%, with a tolerance band of +/- 2%. |
| Bharat Bill Payment System (BBPS), 2019 | It was launched by NPCI, which is an integrated bill payment system that offers interoperable and accessible bill payment services to customers through a network of agents or online channels. |
| Aadhar-based eKYC, 2019 | The Aadhaar eKYC process enables financial institutions to authenticate customers' identities remotely, without the need for physical documentation. |
| Emergency Credit Line Guarantee Scheme (ECLGS), 2020 | To provide immediate credit assistance to small and medium enterprises (SMEs) affected by the COVID-19 pandemic. |

What are the challenges of RBI?

- **Global financial crises-** RBI has had to navigate through various global financial crises, such as the Asian financial crisis (late 1990s) and the global financial crisis of 2008 which posed challenges to India's financial stability and required coordinated policy responses from the RBI and other authorities.
- **Domestic disruptions-** During demonetization in 2016 certain currency notes were invalidated overnight which presented significant logistical and economic challenges.
- **COVID-19 pandemic-** RBI implemented various measures to support the economy, such as liquidity injections, regulatory relaxations, and interest rate cuts, to mitigate the economic impact of the pandemic.
- **Bad loans-** Non-Performing Assets (NPAs) or bad loans have been a persistent challenge for the Indian banking sector, RBI has implemented measures to address this issue, including asset quality reviews, prompt corrective action frameworks, and resolution mechanisms like the Insolvency and Bankruptcy Code (IBC).
- **Inflation management-** India has experienced periods of high inflation, RBI implemented monetary policy measures to manage inflation.
- **Crypto regulations-** Despite a Supreme Court ruling overturning the RBI's ban on cryptocurrency trading, regulatory clarity on crypto remains ambiguous

References

1. [RBI- Our history](#)
2. [Business Line- Can central banks keep government at bay?](#)
3. [Live Mint- RBI 90 years ceremony](#)