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BA Economics Honours | Semester 3 | Calicut University

Monetary Policy in India

Course Code: ECO3MN202 • Module 3

Module III: Functions and Regulations of the Reserve Bank of India

The Reserve Bank of India exercises comprehensive statutory powers under the RBI Act, 1934 and the Banking Regulation Act, 1949. As the supreme monetary and financial authority, the RBI performs traditional, regulatory, and systemic stability functions.

Unit 12: Functions of the Reserve Bank of India

1. **Monopoly Issuer of Currency (Section 22):** Sole statutory authority to issue banknotes in India (except one-rupee coins and notes issued by the Ministry of Finance). Managed under the **Minimum Reserve System** (adopted in 1956), requiring the RBI to maintain a permanent minimum backing of ₹200 Crore (comprising at least ₹115 Crore in physical gold and ₹85 Crore in foreign securities).
2. **Banker to the Government:** Maintains financial accounts of the Central and State Governments, handles sovereign debt public issues, and extends short-term accommodation via **Ways and Means Advances (WMA)**.
3. **Banker's Bank and Lender of Last Resort:** Holds statutory cash reserves (CRR) of commercial banks, provides emergency rediscounting facilities during liquidity runs, and operates national clearing houses.
4. **Custodian of Foreign Exchange Reserves:** Manages foreign currency assets, gold reserves, and Special Drawing Rights (SDRs) under FEMA (Foreign Exchange Management Act, 1999).
5. **Regulator of the Banking and Payment Systems:** Issues banking licenses, enforces Basel III capital adequacy ratios (CRAR), conducts risk-based supervision, and regulates electronic payment rails.

Unit 13, 14 & 15: Digital Rupee, Inflation Targeting, and Demonetization

- **Central Bank Digital Currency (CBDC - Digital Rupee / e₹):** Launched in late 2022 across wholesale (e₹-W) and retail (e₹-R) pilots. Built on distributed ledger technology, CBDC represents legal tender sovereign digital currency, reducing physical cash printing costs and enabling programmable direct benefit transfers.
- **The 2016 Currency Demonetization:** On 8 November 2016, high-denomination ₹500 and ₹1,000 banknotes (constituting ~86% of total currency in circulation) were demonetized. Designed to combat counterfeit currency, tax evasion, and unaccounted black money, demonetization accelerated national digital payments adoption (UPI), though causing temporary output deceleration in cash-dependent informal sectors.

Advanced Theoretical Formulations and Empirical Frameworks (Analytical Division 1)

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Policy Synthesis and Analytical Evaluation

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