A STUDY ON ROLE OF RBI IN INDIAN BANKING SYSTEM

A PROJECT SUBMITTED TO
FOR PARTIAL COMPLITATION DEGREE OF
BACHELOR'S OF BANKING AND INSURANCE
UNDER THE FACULTY OF COMMERCE
BY

T.Y.B.B.I (SEMESTER-VI)

NEHA MULCHAND GUPTA

UNDER THE GUIDANCE OF

ASST. PROF. Dr. KISHOR CHAUHAN

JNAN VIKAS MANDAL'S

Mohanlal Raichand Mehta College of Commerce

Diwali Maa College of Science

Amritlal Raichand Mehta College of Arts

Dr. R.T. Doshi College of Computer Science

NAAC Re-Accredited Grade 'A+' (CGPA : 3.31) (3rd Cycle)

Sector-19, Airoli, Navi Mumbai, Maharashtra 400708

2024-2025

JNAN VIKAS MANDAL'S

Mohanlal Raichand Mehta College of Commerce

Diwali Maa College of Science

Amritlal Raichand Mehta College of Arts

Dr. R.T. Doshi College of Computer Science

NAAC Re-Accredited Grade 'A+' (CGPA : 3.31) (3rd Cycle)

Sector-19, Airoli, Navi Mumbai, Maharashtra 400708

CERTIFICATE

This is to certify that **Ms. Neha Mulchand Gupta** has worked and duly completed his Project work for the degree of Bachelor in Commerce (**Banking & Insurance**) under the faculty of commerce in the subject of Management control and his project is entitled, **Role of Central bank of Indian banking sector** under my supervision.

I further certify that the entire work has been done by the learner under my guidance and that no part of it has been submitted previously for any Degree or Diploma of any University.

It is his own work and fact reported by her personal finding and investigations.

Guiding Teacher,

ASST. PROF. DR. KISHOR CHAUHAN.

Date of submission:

DECLARATION

I the undersigned **Ms. NEHA MULCHAND GUPTA** work embodied in this project work titled A study on role of central bank of Indian banking sector with reference to Google forms and my own contribution to the research work carried out under the guidance of **Asst. Prof. Dr. KISHOR CHAUHAN** is a result of my own research work and has not be previously submitted to any other university for any other degree to this or any other university.

Wherever reference has been made to previous works of others, it has been clearly indicated as such and included in the bibliography.

I here by future declare that information of this documents has been obtained and presented in accordance with academic rules and ethical conduct.

Name and signature of learner
Miss. Neha Mulchand Gupta

Certified by
Name and signature of the guiding teacher
Asst. Prof. Dr. KISHOR CHAUHAN

ACKNOWLEDGEMENT

To this whoso all have helped me is difficult because they are so numerous and the depth is enormous.

I would like to acknowledge the following as being idealistic channel and fresh dimension in the completion of this project.

I take this opportunity to thank the University of Mumbai for giving me chance to do this project.

I would like to thank my **I/c principal Dr. B.R.DESHPANDE** for providing the necessary facilities required for completion of this project.

I take this opportunity to thank you coordinator **Asst. Prof. Dr. KISHOR CHAUHAN** for her moral support and guidance.

I would also like to express my sincere gratitude towards my project guide **Asst. Prof. Dr**. **KISHOR CHAUHAN** whose guidance and care made
He project successful.

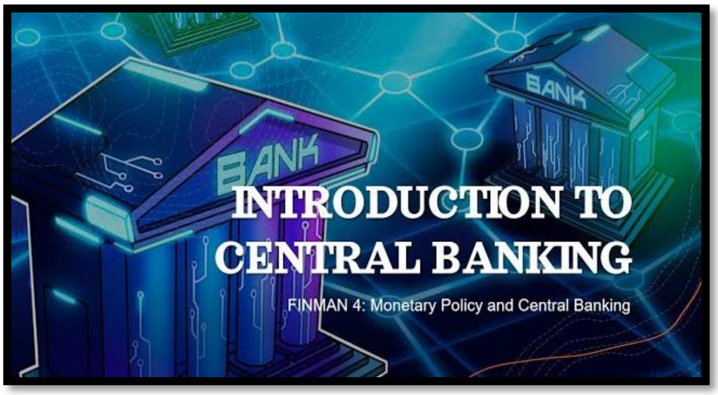
I would like to thank my college library, for having provided various reference books and magazines related to my topic.

Lastly, I would like to thank each and every person who directly or indirectly helped in the completion of the project especially my parents and peer who supported me throughout my project.

Index

CHAPTER NO. 1

INTRODUCTION



1.1 Introduction

❖ MEANING OF INDIAN BANKING SECTOR:

Banking refers to the system of financial institutions, such as banks and credit unions that provide various financial services to individuals, businesses, and governments.

Banking services mainly include accepting deposits, lending money, facilitating transactions, and offering various financial products like savings accounts, loans, and credit cards.

❖ MEANING OF CENTRAL BANK:

A central bank is a public institution that manages the currency of a country or group of countries and controls the money supply – literally, the amount of money in circulation. The main objective of many central banks is price stability. In some countries, central banks are also required by law to act in support of full employment.

One of the main tools of any central bank is setting interest rates – the "cost of money" – as part of its monetary policy. A central bank is not a commercial bank. An individual cannot open an account at a central bank or ask it for a loan and, as a public body, it is not motivated by profit.

It does act as a bank for the commercial banks and this is how it influences the flow of money and credit in the economy to achieve stable prices. Commercial banks can turn to a central bank to borrow money, usually to cover very short-term needs. To borrow from the central bank they have to give collateral – an asset like a government bond or a corporate bond that has a value and acts as a guarantee that they will repay the money.

Because commercial banks might lend long-term against short-term deposits, they can face “liquidity” problems – a situation where they have the money to repay a debt but not the ability to turn it into cash quickly.
This is where a central bank can step in as a “lender of last resort.” This helps keep the financial system stable. Central banks can have a wide range of tasks besides monetary policy. They usually issue banknotes and coins, often ensure the smooth functioning of payment systems for banks and traded financial instruments, manage foreign reserves, and play a role in informing the public about the economy. Many central banks also contribute to the stability of the financial system by supervising the commercial bank to make sure the lenders are not taking too many risk.

In the banking system, the central bank is recognized as the most powerful financial institution. It is considered to be an important part of a country's economic and financial structure. The central bank is an independent authority in charge of supervising, regulating, and stabilizing the country's monetary and banking framework. The Reserve Bank of India is the country's central bank. It was founded in 1935. Central banks are in charge of ensuring the country's Financial Stability and Economic sovereignty.

The meaning of central bank is a financial institution that has the privilege of producing and distributing money (and credit) for a country or a group of countries. The central bank, in the modern economy, is also responsible for regulating member banks and formulating monetary policies. This article will acquaint you with the importance of the central bank with a focuson the functions of the central bank of India.

1.2 Brief History before establishment of the Reserve Bank of India:

The Reserve Bank of India is the central bank of the country. Central banks are a relatively recent innovation and most central banks, as we know them today, were established around the early twentieth century.

The Reserve Bank of India was set up on the basis of the recommendations of the Hilton Young Commission. The Reserve Bank of India Act, 1934 (II of 1934) provides the statutory basis of the functioning of the Bank, which commenced operations on April 1

The Bank began its operations by taking over from the Government the functions so far being performed by the Controller of Currency and from the Imperial Bank of India, the management of Government accounts and public debt. The existing currency offices at Calcutta, Bombay, Madras, Rangoon, Karachi, Lahore and Cawnpore (Kanpur) became branches of the Issue Department. Offices of the Banking Department were established in Calcutta, Bombay, Madras, Delhi and Rangoon.

Burma (Myanmar) seceded from the Indian Union in 1937 but the Reserve Bank continued to act as the Central Bank for Burma till Japanese Occupation of Burma and later upto April, 1947. After the partition of India, the Reserve Bank served as the central bank of Pakistan upto June 1948 when the State Bank of Pakistan commenced operations. The Bank, which was originally set up as a shareholder's bank, was nationalised in 1949.

An interesting feature of the Reserve Bank of India was that at its very inception, the Bank was seen as playing a special role in the context of development, especially Agriculture. When India commenced its plan endeavours, the development role of the Bank came into focus, especially in the sixties when the Reserve Bank, in many ways, pioneered the concept and practise of using finance to catalyse development. The Bank was also instrumental in institutional development and helped set up institutions like the Deposit Insurance and Credit Guarantee Corporation of India, the Unit Trust of India, the Industrial Development Bank of India, the National Bank of Agriculture and Rural Development, the Discount and Finance House of India etc. To build the financial infrastructure of the country.

With liberalisation, the Bank's focus has shifted back to core central banking functions like Monetary Policy, Bank Supervision and Regulation, and Overseeing the Payments System and developing the financial markets.

The Bank was constituted to
* Regulate the issue of banknotes
* Maintain reserves with a view to securing monetary stability and
* To operate the credit and currency system of the country to its advantage.

The Early Years - 1935 to 1949

Date	Event
1 Apr 1935	Reserve Bank of India commences operations. Sir Osborne Smith the first Governor of the Bank. The Bank was constituted as a shareholders' bank.
5 Jul 1935	Scheduled banks required to maintain the Cash Reserve Ratio, i.e., hold cash balances with the RBI equivalent to 5% of their Demand Liabilities and 2% of their Time Liabilities.
Oct 1935	London Office of the Reserve Bank set up. This was closed on September 30, 1963.
1 Nov 1936	Resignation of the first Governor, Sir Osborne Smith, wef July 1, 1937.
15 Jan 1937	Indian Companies (Amendment) Act, 1936 devotes a separate chapter exclusively to Banks.
1 July 1937	Sir James Braid Taylor assumes office as Governor.
1937	RBI acts as banker to the Government of Burma and also responsible for note issue in Burma.
Jan 1938	First Reserve Bank notes issued.
21 Jun 1938	The Failure of the Travancore National and Quilon Bank, the largest bank in the Travancore region, underlined the need for comprehensive banking reform and legislation.
3 Sep 1939	Introduction of Exchange Controls in India under Defence of India Rules.
11 Mar 1940	RBI Accounting Year changed from Jan-Dec to July-June.
1940	The silver rupee replaced by the quarternary alloy rupee. One Rupee note reintroduced. This note had the status of a rupee coin and represented the introduction of official fiat money in India.
11 Aug 1943	Sir C. D. Deshmukh assumes office of Governor.
1944	The security thread on notes introduced for the first time in India as a security feature.
1944	Laws relating to Government securities and to the management of Public Debt by the Reserve Bank of India consolidated on the basis of the Public Debt Act, 1944.
26 May 1945	Speculative activity in the financial and bullion markets. Defence of India Rules invoked to authorise the Reserve Bank to collect information from banks in respect of advances. This was to check advances against bullion for speculation.
9 Jun 1945	Reserve Bank of India entrusted with the Currency & Coinage of the British Military Administration of Burma as well as Banker to BMA.
12 Jan 1946	High Denomination Bank Notes of Rs 500, Rs 1000 and Rs 10,000 Demonetised to curb unaccounted money.
1946	Interim arrangements for Bank Supervision were put in place by ordinances which were later replaced by the Banking Companies Act, 1949. These Ordinances empowered the Reserve Bank to inspect banks, as well as authorise the licensing of bank branches.
30 Jun 1948	RBI ceased to function as the Central Bank of Pakistan. State Bank of Pakistan commenced operations wef July 1, 1949.
1 Jan 1949	Reserve Bank of India nationalised.

16 Mar 1949	Coming into force of the Banking Companies Act, 1949. This formed the statutory basis of bank supervision and regulation in India. The Statutory Liquidity Ratio (SLR) requiring banks to maintain liquid assets was introduced for the first time. The Banking Companies Act was later renamed the Banking Regulation Act.
1 Jul 1949	Sir Benegal Rama Rau assumes office as Governor
19 Sep 1949	Rupee devalued by 30.5 % as a defensive measure consequent to the devaluation by other 'sterling area' countries.

1.3 ROLE OF CENTRAL BANK OF INDIA:

1. **Bank of issue:**

Central bank has the monopoly of note issue. This exclusive right enables the central bank to control and regulate supply of currency and credit supply and thereby ensure stability.

2. **Government's banker:**

The central bank acts as a banker, agent and advisor to the government. As a banker it manages the transaction of the government. It is the custodian of the government's funds. Receipts are accepted and payments are made on behalf of the government. Credit requirement of the government are met by the central bank. As anagent it implement the policies of the government, manages its public debt and issue of treasury bills. Foreign exchange transactions of the government are also managed by the central bank. It also advice the government regarding control of inflation, balance of payments situation and exchanges rate stability.

3. **Banker to the banks:**

All commercial banks hold a certain percentages of cash reserve with the central bank. The percentage to be kept with the central bank is decided by the central bank and it varies from time to time depending upon the requirements of the economy. These reserves are used by the central bank to meet any financial crisis and also to regulate credit creation by commercial banks.

4. **Custodian of foreign exchange reserves:**

All the foreign exchange reserves of the country are maintained and controlled by the central bank. As a custodian it regulates the flow of foreign exchange to the various sectors and needs according to priorities. This function facilitates the central bank to maintain stability of the exchange rate.

5. **Central clearing house:**

All commercial banks maintain an account with the central bank. This enables them to settle their interbank claims without using cash and the transaction are carried out quickly. They park their surplus deposits with the central bank.

6. **Controller of credit:**

The central bank controls volume and direction of credit. It uses both quantitative and qualitative measures to control credit. Through this function the central bank central bank aims at price and exchange rate stability to promote economic growth the development.

7. **Other function:**

Apart from the above central banks carryout a number of promotional functions. They play an active role in the establishment of developmental institutions, bringing about balanced regional development, conducting research related to monetary and banking system, price trends, balance of payments trends etc.
Thus central banks perform a variety of functions to build a strong banking and monetary system to meet the requirements of the economic

1.4 AUTONOMY OF CENTRAL BANK:

From the 1980s the autonomy of central bank has becomes a major topic for discussion. The two decades 1980s and 1990s witnessed many radical reforms and structural changes in many countries. India is no exception. In 1991, economic crisis forced the government to introduce New Economic Policy (NEP). Revolution change was made in various sectors and opening up of the economy set the tone for competition. In the process of implementing reforms and achieving their objective, both the government and the central bank had difference of opinion and scope for the government to overrule the concerns of the central bank and undermine its autonomy increased.

