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A Comparative Analysis of the Functions and Roles of Reserve Bank of India and Federal Reserve System of the United States

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Abstract: ***This article presents a comprehensive comparison of the Reserve Bank of India RBI and the Federal Reserve System FRS of the United States, focusing on their historical origins, functions, and roles. It examines how RBIs history is rooted in the consolidation of presidency town banks, while FRS emerged in response to banking panics and financial instability. The article delves into the multifaceted functions of both central banks, emphasizing RBIs wide range of policy tools, its extensive payment systems, and its focus on financial inclusion and literacy. It evaluates the modes of payment facilitated by each institution and highlights RBIs utilization of technology to offer diverse payment options. Furthermore, the article compares the charges and responsibilities associated with currency management in both systems. In conclusion, it underscores the significance of RBIs comprehensive role in the Indian economy and its proactive approach to policy implementation, providing valuable insights into the strengths and weaknesses of both central banks.***

Keywords: Reserve Bank of India, Federal Reserve System, monetary policy, financial inclusion, payment systems, currency management, central banking, historical origins, policy tools, comparative analysis

1. Introduction

The Reserve Bank of India (RBI) is the central bank of India under the Reserve Bank of India Act. The Reserve Bank of India is tasked with using monetary policy to stabilize India's finances and regulate the country's financial and credit system. RBI serves financial markets in many ways. Banks set the daily interest rate for interbank loans. The main purpose of the RBI is to provide integrated monitoring of India's financial sector, which consists of commercial banks, financial institutions and non - bank financial companies. Initiatives adopted by the RBI include restructuring bank inspections, implementing offsite monitoring for banks and financial institutions, and strengthening the role of auditors. RBI primarily develops implements and monitors India's monetary policy. The bank's management goal is to maintain price stability and ensure the flow of credit to the production sector of the economy. RBI also controls all foreign exchange under the Foreign Exchange Control Act of 1999. This law allows RBI to promote foreign trade and payments and promote the development and soundness of India's foreign exchange market. The RBI acts as a regulatory and supervisory authority for the entire financial system. This will increase public confidence in the country's financial system, protect interest rates and provide the public with positive banking options. Finally, RBI acts as a local currency issuer. For India, this means that the currency will be issued or destroyed depending on whether the currency is suitable for current circulation. It provides a currency supply to the Indian people in the form of reliable banknotes and coins. This is an ongoing issue in India.

The Federal Reserve (FRS), often called FED, is the Central Bank and the world's most powerful financial institution in the United States. It was established to provide a country with a safe and flexible and stable currency and financial system. Central banks are usually responsible for formulating monetary policies and regulation of membership banks. The FRB consisted of 12 regional spare banks responsible for a particular geographical area of FED and was established by the Federal Reserve. It is created by a repetitive financial panic that influenced the US economy of the previous century, and reaches serious economic disorders for bankruptcy credits and business bankruptcy. FRB has a wide power to ensure financial stability, and it is the main controller of the bank it is a member of the Federal Reserve. It acts as a lender for the last place to a member organization that does not have other places that can borrow. It is often called FRB, but there is a duty to ensure that financial stability is in the system. It is also a major investigation of national financial institutions. The 12 regional banks of the system are located in Boston, New York, Philadelphia, Cleveland, Richmond, Atlanta, Chicago, St. Louis, Minneapolis, Kansas City, Dallas, San Francisco. The financial policy goal of the Federal Reserve is two to facilitate economic conditions and achieve stable prices and maximum sustainable employment. Also, the FRB does not have to be ratified by the president or other government officials independently. However, it is still subject to parliament's supervision, and must work in the government's economic and financial target context. The main income source of FRB is an interest expense in the state of security rally in the United States. Other income sources include services for interest in foreign currency investment, interest in loans to deposit institutions, and services such as tests and funds available for these institutions. After paying the cost, FRB tells the rest of his return to the US Treasury.

