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Efficacy of Central Bank in Financial Market Regulation and Supervision

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Abstract— This paper includes a brief introduction about how various financial sector reforms have provided the Indian economy with a lot of resilience and stability and boomed every sector of the economy and based on such reforms how RBI have gone under strategic shifts and have made significant improvements in the quality of performance of regulatory and supervisory function and consists the limitation and loopholes emerging out in contemporary times as have been observed in the recent issue of government pressurising RBI over the CRR issue. Along with this, paper includes a brief study of inflation and the role of RBI suggesting how it can reduce money supply and maintain equilibrium in reference to the central bank failure of USA and observing its root causes of failure in comparison to RBI as it being the apex body present in India.

Index Terms— Financial Sector reforms, RBI, CRR, Inflation, Indian Economy, USA..

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1 INTRODUCTION

The major function of the financial sector is to provide the paperwork for management of cash flow situation of different economic units such as individuals, corporations, government agencies etc. In simple words the income and expenditure patterns of individual economic units may not match every point of time. Financial sector helps bridging such gaps. In the process, the sector reallocates financial resources between surplus and deficit entities. Financial sector also facilitates management of various types of risks. Also considering the point of shortage of Public information, Financial intermediaries such as banks, however, appraise and monitor corporate investment decision and therefore, act as intermediaries between savers and investors. For effective conduct of its role, financial sector needs the interrelated albeit distinct components – institutions, markets and instruments. Financial Institutions include entities such as banks, development finance institutions, non banking financial companies, insurance institutions, long term contractual savings institutions, stock exchanges, clearing houses, etc. Financial institutions cannot work in a vacuum; they need various types of markets for their operations. Whereas financial markets include money market, debt market, foreign exchange market, securities markets, derivatives market etc. Again no market can function without products and in the context of financial markets we call such products on instruments which include money, interest rates, securities etc.

Since the Financial Sector is not a standalone entity. For the functioning of the sector various arrangements and frameworks are required. And the most important of these is the legal framework within which the financial sector operates. Also emphasis should also be given towards the issue that, financial sector is intertwined and independent with developments elsewhere in the economy. Therefore, the efficiency level and the financial system to a large extent is constrained by the efficiency of the overall economic setup within which it operates.

1.1 Composition of Indian Financial sector:

In India, commercial banks are the most dominant entities. They account for nearly 45% of the total financial savings. Commercial Banks in India plays a leading and critical role. On the other hand, by providing readily withdraw able i.e; liquid and safe bank accounts, they create habits for financial savings. On the other hand, they provide funds for meeting the funding needs for government, corporate and individuals.

Apart from commercial banks, the other major types of banks operating in India are co-operative banks, which are further broadly categorised under, rural and urban. During the early twentieth century, co-operative banks were the dominant entities. overtime, however their share in the deposits of or advances made by the banking sector got declined. Though the deposit base of co-operative banks remain significant and equivalent to about one-fifth of the total deposit of commercial banks. More importantly, co-operative banks have a wide network and reach even to many remote areas of the country. In particular, co-operative banks are playing crucial roles in creating banking habits among the lower and middle income groups and in the rural credit delivery system.

The development process in an economy however requires fund for long term process. Infrastructure projects, heavy industries, social investments such as those relating to health, education etc. is warrant long term funding. During the early days of independence it was realized that banks alone may not be able to meet such demands for long term funds. Simultaneously, given the nascent state of most other components, it was realized that for meeting long term funding requirements of the economy, specialized long term lending institutions would need to be setup. Concomitantly, a special class of financial institutions was created which were called the Development Finance institutions (DIF's) in short. The erstwhile Industrial Credit and Investment Corporation of India (ICICI), Industrial Development Bank of India (IDBI), National Bank of Agriculture and Rural Development (NABARD) are examples of such DIF's. Broadly speaking there are two types of DIF, 1. Direct Financing DIF's & 2. Refinancing DIF's. As the categorization suggests, the first group of DIFs directly extend funds to the industries while the other group provides fund to other institutions such as banks against their long term lending to the industry. As of now, these are nine all India DIFs, which are under the regulatory and supervisory preview of RBI[1].