Autonomy and independence are often used as synonyms, though in the context of the banking sector, the central bank of any country can be autonomous but not totally independent. Both the government and the central bank have to coordinate and cooperate with each other to achieve their respective goals. In the absence of consensus, conflicts arise leading to doubts about the autonomy of the central bank. The rapid changes taking place in various countries in terms of technological developments, changes in policies, economic system etc. The question of autonomy of central bank has acquired much significance in recent times.

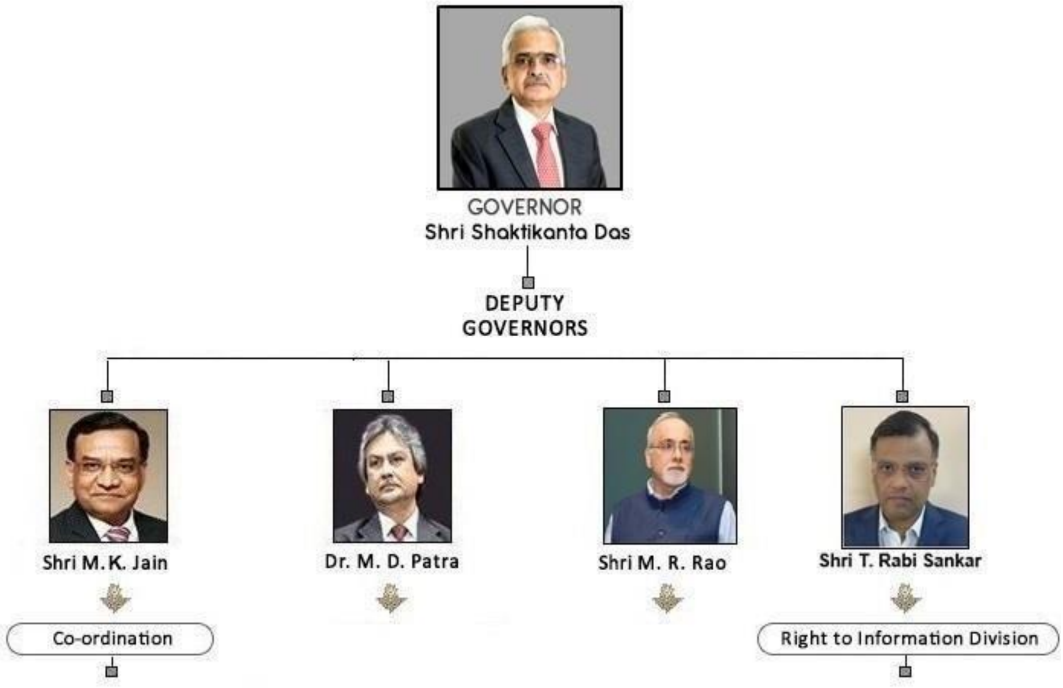
The evolution of central banking throws light on this issue and indicates the nature of autonomy granted to central banks. Originally many central banks were private banks and they had autonomy till the First World War. During the Second World War autonomy was clipped and they became subservient to the government. The relationship between the central banks and the government is different is different countries. While the Federal Reserve System is autonomous, the bank of England which was very much an autonomous bank in the 18th and 19th century became subservient to the government in the 20th century. In the recent times once again many central banks have acquired autonomy with a clear mandate of inflation control through inflation targeting.

The development of any economy depends on two vital policies namely the fiscal policy and the monetary policy. While the fiscal policy in the domain of the government, the monetary policy is framed and implemented by the central bank. A close co-ordination between the two is required for achieving the objective of both the policies. When the objectives differ, the question of supremacy and autonomy arises. For example government in developing countries would like to pursue a liberal credit policy to spur growth, the central bank may not agree with the government in its pursuit of inflation control. Monetary policy formulation and implementation provided autonomy to central banks. Interference by the government in this area leads to erosion of autonomy.

Apart from traditional functions, central banks perform wide variety of functions. Today central banks are actively involved in developing the financial markets, management of public debt and foreign exchange reserves, implementation of prudential norms, setting up of institutions for specific purpose etc. In all this areas, there is scope of divergence of opinions between the government and the central bank resulting in ambiguity about autonomy. A central bank can have greater autonomy if it has financial autonomy, autonomy in personnel management and in formulating and implementing monetary policy. These are also the area for conflicts between the government and central bank.

In the post liberalized era and with the emergency of the world trade organization, sweeping changes are taking place worldwide. Many challenges economic, political socio-cultural are faced by nations. To face this challenges a close coordination and a high degree of corporation is required between the central government and central bank. Therefore both monetary policy and fiscal policy have to align with each other to achieve the objective in the present day globalized era.

1.5 STRUCTURE OF CENTRAL BANK:



The central board of directors is the main committee of the central bank. The Government of India appoints the directors for a four-year term. The board consists of a governor, and not more than four deputy governors; four directors to represent the regional boards; two- usually the economic affairs secretary and the Financial service secretary-from the ministry of finance and ten other directors from various fields. The Reserve Bank - under Raghuram Rajan's governorship-wanted to create a post of a chief operating officer (COO), in the rank of deputy governor and wanted to re-allocate work between the five of them (four deputy governors and COO).

The bank is headed by the governor, currently Shaktikanta das. There are currently four deputy governors Mahesh Kumar Jain, M. Rajeshwar Rao, Michael Patra and T. Rabi Shankar.

Two of the four deputy governors are traditionally from RBI ranks and are selected from the bank's executive directors. One is nominated from among the chairpersons of public sector banks and the other is an economist. An Indian administrative service officer can also be appointed as deputy governor of RBI and later as the governor of RBI as with the case of

Y.Venugopal Reddy and duvvuri Subbarao. Sudha Balakrishnan, a former vice-president at National securities depository limited, assumed charge as the first chief financial officer (CFO) of the Reserve Bank on 15 May 2018: she was given the rank of an executive director.

The main managing authority of the bank Is the central board of directors, which consists of the following 21 members.

1. The Governor
2. Four Deputy Governors
3. Fourteen Directors
4. Two Government Officials

DEPARTMENTS IN CENTRAL BANK:

- **ISSUE DEPARTMENT:**

The monopoly note issue function of the central bank is managed bythe issue department. It issues all currencies except one rupee and all coins which are issued by the central government. Issue of currencies and its management are the functions of the department.

- **BANKING OPERATIONS AND DEVELOPMENT BANK:**

This department supervises and regulates the functions of commercial banks. It also takes care of the development of banking facilities in the rural and semi urban areas. Improving rural finance is one of the main functions of this department.

- **EXCHANGE CONTROL DEPARTMENT:**

Controlling and regulating the foreign exchange transactions is the function of this department. This function was governed by FERA earlier. At present it is governed by FEMA. This department helps the central bank to discharge the function of the central bank as the custodian of foreign exchange reserves. It coordinates and controls all foreign exchange transactions.

- **BANKING DEPARTMENT:**

The day to day functions of RBI are carried out by this department. Its offices are located in various cities and managed in each office.

- **Research and statistics department**:

This department is concerned with collection of data, publication of reports and bulletins related to banking, finance and currency. The reports and publications are very useful to the government, corporates and academia.

- **Legal department**:

This departments is an advisory body. It provides legal advice to the various departments related to various acts related to banking.

- **Industrial finance department:**

  It is concerned with provision of finance to industries, supervision, inspection and dealing with state finance corporate.

- **Departments of administration**:

  General administration, recruitment and training of staff is the responsibility of this department.

  Apart from the above, other departments like accounts, secretarial, inspection etc. Enable the RBI to discharge its functions effectively.

1.6 Inflation targeting of Central bank:

monetary policy is policy of central bank related to controlling money supply by either increasing or reducing rate of interest or central bank itself will either increase or reduce money supply.(Authority to issue currency.During inflation it ask commercial bank to increase rate of interest to reduce demand for loans and to reduce money supply, during depression ask commercial banks to reduce rate of interest to increase money supply by implementing monetary policy central bank wants to achieve objectives like price stability and economic development. To balancing both the objectives central bank will fix or target inflation rate it is called inflation targeting. Through monetary policy committee monetary policy is implemented. This committee fixed or targeted 4% rate of interest for period 2016-2021. 2% percent increase or 2% fall in inflation target is acceptable. If actual inflation rate in economy is more than targeted then central bank will take measures.(Quantitative and qualitative instruments) So credibility, commitment of central bank I dependent how they manage inflation target. Inflation is measured by either using consumer price index or wholesale price index.(essential commodities purchase and consume by consumer if their price rises it is consider as consumer price index, producer use goods. /wholesale price index wholesale use or consumption of goods) Central bank targeted 4% rate of inflation so that more inflation will not affect economic development, employment, investment, consumption saving of country. Price stability can be maintained.

For successful inflation targeting following prerequisites are needed-

Well developed financial/banking sector for implementation of monetary policy More power to central bank/autonomy

Accurate data regarding economic variables-supply and demand for money, inflation rate, interest rate. Investment Effective technology for predication of future inflation rate.

Advantages:

- **Transparency:** Inflation targeting involves setting an explicit inflation target and regularly communicating the central bank's policy decisions, which can improve transparency and accountability in monetary policy.
- **Credibility:** Adopting inflation targeting can enhance the central bank's credibility and anchor inflation expectations, which can reduce uncertainty and lead to more stable and predictable economic outcomes.
- **Flexibility:** Inflation targeting provides flexibility for the central bank to adjust its policy instruments based on changing economic conditions and other factors that affect inflation.
- **Long-term focus:** By setting a medium-term inflation target, inflation targeting can encourage a longer-term focus in monetary policy, which can be beneficial for promoting sustainable economic growth.

Limitations:

- **Structural constraints:** Inflation targeting may not be effective in addressing supply-side shocks or structural constraints that affect the economy, such as inadequate infrastructure, which can lead to higher inflation.
- **Exchange rate volatility:** Inflation targeting can lead to exchange rate volatility, particularly in countries with open economies, as changes in interest rates can affect capital flows and exchange rates.
- **Socio-economic impacts:** Inflation targeting can have social and economic impacts, particularly on vulnerable populations, as changes in interest rates can affect employment, income, and other macroeconomic variables.
- **Data availability:** Inflation targeting requires accurate and timely data on inflation and other macroeconomic variables, which may not be available in all countries, including India.While inflation targeting can be an effective monetary policy framework for achieving macroeconomic stability, it should be implemented in a manner that considers the specific economic and social conditions of the country in question.

1.6 Exchange rate targeting :

Expression of one country's currency in another country's currency is called exchange rate. $1= 80 is called exchange rate. exchange rate should be stable there should not be more fluctuation in exchange rate other wise international trade or export and import, foreign debts and foreign investment will get affected. So to stabilize exchange rate is responsibility of central bank of every country. So to target exchanges rate is called exchange rate targeting.

For price stability and economic development of country exchange rate should be stable. in earlier period exchange rate was expressed in terms of gold which was called as gold standard,Then Britton woods system 1944 introduced exchange rate expressed in terms of droller and dollar is expressed in terms of gold $1=1.36 it also collapsed

All the European countries for smooth international trade followed exchange rate mechanism policy(ERM) that those countries which are part of European counties can go for pegging up and pegging down exchange rate against their country and another country's currency. After asian crisis in 90's call the countries in the world followed flexible exchange rate policy that is supply and demand will decide rate or foreign rate.

In India central bank will follow **managed exchange rate policy** that is if there is more devaluation of currency (currency losevalue)then central bank will intervin and try to keep exchange rate constant or stable. By devaluation reducing value of Indian currency to make export cheaper and increase trade. Or buying selling of foreign currency from market and sale at different rate to exporter $1=80 and importer $1=85.

Table : Chronology of the Indian Exchange Rate	
Year	**The Foreign Exchange Market and Exchange Rate**
1947-1971	Par Value system of exchange rate. Rupee's external par value was fixed in terms of gold with the pound sterling as the intervention currency.
1971	Breakdown of the Bretton-Woods system and floatation of major currencies. Rupee was linked to the pound sterling in December 1971.
1975	To ensure stability of the Rupee, and avoid the weaknesses associated with a single currency peg, the Rupee was pegged to a basket of currencies. Currency selection and weight assignment was left to the discretion of the RBI and not publicly announced.
1978	RBI allowed the domestic banks to undertake intra-day trading in foreign exchange.

1978-1992	Banks began to start quoting two-way prices against the Rupee as well as in other currencies. As trading volumes increased, the 'Guidelines for Internal Control over Foreign Exchange Business' were framed in 1981. The foreign exchange market was still highly regulated with several restrictions on external transactions, entry barriers and transactions costs. Foreign exchange transactions were controlled through the Foreign Exchange Regulations Act (FERA). These restrictions resulted in an extremely efficient unofficial parallel (hawala) market for foreign exchange.
1990-1991	Balance of Payments crisis
July 1991	To stabilize the foreign exchange market, a two step downward exchange rate adjustment was done (9% and 11%). This was a decisive end to the pegged exchange rate regime.
March 1992	To ease the transition to a market determined exchange rate system, the Liberalized Exchange Rate Management System (LERMS) was put in place, which used a dual exchange rate system. This was mostly a transitional system.
March 1993	The dual rates converged, and the market determined exchange rate regime was introduced. All foreign exchange receipts could now be converted at market determined exchange rates.
Source : Reserve Bank of India	

1.6 Money supply targeting -

Central bank is sole issuer of currency in India. They will regulate money supply (demand=supply)so that there will not be problem of inflation and depression. Supply of money> demand- inflation,supply< demanddepression.

During inflation central bank reduces money supply and during depression it will increase money supply money supply targeting means keeping limit on supply of money,supply of money should be equal to demand for money.

Supply of money should be that much which will incense investment of producer- that will increase supply of goods and services equal to demand for goods and services if supply of money more than supply of goods and services then economy will face problem of inflation or if supply of money is less than supply of goods and services country will face problem depression to supply of goods and services and demand for goods and services should be equal so that much money supply is necessary it is called money supply targeting.

In 1980 approach of money supply changed money supply is closely related to inflation and depression problem because inflation in country also leads to increase in interest rate on saving/investment. Also it leads to improvement of rate of exchange and international trade and foreign direct investment which will also increase money supply and can create problem of inflation in economy.

1.7 VARIOUS INSTRUMENTS USED BY CENTRAL BANK:

The various instruments used by the Central bank can be divided into Two types namely:

A. Quantitative Instruments \ Direct Method

B. Qualitative Instruments \ Indirect Method

The implementation of RBI's Quantitative and Qualitative (Called Monetary Policy) instruments plays an important role in the development of the country. If the required money supply for the economy is not available in the market, it leads to a decline in investment in the economy.