2. History of Banking System in India and U. S.

2.1 Formation of Reserve Bank of India

India's modern banking industry emerged in the last decades of the 18th century. The first bank was a shogun Bank of India and Bank of Hindustan, established in 1786. Then three presidential towns banks, ie Bengal Bank (This bank was originally founded as Calcutta Bank in 1806 and then in 1809. Became Bengal Bank), Bombay Bank and Madras

Bank were established. For years the presidential bank functioned as a quasi - central bank. The three banks merged in 1925 to form the Imperial Bank India. A major milestone in the history of Indian banks took place in 1934, when the decision was made. It was taken over to establish the Reserve Bank of India, which began operations in 1935. Since then, as a central bank National banks regulate the banking system. The Reserve Bank as the country's central bank began as a private equity bank. RBI replaces the Imperial Bank of India and begins issuing banknotes, government. The Reserve Bank of India has been authorized to act on behalf of the RBI. Reserve Bank Policy immediately after the government and the country became independent, it was decided to nationalize the Reserve Bank. From January 1, 1949, the reservation bank has begun to act as a state and a star round central Bank. In order to streamline commercial bank functions, the Indian government has adopted banking business 1949 Company Act 1949 has been fixed as Bank Regulation Act 1949. RBI acts as a regulator Bank, banker to banks. [1]

The Reserve Bank of India turned into installation on the idea of the guidelines of the Hilton Young Commission. The Reserve Bank of India Act, 1934 (II of 1934) offers the statutory foundation of the functioning of the Bank, which started operations on April 1, 1935. Offices of the Banking Department had been installed in Calcutta, Bombay, Madras, Delhi and Rangoon. After the partition of India, the Reserve Bank served because the important financial institution of Pakistan up to June 1948 whiles the State Bank of Pakistan started operations. The Bank, which turned into at the beginning installation as a shareholder’s financial institution, turned into nationalised in 1949. A thrilling function of the Reserve Bank of India turned into that at its very inception, the Bank turned into visible as gambling a unique position within side the context of improvement, mainly Agriculture. When India started its plan endeavours, the improvement position of the Bank got here into cognizance, mainly within side the sixties while the Reserve Bank, in lots of ways, pioneered the idea and guidance of the usage of finance to catalyse improvement. [2]

2.2 Formation of Federal Reserve System of U. S.

The Federal Reserve System is the crucial financial institution of the US. Founded via way of means of an act of Congress in 1913, the Federal Reserve’s number one reason become the stableness of the American banking system. In the mid - 19th century, the US nevertheless had no crucial banking authority and dissatisfaction with the banking machine had now no longer improved. The nation’s subsequent strive at banking stabilization concerned legal guidelines enacted at some stage in and soon after the Civil War. These “National Banking” acts created a brand new federal banking charter. Banks chartered below those acts had been tons special than the II pre - Civil War countrywide banks. Unlike the early banks, the brand new countrywide banks had been absolutely privately owned and operated, restrained to a unmarried workplace location, and difficulty to the supervision and law of the Office of the Comptroller of the Currency (a department of the U. S. Treasury set up via way of means of the Banking Act of 1863 to trouble charters to and supervise countrywide banks). Banking panics—activities characterised via way of means of extensive financial institution runs and bills suspensions and, to a degree, outright financial institution failures—had took place regularly in the course of the nineteenth century. Such panics had been broadly blamed at the nation’s “inelastic foreign money. ” The countrywide banking acts of the 1860s created an surroundings wherein maximum of the nation’s foreign money consisted of notes issued via way of means of countrywide banks (industrial banks with charters issued via way of means of the federal authorities) comprised maximum of the nation’s foreign money. The extent of notes that a countrywide financial institution should trouble become tied to the quantity of U. S. authorities bonds the financial institution held. The delivery of notes become in large part unresponsive to modifications in call for, specifically whilst an unexpected occasion or information induced financial institution clients to fear approximately the protection in their deposits and “run” to their banks to withdraw cash. Reformers targeted on approaches to increase the delivery of notes swiftly to satisfy the public’s call for liquidity. The choice for an “elastic” foreign money become in the end found out via way of means of the introduction of the Federal Reserve and a brand new foreign money shape—the Federal Reserve note. Federal Reserve notes are the most important shape of U. S. foreign money these days and furnished in quantities had to meet call for. More broadly, the Federal Reserve System become set up to enhance the glide of cash and credit score in the course of the US which will make certain that banks had the assets to satisfy the desires in their clients in all components of the country. [3]

