

Like individual consumers, businesses and organisation of all kinds, banks need their own mechanism to transfer funds and settle inter-bank transaction-such as borrowing from and lending to other banks-and customer transactions. As the banker to banks, the Reserve Bank fulfills this role.

Since its inception, Reserve Bank of India has undertaken the traditional central banking function of managing the government's banking transactions. The Reserve Bank of India Act, 1934 requires the Central Government to entrust the Reserve Bank with all its money, remittance, exchange, and banking transactions in India. The Reserve Bank may also, by an agreement, act as a banker to State Governments.