On the other hand, if the money supply in the economy is more than what is required, then the poor section of the economy will suffer because the price of essential commodities will rise.

In the Indian Economy, RBI is the sole authority that decides the money supply in the economy. To control this, RBI implements the monetary policy's Quantitative and Qualitative instruments to achieve economic goals. The main instruments of these policies are CRR, SLR, Bank Rate, Repo Rate, Reverse Repo Rate, Open Market Operations, etc.

Let's understand the Quantitative and Qualitative instruments of RBI's monetary policy individually.

A. Quantitative Methods

The quantitative instruments are also known as general tools used by the RBI (Reserve Bank of India). As the name suggests, these instruments are related to the quantity and volume of the money. These instruments are designed to control the total volume/money of the bank credit in the economy. These instruments are indirect in their nature and are used to influence the quantity of credit in the economy.

✓ Bank Rate Policy

The bank rate is the minimum rate at which the central bank lends money and rediscounts first-class bills of exchange and securities held by commercial banks. When RBI gets a hint that **inflation** is rising, it increases the bank interest rates so that commercial banks borrow less money and the inflation stays under control.

Commercial banks also increase their lending rate to the public and business enterprises so that people borrow less money, which will eventually help to control inflation.

On the other hand, when RBI reduces bank rates, that means borrowing from commercial banks will become cheaper and easier. This allows commercial banks to lend money to borrowers at a lower **lending rate**
which will further encourage borrowers and businessmen.

✓ Legal Reserve Ratios

Commercial banks have to keep a certain amount of reserve assets in the form of reserve cash. Some portion of these cash reserves is their total assets in the form of cash.

To maintain liquidity and to control credit in the economy, the RBI also keeps a certain amount of cash reserves. These **reserve ratios** are known as **SLR (Statutory Liquidity Ratio)** and **CRR (Cash Reserve Ratio).**

CRR refers to a certain percentage of a commercial bank's net demand and time liability that commercial banks have to maintain with the RBI at all times. In India, the CRR remains between **3-15%** by the law.

SLR refers to a certain percentage of reserves to be maintained in the form of gold and foreign securities. In India, SLR remains **25-40%** by the law.

Any changes in SLR and CRR bring out a change in the position of commercial banks.

- ✓ **Open Market Operations (OMO)**

The sale and purchase of security in the long run/short run by the RBI in the money market is known as open market operations. This is a popular instrument of the RBI's monetary policy.

To influence the term and structure of the interest rate and to stabilize the market for government securities, etc., the RBI uses OMO, and this operation is also used to wipe out the shortage of money in the money market.

If RBI sells securities in the money market, private and commercial banks and even individuals buy it. This leads to a reduction in the existing money supply as money gets transferred from commercial banks to the RBI. On the other hand, when RBI buys securities from commercial banks, the commercial banks that sell receive the amount they had invested in RBI before.

There are certain factors that affect OMO, which include an underdeveloped securities market, excess reserves with the commercial banks, indebtedness of the commercial banks, etc.

- ✓ **Repo Rate**

A **Repo rate** is a rate at which commercial banks borrow money by selling their securities to the RBI to maintain liquidity. Commercial banks sell their securities in case of a shortage of funds or due to some statutory measures. It is one of the main instruments of the RBI to keep inflation under control.

- ✓ **Reverse Repo Rate**

Sometimes, the RBI borrows money from commercial banks when there is excess liquidity in the market. In that case, commercial banks get benefits by receiving the interest on their holdings with the RBI.

At times of higher inflation in the country, the RBI increases the reverse repo rate, which encourages banks to park more funds with the RBI, which will help it earn higher returns on excess funds.

- ✓ **Cash Reserve Ratio**

It is a powerful instruments in the hands of the central bank to control credit. The commercial bank have to keep a certain percentage of their deposits with the central bank. It is a statutory requirements to ensure liquidity and solvency of the banks. By adjusting the cash reserve ratio , credit creation by commercial bank can be controlled.

B. Qualitative Methods

Qualitative instruments are also known as selective instruments of the RBI's monetary policy. These instruments are used for discriminating between various uses of credit; for example, they can be used for favouring export over import or essential over non-essential credit supply. This method has an influence on both borrowers and lenders.

Following are some selective tools of credit control used by the RBI:

- ✓ **Rationing of Credit**

RBI fixes a credit amount to be granted to commercial banks. Credit is given by limiting the amount available for each commercial bank. For certain purposes, the upper credit limit can be fixed, and banks have to stick to that limit. This helps in lowering the bank's credit exposure to unwanted sectors. This instrument also controls the bill rediscounting.

- ✓ **Regulation of Consumer Credit**

In this instrument, consumers' credit supply is regulated through the instalment of sale and hire purchase of consumer goods. Here, features like instalment amount, down payment, loan duration, etc., are all fixed in advance, which helps to check the credit and inflation in the country.

- ✓ **Minimum Marginal Requirement**

Margin is referred to a certain proportion of the loan amount that is not offered or financed by the bank. A change in margin can lead to a change in the loan size. This instrument is used to encourage the credit supply for the necessary sectors and avoid it for unnecessary sectors. That can be done by increasing the marginal of unnecessary sectors and reducing the marginal of other needy sectors.

Suppose RBI feels that more credit supply should be allotted to the agricultural sector, then RBI will reduce the margin, and even 80-90% of the loan can be allotted.

- ✓ **Moral Suasion**

Moral suasion refers to the suggestions to commercial banks from the RBI that help in restraining credits in the inflationary period. RBI implies pressure on the Indian banking system without taking any strict action for compliance with rules.

Through monetary policy, commercial banks get informed of the expectations of RBI. The RBI can issue directives, guidelines, and suggestions for commercial banks regarding reducing credit supply for speculative purposes under moral suasion.

- ✓ **The Bottom Line**

Monetary policy's quantitative and qualitative methods aim to accelerate growth and stability by controlling the credit supply in the economy. Both the quantitative and qualitative instruments have their own merits and demerits, but both of the instruments are important for economic stability and price stability in the economy. Both these methods are effective and efficient in controlling inflation and deflation due to the movement of the money supply in the economy.

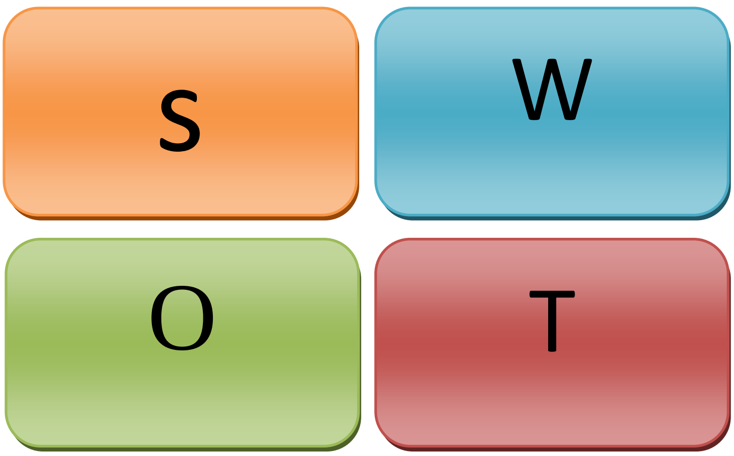
Over the decades, it has been proven that the credit supply in the economy can be controlled better with the coordination of both the general (Quantitative) and selective (Qualitative) methods rather than implementing them individually in the economy.

- ✓ **Ceiling on credit:**

It implies fixing a limit for the different types of loans sanctioned by banks. For instance, in India, through this, lending capacity of banks is influenced by RBI.

1.8 <u>SWOT Analysis on central bank of Indian banking sector</u>

A SWOT analysis is a strategic planning method used to evaluate the strengths, weaknesses, opportunities and threats involved in a project or a business venture. A good SWOT analysis can help you reach your online marketing goals or kick your business startup into high gear. To better understand the SWOT analysis of Central Bank of India, refer to the info graphic below:
Let’s proceed further with expanding on the strengths of the Bank of India from the SWOT analysis of Central Bank of India.



Strengths of Central Bank of India

- **Large Network:** The bank has numerous branches with 3656 branches, 178 extension counters spread around the country, and POC across India located at different locations.
- **Expertise:** Central Bank of India has gained popularity in small and medium-sized business banking expertise all over the country.
- **Involvement in Government Plans:** Central Bank of India is an active participant in government programmes especially for agro-based and small-scale businesses.
- **Strategy Selection:** They have gained expertise in choosing the right strategy for the right products as they know how to attract customers using their high experience of decades.
- **Empowering Employment:** Central Bank of India has over 32,000 employees, empowering employment in the nation.
- **Customers as Main Priority:** They emphasise providing benefits to customers. CBI’s main motive is customer satisfaction that’s why CBI comes up with effective financial solutions and home loan services.

Weakness of Central Bank of India

- **Less International Presence:** Nominal international presence as compared to leading players.
- **Lack of Digital Customer Support:** They do not respond to their customer’s queries and do not guide them which helps their competitors.
- **Less Advertisement Leads to Lower Brand Presence:** The bank has to work out more on marketing its services. It has to come up with regular campaigns both online and offline to bring in new customers or to retain existing customers.
- **Customer Service:** India’s banking industry is fiercely competitive and the bank’s client service is one of its distinguishing features. The bank representatives require more training and education to handle customer queries properly.

Opportunities for Central Bank of India

- **Self-employment Initiatives:** Initiatives involving youth can be launched to attract a particular target segment.
- **Government Favourable Schemes:** Schemes as per government plans can be prepared to attract more customers and provide a vast pool of services.
- **Overseas Extension:** Expanding the chain on a global level will increase the trust and revenue of the organization.
- **Better Customer Deals:** Can provide the best customer deals by customizing certain services as per user requirements.

Threats to Central Bank of India

- **Fluctuating Scenarios:** Nowadays economic fluctuations are hard to predict and can cause a deep effect on the system if not handled well.
- **Impact of Legislation:** Legislation impact can be highly risky and needs to be focused on.
- **High-risk Involvement:** There are a lot of risks involved in forecasting any government decision and creating a scheme for customers.
- **High Competition:** There are several private banks which nowadays are providing better and faster services as compared.
- **Changing Policies:** Banking policies are governed by Reserve Bank of India (RBI) laws and regulations, therefore any changes made by the RBI have a direct impact on the bank's operations.
- **Tech-Platforms:** New-age technology like payment wallets are affecting the business of the bank.

1.9 Employee Benefits:

1. **Rent Free Accommodation:** Employees are eligible for Bank's owned accommodation facility which is available across major cities in India. Instead, they can also prefer accommodation of their choice within their entitlement and Place of posting.

   Bank has introduced rent reimbursement for clerical staff, a first in the industry. This initiative aims to provide quality residential accommodation to clerical staff during interstation transfers.

2. **Fuel and Transportation:** Officers and clerks are given attractive fuel expenses reimbursement of maximum up to 45 liter a month to ease out their daily commutation on official duty. Branch managers receive additional fuel reimbursement for conveyance purposes. Employees not owning any vehicle are also eligible for monetary benefits in lieu of fuel reimbursement claims.

3. **Furniture and Newspaper:** Bank has taken utmost care for improving overall living experience of its employees by providing best in industry facilities of Furniture & fixtures purchase at Officers' residence, reimbursement of cost of Mobile Phone, Payment of Newspaper bills, Briefcase Cost for Officers etc.
4. **Medical benefits and health checkup:** Bank provides comprehensive medical Insurance policy and health check-up services to all its employees. Additionally, our staff at all Zonal Headquarters has access to medical facilities for their well-being. Additionally, Annual Medical aid is also granted for maximizing their health care efforts.
5. **Employee Choice of Certification:** Opportunity for all permanent staff members to choose their preferred certifications. Each employee can pursue up to five certifications.
6. **Holiday Homes and Transit Homes:** Holiday Home and Transit Home for Bank employees and their family members are available in major tourist attraction cities and major metro cities in India.
7. **Festival advances:** Bank believes in festival happiness and to manifold the same, Bank grants interest free advances to its employees and grants Leave encashment facility on the eve of festival of their choice.

8. **Home Loan to Staff:** Bank realizes its employees as its first customers who should be treated specially in terms of major financial assistance they aspire in their life. Staff can avail Home loans at very low interest & easy repayment terms and make their dream come true.
9. **Vehicle Loan to staff:** Bank also grants Car loans/ two wheeler loans/ Electric vehicles loan to its staff at very low & simple Interest with easy repayment terms.
10. **Overdraft (OD) Facility: Bank a**llows employees to access additional funds for day to day financial needs and in case of emergency, provides them with greater financial flexibility and convenience.
11. **Recognizing Merit:** The bank recognizes and promotes merit by offering scholarships to the accomplished children of our employees. Additionally, we provide reimbursement for examination fees.
12. **Staff welfare scheme:** Bank runs several schemes viz. Health checkups sports activity & recreations, Canteen subsidy and many more solely for the purpose of staff welfare and improves their life experience.
13. **Post-Retirement Benefits:** The bank helps the employee live a comfortable life post retirement and also impart special training, managing their post retirement life and financial discipline, investment opportunities, wealth creation etc.

1.10 OVERVIEW OF PAYMENT SYSTEM IN INDIA

The central bank of any country is usually the driving force in the development of national payment systems. The Reserve Bank of India as the central bank of India has been playing this developmental role and has taken several initiatives for Safe, Secure, Sound, Efficient, Accessible and Authorized payment systems in the country. The Board for Regulation and Supervision of Payment and Settlement Systems (BPSS), a sub-committee of the Central Board of the Reserve Bank of India is the highest policy making body on payment systems in the country. The BPSS is empowered for authorizing, prescribing policies and setting standards for regulating and supervising all the payment and settlement systems in the country. The Department of Payment and Settlement Systems of the Reserve Bank of India serves as the Secretariat to the Board and executes its directions. In India, the payment and settlement systems are regulated by the Payment and Settlement Systems Act, 2007 (PSS Act) which was legislated in December 2007. The PSS Act as well as the Payment and

Settlement System Regulations, 2008 framed thereunder came into effect from August 12, 2008. In terms of Section 4 of the PSS Act, no po person other than the Reserve Bank of India (RBI) can commence or operate a payment system in India unless authorized by RBI.