2. Financial Sector Reforms: Background na d Rational:

Process of financial sector reforms were initiated in early 1990's, which posses a direct question that what conditions lead to the reforms. To this post-independence India adopted a planned economic development strategy with the aim of the public sector reaching the "commanding heights". It was argued that a predominantly privately owned banking structure would not be able to channelize resources according to plan priorities. In order to align the planned development of the real economy a policy of "Social Banking" was adopted and a series of measures were adopted towards this end. These included the following:[2]

. ***Nationalisation,***
. ***Pre-emption,***
. ***Administered Interest Rate,***
. ***Expansion of Banking,***
. ***Supply of Low-Cost Fund to DFIs.***

The restructuring of the banking sector has been one of the major components of the economic reform process initiated since the early 1990s. Financial sector reforms were initiated early within the overall economic reform cycle. Furthermore, various supportive measures were also initiated in other sectors, which reinforced the financial sector reforms. The restructuring of the financial sector aimed at enhancing the productivity and efficiency of the financial entities like banks, DFIs, NBFCs. There were also steps to improve the quality of services provided by them, increasing the transparency in operations and making the system viable and efficient in order to serve the emerging needs of the economy. The first phase of reforms, which were introduced in 1992 subsequent to the report of the Committee on the Financial System, 1992 (Chairman: Shri M. Narasimham), brought about reduction in statutory pre-emption levels, dismantled the administered interest rate structure, laid down capital adequacy requirements and other prudential norms such as income recognition, asset classification, provisioning, exposure norms, etc. Entry norms for Indian private sector banks and foreign banks were liberalised. The second phase of reforms, introduced subsequent to the recommendations of the Committee on Banking Sector Reforms, 1998 (Chairman: Shri M. Narasimham) placed greater focus on structural measures and improvement in standards of disclosure and levels of transparency in order to align Indian standards with international best practices.

The introduction of financial sector reforms has provided the economy with a lot of resilience and stability. The average annual growth rate of the economy during the post-reform period has been more than 6%, which was unimaginable a decade before that. The economy withstood boldly the Asian economic crisis of 1997-98. Even the economic sanctions by the U.S and other developed countries after the nuclear testing did not affect the economy to the extent apprehended. The current global slowdown and sub-prime crisis affecting the banking system all over the world has not impacted the Indian economy to that extent.

Banking and insurance sectors are booming. While the private and foreign banks are giving stiff but healthy competition to the public sector banks, resulting in overall improvements in the banking services in the country, the insurance sector has also witnessed transformation. The consumer is a gainer with the availability of much better and diversified insurance products. The stock exchanges in the country are in the process of adopting the best practices all over the world. The RBI has also been able to control and regulate effectively the operations and growth of the Non- Banking Financial Companies (NBFCs) in the country A few changes which are on the anvil pertain to the legal provisions relating to fiscal and budget management, public debt, deposits, insurance etc. As per the Finance Minister, future reforms by making legal changes also pertain to banking regulations, Companies Act, Income Tax, Bankruptcy, negotiable instruments etc. But there are certain issues that call for more cautious approach towards the financial sector reforms in the future. The social sector indicators like availability of doctor per 1000 population, availability of health institutions, quality of elementary education, literacy rate, particularly among the females are some of the areas of serious concern. Countries like China, Indonesia and even Sri Lanka are much better than India in most of the social sector indicators.[3]

Despite being among the most rapidly developing economies of the world, the literacy rate and poverty percentage are two biggest embarrassments and the country still languishes at 128th position in the Human Development Index of the UNDP, where it is virtually stagnating for the last about five years. Further, the systems should also be able to check any unusual rise in prices to protect the common man from inflation.[4] One of the major criticisms of the government policy has been that the reforms have lacked the human face, as the government has been over-obsessed with the idea of achieving higher growth rate and fiscal and monetary management, rather than addressing the needs for equitable and inclusive growth. The reforms process has ignored the common man and the trickle down theory has actually failed to deliver.

The Planning Commission, while finalising the Eleventh Five-Year Plan has now sought to achieve the overall objective of achieving the inclusive growth, i.e., to include all those in the process of economic growth, who has remained excluded from the process of economic growth experienced by the country during the past decades.[5]

3. Role of RBI in Financial Market: Story Of Effectiveness:

The Reserve Bank of India is the Central Bank of the country. Central Banks are relatively recent innovations and most Central Banks, as we know them today, were established around the early 20th century. The RBI was setup 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 operation on April 1,1935. The bank was constituted to:-

- . Regulate the issue of bank notes,
- . Maintain reserves with a view to securing monetary stability and,
- . To operate the credit and currency system of the country to its advantage.