3. Function of Reserve Bank of India and Federal Reserve System of U. S.

3.1 Functions of Reserve Bank of India

Being a central bank of India, RBI serves a critical role in regulating the financial transactions in the country. Some of the important functions of RBI are listed below:

1) Monetary Policy

The Monetary Policy Committee (MPC), established by the central government under Section 45ZB, sets the policy rates needed to reach the inflation target. Monetary policy means the central bank's policy on the use of monetary policy instruments under its control to achieve the objectives stipulated by law. There are several direct and indirect means used to implement monetary policy.

a) Repo rate:

A (fixed) rate at which a reserve bank provides a bank with overnight liquidity for collateral for government and other

[1] Banking Law and Practice (Module.3, Elective Paper 9.1) : The Institution of Company Secretaries of India < https://www.icsi.edu/media/webmodules/publications/9.1%20Banking%20Law%20-Professional.pdf >

[2] Brief History < https://rbi.org.in/history/Brief_History.html >

[3] Federal Reserve History < https://www.federalreservehistory.org/ >

eligible securities under the Liquidity Adjustment Facility (LAF).

b) Reverse repo rate:
The rate at which a reserve bank borrows (fixed) overnight from a bank for collateral for eligible government securities under the LAF.

c) Cash Reserve Ratio (CRR):
According to the Gazette, the average daily balance India that banks need to hold with reserve banks as a percentage of net demand and time liabilities (NDTL) that banks may report from time to time.

d) Statutory Liquidity Ratio (SLR):
The ratio of NDTL that a bank needs to hold safe and liquid assets such as unsecured government bonds, cash and gold. SLR changes often affect the availability of banking system resources for lending to the private sector. [4]

2) Issuer of Currency
Along with the government RBI is also responsible for the design, production and overall management of nations currency supply. Government gave the charge of putting the coins in circulation to the RBI. The government ensure the supply of clean notes by the help of the Department of Currency Management at Central Office, Mumbai in cooperation with the Issue Department of Reserve Bank's regional offices across Indian oversees currency management. RBI consists of four printing presses print and supply banknotes which are established at Dewas in Madhya Pradesh, Nasik in Maharashtra, Mysore in Karnataka and Salboni in West Bengal. [5]

3) Payment and Settlement System
The Department of Payment and Settlement Systems of the Reserve Bank of India serves because the Secretariat to the Board and executes its directions. In India, the charge and agreement structures are regulated with the aid of using the Payment and Settlement Systems Act, 2007 (PSS Act) which changed into legislated in December 2007. The PSS Act in addition to the Payment and Settlement System Regulations, 2008 framed there under got here into impact from August 12, 2008. In phrases of Section four of the PSS Act, no man or woman aside from the Reserve Bank of India (RBI) can start or function a charge device in India until accredited with the aid of using RBI. Modes of Payment and Settlement:

a) Digital Payment
RBI has taken the initiative to take the advantages of using the technology based payment modes like National Electronic Funds Transfer (NEFT), Prepaid Payment Instruments (PPIs), National Automated Clearing House (NACH), Real Time Gross Settlement System (RTGS), etc.

b) Paper – based / Cash Payment
As paper based transactions are more popular mode of transaction in India, RBI came up with the Magnetic Ink Character Recognition (MICR) technology for speeding up and bringing in efficiency in processing cheques truncation system, cash payment, White label ATMs. [6]

4) Financial Inclusion and Financial Literacy
This function of RBI is regarding the national focus about financial inclusion and also about promoting financial education and literacy and making available the credit to the various sectors of economy like the rural and MSMS sector and other sectors.[7]

5) Foreign Exchange Management
This function of RBI helps to facilitating the external trade and payments and for promoting the orderly development and maintenance of foreign exchange markets in India. [8]

4. Functions of Federal Reserve System of U. S.

The Federal Reserve promotes the effective functioning of the US economy and generally serves the public good. As banks and the economy developed, the Fed's specific obligations changed over time.