1) Digital Payments:

The initiatives taken by the Reserve Bank focused on technology-based solutions for the improvement of the payment and settlement system infrastructure, coupled with the introduction of new payment products by taking advantage of the technological advancements in banks. The continued increase in the volume of cheques added pressure on the existing set-up, thus necessitating a cost-effective alternative system. Electronic Clearing Service (Credit) and Electronic Clearing Service (Debit), run by Reserve Bank, have been replaced with National Automated Clearing House run by NPCL. The Reserve Bank replaced its old Electronic Funds Transfer with National Electronic Funds Transfer59

- **National Electronic Funds Transfer (NEFT) System:**

In November 2005, a more secure system was introduced for facilitating one-to-one funds transfer requirements of individuals/corporations. Available across a longer time window, the NEFT system provides for batch settlements at half-hourly intervals, thus enabling near real time transfer of funds. Certain other unique features viz. accepting cash for originating transactions, initiating transfer requests without any minimum or maximum amount limitations, facilitating one-way transfers to Nepal, receiving confirmation of the date/time of credit to the account of the beneficiaries, etc., are available in the system. From December 2019, it is available 24x7 throughout the year with half-hourly settlements

- **Point of Sale (POS) Terminals/Online Transactions using credit/debit/prepaid cards issued by Card Payment Networks:**

Five Card Payment Networks, including India‟s own Rupay run by NPCI, have been authorized by the Reserve Bank. There are over fifty lakh POS terminals in the country, which enable customers to make payments for purchases of goods and services by means of credit/debit cards. To facilitate customer convenience the Bank has also permitted cash withdrawal using debit cards issued by the banks at PoS terminals. The PoS for accepting card payments also include online payment gateways. This facility is used for enabling online payments for goods and services. The online payments are enabled through Payment Aggregators or Payment Gateways. For more details, please see the section on them under Other Payment Systems/Services.

- **Real Time Gross Settlement (RTGS) System:**

RTGS is a funds transfer system where transfer of money takes place from one bank to another on a “real time” and on “gross” basis. Settlement in “real time” means payment transactions are not subjected to any waiting period. “Gross settlement” means the transaction is settled on one to one basis without bunching or netting with any other transaction. Once processed, payments are final and irrevocable. This was introduced in 2004 and settles all inter-bank payments and customer transactions above 2 lakh.

(2) Paper Based/Cash Payments:

Since paper-based payments occupy an important place in the country, the Reserve Bank had introduced Magnetic Ink Character Recognition (MICR) technology for speeding up and bringing in efficiency in processing of cheques. Later, a separate High Value Clearing was introduced for clearing cheques of value Rupees one lakh and above. This clearing was available at select large centres in the country (since discontinued). Following implementation of CBS in hanks, Speed Clearing was launched (for local clearance of outstation cheques drawn on core-banking enabled branches of banks).

- **Cheque Truncation System:**

Cheque truncation (CTS) system was introduced to restrict physical movement of cheques and enable use of images for payment processing. All sixty-six MICR centres were subsumed in CTS grid systems and MICR clearing was discontinued w.ef July 2014. Initially, the threshold limit for CTS migration at 50000 instruments per month was set. Subsequently in February 2017 all ROs were instructed to attempt migration of centres having a cheque volume of 30,000 and above to CTS. In July 2018 the threshold limit was revised to 10,000, subject to putting in place the Paper-to-follow (P2F) arrangement. As of September 2020, all ECCS centres have been migrated to CTS. Positive Pay system for Cheque Truncation shall be implemented from January 1, 2021.

- **Cash Payments - Automated Teller Machines:**

As of August 2020, there are over 2,09,000 banks-owned ATMs and around 24,000 white label ATMs in India. Savings Bank customers can withdraw cash from any bank ATM up to 5 times in a month without being charged for the same. To address the customer service issues arising out of failed ATM transactions where the customer"s account gets debited without actual disbursal of cash, the Reserve Bank has mandated re-crediting of such failed transactions within five working days and mandated compensation for delays beyond the stipulated period. Furthermore, a standardized template has been prescribed for displaying at all ATM locations to facilitate lodging of complaints by customers. Apart from National Financial Switch run by NPCI, some banks and a private enterprise have been authorized to operate ATM Networks.

(3) Other Payment System/Services:

- **Clearing Corporation of India Limited (CCIL):**

CCIL was set up in April 2001 by banks, financial institutions and primary dealers, to function as an industry service organization for clearing and settlement of trades in money market, government securities and foreign exchange markets. The Clearing Corporation plays the crucial role of a Central Counter Party (CCP) in the government securities, USD-INR forex exchange (both spot and forward segments) and Tri Party Repo markets. CCIL plays the role of a central counterparty whereby the contract between buyer and seller gets replaced by two new contracts – between CCIL, and each of the two parties. This process is known as "Novation". Through novation, the counterparty credit risk between the buyer and seller is eliminated with CCIL subsuming all counterparty and credit risks. In order to minimize the risks that it exposes itself to, CCIL follows specific risk management practices which are as per international best practices. In addition to the guaranteed settlement, CCIL also provides nonguaranteed settlement services for rupee derivatives such as Interest Rate Swaps CCIL is also providing a reporting platform and acts as a trade repository (CCIL-TR) for Over the Counter (OTC) products

- **Mobile Banking Services:**

Mobile phones, as a medium for extending banking services, have attained greater significance because of their ubiquitous nature. Banks which are licensed, supervised and having physical presence in India, are permitted to offer mobile banking services (through SMS, USSD or mobile banking application) after obtaining necessary permission from Reserve Bank of India and are to be made available to bank customers irrespective of the mobile network. "Mobile Banking transaction' means undertaking banking transactions using mobile phones by bank customers that involve accessing/credit/debit to their accounts and/or, debit/credit cards issued as per the extant RBI guidelines.

- **Bharat Bill Payment System**:

Bharat Bill Payment System (BBPS) is an integrated bill payment system that offers interoperable and accessible bill payment services with a single brand image, providing convenience of anytime anywhere' bill payment to customers. BBPS facilitates collection of repetitive (monthly, bi-monthly, quarterly etc.) payments for everyday utility services provided by utility service providers in categories like electricity, telecom, DTH, gas, water bills, etc, and also other repetitive payments like insurance premium, mutual funds, school fees, institution fees, credit cards, fastag recharge, local taxes, housing society payments, etc., at one single window. BBPS transactions can be initiated through multiple payment channels like, internet banking, mobile banking, PoS (Point of Sale terminal), mobile wallets, kiosk, ATM, bank branch, agents and business correspondents, BBPS facilitates various payment modes viz, cards (credit, debit and prepaid), NEFT, UPI, wallets, Aadhaar based payments and cash. The participants in the BBPS include authorized entities, such as, the Bharat Bill Payment Central Unit (BBPCU), the Bharat Bill Payment Operating Units (BBPOUs) as well as their agents, payment gateways, banks, billers and service providers, and other entities, including authorized prepaid payment instrument issuers, as required under the BBPS. National Payments Corporation of India (NPCI) is the only entity authorized by RBI as BBPCU and it sets necessary operational. technical and business standards for the entire system and its participants, and also undertakes clearing and settlement activities. BBPOUs are RBI authorized operational units working in adherence to the standards set by the BBPCU.

- **Trade Receivables Discounting System:**

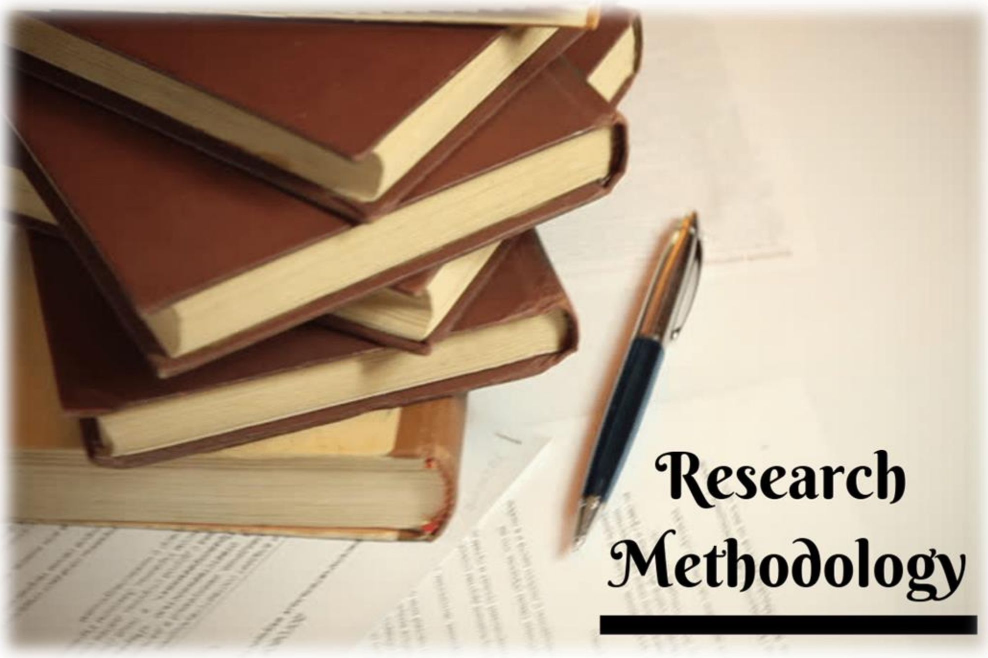
Trade Receivables Discounting System (TReDS) is a scheme for setting up and operating institutional mechanism for facilitating the financing of trade receivables of MSMEs from corporate and other buyers, including Government Departments and Public Sector Undertakings (PSUs), through multiple financiers. TReDS facilitate the discounting of both invoices as well as bill of exchange. Further, as the underlying entities are the same (MSMEs and corporate and other buyers, including Government Departments and PSUs), the TREDS deals with both, receivables factoring as well as reverse factoring, so that higher transaction volumes can come into the system and facilitate better pricing. The transactions processed under TREDS are without recourse to the MSMEs.

- **Payment Aggregators/Gateways**:

Payment Aggregators (PAs) are entities that facilitate e-commerce sites and merchants to accept various payment instruments from the customers for completion of their payment obligations without the need for merchants to create a separate payment integration system of their own. PAS facilitate merchants to connect with acquirers. In the process, they receive payments from customers, pool and transfer them on to the merchants after a time period. Non- bank entities which want to offer services as Payment Aggregators need to apply for authorisation from the RBI under the PSS Act. Existing non-bank entities offering services have to apply for authorisation on or before June 30, 2021.

CHAPTER- 2

RESEARCH METHODOLOGY



2.1 INTRODUCTION:

Research methodology in a way is a written game plan for conducting research. Research methodology has many dimensions. It includes not only the research methods but also considers the logic behind the methods used in the context of the study and complains why only a particular method of technique has been used. The basic task of research is to generate accurate information for use in decision making. Research can be defined as the systematic and objective process of gathering, recording and analysing data for aid in making business decisions

2.2 Objective Of Research:

The Reserve Bank of India was established with the main motto of regulating all the banks in India. The objective was to keep in check the reserves as well as the issue of bank notes.

So, it was done to secure the monetary stability and thereby to operate the credit system and currency of the country to its own advantage.

Prior to the RBI, the government of India and the Imperial Bank of India were unable to control the Indian financial system by keeping it in check.

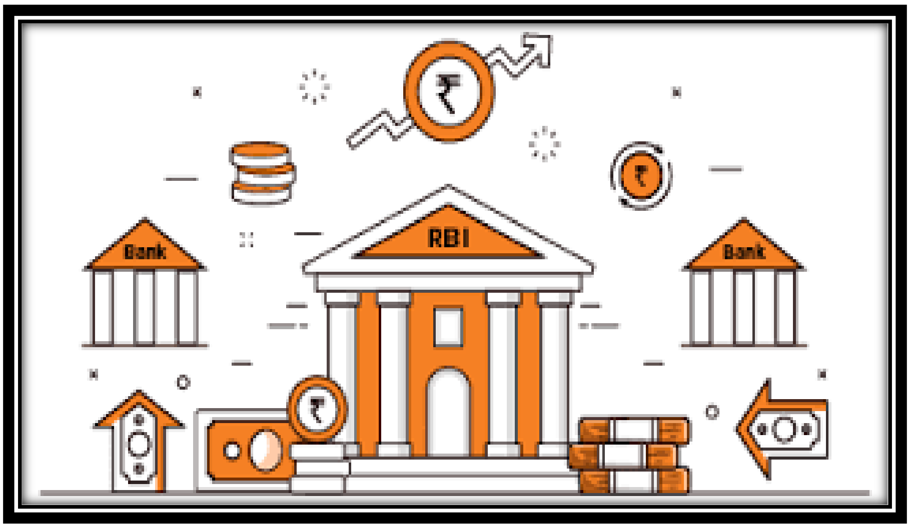
Therefore, a committee led by the Hilton and young commission in 1935, shifted the entire financial system to the RBI.

So, the primary target for RBI was to control and regulate the various financial policies and help in the development of the banking facilities throughout India.

The primary objective for the RBI would be to regulate the various banking functions for India in the money market. Thus, they focus mainly on issuing new notes.

The RBI was established with the aim of being a banker's bank and also the bank for the government. Its task was to promote the economic growth of the country through various frameworks and economic policies of the government.

- To study functions of Central bank.
- To study legal framework of Central bank.
- To study perception of people towards functions of Central bank.



2.3 Significance of Research:

The central bank is the apex institution which facilitates the working of commercial banks and regulates the monetary decisions for the economy. The central bank controls money supply and interest rates by using the monetary policies. Central bank is the bank of the commercial banks. It is the lender of the last resort. For a developing country, central bank is a significant body which accelerates the growth of the economy. Here are a few important roles played by the central bank in developing country.

- **Money Control:**

  Any change in the money supply affects the price level of the economy. If the money supply is increased, there will be an increase in the price level and vice-versa. Hence, central bank has a major role in maintaining the equilibrium between the demand and supply of money. Central bank directly controls the supply of money and can influence the demand for money for various purposes by using appropriate monetary policy.

- **Interest rate:**

  Interest rates are an important determinant of the investment demand in the economy. Central bank by regulating the money supply, can change the interest rates and thus can stimulate investment. For example, if the central bank wants to increase the investment demand it will increase the money supply. An increase in the money supply will reduce the interest rate and borrowings will be cheaper. People will borrow and invest these funds. Therefore investment in the economy has been increased.