The preamble of the RBI describes its basic function as;
"*….to regulate the issue of bank notes and keeping of reserves with a view to securing monetary stability in India and generally to operate the currency and credit system of the country to its advantage* ."[6]

Being the apex monetary body, RBI performs multifaceted functions among which; one is, As a regulator and supervisor of the financial system. Keeping the reforms in mind, it is noticed that the functions of the RBI have gone strategic shift within such reforms. The strategy shifted from controlling institutions and markets to facilitation of efficient functioning of markets and strengthening the supporting institutional framework.The premption in the form of CRR and SLR have been progressively reduced.

- . The scope of priority sector has been expanded.
- . The interest rate has been de-regulated both on deposits and advances.
- . Allowing DFI's and banks to lend in the short as well as long end of the
- market has reduced segmentation of credit market.
- . From conservation of foreign exchange though control of transactions, the
- focus has shifted to facilitation of foreign exchange transaction.

Stability issues came to the force especially after the crises in South East Asian countries in late 1990s. The RBI progressively strengthened prudential regulation relating to capital adequacy, income recognition, asset classification, provisioning, disclosures and transparency. Sequencing of reforms among various segments of the financial sector (Banks, DFIs, co-operative Banks, NBFCs, money market, debt market and forex market) was determined by the importance of each segment, extent of regulatory powers enjoyed by the RBI and the evolving situation. Furthermore, institutional strengthening was undertaken to ensure the progressive development and integration of the securities, money and forex markets. The RBI has made significant improvements in the quality of performance of regulatory and supervisory functions. Our standards are comparable to the best in the world. Attention is being paid to several contemporary issues such as, relative roles of onsite and off-site supervision, functional versus institutional regulation, relative stress on internal management, market discipline and regulatory prescriptions, consolidated approach to supervision, etc. Several legislative initiatives have also been taken up with Government, covering procedural law, debt recovery systems, Credit Information Bureau, Deposit Insurance, etc. Progress in these is critical for effectiveness of RBI in the regulatory sphere. A recent important legislative development, which will improve the momentum of recovery of dues, is the enactment of Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest (SRFAESI) Act. Under this Act RBI has been entrusted with the role of stipulating suitable norms for registration of securitisation or reconstruction companies, prescribing prudential norms, recommending proper and transparent accounting and disclosure standards and framing appropriate guidelines for the conduct of asset reconstruction and securitisation.Coverage of the RBI's regulatory and supervisory role, which is currently focused more strongly on banks, also extends to some extent in the case of NBFCs, especially those accepting public deposits, and DFIs. There are certain areas, which require or would entail changes in regulation and supervision by RBI and some of the restrictions are also their which is discussed under next section of the paper.

3.1 Significance and Limitations Of RBI:

Significance:

1. Rapid Economic Growth: It is an important objective as it can play a decisive role in the economic growth of country. It influences the interest rates and thus has an impact on the investment. If the RBI adopts an easy credit policy, that would be doing by reducing interest rates which in turn would improve the investment outlook in the country. This would in turn enhance the economic growth. However faster economic growth is possible if the monetary policy succeeds in maintaining income and price stability

2. Exchange Rate Stability: Another important objective is maintaining the exchange rate of the home currency with respect to foreign currencies. If there is volatility in the exchange rate, then the international community loses arises in the economy. So it is necessary for the monetary policy to maintain the stability in exchange rate. The RBI by altering the foreign exchange reserves tries to influence the demand for foreign exchange and tries to maintain the exchange rate stability.

3. Price Stability: The monetary policy is also supposed to keep the inflation of the country in check. Any economy can suffer both inflation and deflation which are harmful to the economy. So the RBI has to maintain a fair balance in ensuring that during recession it should adopt an 'easy money policy' whereas during inflationary trend it should adopt a 'dear money policy'

4. Balance of Payments (BOP) Equilibrium: Another key ob-

jective is to maintain the BOP equilibrium which most of the developing economies don't tend to have. The BOP has two aspects which are 'BOP Surplus' and 'BOP deficit'. If the monetary policy succeeds in maintaining monetary equilibrium, then the BOP equilibrium can be achieved.

5. Neutrality of Money: RBI's policy should regulate the supply of money. It is possible that the change in money supply causes disequilibrium and the monetary policy should neutralize it. However this objective of a monetary policy is always criticized on the ground that if money supply is kept constant then it would be difficult to attain price stability.

