IJARSCT

ISSN (Online) 2581-9429

International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)

International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal

Impact Factor: 7.53

Volume 4, Issue 5, March 2024

A Comparative Analysis of Role of RBI in Indian Financial Market

Anjali Mewada[1] and Dr. Basukinath Jha[2]

Research Scholar[1] and Assistant Professor[2]

The Byramjee Jeejeebhoy College of Commerce, Mumbai, Maharashtra, India

Abstract: *There is now a good chance that the Reserve Bank of India (RBI) will be granted more autonomy, given the global trend toward central banks becoming more independent and the governor's recent statements in public. This is probably going to be accompanied by a number of adjustments to the RBI's activities, such as the reduction of its support functions. The article makes the case that these modifications would have a significant impact on the financial system as a whole. A greater selection of assets, more frequent portfolio rebalancing, and the application of risk hedging techniques would be challenges for portfolio managers. Exchange risk management, capital budgeting, financial instrument design, and corporate finance management.*

Keywords: RBI.

I. INTRODUCTION

Given the current climate of continuing reforms in the financial and fiscal sectors, there is a genuine chance that the RBI would be given more autonomy, which would significantly alter how it is now structured and operates. These adjustments would have a big impact on both the corporate sector and the overall financial system. To operate efficiently in the new climate, corporate finance managers and investment managers will need to realign. This article starts off by looking at the reasoning behind the RBI Governor's suggested adjustments as well as other related improvements that are necessary for the RBI to operate effectively. The consequences of these changes for corporate finance managers in the financial services sector are then covered.

II. INTRODUCTION ON RBI

In compliance with the regulations outlined in the Reserve Bank of India Act, 1934, the Reserve Bank of India was founded on April 1, 1935. The Reserve Bank of India's CentralOffice was first located in Kolkata before being permanently relocated to Mumbai in 1937.An essential part of the growth and management of India's financial markets is the RBI. It creates regulations to encourage the expansion of financial markets, such as those for currency, government securities, and foreign exchange. These marketplaces are necessary for the economy's effective distribution of resources .The Central and State governments rely on the RBI as their lender. It oversees public debt, facilitates trades, and maintains government funds. In times of financial crisis, it serves as the lender of last resort and offers banking services to other banks.

III. INTRODUCTION ON FINANCIAL MARKET

Over the course of the last 25 years, a series of reforms have completely changed the Indian financial industry, but the work is not yet done. Although there is still some managed float in the exchange rate system and some interest rates are still administered, there has been significant progress in making interest and exchange rates primarily set by the market. Public sector banks still hold a large market share, but the banking industry has seen significant depth added and new competition brought in by the emergence of private sector banks. Pension funds in India are still in their infancy, notwithstanding improvements to contractual savings schemes. In a similar vein, insurance coverage can increase significantly despite the emergence of new private insurance firms, which would also give the financial markets more depth. Not every financial market category has had the same level of development. Although the equity market is highly developed, its domestic investor base is still relatively small, and the majority of activity in the private debt market is restricted to private placement, which is still mostly used by blue-chip businesses.

3.1 OBJECTIVE

- The RBI is in charge of regulating the Indian foreign exchange market. Through the provisions of the FEMA Act 1999, RBI monitors and controls the foreign exchange market.
- The central and state governments' trade securities are governed by the RBI. The RBI Act of 1934 gives it the authority to regulate this.
- The RBI has the authority to regulate short-term and highly liquid debt securities under the terms of the RBI Act of 1934.

IV. REVIEW OF LITERATURE

The available source of data for the study is secondary data. The study will be carried out with regard to private and commercial banks, which have been identified as having the majority of India's banking industry based on their analysis.

Nisar Khan and Rahmatullah (2005) state that they have tried to look into how the schedule commercial banks performed in general public sector banks, specifically in the post-reform period, as well as how well the private banks, foreign banks, and other banks' performances performed abroad.

Seema Malik (2014) stated that the Indian banking system faces several challenges, including changing customer perceptions and regulations. Technology advancements have primarily contributed to innovation in the banking sectors, including ATM, retail banking, credit, debit cards, free services, online banking, mobile banking, and money market value

The Reserve Bank of India is the primary central bank of India, charged with a multifaceted duty, according to Mandeepkour Bansal (2017). Describe the Reserve Bank of India's primary role in the Indian economy. The role, activities, and contribution of the Reserve Bank of India to the Indian economy.

The Indian Banks Association states that in order to promote healthy competition and enhance customer service, public sector banks and the private sector must raise customer satisfaction levels. The study primarily focuses on the article customer’s service offered by all commercial banks.

Shri S.R. Mittal (2001): Head of the RBI-established committee on online banking. Using the rapidly expanding internet for banking transactions is known as internet banking.

V. RESERCH METHOLOGY

A comparative study of RBI and its role in financial market has been done on the basis of primary and secondary data. Its includes the major effect of RBI in financial market. The secondary data is been gather from most of the online research work and research work of researchers as well as research studies. This research work includes the overall review of major role of RBI.

