4|12|18

★ Basic information about RBI.

→ RBI is central bank of banking system in India was established on 1st April 1935, as a private share holding bank with initial capital of 5 crores.

→ It was nationalized in 1948, and started functioning as central bank of country which affect from 1st Jan 1949.

→ RBI is managed by Central Board of directors which consist the following.
   i) 1 governer & 4 deputy governers.
   ii) 4 directors for 4 local boards at Mumbai
   iii) 10 directors nominated & appointed by Central Govt.
   iv) 1 govt. official nominated by central govt.

→ Normally the term of tenure for all the officials of the board will be for 5 years. The local board will be advice the central board with respect of territorial & economic interest.

→ RBI is headquartered in Mumbai and it has main training centres for training the offi relating to banking sectors.

5/12/18

Unit - II

→ Central Banking Functions.

1) Banker to the govt :-

RBI is banker to central as well as state govt. It looks after current financial transactions of govt. by accepting money on its behalf making payments for outstanding dues, carrying out exchange remittance and other banking functions & managing the public debt. In April 1997, RBI introduced a new system known as "ways & means advance." The feature of "ways & means advance" of financing is that it is not a source of financing but only accomodates temporary mismatches in govt. receipts & payments.

2) Bank of Note issue:-

RBI is the sole authority to issue currency notes and has a separate issue dept. The denominations issued by RBI include the following denominations ; 2000, 500, 200, 100, 50, 20, 10, 05, 02. 1 rupee note & coins are issued by finance secretary to the Govt. of India & circulated to RBI. RBI issues the currency backed by gold, foreign securities ~~& bills~~, Govt. of India securities & bills or promissory note which are eligible for buying by the RBI.

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3) Banker to the Bank & Lender of last resort:-
RBI will directly or indirectly meet all the reasonable demands for financial accomodation from commercial banks, discount vouchers & other trading ~~instructions~~ institutions subject to certain terms and conditions which constitute the discount rate policy.

⇒ Promotional Role of RBI.

i) Apart from banking ~~comp~~ operations RBI has a major role to play in development of its financial market place.

ii) The reason from promotional role is that it has to ensure that there is proper allocation of credit to various sectors of the economy and to remove the imperfections in various financial markets.

iii) RBI also acts as a promoter of financial institutions in the country.

iv). RBI play a key role in branch networking in reaching the unbanked areas.

v) RBI had a key role in establishment of various financial institutions to serve various sectors like IDBI [now commercial bank], NABARD, NHB, EXIM bank & UTI

→ Regulatory role of RBI

i) The regulatory role of RBI is to control the overall credit and price level in the economy.
ii) It has to maintain value of Indian rupee.
iii) Ensure a sound and healthy banking system
iv) Effective co-ordination & control over credit through monetary & credit policies from time to time.
v) RBI also focuses on the operations of banks, NBFC's and other financial institution.
vi) RBI was empowered by RBI Act 1934 to regulate for eg :- maintenence of cash reserves by scheduled commercial banks, issues related to collections & furnishing of credit information from commercial banks, prohibition of acceptance of deposits by unincorporated bodies, Assets, Reserve funds, disclosure of info and inspection.
vii) Power of RBI to determine policy & issue direction collect ~~ions~~ info regarding deposits, prohibit acceptance of deposits while winding up petitions.
viii) RBI for the purpose of Regulation enacted Banking regulation Act 1949 to regulate Indian Banking sector.
ix) As per the regulatory role, no commercial bank can commence business without obtaining license from RBI.
x) RBI has the power to appoint or terminate the top officials

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xi) RBI controls the volume of credit.
xii) RBI has the authority to inspect the books & accounts of commercial banks.

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⇒ RBI Act 1934 & Banking Regulation Act 1949 provide the legal framework for prudential regulation & supervision of the bank's NBFC's & financial institution.

After the financial sector reforms in 1990, banks supervision & regulation has assumed considerable importance in maintenance of stability & soundness of the country's financial system for this purpose of transparency of the banking system.

⇒ **Role of RBI as a Central Bank.**

RBI plays an important role as central bank of the country in the foll. manner.

1) Sole authority of note issue.
2) Banker to bank & lender of last resort.
3) Banker to govt.
4) Custodian of foreign exchange resource
5) Credit control.

⇒ **Custodian of foreign exchange reserve.**

U/S 40 of the RBI Act, RBI is required to maintain the stability of external value of rupee. For this all foreign exchange reserves including gold foreign assets, govt. balances held abroad are centralized with RBI. All foreign exchange receipts and payments are required to be transacted through RBI or authorized dealers [commercial banks]. Besides maintaining ~~att~~ official rate of exchange in which all foreign transactions are conducted. RBI administers the exchange control of the country by acting as the custodian of India's reserve of international currency.

