Rbi and its roles

Economics, Currency

RBI and its Roles Reserve Bank of India (RBI) Reserve Bank of India (RBI) is the central bank of India. It monitors, formulates and implements India's monetary policy. Established in the year 1935, RBI was nationalized in the year 1949. Owned fully by the Government of India, Reserve Bank has 22 regional offices in various state capitals of India with its headquarters located in Mumbai. It has a majority stake in the State Bank of India. Role of RBI RBI formulates the monetary policy, thus regulating and supervising the economy of India. RBI is the supreme banking authority in India.

It sets the guidelines according to which the banking operations and financial systems within the country functions. Issuer of currency RBI is the sole authority for the issue of currency in India. Major currency is in the form of RBI notes, such as notes in the denominations of two, five, ten, twenty, fifty, one hundred, five hundred, and one thousand. RBI has two departments - the Issue department and Banking department. The issue department is dedicated to issuing currency. All the currency issued is the monetary liability of RBI that is backed by assets of equal value held by this department.

Assets consist of gold, coin, bullion, foreign securities, rupee coins, and the government's rupee securities. The department acquires these assets whenever required by issuing currency. The conditions governing the composition of these assets determine the nature of the currency standard that prevails in India. The Banking department of RBI looks after the banking operations. It takes care of the currency in circulation and its withdrawal from circulation. Issuing new currency is known as expansion of currency and

withdrawal of currency is known as contraction of currency. ii. Banker to the government

RBI acts as banker, both to the central government and state governments. It manages all the banking transactions of the government involving the receipt and payment ofmoney. In addition, RBI remits exchange and performs other banking operations. RBI provides short-term credit to the central government. Such credit helps the government to meet any shortfalls in its receipts over its disbursements. RBI also provides short term credit to state governments as advances. RBI also manages all new issues of government loans, servicing the government debt outstanding, and nurturing the market for government's securities.

RBI advises the government on banking and financial subjects, internationalfinance, financing of five-year plans, mobilizing resources, and banking legislation. iii. Managing government securities Various financial institutions such as commercial banks are required by law to invest specified minimum proportions of their total assets/liabilities in government securities. RBI administers these investments of institutions.

A mutual fund is a professionally managed Medium or vehicle that pools money from many investors and invests it in stocks, bonds, short-term money market instruments and other securities. Mutual fund is managed by professional managers who have deep knowledge and understanding of Stock Market, Bonds, money market. The combined holdings the mutual fund owns are known as its portfolio. Types of mutual fund Mutual Funds are of various types depending upon the following: 1) On the basis of structure This includes open-ended funds and close ended funds I.

Open-ended funds Liquidity is the key feature involved which means these funds are like Open Box where investors can enter into or exit from an open-ended scheme anytime at NAV (Net Asset Value) related prices. Open ended funds are popular with investors because they operate in similar way to stock market where no maturity or lock-in period is involved. A close-ended fund or scheme has a stipulated maturity period for eg. 5 – 7 years. The fund is open for subscription only during a specified period at the time of the launch of the scheme.

So a NIFTY index fund would have the same 50 companies that make up Nifty in the same weightage. The aim of an index fund is to replicate the performance of that market index. So if the markets are rising, then your investment will rise with almost the same percentage and if it is falling, you will get similar negative returns. The main advantage of investing in an index fund is the low Expense Ratio that is incurred in these funds as compared to other investments because it is passively managed funds. C. ELSS (Equity linked saving schemes)

An Equity-linked saving scheme (ELSS) is a great investment option that offers the double benefits of Tax saving and capital Gains. Money collected under ELSS is mainly invested in equity and equity related instruments. ELSS Schemes have 3 years Lock-in period. Because of this, fund manager can have portfolio of stocks that can outperform over a period of time. The best way to invest in ELSS is through Systematic Investment Plan (SIP). With SIP you can invest a small amount every month for a specific time period.