



Notes

28.8 CENTRAL BANK

Central Bank is an apex bank in an economy which is entrusted with the task to control, regulate and supervise the entire banking operations of all the commercial banks including formulation and implementation of monetary policy in the economy. The central bank of India is Reserve Bank of India (R.B.I.).

Functions of Central Bank

- (i) **Bank of issuing or currency:** Every central bank of an economy is the sole authority to issue currency. The currency issued by the central bank is backed by minimum receive of assets like gold coins, gold bullions and foreign exchange etc. kept with the central bank. The Minimum Reserve System in India represent the minimum backing of Rs 200 crores by RBI out of which Rs 115 crores worth of gold and Rs 85 crores worth of foreign exchange securities are kept under RBI, the Monetary Authority of India. The authority of sole issue of currency has certain benefits like uniformity in currency, better monitoring and control over money supply and public trust and confidence in the currency issued and circulated.
- (ii) **Banker to the banks:** The central bank acts as a banker to the commercial banks in the following manner:
 - Custodian of the cash reserves of the commercial banks (CRR).
 - Lender of the last resort in the sense that if commercial banks fail to generate enough cash from its own sources it approaches the central bank as a last resort. The central bank in turn may grant loans and advances to the needy banks.
 - The central bank also acts as central clearing house for the commercial banks.
- (iii) **Banker to the government:** As a banker to the government the central bank carries out all banking businesses on behalf of both the central government and the state governments. It maintains current account of the government for keeping cash balances and also making and receiving payments on behalf of the government. It provides loans and advances to the government. It also acts as financial advisor to the government.
- (iv) **Custodian of the stock of gold and foreign exchange reserves of the nation:** This function helps in maintaining stability in exchange rate as fixed by the government and also enforcing exchange control and other regulations for a favourable balance of payments for the economy.
- (v) **Controller of credit and money supply:** Credit control and control of money supply is probably the most important function of a central bank. Through various methods/instruments of credit control the central bank aims