⇒ Control of Credit:

RBI function as the control of credit by regulating the quality of credit & the rate at which it is made available. It exercises control, over the credit granted by commercial bank by ~~the~~ changing the statutory requirement regarding maintenance of SLR & CRR. By issuing directives u/s 21 of Banking Regulation Act pertaining to the purpose of the advances for which they will be trade available. The max amount to be advanced to any borrower, the max amount upto which guarantee may be given & margin to be maintained in case of secured assets.

⇒ RBI & Monetary Policy:

Monetary policy is the policy designated to influence changes in the supply of money with ultimate objectives to promote growth with price stability. Money is the liability of the government & central bank & in other words it is a financial asset in the hands of public depending upon the risk & return profile of these assets.

11/12/18 In India, a ~~s~~ separate committee named Monetary Policy Committee in India was created in 2016 to bring transparency & ou accountability in fixing monetary policy. This committee is responsible for fixing benchmark interest rate in India. The meetings of committee are held 4 times a year & its ~~publication~~ published its decisions after each such meetings. The committee comprises of 6 members - 3 officials from RBI & 3 external members nominated by Govt. of India. They need to observe a silent period 7 ~~8~~ days before & after the rate decision for almost confidentiality. Governer of RBI is chairperson of committee. Decisions are taken by the majority with the governer having the casting vote in case of tie. The current mandate of committee is to maintain 4% annual inflation until 31st March 2021. RBI's monetary policy dept. assist monetary policy committee in formulating the monetary policy.

3/1/19 →

Monetary Policy Instruments.

The important policy instruments used by central bank of a country are

1) Bank Rate

2) Open market operations

3) Reserve requirements (CRR)

4) Selective credit controls.

→ Bank rate :- Bank rate or discount rate is the rate at which commercial banks can borrow from or rediscount with the central bank. Higher the bank rate, costlier the access to central bank money. The present bank rate is 6.75%. Bank rate is the rate charged by central Bank for the purpose of rediscounting of bills or for refinancing of loans extended by commercial banks.

Bank rate as an instrument of monetary policy reflect the cost of funds in the medium term.

→ Open market operations :- means the buying & selling the securities in the market by central Bank. The central banks could operate in primary market as buyers & not as sellers of govt. securities. In the secondary market the central bank could enter as buyers or sellers to influence the liquidity conditions in the market. Every open market purchase of govt. securities by central Bank increases high powered money by equal amount & every sale

→ reverse repo means if banks have excess funds they will park with RBI.

decreases ~~with~~ it. Central Bank buying or selling securities. The reserves of commercial banks are affected. The term open Market Operations stands for purchase & sale of gov. security ~~or~~ by CB from or to the public & bank on its own a/c in its capacity as govt. Banker and the manager of public debt and CB buys all the unsold stock of new govt. loans and thereafter keep the amt safe in the mkt. on its own a/c.

In India RBI underwrites the issue of gov. stocks. The primary mkt operations need to be open for all participants. The CB could fund gov. through private placement for gov. securities. which result in direct and immediate increase in money supply which will also impact short term & long term interest. Central Bank uses the open mkt operations to become effective debt managers in developing countries. The CB employ open mkt operations for liquidity mgmt purposes. CB also conduct repo operations as part of open mkt operations. CB when it sells securities it withdraws liquidity from the market and as & when it repurchases it injects liquity in the market.

→ Repo and reverse repo transactions constitute the modus operandi of CB towards liquidity mgmt operation. In India open mkt operations

→ Repo - 6.5
→ Rev. Repo - 6.25.

of RBI have not been powerful instrument of monetary control. The main reason for relative unimportance of open mkt operations as instrument of monetary control in India is that they are done with the consideration of public debt mgmt. In India open mkt operations are mainly done with the official bank rate or repo or reverse repo rate.

4/1/19

→ Cash Reserve Ratio.

It is the primary reserve requirement in terms of which the amount of cash of commercial banks are to be held with the central bank. This instrument is generally used by CB to ensure that banks don't create credit excessively to generate inflationary conditions. Any change in CRR affect the lending capacity of the banks. Banks maintain cash partly in the form of cash in hand and partly in form of Balances with the central bank. The amount of CRR kept by banks are considered as a penal action as they are not remunerated by CB. On other hand cash Reserve placed with CB ensures that there are no payment failures. The present rate of CRR is 4%.