- **Balance of payments:**

  The central bank controls the foreign exchange reserves and helps to solve the balance of payments problem faced by the government. When the imports exceeds the exports i.e. expenditure exceeds the income, central bank uses its foreign currency reserves to pay the balance. The central bank also maintains the stability of the domestic currency. It avoids fluctuations in the currency by a process of buying and selling of foreign reserves.

- **Economic growth:**

  Central bank facilitates the working of the commercial banks and encourages new banks to come up. It helps in rural development by extending the commercial bank branches to rural areas. It helps in the establishment of various financial institutions which helps in the country’s growth.

2.4 Limitation Of Study:

Central banks also have limitations that are important to understand. Below are eight main limitations of central banks.

- This research is limited to an Central bank.

- Due to limitations of time and sources data was collected only from 24 respondents.

- In some primary data collection method time as a disadvantage of primary research. Refers not just to the time involved in gathering the data, but also to the need for a clear and focused research,plan,development of survey instruments such as questionnaires or interviews, or experimental conditions. All of these take time and resources that may not be viable within the scope of study of research project

- Also there is no control over the data collection through primary sources of research.

- Incomplete questionnaires always give a negative impact on research.

- Some respondents do not give timely responses. Sometimes the respondents may give fake, socially acceptable and sweet answers and try to cover up the realities.

2.5 Selection of the topic :

Selecting a topic for the central bank of India could involve areas like monetary policy, financial stability, digital currency adoption, or regulatory frameworks. Consider the current economic landscape and choose a topic that align with the bank's priorities or addresses emerging challenges.

❖ Sample Size:

For My Research I have taken 24 people as a sample size by using closed ended method. In my sample size, 75% are female and 25% are male responses.

❖ Geographical area of the research

The respondent belong to navi – mumbai areas.

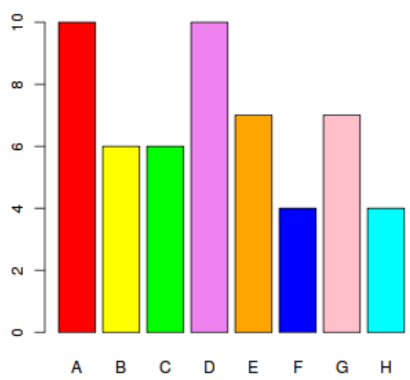
❖ TOOLS AND TECHNIQUES USED

• PIE CHARTS

A pie chart is a type of graph that represents the data in the circular graph. The slices of pie show the relative size of the data, and it is a type of pictorial representation of data. A pie chart requires a list of categorical variables and numerical variables. Here, the term "pie" represents the whole, and the "slices" represent the parts of the whole.

• BAR GRAPHS

A bar chart or bar graph is a chart or graph that presents categorical data with rectangular bars with heights or lengths proportional to the values that they represent. The bars can be plotted vertically or horizontally. A vertical bar chart is sometimes called a column chart. A bar graph shows comparisons among discrete categories. One axis of the chart shows the specific categories being compared, and the other axis represents a measured value.



Sample Technique:

Technique used in my sampling is random sampling. Data Collection: For my research I have taken primary data as well as secondary data.

- ## **Primary Data Collection Methods**: -

Primary data collection methods are different ways in which primary data can be collected. It explains the tools used in collecting primary data, some of which are highlighted below:

• **Interviews**:

Interview is a method of data collection that involves two groups of people, where the first group is the interviewer (the researcher(s) asking questions and collecting data) and the interviewee (the subject or respondent that is being asked questions). The questions and responses during an interview may be oral or verbal as the case may be.

• **Surveys and questionnaires**: Surveys and questionnaires are 2 similar tools used in collecting primary data. They are a group of questions typed or written down and sent to the sample of study to give responses. After giving the required responses, the survey is given back to the researcher to record.

• **Observation**: Observation method is mostly used in studies related to behavioural science. The researcher uses observation as a scientific tool and method of data collection. Observation as a data collection tool is usually systematically planned and subjected to checks and controls.

- ## **Secondary data: -**

Secondary data refers to data that is collected by someone other than the primary user. Common sources of secondary data for social science include censuses, information collected by government departments, organizational records and data that was originally collected for other research purposes. A data classified as secondary for particular research may be said to be primary for another research. This is the case when a data is being reused, making it a primary data for the first research and secondary data for the second research it is being used for.

• Bank reports and articles

• Magazines related to banking

• Various websites

• Books of various authors

• Standard textbooks

• Daily newspaper

2.6 Research Hypothesis:

An assumption that is made based on some limited evidence collected is known as a hypothesis. It is the beginning point of study that translates research questions into predictions that might or might not be true. It depends on the variables and population used, also the relation between the variables. The hypothesis used to test the relationship between two or multiple variables is known as the research hypothesis

2.7 Types of Hypothesis

Hypothesis can be classified as follows:

- Null Hypothesis
- Simple hypothesis
- Directional hypothesis
- Complex hypothesis
- Non-directional hypothesis
- Causal and associative hypothesis

- **Null Hypothesis**

It states that one variable doesn't affect the other variables being studied. A null hypothesis asserts that two factors or groups are independent of each other and that some traits of a population or process are identical. To contradict or invalidate the null hypothesis, we must assess the likelihood of the alternative hypothesis in addition to the null hypothesis.

- **Simple Hypothesis**

There are two types of variables i.e, dependent and independent variables. A simple hypothesis shows the relationship between the dependent and independent variables. For example, if you pump petrol into your bike, you can go for long rides. Here bike is the dependent variable and petrol is the independent one.

- **Directional Hypothesis**

A directional hypothesis is a researcher's prediction of a positive or negative change, relationship, or difference between two variables in a population. This statement is often supported by prior research, a widely established theory, considerable experience, or relevant literature.

For example, students who do proper revision and assignments could score more marks than the students who skipped. Here, we already know the process and its impact on the outcome. This is what we call a directional hypothesis.

- **Complex Hypothesis**

The complex hypothesis shows the relationship that comes between two or more dependent and independent variables. For example, if you pump petrol in your bike, you can go for long rides, also you become an expert in riding a bike, you explore more places and come across new things.

- **Non-directional Hypothesis**

There is no theory for this kind. Unlike the directional hypothesis, there are no predictions. We can say there is a relation between the variables but prediction and nature are unknown.

- **Causal and Associative Hypothesis**

If there is a change in one variable and as a result, it affects the other variable, then we say it is associative. Meanwhile, the causal hypothesis comes into play when the cause and effect interaction occurs between two or more variables.

❖ Hypothesis for the study

According to the research hypothesis,

H1: Reserve bank of India is a suitable agency for government business.

H2: Reserve bank of India is able to control inflation to the economy
.
H3: The Reserve Bank of India (RBI) is India’s central bank. It controls the monetary policy concerning the national currency, the Indian rupee. No other central bank control monetary policy or issue Indian rupees.

2.8 Sources of Hypothesis

The major sources of hypothesis are:

- Scientific theories
- Personal experience and conclusion arrived
- Studies that underwent in the past
- The resemblances between the phenomena, that is the pattern observed in common
- Common thoughts and thinking

2.9Functions of Hypothesis

The functions of hypothesis are as follows:

- It tells us the specific aspects of studies we investigate. It provides study with focus.
- The construction of the hypothesis led to objectivity in the investigation
- It helps to formulate the theory for the research work and sort out what is wrong and right.
- It filters out the data that have to be collected for the work.

2.10 Tabulation of data

Tabulation is the systematic and logical representation of figures in rows and columns to ease comparison and statistical analysis. It eases comparison by bringing related information closer to each other and helps further in statistical research and interpretation. In other words, tabulation is a method of arranging or organizing data in a tabular form. The tabulation process may be simple or complex depending upon the type of categorization.

CHAPTER-3
LITERTURE REVIEW

3.1 <u>INTRODUCTION OF LITERATURE</u>

❖ <u>MEANING OF LITERATURE REVIEW</u>

A literature review is a critical analysis and summary of existing published research and academic literature on a particular topic or research question. It involves a systematic search of relevant databases, journals, books, and other academic sources. The review should include a summary of the key themes, trends, and debates in the literature and a critical evaluation of the strengths and weaknesses of the studies. It is an essential component of any research project as it provides a foundation for developing research questions, hypotheses, and research methodologies. It is a valuable tool for researchers to gain a thorough understanding of the current state of research in their field and identify opportunities for further investigation.

3.2 <u>IMPORTANCE OF LITERATURE REVIEW</u>

A literature review is an important component of research in any field of study, including business, social sciences, and the humanities.

Here are some reasons why literature reviews are important:

<u>• IDENTIFYING GAPS IN KNOWLEDGE</u>

A literature review allows researchers to identify gaps in the existing research on a particular topic, which can help to guide future research and establish research questions and hypotheses.

<u>• BUILDING A STRONG FOUNDATION</u>

A literature review helps to establish a strong foundation for a research study by providing context and background information on the topic of study. This helps to situate the research within a broader field of knowledge and can improve the overall quality of the research.

• ASSESSING THE QUALITY OF RESEARCH

A literature review can help to assess the quality of research on a particular topic by identifying the most influential and well-regarded studies, as well as areas where more research is needed.

• IDENTIFYING TRENDS AND PATTERNS

By reviewing a large body of research, a literature review can identify trends and patterns in the research, which can provide insights into the development of the field of study and can help to guide future research.

• ENHANCING RESEARCH RIGOUR

A literature review can help to enhance the rigor of a research study by ensuring that the research is informed by the most up-to-date and relevant knowledge in the field.

• IMPROVING THEORETICAL FRAMEWORKS

A literature review can help to improve theoretical frameworks by providing new insights and perspectives on the topic of study, which can help to refine and develop theoretical models. Overall, a literature review is an important step in the research process that can help to guide the development of research questions, improve the quality of research, and enhance our understanding of a particular field of study

3.3 LITERATURE REVIEW ON CENTRAL BANK

A literature review on the role of the Reserve Bank of India (RBI) in the Indian banking sector would encompass studies on monetary policy, regulatory frameworks, financial stability, and the central bank's influence on economic growth. Scholars often examine RBI's interventions, governance, and the impact of its policies on commercial banks. Key themes include the effectiveness of monetary tools, regulatory changes, and the central bank's response to economic challenges. Additionally, research may explore the evolving role of technology and innovation in shaping the future of the banking sector under RBI's purview

Here's a more detailed breakdown:

1. *Monetary Policy and RBI:*

- Explore studies on RBI's monetary policy framework, focusing on interest rate decisions, inflation targeting, and its impact on the broader economy.

- Evaluate the effectiveness of RBI's tools in achieving macroeconomic stability and economic growth.

2. *Regulatory Framework and Governance:*

- Examine research on the regulatory role of RBI in overseeing banks and financial institutions.

- Investigate how changes in regulations, such as Basel norms, impact the banking sector and financial stability.

- Assess the governance structure of RBI and its role in maintaining financial integrity.

3. *Financial Stability and Banking Sector Health:*

- Review literature analyzing RBI's efforts in maintaining financial stability, including stress testing and crisis management.

- Explore studies on the health of the banking sector, focusing on non-performing assets (NPAs), capital adequacy, and risk management.

4. *RBI's Response to Economic Challenges:*

- Investigate how RBI responds to economic challenges such as recessions, global financial crises, or pandemics.

- Assess the flexibility and adaptability of RBI's policies in addressing unforeseen economic circumstances.

5. *Technology and Innovation in Banking:*

- Explore research on how technological advancements, including digital banking and fintech, influence the banking sector under RBI's supervision.

- Analyze studies on the regulatory framework for emerging technologies and their implications on financial services.

6. *International Comparisons:*

- Compare RBI's practices with those of other central banks globally, examining both similarities and differences.

- Assess the implications of global economic trends on RBI's policies and strategies.

7. *Economic Growth and Development:*

- Examine literature discussing the role of RBI in fostering economic growth, promoting financial inclusion, and supporting developmental initiatives.

Remember to include seminal works, recent studies, and any shifts in research focus over time. This detailed literature review would provide a comprehensive understanding of the central bank's role in the Indian banking sector.

3.4 Types of literature review

It is important to think of knowledge in a given field as consisting of three layers.

First, there are the primary studies that researchers conduct and publish

.• Second, are the reviews of those studies that summarize and offer new

• Interpretations built from and often extending beyond the original studies.

Third, there are the perceptions, conclusions, opinions, and interpretations that are shared informally that become part of the lore of the field.

In composing a literature review, it is important to note that it is often this third layer of knowledge that is cited as "true" even though it often has only a loose relationship to the primary studies and secondary literature reviews. Given this, while literature reviews are designed to provide an overview and synthesis of pertinent sources you have explored, there are several approaches to how they can be done, depending upon the type of analysis underpinning your study. Listed below are definitions of types of literature reviews:

- ✓ **Argumentative Review**

This form examines literature selectively in order to support or refute an argument, deeply embedded assumption, or philosophical problem already established in the literature. The purpose is to develop a body of literature that establishes a contrarian viewpoint. Given the value-laden nature of some social science research [e.g., educational reform; immigration control], argumentative approaches to analyzing the literature can be a legitimate and important form of discourse. However, note that they can also introduce problems of bias when they are used to make summary claims of the sort found in systematic reviews.

- ✓ **Integrative Review**

Considered a form of research that reviews, critiques, and synthesizes representative literature on a topic in an integrated way such that new frameworks and perspectives on the topic are generated. The body of literature includes all studies that address related or identical hypotheses. A well-done integrative review meets the same standards as primary research in regard to clarity, rigor, and replication.

✓ **Historical Review**

Few things rest in isolation from historical precedent. Historical reviews are focused on examining research throughout a period of time, often starting with the first time an issue, concept, theory, phenomenon emerged in the literature, then tracing its evolution within the scholarship of a discipline. The purpose is to place research in a historical context to show familiarity with state-of-the-art developments and to identify the likely directions for future research.

✓ **Methodological Review**

A review does not always focus on what someone said [content], but how they said it [method of analysis]. This approach provides a framework of understanding at different levels (i.e. those of theory, substantive fields, research approaches, and data collection and analysis techniques), enables researchers to draw on a wide variety of knowledge ranging from the conceptual level to practical documents for use in fieldwork in the areas of ontological and epistemological consideration, quantitative and qualitative integration, sampling, interviewing, data collection and data analysis, and helps highlight many ethical issues which we should be aware of and consider as we go through our study.