Limitations:

letdown of RBI regulation and supervision due to government political pressure:

If we take the recent issue where the Finance Ministry is pressurising over RBI for low interest rate regime, surplus system liquidity and strong rupee. Parliament has pushed the market into bearish set up unwinding recent gains, and Rupee has been the worst performer despite weak undertone of the dollar against global currencies. The CRR is a percentage of their deposits that banks have to keep idle and not lend. It is obviously a cost to banks because they raise that money at 6 or 7 or 8 percent but can't earn anything. Here the RBI's immediate concern may be on the political risk.[1]It is felt that current low real interest rate is not seen as risk to growth and that higher inflation is not due to demand-push but from supply-side bottlenecks. On the other hand, Government is keen to have accommodative monetary policy and strong rupee exchange rate to spur growth, control inflation and attract foreign investments. It is expected that the interest rate would decrease from 8% to 7% in the next FY-13.[7]

The CRR is therefore a powerful instrument both while tightening and while loosening monetary policy. A one percentage point cut in CRR today can release Rs 64,000 crore into the banking system immediately and about Rs 2.5 lakh crore over the year. That will create a truly loose monetary system and bring down rates quite rapidly.[8]

<u>Other limitations are;</u>

1. Existence of Non- Monetized sector: A large portion of the population is unbanked in this country and are involved in barter type of transactions instead of monetary type.

2. Excess Non Banking Financial Institutions: Due to the rapid growth of the economy a large number of NBFC's have increased. They don't come under the impact of monetary policy and thus can cause a hindrance to the effective implementation of monetary policy.

3. Existence of Unorganized Financial Markets: In rural areas, there are still moneylenders from whom people lend money. They don't come under the purview of monetary policy and cause problems to the RBI's monetary policy success.

4. Excess Liquidity: Due to the rapidly growing economy, the deposits of the banks keep increasing and hence the excess liquidity cannot be sucked out of the system even with the hike in CRR and SLR.

5. Monetary and Fiscal policy lack coordination: Monetary policy is made by the RBI whereas the fiscal policy by the government. Both of them are supposed to be handled independently and hence it results in the lack of coordination which ultimately harms the economic policy of the country.

6. Time Lag Affects Success of Monetary Policy: The success of the monetary policy depends on timely implementation of it. However, in many cases unnecessary delay is found in implementation of the monetary policy. Or many times timely directives are not issued by the central bank, then the impact of the monetary policy is wiped out.

<u>4. Inflation An Overview Of RBI's Role and Remedies resorted:</u>

Inflation is a situation when too much of money supply starts chasing too few of goods, causing prices to rise. Since RBI's monetary policies have pushed the prices to much higher level and new suppliers for goods and services have created new capacities reckoning their profitability at this increased level, whole market get used to this price level and this whole ho-halla on inflation is consigned to history. Even if inflation rates have come down substantially, prices never come down because inflation rates only mean how much more prices are increasing prospectively. Unless inflation rates are in negative for long enough, old price level will never be achieved. Only option is to reduce the money supply and bring equilibrium between money supply and availability of goods. Contraction of money supply can done in two ways;

Firstly, Reduce the liquidity with the banks so that they have that much less to lend, and automatically, money supply in the market would reduce. Reserve Bank achieves this by increasing Cash Reserve Ratio (CRR) being the amount of funds all banks. This is a percentage of total deposits of any bank that must be kept in cash with RBI. Currently, CRR is 6%. It means, for every Rs 100 deposit with a commercial bank, Rs 6 must be kept with RBI leaving only Rs 94 with the commercial bank to lend. During inflationary times, RBI deems it necessary to increase CRR and thereby, reduce the availability of lendable funds with the ommercial banks, and thus, hope to strike a balance between the money supply and

supply of purchasable goods and services. Secondly, increase the cost of funds to the banks and thereby, make it costlier for people to borrow, and at the same time, make it more lucrative for the people to keep money in bank deposits as they will attract higher interest as well. This can be done in three ways:-

1

1. Making CRR completely interest free:- Bank has to cover its cost of funds and then, strive for profits from the left over funds only. RBI out of these interest free CRR funds by lending them to the government or investing them in government securities.

2. Increasing Repo rates:- Being the rate of interest at which RBI lends to other commercial banks:- The Repo rate currently is 6%. If any bank ever needs funds for any purpose t can borrow from RBI by paying 6% interest. By increasing repo rates, RBI makes money costlier, and by reducing this rate, it makes it cheaper, and this way, it tries to achieve the desired contraction or expansion in the money supply for dealing with inflation.