1) Monetary Policy
The Federal Reserve the nation's central bank goal is to promote the maximum employment, stable prices and moderate long term interest rates through applying the monetary policy Fed maintain the stable prices, which support the conditions for long term economic growth and maximum employment. The instruments of monetary policy are

a) Open market:
The Fed does not decide which securities dealer to trade on a particular day. Rather, the choice arises from an "open market" in which the various securities dealers (primary dealers) with which the Fed trades compete on a price basis. Open market operations are flexible and therefore the most frequently used monetary policy instrument.

b) Discount Rate:
In this function the Federal Reserve Banks charges a interest rate from the depository institutions for a short term loans.

c) Reserve Requirement:
It is the portions of deposits that banks must maintain in their vaults or on deposit at a federal reserve bank.

2) Banking Supervision
The Federal Reserve oversees and regulates various financial institutions and activities. The Federal Reserve works with other federal and state institutions to ensure that financial institutions operate safely and provide fair and equitable services to consumers.

a) Safety and Soundness:
Fed ensure the safety and soundness of a bank by conducting examining through examiner an on - site examination review

[4] Functions of Reserve Bank of India < https://rbi.org.in/scripts/FS_Overview.aspx?fn=2752 >
[5] Ibid
[6] Ibid
[7] Ibid
[8] Ibid

of the bank's performance based on its management and financial condition and its compliance with regulations.

b) Consumer Protection:

Fed provide the customers a clear and accurate information about services such as saving accounts, loans and credit cards.

3) Financial Services:

Fed is a Bank for Bankers as it provide financial services to depository institutions such as banks, credit unions and savings and loans. Services like collecting checks, electronically transferring funds and distributing and receiving cash and coin and it also provide electronic payment services like ACH (Automated Clearing house), Fedwire (wire transfers). [9]

5. Comparison

Reserve Bank of India (RBI) and Federal Reserve System of US (FRS) have the same primary function that is the monetary policy and providing the customers a fair transaction. But there are various reasons which provides that central bank of India has better policies and functions then the U. S. central bank.

a) History

If we look at the historic events due to which this central banks are formed, then the Indian central bank was formed by a merge of three presidency town banks which were the Calcutta bank, madras bank and the Bombay bank which primary was merged and created the Imperial bank and then the Imperial bank was converted and Reserve Bank of India was formed. Further after the formation of Imperial bank due to nationalisation it was nationalised. Whereas, the Federal Reserve System of US was formed only due to a financial panic occurred in US who influenced the US economy and reaches serious economic disorders for bankruptcy credits and business bankruptcy. So when we look at the reason due to which the central banks were formed it is clear that the India has major historic ratifications in banking sector and after which the Reserve Bank of India was formed whereas Federal system of US formed due to bankruptcy and world war.

b) Functions Provided by both the Central Banks

The Reserve Bank of India provides tons of functions which covers all the economic sector of the country whereas the federal system doesn't provide that much functions. The Reserve Bank of India provides various tools of policies which make the process a systematic one.

c) Modes of Payment

RBI provides more modes of payment and it uses the advantages of technology in making the payment. It provide both the online and offline modes of payment.

d) Charges

The governor of India has given the charge of designing and also circulating the currency and coins to the RBI whereas the Federal Reserve System doesn't have any such kind of charges and they were only assigned to ensure the safe circulation and consumer's protection.

6. Conclusion

In the paper the researcher dealt with the basic introduction of the Central Banks of India and US. The researcher also dealt with the historic events due to which the banks were formed like the RBI formed after the three presidential towns banks, ie Bengal Bank (This bank was originally founded as Calcutta Bank in 1806 and then in 1809. Became Bengal Bank), Bombay Bank and Madras Bank were for years the presidential bank functioned as a quasi - central bank. Then the three banks merged in 1925 to form the Imperial Bank India. A major milestone in the history of Indian banks took place in 1934, when the decision was made. It was taken over to establish the Reserve Bank of India, which began operations in 1935. Whereas, the Federal Reserve System formed due to banking panics—activities characterised via way of means of extensive financial institution runs and bills suspensions and, to a degree, outright financial institution failures—had took place regularly in the course of the nineteenth century.

In the paper the researcher also dealt with the various functions of the two banks and which bank provide the better tools and policies and concluded that the Reserve bank of India provide more facilities then the federal reserve system of US.

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