✓ **Systematic Review**

This form consists of an overview of existing evidence pertinent to a clearly formulated research question, which uses pre-specified and standardized methods to identify and critically appraise relevant research, and to collect, report, and analyse data from the studies that are included in the review. Typically it focuses on a very specific empirical question, often posed in a cause-and-effect form, such as "To what extent does A contribute to B?

CHAPTER-4

DATA ANALYSIS & INTERPRETATION

`

4.1 DATA PROCESSING

MEANING

Data processing occurs when data is collected and translated into usable information. Usually performed by a data scientist or team of data scientists, it is important for data processing to be done correctly as not to negatively affect the product, or data output. Data processing starts with data in its raw form and converts it into a more readable format (graphs, documents, etc.), giving it the form and context necessary to be interpreted by computers and utilized by employees throughout an organization.

STAGES OF DATA PROCESSING:

• DATA COLLECTION

Collecting data is the first step in data processing. Data is pulled from available sources, including data lakes and data warehouses. It is important that the data sources available are trustworthy and well-built, so the data collected (and later used as information) is of the highest possible quality.

• DATA PREPARATION

Once the data is collected, it then enters the data preparation stage. Data preparation, often referred to as “pre-processing” is the stage at which raw data is cleaned up and organized for the following stage of data processing. During preparation, raw data is diligently checked for any errors. The purpose of this step is to eliminate bad data (redundant, incomplete, or incorrect data) and begin to create high-quality data for the best business intelligence.

• DATA INPUT

The clean data is then entered into its destination (perhaps a CRM like Salesforce or a data warehouse like Redshift) and translated into a language that it can understand. Data input is the first stage in which raw data begins to take the form of usable information.

• DATA PROCESSING

During this stage, the data inputted to the computer in the previous stage is processed for interpretation. Processing is done using machine learning algorithms, though the process itself may vary slightly depending on the source of data being processed (data lakes, social networks, connected devices etc.) and its intended use (examining advertising patterns, medical diagnosis from connected devices, determining customer needs, etc.).

• DATA OUTPUT/INTERPRETATION

The output/interpretation stage is the stage at which data is finally usable to non-data scientists. It is translated, readable, and often in the form of graphs, videos, images, plain text, etc.). Members of the company or institution can now begin to self-serve the data for their own data analytics projects.

4.2 DATA ANALYSIS

MEANING

Data analysis is a process of inspecting, cleansing, transforming, and modeling data with the goal of discovering useful information, informing conclusions, and supporting decision-making. Data analysis has multiple facets and approaches, encompassing diverse techniques under a variety of names, and is used in different business, science, and social science domains. In today's business world, data analysis plays a role in making decisions more scientific and helping businesses operate more effectively.

It is the process of applying statistical or logical techniques the evaluate or analysis data with the goal of discovering useful information.

It is the most skilled task of all stages of research.

Data analysis is a process for obtaining raw data and covering it into information useful for during inference for decision making users.

The method of analysis chosen for a particulars study depends on the nature of objective and use of the study.

❖ Purpose of data analysis:

- To turn raw data into information.
- To summarise and describe data.
- To answer the research question or problem.
- To determine the trends and relationship among the variable.
- To make inference about the population by using sample data.
- To verify the result of the study.

❖ Types of data analysis:

- **On the basis of tools**
  - Descriptive data
  - Inferential data

- **On the basis of variable:**
  - Univariate
  - Bivariate
  - Multivariate

➢ Descriptive statics for various level of measurement

- Nominal – frequency table, proportion of percentages, mode.
- Ordinal- Medium, quartiles, percentiles, rank, correlation.
- Interval- Arithmetic mean, correlation coefficient.
- Ratio- Index number, geometric mean, harmonic mean.

➢ Descriptive analysis:

- Descriptive analysis is the analysis of data that helps to describe, show or summarise data in a meaningful way.
- There are many ways to describe data and we can use descriptive analysis to tell us what the data look like.
- Tools of descriptive analysis includes descriptive statistics such us range, minimum, maximum and frequency.
- It also include measures of central tendency such as the mean, median, mode and standard deviation.
- Descriptive statistics do not, however allow us to make conclusion beyond the data we have analysed.

- Conclusion by using sample data may refer only to the sample but not the population.
- Descriptive statistics therefore enable us to present the data in a more meaningful way, which allows simpler interpretation of the data.

➢ **Inferential Analysis:**

- It deals with the estimation of population parameter from sample data.
- Inferential statistics is used to infer from the sample data.
  What the populations might think.
- It is used to estimate the population parameter from sample data.
- It is generalised the result by testing hypothesis.
- It is appropriate only when the probability sampling is used.
-

➢ **Inferential statistics-tool used for inferential analysis:**

- Parameter test-T-test, ANOVA, peason correlation regression analysis etc.
- Non-parameter test-Chi square test, wilcoxon test, Mann-whitnesey test, Kruskal-wallis test etc.

➢ **Univariate Analysis:**

- Univariate analysis is the simplest form of analysing data.
- It is the analysis carried out on only one variable to summarise or describe the variable.
- In univariate analysis one variable is analysis a time.
- Example of univariate tools-Mean, Medium, Mode, range etc.

➢ **Bivariate Analysis:**

- It is the analysis of bivariate data.
- It is the analysis of two variable for the purpose of determining the relationship between them.
- In bivariate analysis, two variable are analysed together and examine for their possible association between them.
- Example of bivariate tools-scatter plot, regression analysis, correlation etc.

- **Multivariate analysis:**
  - It is the analysis of data that contain more than variable.
  - In multivariate analysis, more then two variable are analysed at a time simultaneously.
  - It helps to establish statistics relationship between multiple data set and to analyses multidimensional problem.
  - Example of multivariate tools-multiple regression, factors analysis, path analysis MANOVA etc.

4.3 DATA INTERPRETATION

❖ **MEANING**

Data interpretation is the process of reviewing data and drawing meaningful conclusions using a variety of analytical approaches. Data interpretation aids researchers in categorizing, manipulating, and summarizing data in order to make sound business decisions. The end goal for a data interpretation project is to develop a good marketing strategy or to expand its client user base.

There are certain steps followed to conduct data interpretation:

✓ Putting together the data you'll need (neglecting irrelevant data)

✓ Developing the initial research or identifying the most important inputs.

✓ Sorting and filtering of data.

✓ Forming conclusions on the data.

✓ Developing recommendations or practical solutions.

Finally, data interpretation aids in the improvement of processes and the identification of issues. Without at least some data gathering and analysis, it is difficult to expand and make consistent changes.

❖ **DEFINITION:**

According to C. William emory,” interpretation has two major aspects namely establishing continuity in the research through linking the results of a given study with those of another and the establishment of some relationship with the collected data.

➢ **Important of data interpretation:**

- In depth knowledge.
- Understanding and finding e.g- sales and advertising
- Good guidance
- Sometimes may results help in the formation of the hypothesis.

4.4 TYPES OF DATA INTERPRETATION

The purpose of data interpretation is to assist individuals in understanding numerical data that has been gathered, evaluated, and presented.

QUALITATIVE DATA INTERPRETATION

MEANING

To evaluate qualitative data, also known as categorical data, the qualitative data interpretation approach is utilized. Words, instead of numbers or patterns, are used to describe data in this technique. Unlike quantitative data, which can be studied immediately after collecting and sorting it, qualitative data must first be converted into numbers before being analyzed. This is since analyzing texts in their original condition is frequently time-consuming and results in a high number of mistakes.

The analyst’s coding should also be defined so that it may be reused and evaluated by others.

✓ Observations: a description of the behavioral patterns seen in a group of people. The length of time spent on an activity, the sort of activity, and the form of communication used might all be examples of these patterns.

✓ Groups of people: To develop a collaborative discussion about a study issue, group people and ask them pertinent questions.

✓ Research: Like how patterns of behavior may be noticed, different forms of documentation resources can be classified and split into categories based on the type of information they include.

✓ Interviews are one of the most effective ways to get narrative data. Themes, topics, and categories can be used to group inquiry replies. The interview method enables extremely targeted data segmentation.

The following methods are commonly used to produce qualitative data:

✓ Transcripts of interviews

✓ Questionnaires with open-ended answers

✓ Transcripts from call centers

✓ Documents and texts

✓ Audio and video recordings are available.

✓ Notes from the field

QUANTITATIVE DATA INTERPRETATION

MEANING

Quantitative data, often known as numerical data, is analyzed using the quantitative data interpretation approach. Because this data type contains numbers, it is examined using numbers rather than words. Quantitative analysis is a collection of procedures for analyzing numerical data. It frequently requires the application of statistical modeling techniques such as standard deviation, mean, and median.

- **MEDIAN**

The median is the middle value in a list of numbers that have been sorted ascending or descending, and it might be more descriptive of the data set than the average.

- **MEAN**

The basic mathematical average of two or more values is called a mean. The arithmetic mean approach, which utilizes the sum of the values in the series, and the geometric mean method, which is the average number of products, are two ways to determine the mean for a given collection of numbers.

➢ STANDARD DEVIATION

The positive square root of the variance is the standard deviation. One of the most fundamental approaches to statistical analysis is the standard deviation. A low standard deviation indicates that the values are near to the mean, whereas a large standard deviation indicates that the values are significantly different from the mean.

VISUALIZATION TECHNIQUES IN DATA INTERPRETATION

A graphical depiction of information and data is referred to as data visualization. Data visualization techniques make it easy to identify and comprehend patterns, outliers, and relationships in the data by employing visual components like charts, maps, and graphs. In today's world, we have a lot of information in our hands, thus data visualization tools and technologies are essential for analyzing huge volumes of data and making data-driven choices.

Some of the key benefits of data visualization:

✓ It is an effective tool for analyzing data and producing presentable and understandable findings.

✓ It is a fundamental stage in the pre-processing section of the data mining process.

✓ It aids in data cleansing by detecting inaccurate data and damaged or missing values.

✓ It also aids in the construction and selection of variables, which implies deciding which variables to include and exclude from the study.

✓ It also plays an important part in the Data Reduction process when merging the categories.

✓ Data visualization is a graphical representation of information and data. By using visual elements like charts, graphs, and maps, data visualization tools provide an accessible way to see and understand trends, outliers, and patterns in data.

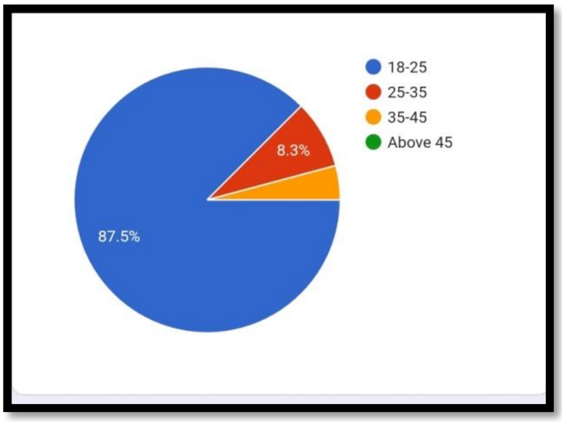
✓ In the world of Big Data, data visualization tools and technologies are essential to analyze massive amounts of information and make data-driven decisions.

4.5 DATA INTERPRETATION (QUESTION WISE)

1)Age

AGE	RESPONDENT
18-25	87.5%
25-35	8.3%
35-45	2.5%
Above	0

Table-1



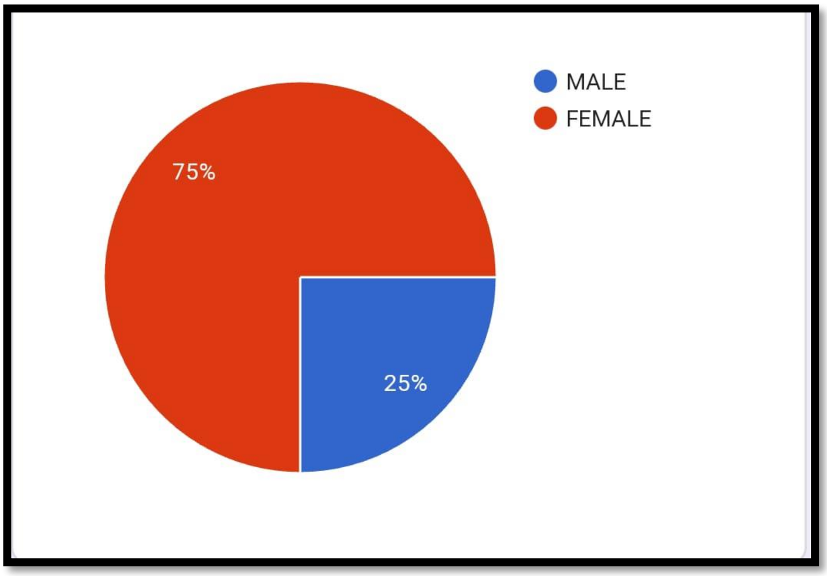
INTERPRETATION:

1. Above presentation shows the age difference of the respondents.
2. It shows that, out of 24 responses, 87.5% respondents were under the age group of 18-25 years.
3. Out of 24 responses, 8.3% respondents are under the age group of 25-35 years
4. Under the age group of 35-45 years, there are 2.5% of respondents whereas. 0%respondents are under the age group of above 45 years.

2) Gender

GENDER	RESPONDENTS (IN %)
Male	75%
Female	25%

Table-2



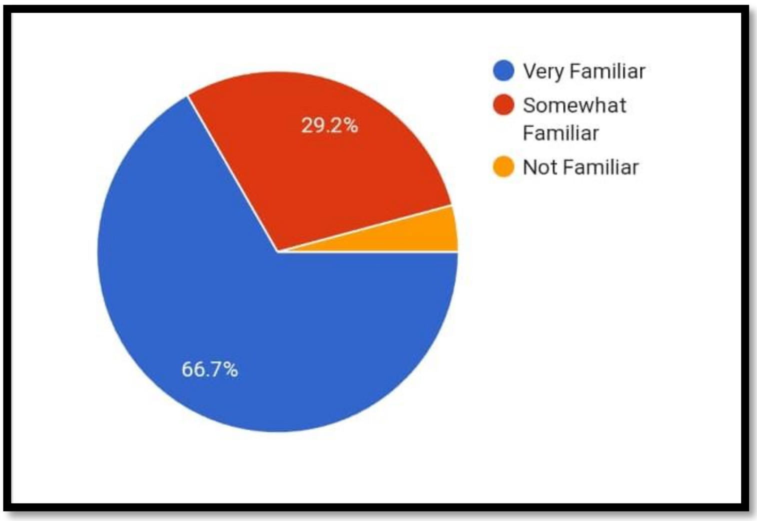
Interpretation:

1. Above presentation shows the gender of the respondents of the questionnaire.
2. Maximum number of respondents were female i.e. 75% and 25% were male.