3. Increasing Reverse Repo Rate:- reverse repo rate is 5%. When RBI wants to reduce market liquidity, it increases all rates whether one by one or together and hopes to achieve contraction in money supply, and vice versa. Without scrutinising all existing loans whether they are for business become costlier as well. Higher interest needs to be paid for existing loans. For a consumer, it makes him poorer as it reduces high savings by increasing his EMI obligation. For a business, it reduces its profit margin by increasing the cost of operations. In order to maintain same profit margins, they increase price of their products which is what we are all used to seeing in the market. This pushes up the prices that go into inflation index.[9]

It is far too common to observe situations where RBI is adopting tight monetary policy by increasing CRR as well as the interest rates and contracting money supply in the market, and finance ministry announcing decisions to provide massive additional capital to banks so that their liquidity could increase and they could lend much more in the market! In March-April this year, RBI was tightening money supply and soon, government of India announced plans to provide additional Rs 15000 cr capital to public sector banks which would increase their capacity to lend by Rs 185000 cr when the total CRR is worth about Rs 300,000 cr, this move of the government effectively means, reducing CRR by two third.

There is only one way, increase supply of goods and services. India's success story is 200% success of its private sector minus 100% failure of its public sector, net 100% success of its corporate sector.

Longterm Solutions:

Treat agriculture at par with business – If a farmer is producing rice, a mill owner is producing cloth and so on. If a farmer does not find wheat profitable, he moves to pulses or to sugar cane. Let him be treated as a businessman, and be encouraged to be globally competitive, pay taxes just like other businessmen and look forward to the fruits of prosperity.

Decontrol sugar, food grains etc – If there is surplus production of sugar or food gains, there is no harm if they are exported, and vice versa. Cement was black marketed when it was in control. It has prospered only after decontrol.

Replace bureaucracy with professionals – Confine babus to only administrative jobs and all commercial jobs should be handed over to professionals like CAs, ICWAs, MBAs etc. The job is better done by professionals who could be rotated to ensure higher accountability.

Shorterm Solutions:

Cut down bank finance to hoarders – during inflationary times, traders take bank finance and hoard goods/commodities. RBI should not be content with general price index alone. It should focus on sartorial price index and see prices of what products/goods are going up and whether it is also due to artificial shortage created with hoarding. If so, bank finance for stocks of such commodities could be cut down in phase wise manner which will de motivate hoarding and ease pressure on supplies.

Substitute "Revenue Consideration" with "GDP Consideration"- SEZ is good even if it does not contribute direct revenue to the govt. It does increase economic activities, improve prosperity of the country, and even contributes revenue indirectly in so many ways through its activities. It is foolish to curb SEZ and EOUs for want of taxes.

Evaluate of effect of policies on inflation – Govt must measure the impact of its policy on prices. Since RBI fiddling with CRR and interest rates only, it can never succeed like it has never succeeded in past.

5. Case Study Of USA: Failure and Lessons Learned:

Introduction

The New York State Banking Department (NYSBD) closed USA Bank on July 9, 2010, and the FDIC was named as receiver. On July 29, 2010, the FDIC notified the Office of Inspector General (OIG) that USA Bank's total assets at closing were $196.1 million and that the estimated loss to the Deposit Insurance Fund (DIF) was $60.8 million. Consistent with the Financial Reform Act and FDI Act provisions described above, the objectives of this review were to (1) determine the causes of USA Bank's failure and the resulting loss to the DIF and (2) evaluate the FDIC's supervision of USA Bank, including the FDIC's implementation of the Prompt Corrective Action (PCA) provisions.[10]

Causes of Failure and Loss

According to the FDIC, USA Bank failed due to inadequate oversight and failings on the part of the Board of Directors (Board) and management and problems attributable in ADC and CRE lending. Poor credit administration practices and weak real estate market conditions also contributed to the bank's failure. Additionally, the bank experienced significant losses in its 1-4 family mortgage portfolio, including home equity loans. Loan-related losses eroded capital and, on July 9, 2010, the NYSBD closed the bank due to an inadequate capital position.

Soon after the establishment the bank plagued with deficiencies stemming from the bank's Board and management. Under the influence of the COB/CEO, and lacking sufficient monitoring by the Board, the bank focused on CRE lending and speculative construction loans. Ultimately, such actions led to severe asset quality issues, critically deficient earnings, and inadequate capital. According to the FDIC, USA Bank exhausted a significant amount of capital in its first year of operation due to unauthorized deviations from the bank's business plan.

Deviations from Business Plan

Deviations from the bank's business plan contributed significantly to USA Bank's failure. Such deviations included (1) the establishment of a mortgage-banking operation without regulatory approval, (2) excessive reliance on non-core funding sources, and (3) a focus on ADC and CRE lending.