→ Statutory Liquid Ratio

Banks are required to hold secondary reserve requirements in the form of govt. and other specified securities to ensure the total asset portfolio of the banks are rebalanced since the investment in govt. & other specified securities are statutory and the securities are supposed to be liquid. As rise in the ratio would imply a ~~correspon~~ corresponding fall in the amt that the bank could lend. The major short coming of this instrument depends upon the nature of the relationship b/w CB & govt. At present SLR Rate is 19.5% and as per the monetary policy declared in Dec, 2018, the rate will be gradually reduced ~~into~~ over the 6 quarters to 18%.

→ Selective Credit control (SCC)

It can be of diff types. It could be in the form of stipulation above the max. size of exposure of banks to individual borrowers or group of borrows about the sectors or activities that have to be supported by bank lending or about minimum mandate level of lending to particular sector or activities. SCC could also be specifically directed toward margin in lending against inventories of certain commodities or raw materials. Market stipulation will depend upon the type of commodities & assets. For eg:- Margin stipulated by CB in case of lending against shares & securities. The margin should be 50% of F.V. or Mkt Value. CB should cover under SCC not only commodities of Raw Material from domestic market but also that are imported. In India priority sector lending which is also called directed lending is used by RBI for the purpose of selective credit control. For eg:- RBI has stipulated recently that any foreign bank having more than 20 branches in India will be covered under priority sector targets of Domestic Banks.

9/1/19
→ Monetary Policy Formation.

Monetary policy formulation assumes importance in containing inflation in terms that monetary expansion is in line with the productive capacity of the country, credit flows into most productive sector of the economy and not diverted to the speculative or unproductive activities. RBI has adopted the best global standards and practices in conduct of monetary policy a major challenge in striking a balance b/w inflation and growth is from excessive capital inflows.
In India the monetary policy committee is responsible for fixing the benchmark interest rate. The meeting of monetary policy committee are held atleast 4 times a year & it ~~is~~ publishes its decision of each such meeting. The committee comprises 6 members. 3 members of RBI & 3 external members of the govt. of India. The Governor of RBI is the C.P. ex-office Committee decisions are taking by majority

~~with~~

with Governor having the casting vote in case of a tie.

The committee was created in 2016 to bring about transparency & accountability in fixing India's Monetary Policy. The committee is answerable to govt. of India if the inflation exceeds the rate prescribed for 3 consecutive months. The current mandate of committee is to maintain 4% annual inflation until 31st March 2021 with an upper tolerance of 6% & lower tolerance of 2%. RBI's monetary policy dept. assist monetary policy committee in formulating monetary policy. The term of external members of committee is for 4 years.

11/1/19 ⇒ RBI's autonomy and independence.

In India, RBI was initially started as a private share holding bank. Over a period of time it became central bank of the country. The interest ~~of~~ in independence of central bank can be attributed to several factors like reforms in centrally planned economy, importance of price stability & cross border financial flow. For achieving the set goal central banks should ideally enjoy both operational &

legal independence. The autonomy & independence of central bank i.e free from the govt. control will enable them to achieve the set goal like price stability & growth in the economy. The degree of independence enjoyed by C.B depend on 3 major factors

i) Personnel Matters
ii) Financial Aspects
iii) Independence in conduct of policy.

i) Personnel Independence refers to govt. interference such as appointment of senior official, term of the officers & dismissal procedures of top central bank officials & governing board. Transparent appointment & Dismissal procedures normally add to C.B independence. Many of the countries the appointment of top official of banks involve 2 or more political bodies covering a wide range of political interest. For eg:- After the name of chairman of federal reserve system of U.S is proposed by president of ~~UA~~ U.S., it requires consent of U.S. congress.

ii) Financial Independence relates to freedom of C.B to decide the extent to which govt. expenditure is either directly or indirectly financed through C.B credits. Automatic Monetization of deficit subordinates monetary policy to fiscal policy. As a such C.B. cannot be termed totally independent on financial aspects due to monetization of fiscal deficits.

a) Credibility of Central Bank.

A credible track record of C.B. is maintaining low inflation or price stability and managing monetary policy. C.B has to maintain its credibility as it has to support public debt. The credibility of C.B comes from p.o.v. of effective conduct of monetary policy.

b) Accountability of Central Bank.

Accountability implies bearing responsibility for monetary policy action. Accountability along with credibility & transparency facilitate price and financial . C.B accountability is a mechanism through which a system of cheques & balances is ~~cre~~ created for C.B. Accountability of C.B is facilitated by specifying the objectives preferably in numericals.

c) Transparancy of Central Bank.