3) How Familiar are you with the Reserve Bank of India (RBI)

ANSWER	RESPONDDENTS (IN %)
Very Familiar	**66.7%**
Somewhat Familiar	**29.2%**
Not Familiar	**0%**

Table -3



<u>Interpretation:</u>

1) Above presentation shows the references, people refer in their day-to-day transactions.

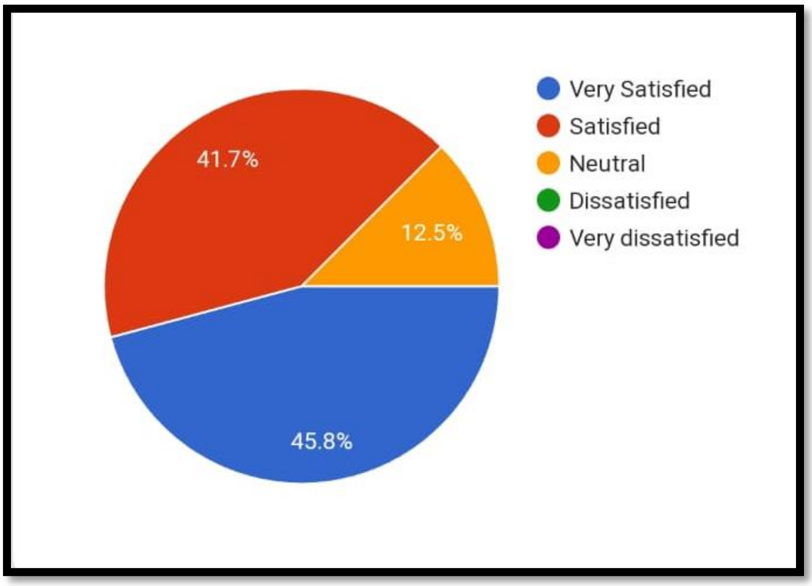
2) Out of 24 responses, 66.7% of the respondents refer very familiar.

3) Remaining 29.2% of the respondents refer somewhat familiar and 37.5% of the respondents refer not familiar.

4) How satisfied are you with the RBI's performance?

ANSWER	RESPONDENTS (IN %)
Very Satisfied	45.8%
Satisfied	41.7%
Neutral	12.5%

Table-4



Interpretation:

1) Above presentation shows the awareness of RBI performance in the Indian banking sector.

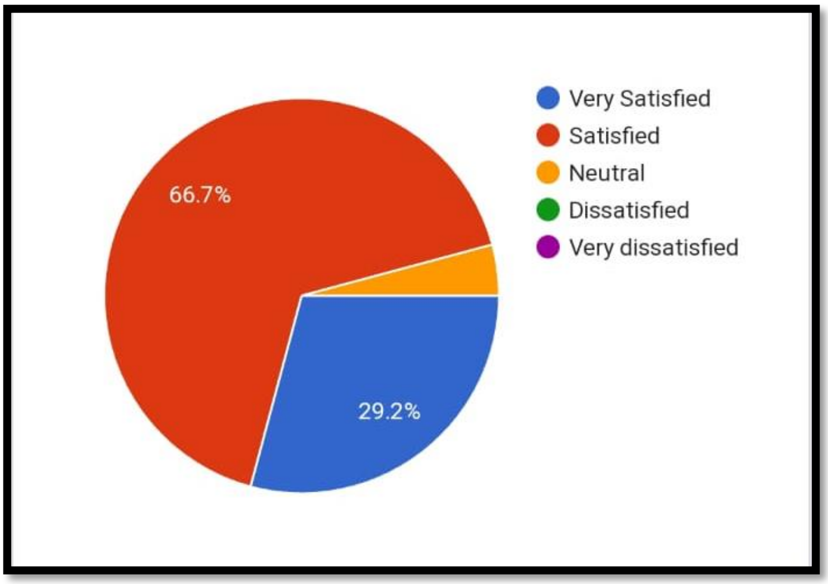
2) Out of 24 responses, 45.8% of the respondent refers to very satisfied.

3) Remaining 41.7% of the respondents refers to satisfied and 12.5% of the respondents refers to neutral

5) To what extent do you believe RBI's monetary policies have positively impacted the Indian banking sector.

ANSWER	RESPONDENTS (IN %)
Very Satisfied	29.2%
Satisfied	66.7%
Neutral	0%

Table-5



Interpretation:

1) Above presentation shows the awareness of RBI performance in the Indian banking sector.

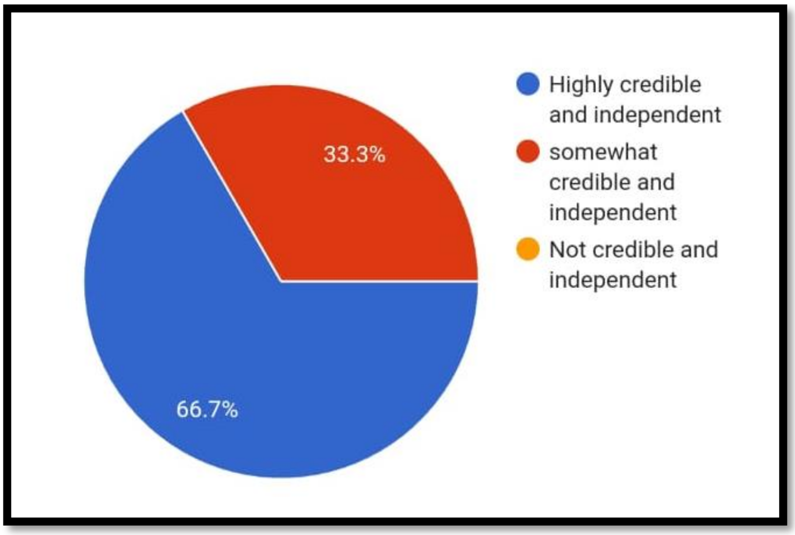
2) Out of 24 responses, 66.7% of the respondent refers to very satisfied.

3) Remaining 29.2% of the respondents refers to satisfied and 0% of the respondents refers to neutral

6) How do you perceive the credibility and independence of RBI?

ANSWER	RESPONDENTS (IN %)
Highly credible and independent	66.7%
somewhat credible and independent	33.3%
Not credible and independent	0%

Table -6



Interpretation:

1) Above presentation shows the awareness of RBI performance in the Indian banking sector.

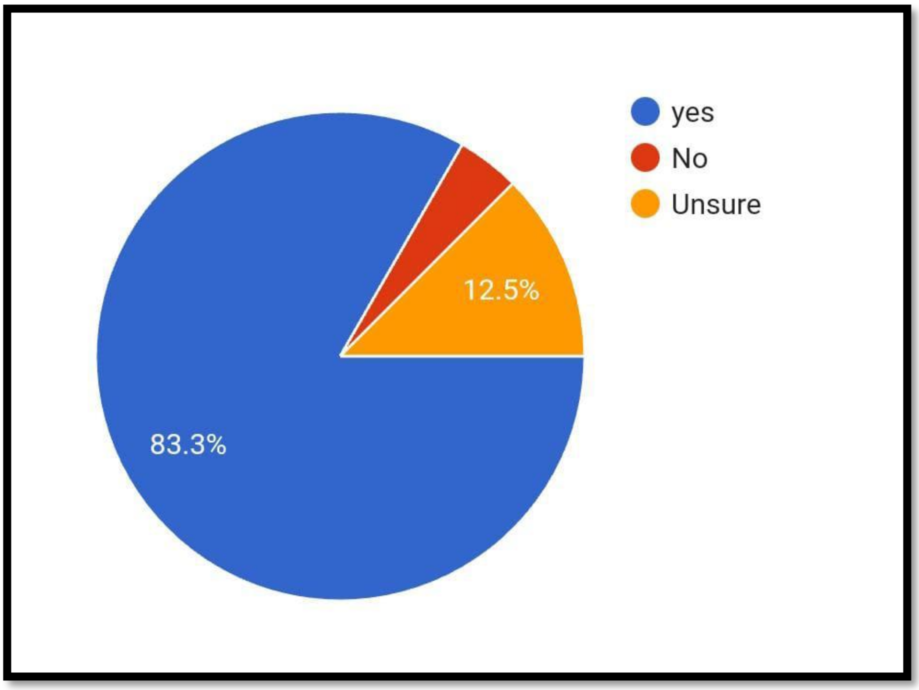
2) Out of 24 responses, 66.7% of the respondent refers to highly credible and independent.

3) Remaining 33.3% of the respondents refers to somewhat credible and independent and 0% of the respondents refers to not credible and independent.

7) Do you think RBI should have more autonomy in decision making.

ANSWER	RESPONDENTS (IN %)
Yes	29.2%
No	66.7%
Unsure	0%

Table-7



Interpretation:

1) Above presentation shows the awareness of RBI performance in the Indian banking sector.

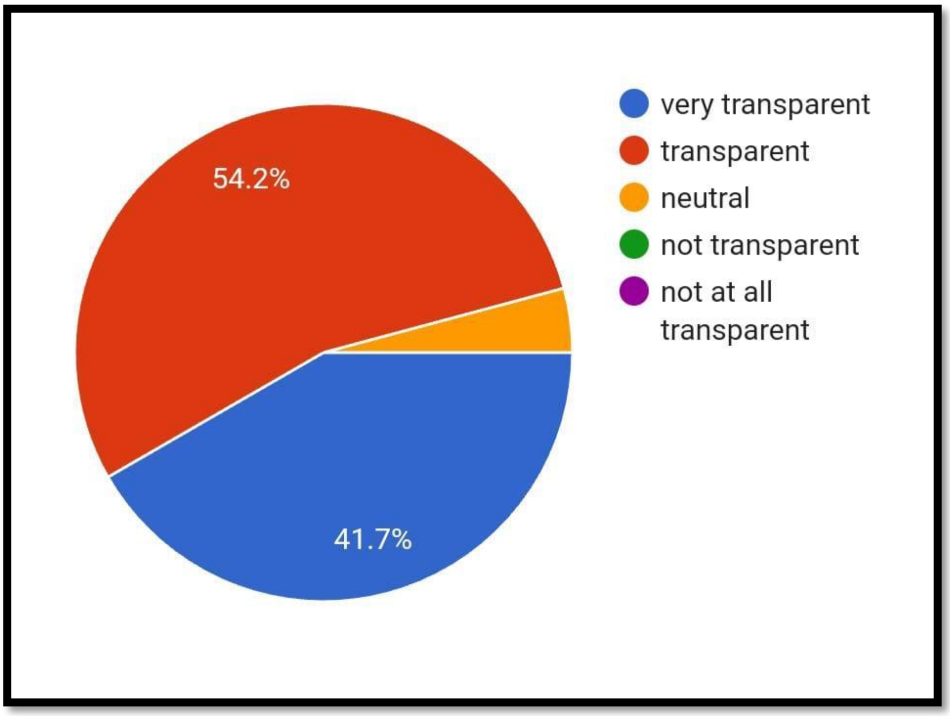
2) Out of 24 responses, 83.3%% of the respondent refers to Yes

3) Remaining 12.5% of the respondents refer No and 0% of the respondents refers to Unsure.

8) In your opinion, how transparent is RBI in its communication and decision-making processes regarding the banking sector.

ANSWER	RESPONDENTS (IN %)
Very transparent	41.7%
Transparent	54.2%
Neutral	0%

Table-8



<u>Interpretation:</u>

1) Above presentation shows the awareness of RBI performance in the Indian banking sector.

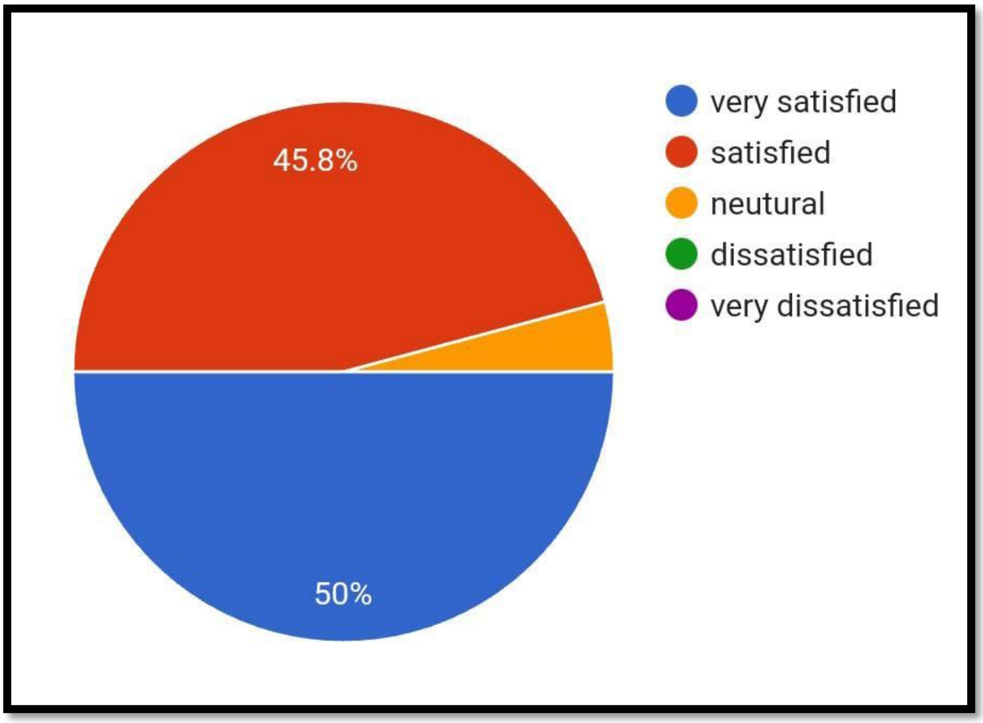
2) Out of 24 responses, 41.7% of the respondent refers to very transparent.

3) Remaining 54.2% of the respondents refer transparent and 0% of the respondents refers to neutral.

9) The role of RBI in safeguarding the interest of depositors in the Indian banking system.

