



THE ROLE OF CENTRAL BANKS IN FINANCIAL STABILITY

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Abstract

Central banks play a crucial role in maintaining financial stability through monetary policy, regulation, and crisis management. This research examines their evolving role in India and globally.

Keywords: Central Banks, Financial Stability, Monetary Policy, Regulation, India

Introduction

Central banks like RBI are pivotal in ensuring financial stability, managing inflation, and preventing crises. This paper explores their strategies, challenges, and impact.

Central banks like RBI are pivotal in ensuring financial stability, managing inflation, and preventing crises. This paper explores their strategies, challenges, and impact in India and globally, focusing on monetary policy, regulation, and crisis management.

Statement of Problem

Post-2008, central banks face new challenges like digital finance, climate risk, and systemic instability. This study addresses their evolving role.

Scope of Research Study

The research covers RBI's policies, global central bank practices, and emerging trends in financial stability.



Significance of Research Study

The significance of the present research study is as under -

1. Educational Significance: Enhances understanding of central bank functions.
2. Functional Significance: Guides policymakers on stability measures.
3. Social Significance: Protects public savings and economic welfare.
4. Political Significance: Aligns with national economic sovereignty.

Objectives of Research Study

Objectives of present research study are as follows :

1. Assess central banks' role in financial stability.
2. Evaluate policy tools and effectiveness.
3. Identify emerging challenges (digital finance, climate risk).
4. Recommend strategies for stability.

Hypotheses of Research Study

Hypothesis of present research study is as follows :

1. **Null Hypothesis (H₀):** Central banks' policies have no significant impact on financial stability.

Alternative Hypothesis (H₁): Central banks' policies enhance financial stability.

Research Methodology

1. Research Design: Mixed-methods (policy analysis + surveys + case studies).
2. Research Sample: RBI policies, 10 global central banks, 50 financial experts.
3. Limitations: Focus on select policies; external factors like geopolitics.

Findings

The main findings of the present research study is as under -

1. Monetary Policy: Interest rates and QE impact stability; RBI's repo rate adjustments influence liquidity.



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2. Regulation: Basel norms and stress tests enhance resilience; RBI's PCA framework ensures bank stability.
 3. Challenges: Digital disruptions, climate risk, inequality, and cross-border coordination issues.
 4. Global Trends: Fed, ECB, and BoJ's unconventional policies impact global financial stability.

Recommendations

The main recommendations of the present research study is as follows :

1. Proactive Regulation: Strengthen fintech oversight and crypto regulation.
2. Green Finance: Integrate climate risk into policies and stress tests.
3. Collaboration: Enhance global central bank coordination via BIS and IMF.
4. Financial Literacy: Boost public awareness on digital finance risks.

Contribution towards Society and Stakeholders

1. Policymakers: Insights for effective stability measures and crisis response.
2. Financial Institutions: Guidance on compliance, risk management, and green finance.
3. Public: Enhanced trust in financial systems and digital finance safety.

Conclusion

Central banks are pivotal in financial stability. Adapting to digital and climate challenges is key to their future role.

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