Transparancy can be defined as symmetrical info. between policy makers & other economic agents with a view to reduce uncertainity. The stability of financial system could be achieved only when institution & market players inform decision for the purpose of transparancy for the C.B. The international monetary fund in March 2000 has formulated a code of good practices on transparancy in Monetary & Financial policies.

Transperancy entities data information & dissemination.

Unit - III

17/1/19 → Banking Regulation Act 1949

The important provisions which are relevant and have to be strictly followed by the banking institutions or sec 5(b) relates to the definition of banking.

Sec 6 - Banking business includes accepting of deposits, borrowing & lending money, dealing in bills, buying & selling of foreign exchanges, issue of LOC, travellers cheques, mortgages, insurance business, acting as ~~st~~ trustees.

Sec 7 - Use of the word bank, banker or banking company in name of all banking companies which are carrying out business of banking in India.

Sec 8 - Restricts bank from the business of trading of goods.

Sec 10 - relates to mgmt. of banks like employment of chairman, directors etc.

Sec 11 & 12 - Specifies paidup capital & reserves for foreign banks; minimum 15 lakhs.

but cities like Mumbai, Kolkatta - 20 Lakhs,
domestic banks - not less than 5 lakhs.

sec 18 - Maintainence of CRR. ~~at~~ present it is
(CRR). 4%.

Sec 19 - Banks can form subsidiary company for
certain purposes.

Sec 17 - Relates to transfer of reserve fund. 20%
of the profit. Now it is 25%.

Sec 21 - RBI has the power to determine the
policy for advances such as purpose,
margin, ~~interest~~ ~~etc~~ extent etc.

Sec 22 & 23 - contains provisions regarding licensing
of banking companies as well as
restrictions on opening new and
transfer of existing ~~places~~ ~~of~~ places
of business.

Sec 24 - Every bank has to maintain a
(SLR). certain % of its demand & time
liabilities by way ~~to~~ of cash, gold,
unencumbered securities as on
last friday of second preceding friday
or fortnight. The present rate is 19.5%

Sec 29, 30 & 31 - Every bank has to publish its balance sheet audited by qualified auditors & balance sheet and auditor's report to be submitted within 3 months from the end of period to which they refer.

Sec 35 - RBI is authorized to undertake inspection of banks and give appropriate directions.

Sec 36 - RBI has the power to terminate the services of any chairman or employee.

Sec 45 - RBI can apply to central govt. for suspension of business by a banking company & prepare a scheme for reconstitution or amalgamation.

Sec 47A - RBI can impose penalty for various types of voilation.

Sec 49A - Other than a banking company, RBI & SBI, no person can accept deposits, of money withdrawal by cheque.

⇒ Role of C.B.

conflicting role & responsibility of CB. The current professional thinking that the role of CB as debt manager is conflicting with the core objective of CB mainly price stability. Many of ~~the~~ C.B pursue price stability as the major objective of monetary policy, the role of CB as manager of public debt partially finance govt. deficits which put pressure on C.B as they need to create excess money to make govt. needs. This led to the view whether role of CB should be independent or should be Debt managers of the Govt. Another issue relating to role of CB is that all its function of regulation & supervision of financial entities.

The new objective function assigned to CB is to focus on Price Stability which financial stability as additional objective. The modern CB also consist of development of financial markets & instruments, financial regulation & supervision, mgmt. of govt. debts, administration of payment & settlement system & maintainence of external value of currency. Many of central Bank have adopted inflation targeting as the core objective.

The objective of globalisation leading to free flow of capital trade. Internation across the borders are created redefinition of the role of CB both in developed & developing countries.

24/1/19

→ Core Principles of Banking supervision:-

The core principles formulated by Ban[king] Committee formulated by Banking Supervision could be broadly classified in to 7 categori[es]. The principles are:-

1) Pre conditions for effective banking supervision.
2) Licensing & structure.
3) ~~Precedent~~ Precedential regulations & requirement[s]
4) Methods of on going banking supervision.
5) Information requirements.
6) Formal powers of supervisor.
7) Cross border Banking.

1) A system of banking supervision to be effective should have clear responsibilities & objectives for each agency involved in banking supervi[sion] & each agency should possess operational independence & adequate resources.

2) The permissible activities of license bank sub[ject] to supervision should be clearly defined & u[se] of the word bank in names must be controlled as far as possible. The licensing authority must have the right to set criterias & ~~must~~ reject applications for establishment that do not meet the set standard. Banking supervision must have the authority to review and reject any proposal & transfer any proposal to significant ownershi[p]