ANSWER	RESPONDENTS (IN %)
Very Satisfied	50%
Satisfied	45.8%
Neutral	0%

Table -9



Interpretation:

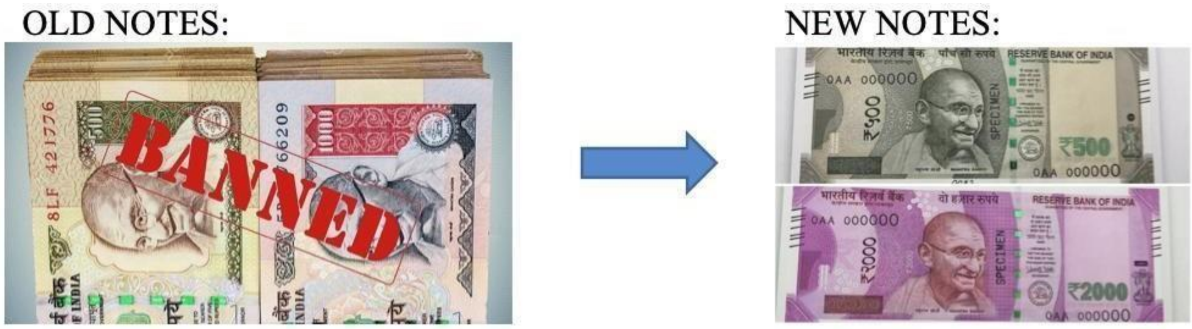
1) Above presentation shows the awareness of RBI performance in the Indian banking sector.

2) Out of 24 responses, 50% of the respondent refers to very satisfied.

3) Remaining 45.8% of the respondents refers to satisfied and 0% of the respondents refers to neutral

CHAPTER-5 DEMONETIZATION:

5.1 DEMONETIZATION:



Post demonetization, notes in circulation on rise; so are digital payments

Five years after the demonetization, currency notes in circulation continue to rise albeit at a slower pace even as digital payments surge with more and more people embracing cashless payment modes Primarily, banknotes in circulation went up in the last financial year as may people opted for the precautionary holding of cash amid the COVID-19 pandemic disrupting normal lives and economic activities in varying degrees. Official data points out a jump in digital payments through different modes, including plastic cards, net banking and Unified Payments Interface. UPI of the National Payments Corporation of India (NPCI) is fast emerging as a major medium of payment in the country

On November 8, five years ago, Prime Minister Narendra Modi had announced the demonetization of old Rs 1,000 and Rs 500 banknotes and one of the key objectives of the unprecedented decision was to promote digital payments and curb black money flows. Thanks to the increasing popularity of digital payment ways, cash usage is not growing at a fast clip but still is on the rise. According to the latest Reserve Bank data, the notes in circulation in value terms soared from Rs 17.74 lakh crore on November 4, 2016, to Rs 29.17 lakh crore on October 29, 2021. The notes in circulation (NIC) increased by Rs 2,28,963 crore on October 29, 2021, from Rs 26.88 lakh crore as on October 30, 2020. The year-on- year increase on October 30, 2020, was Rs 4.57,059 crore. The value and volume of banknotes in circulation had increased by 16.8 percent and 7.2 percent, respectively, during 2020-21 as against an increase of 14.7 per cent and 6.6 per cent, respectively, witnessed during 201920.The banknotes in circulation had increased during 2020-21, primarily on account of precautionary holding of cash by people due to the pandemic.66

Barring the COVID-19-hit 2020-21 financial year, the Indian economy has recorded a positive growth rate. The UPI was launched in 2016, and the transactions have been growing month-on-month barring a few blips. In October 2021, the transaction in value terms stood at over Rs 7.71 lakh crore or aver USD 100 billion. A total of 421 crore transactions were done through UPI in October. The sudden decision of the government to withdraw the two high denomination currencies five years ago led to long queues outside banks to exchange/deposit the demonetized notes. Several sectors of the economy, especially the unorganized segment, were affected by the government's decision.

A pilot survey was conducted by the Reserve Bank on retail payment habits of individuals in six cities between December 2018 and January 2019, results of which were published in April 2021. The RBI Bulletin indicates that cash remains the preferred mode of payment and for receiving money for regular expenses. For small value transactions up to Rs 500, cash is used predominantly. Following the withdrawal of the then prevailing Rs 500 and Rs 1,000 notes as part of demonetization, the government had introduced a new Rs 2,000 currency notes as part of re-monetisation.

It also introduced a new series of Rs 500 notes. Later, a new denomination of Rs 200 was also added. In value terms, the share of Rs 500 and Rs 2,000 banknotes together accounted for 85.7 percent of the total value of banknotes in circulation as on March 31, 2021, as against 83.4 per cent as on March 31, 2020.

However, no indent for Rs 2,000 note was placed with Bharatiya Reserve Bank Note Mudran Private Ltd (BRBNMPL) and Security Printing and Minting Corporation of India Ltd (SPMCIL) during 2019-20 and 2020-21. The Reserve Bank of India issues notes in denominations of Rs.2, Rs 5, Rs 10, Rs 20, Rs 50, Rs 100, Rs 200, Rs 500 and Rs2000.

5.2 MONETARY POLICY:

The monetary policy is a policy formulated by the central bank, Le., RBI (Reserve Bank of India) and relates to the monetary matters of the country. The policy involves measures taken to regulate the supply of money, availability, and cost of credit in the economy. The policy also oversees distribution of credit among users as well as the borrowing and lending rates of interest. In a developing country like India, monetary policy is significant in the promotion of economic growth.

The various instruments of monetary policy include variations in bank rates, other interest rates, selective credit controls, supply of currency, variations in reserve requirements and open market operations.

KEY INDICATOR

Indicator	Rates
CRR	4.50%
SLR	18%
Repo Rate	6.50%
Reserve Repo Rate	3.35%
Marginal Standing Facility Rate	6.75%
Bank Rate	6.75%

5.3 Objectives of Monetary Policy :

While the main objective of the monetary policy is economic growth as well as price and exchange rate stability, there are other aspects that it can help with as well.

1. **Promotion of saving and investment:** Since the monetary policy controls the rate of interest and inflation within the country, it can impact the savings and investment of the people. A higher rate of interest translates to a greater chance of investment and savings, thereby, maintaining a healthy cash flow within the economy.

2. **Controlling the imports and exports:** By helping industries secure a loan at a reduced rate of interest, monetary policy helps export-oriented units to substitute imports and increase exports. This, in turn, helps improve the condition of the balance of payment.

3. **Managing business cycles:** The two main stages of a business cycle are boom and depression. Monetary policy is the greatest tool using which the boom and depression of business cycles can be controlled by managing the credit to control the supply of money. The inflation in the market can be controlled by reducing the supply of money. On the other hand, when the money supply increases, the demand in the economy will also witness a rise.

4. **Regulation of aggregate demand:** Since monetary policy can control the demand in an economy, it can be used by monetary authorities to maintain a balance between demand and supply of goods and services. When credit is expanded and the rate of interest is reduced, it allows more people to secure loans for the purchase of goods and services. This leads to the rise in demand. On the other hand, when the authorities wish to reduce demand, they can reduce credit and raise the interest rates.

5. **Generation of employment:** As the monetary policy can reduce the interest rate, small and medium enterprises (SMEs) can easily secure a loan for business expansion. This can lead to greater employment opportunities.

6. **Allocating more credit for the priority segments:** Under the monetary policy, additional funds are allocated at lower rates of interest for the development of the priority sectors such as small-scale industries, agriculture, underdeveloped sections of the society, etc.

7. **Managing and developing the banking sector:** The entire banking industry is managed by the Reserve Bank of India (RBI). While RBI aims to make banking facilities available far and wide across the nation, it also instructs other banks using the monetary policy to establish rural branches wherever necessary for agricultural development. Additionally, the government has also set up regional rural banks and cooperative banks to help farmers receive the financial aid they require in no time.70

<u>CHAPTER- 6 </u>:

SUGGESTION&CONCLUSION

CONCLUSION:

The Reserve Bank of India (RBI) plays a pivotal role in the Indian banking sector. As the country's central bank, its primary objectives include maintaining monetary stability, regulating and supervising financial institutions, and fostering a robust banking system. The RBI formulates and implements monetary policies, influencing interest rates and inflation to ensure economic stability.

Additionally, the RBI acts as a regulatory authority, overseeing the functioning of banks, non-banking financial institutions, and payment systems. It implements measures to safeguard the integrity and efficiency of the financial system, contributing to the overall health of the banking sector.

The central bank also promotes financial inclusion initiatives, striving to extend banking services to the unbanked and underbanked populations. Through various regulatory frameworks and guidelines, the RBI works towards enhancing transparency, risk management, and corporate governance in the banking sector.

In conclusion, the Reserve Bank of India plays a multifaceted role in the Indian banking sector, serving as the custodian of monetary stability, regulator, supervisor, and promoter of financial inclusion. Its policies and interventions significantly impact the overall health and resilience of the country's banking system.

SUGGESTION:

Certainly, offering suggestions for the Central Bank of India involves considering various aspects of its functions and the broader banking sector. Here are several suggestions:

Enhancing Financial Inclusion:

The RBI should continue and strengthen initiatives aimed at promoting financial inclusion. This includes ensuring that banking services are accessible to all sections of society, especially in rural and remote areas.

Technology Adoption and Cyber security:

Encourage banks to invest in robust cybersecurity measures to protect customer data and financial transactions.

Facilitate and promote the adoption of innovative technologies such as blockchain and artificial intelligence to enhance efficiency in banking operations.

Prudent Monetary Policy:

Continue to implement prudent monetary policies to control inflation and stabilize the economy.

Regularly review and adjust policy rates based on economic indicators to ensure a balance between growth and stability.

Regulatory Framework:

Continuously update and strengthen the regulatory framework to address emerging risks in the banking sector.

Regularly assess the adequacy of capital requirements for banks to ensure their financial soundness.

Stress Testing:

Implement regular stress testing for banks to assess their resilience to adverse economic conditions. This will help identify potential weaknesses in the banking system.

Promoting Sustainable Banking Practices:

Encourage banks to adopt sustainable and environmentally responsible banking practices.

Introduce guidelines that incentivize banks to fund projects and initiatives that contribute to environmental sustainability.

International Collaboration:

Strengthen collaboration with international financial institutions and central banks to share best practices and coordinate efforts for global financial stability.

Consumer Protection:

Implement and enforce strong consumer protection measures to safeguard the interests of banking customers.

Enhance transparency in financial products and ensure clear communication of terms and conditions.

Skill Development and Training:

Promote skill development and training programs for banking professionals to keep them updated on the latest financial trends and technologies.

Promoting Digital Payments:

Continue to promote digital payment methods and incentivize their use to reduce reliance on cash transactions.

Collaborate with stakeholders to create a secure and efficient digital payments ecosystem.

Regular Communication:

Maintain open and transparent communication with the public, providing clear explanations of policy decisions and their rationale.

Engage with the public through awareness campaigns on financial literacy and economic policies.

Adaptive Regulatory Approach:

Maintain an adaptive regulatory approach that allows for innovation while ensuring that risks are appropriately managed.

These suggestions aim to foster a resilient and progressive banking sector under the guidance of the Central Bank of India, ensuring stability, inclusivity, and responsiveness to the evolving financial landscape

BIBLIOGRAPHY:

- https://chat.openai.com/share/37a056aa-a95b-4c36-a7fa-815f1ca86aa3
- https://docs.google.com/forms/d/1mYUObf4qLe3wUV4Qu1JTyOKrJlgYVxcCwEqyjqs9Dow/edit#responses
- https://rbi.org.in/history/Brief_History.html
- https://www.vedantu.com/commerce/functions-of-central-bank
- https://unacademy.com/content/bank-exam/study-material/banking-in-india/central-bank/

ABBREVASTION:

RBI- Reserve bank of India

WTO- World trade organization

CRR- Cash reserve ratio

SLR- statutory liquidity ratio

NPA- Non- performing assets

BIS- Bank for international settlements

IMF- International monetary fund

Appendix

Survey questionnaire
On the topic of
ROLE OF CENTRAL BANK OF INDIAN BANKING SECTOR

1. **What is your age?**

- 18-25
- 26-35
- 36-45
- 46-55
- Above45

2. **Gender**
- Male
- female

3. **How familiar are you with the Reserve Bank of India (RBI)?**

- Very familiar
- Somewhat familiar
- Not familiar

4. **How Satisfied are you with the RBI's performance?**

- Very Satisfied
- Satisfied
- Neutral
- Dissatisfied
- Very dissatisfied

5. **To what extent do you believe RBI's monetary policies have positively impacted the Indian banking sector?**

- Very Satisfied
- Satisfied
- Neutral
- Dissatisfied
- Very dissatisfied

6. **How do you perceive the credibility and independence of RBI?**

- Highly credible and independent
- somewhat credible and independent
- Not credible and independent

7. **Do you think RBI should have more autonomy in decision making?**

- Yes
- No
- Unsure

8. **In your opinion , how transparent is RBI in its communication and decision-making processes regarding the banking sector ?**

- Very transparent
- Transparent
- Neutral
- Not transparent

9. The role of RBI in safeguarding the interest of depositors in the Indian banking system?

- Very Satisfied
- Satisfied
- Neutral
- Dissatisfied
- Very dissatisfied

10. How aware do you believe the general public is of the RBI's role and functions in the Indian banking sector?

- Not Aware at All
- Slightly Aware
- Neutral
- Aware
- Highly Aware

11. In your opinion, how well-prepared is the RBI in managing and mitigating financial crises within the banking sector?

- Not Prepared at All
- Slightly Prepared
- Neutral
- Prepared
- Highly Prepared

12. How would you rate the RBI in terms of ensuring compliance and good governance practices within banks?

- Very Poor
- Poor
- Neutral
- Good
- Very Good

13. To what extent do you think the regulatory framework provided by the RBI is conducive to a stable and healthy banking environment?

- Not Conducive at All
- Slightly Conducive
- Neutral
- Conducive
- Highly Conducive

14. How would you rate the overall performance of the Central Bank of India in contributing to the stability and growth of the Indian economy?

- Excellent
- Good
- Average
- Poor
- Very poor

15. Are you aware of the latest policies or initiatives introduced by the Central Bank of India to enhance financial inclusion and economic growth?

- Yes
- No

16. How knowledgeable and helpful do you find the customer service representatives at the Central Bank of India?

- Very knowledgeable and helpful
- Knowledgeable and helpful
- Neutral
- Not very knowledgeable and helpful
- Not knowledgeable and helpful at all