Mortgage-Banking Operation

In July 2006, the bank revised its budget to include projections relating to the formation of a mortgage-banking operation (through the formation of USA MBA, Inc.), in which real estate mortgages would be originated and sold in the secondary market. But, the FDIC was neither provided with a revised budget nor notified of bank management's intent to establish a mortgage-banking operation. According to the FDIC, this operation was not approved by the FDIC and represented a major deviation from the bank's business plan. It also contributed to losses substantially greater than projected, resulting in critically deficient earnings.

Reliance on Non-Core Funding

From the onset of its operations, USA Bank relied heavily on non-core funding sources for its operations. Such funding was not approved by the FDIC as a change to the bank's business plan. Specifically, the Report of Investigation (ROI) prepared by the FDIC in considering the bank's application for federal deposit insurance stated:

"As the smallest competitor in the market, the proponents believe they can compete effectively for deposits by offering CD [certificates of deposit] . However, the strategy was to acquire a broad base of demand accounts to lower the bank's overall cost of funds"[11]

According to the FDIC, bank management did not have success in attracting such core deposits (i.e., demand accounts) and increasingly relied on non-core funding sources, including brokered deposits, to fund asset growth.

ADC and CRE Lending

USA Bank also deviated significantly from its initial plans with respect to itlending strategy. In its application for federal deposit insurance, USA Bank defined a lending strategy that was heavily focused on loans secured by 1-4 family residential properties, which were projected to represent 44 percent of the bank's loan portfolio. Whereas, $37.4 million (52 percent) of total loans were ADC and other CRE loans, which were projected to comprise only $9.2 million (22 percent) of total loans in USA Bank's application.

Preventive Actions

From USA Bank's inception in December 2005 through its failure in July 2010, the FDIC and/or the NYSBD executed or proposed enforcement actions against the bank Board directors. C&Ds addressed management and other issues related to the bank's noncompliance with the FDIC's Order granting federal deposit insurance. Specifically, the C&Ds required the bank to, among other things:

- . Engage an independent third party to conduct an assessment of the bank's management and staff.
- . Immediately increase the participation of the Board in the affairs of the bank.
- . Develop a comprehensive written business/strategic plan.
- . Develop an internal audit program.
- . Correct all violations of laws and/or regulations.
- . Submit quarterly progress reports to the regulators.

Lessons Learned:-

Overall, with respect to USA Bank's deviations from its de novo business plan and
the activities of the dominant official, the FDIC identified the associated risks and
took definitive supervisory actions. These actions, however, could not sufficiently
mitigate the substantial risk created by the bank's early and unanticipated change in
a focus on ADC and CRE lending – the primary reason why USA Bank failed.

Conclusion and Analysis:

Since the financial sector is not an standalone entity and for its effectiveness various arrangements and frame works are required among which an effective legal framework is important. therefore, financial sector reforms has provided the economy with a lot of resilience and stability and have boomed nearly every sector of the economy but, importance must be given to social sector such as, availability of health institutions, quality of elementary education, literacy rate etc, which areareas of more concern in recent times. And countries like China, Indonesia and even Sri-Lanka are in much better position. And taking in account the role of RBI as an Regulator and Supervisor of the financial system which have gone under various strategic shifts and RBI has made significant improvements in the quality of performance of its regulatory and supervisory function, and as a result our standards are comparable to the worlds. But as the paper reflects the recent time demands that certain strict and efficient steps should be taken by the RBI to cover the areas of ineffectiveness among which Time Lack, Co-ordination between Monetary and Fiscal Policy, Agricultural Sector, and to act as an Independent Entity as to avoid any kind of Political or Economic Pressure. Since, the role of RBI is crucial in curving inflation there should be precise and concrete structure on which the Indian economy will find its way towards achievement and to counter any future problems effectively.

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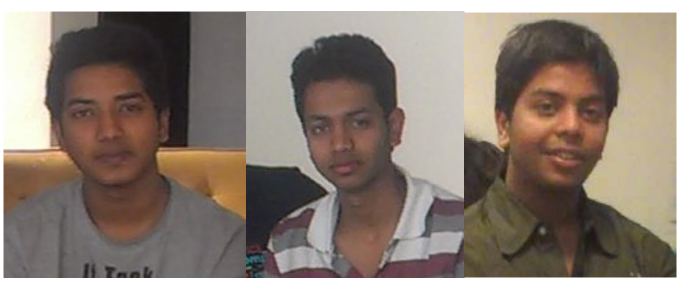
Author Profile



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