THE MARKET FOR GOVERNMENT DEBT

In terms of the financial system, the government securities market would take centre stage under an independent monetary policy. The market for government debt would be broader and interest rates would be set by the gradual reduction of banks' Statutory Liquidity Ratios (SLR) in conjunction with the abolition of ad hoc treasury bills. The RBI suggests doing away with ad hoc bills by 1996–1997. Additionally, the RBI has announced that it will lower the SLR to 25% over the course of the following three years. The SLR is the percentage of bank deposits that the government pre-empts through the requirement that they be invested in government securities. The RBI demonstrated its seriousness about this intention in October 1993 when it announced a 2 percent drop in the SLR .The aforementioned adjustments suggest that since the government debt would have interest rates set by the market, a larger division of investors. Additionally, while the RBI pursues a Vikalpa There is compelling evidence in India to support the division of monetary policy and banking supervision. The RBI's concern for bank profitability has frequently interfered with its ability to implement monetary policy. The central bank should be relieved of this worry since it is an undesirable

IJARSCT
ISSN (Online) 2581-9429
International Journal of Advanced Research in Science, Communication and Technology (IJARSCT)
International Open-Access, Double-Blind, Peer-Reviewed, Refereed, Multidisciplinary Online Journal
Impact Factor: 7.53
Volume 4, Issue 5, March 2024

situation and it will allow it to implement monetary policy based on its judgment of what is best for the nation rather than what is advantageous to the banks. To do this, it would be beneficial for the RBI to lose its supervisory role .The extent and quality of banking oversight reform must be addressed as well. Regarding scope, it is imperative to settle the controversial question of the provision of nonbanking financial institutions, namely the term lending institutions operating at the national level. They are starting to resemble banks more and more as their scope of operations grows, and eventually they will need to be under sufficient prudential supervision. The National Housing Bank example shows how things can spiral out of control in the absence of proper supervision (more on this later). The National Housing Bank is not considered a "bank" for regulatory purposes. Regarding the quality of supervision, more thorough asset portfolio monitoring is required, with the aid of frequent audits by bank examiners.

ROLE OF RBI IN FINANCIAL MARKETS

The RBI of India plays a guardian role in the intricate web of financial markets, ensuring that transactions are efficient, transparent, and equitable. It is essential for determining monetary policy, preserving liquidity, controlling markets, and managing foreign exchange as well as encouraging growth. The RBI plays a multifarious role in guiding the Indian economy in the direction of stability and expansion. The Reserve Bank of India's (RBI) presence in the financial markets keeps the path clear and protects the country's economic growth. A nation's foreign exchange reserves, or FOREX, are essential to both international trade and economic stability. The onus of effectively managing these reserves rests with the Reserve Bank of India (RBI). We shall examine the main elements of RBI's Foreign Exchange Reserve

VI. MANAGEMENT POLICY IN THIS ARTICLE

6.1. Approaches for Diversification

Distribution among the main international currencies. Inclusion of secure and liquid assets.
Taking prospective rewards and investment risks into account.

6.2. Handling of Risks

Determining and reducing possible hazards. Emphasis on preserving liquidity and value. To evaluate resilience against unfavourable conditions, conduct regular stress tests.

6.3. National and Sovereign Securities

Subnational debt and government investment. Pay attention to the security and stability of the issuer nations.

6.4. Reserves of Gold

Keeping a specific proportion of reserves in gold. Protect yourself against exchange rate and political dangers.

6.5. Instruments for Foreign Investment

Prudent investments in foreign securities of superior quality. Maintaining liquidity while juggling risk and reward.

6.6. Developments and Trends in the Market

Keeping an eye on financial and economic trends worldwide. Altering the policy to reflect shifting market conditions.

6.7. Management of Foreign Exchange Rates

Management of volatility through intervention in the foreign currency market. Balancing the stability of the currency rate with domestic economic interests.

6.8. Handling of Liquidity

Ensuring prompt financial availability when required. Optimal ratio of returns to liquidity.

6.9. Openness and Disclosure

Ongoing reporting on the performance and makeup of reserves. Improved communication with stakeholders to foster trust.

6.10. Cooperation and collaboration

Coordinating with central banks and international organizations. Involvement in international reserve management programs.

6.11. Extended-Term Goals

Stability of buying power over time. Promoting economic resiliency in the face of outside shocks.

VII. CONCLUSION

The Reserve Bank of India is a shining example of resilience and sound financial management. The RBI's many roles highlight its critical position in the country's growth narrative, and its management activities and constitution demonstrate a commitment to maintaining economic stability. The RBI continues to be a steadfast steward, guiding the shifting financial waters with caution and intention as the Indian economy develops. Hence, the RBI's role might involve creating a multi-layered regulatory and supervisory framework that takes into account the industry's diversity and implementing laws that offer the business ample room to grow without creating unnecessary turbulence.

REFERENCES

[1]. Ministry of Finance (1991). Report of the Committee on the Financial System. New Delhi: Ministry of Finance, Government of India.

[2]. Pollinator, V.P (1992). "Prudential Regulation and Banking Supervision" in DimitinVittas, (ed), Financial Regulation: Changing the Rules of the Game. Washington D C: The World Bank, pp 283-319.

[3]. Rangarajan, C (1993a). "RBI: Prescription for Autonomy-I," Economic Times, September 23, 1993.

[4]. (1993b). "RBI: Prescription for Autonomy-II,"Economic Times, September 24, 1993.

[5]. Reserve Bank of India (1992). "Committee to Enquire into Securities Transactions of Banks and Financial Institutions," Report No 2. Bombay: Reserve Bank of India.

[6]. Sumanjeet (2007), "Appreciation of the Indian Currency: Implications for the Indian Economy", World Affairs: The Journal of International Issues, Vol 11, No. 4, Winter, pp 52- 69.

[7]. Lavanya, C.N.M. (2008), The Impact of Rupee Depreciation, The Hindu, November 2.

[8]. Zanna, F. Luis (2005), „Fighting Against Currency Depreciation, Macroeconomic Instability and Sudden Stops‟, International Finance Discussion Paper, No 848, December, Board of Governance of Federal Reserve System.

[9]. IJCSMS International Journal of Computer Science and Management Studies Vol. 13, Issue 06, August 2013 ISSN: 2231-5268 www.ijcsms.com