CENTRAL BANK

Origin:

We have learned about the formation and development of commercial banks. As the time passed by these commercial banks gradually developed and attained the status of an extremely important monetary and economic institution.

However, in the beginning, commercial banks were allowed to issue notes at their will. This created widespread disturbance and confusion. In order to avoid and manage all this, it was decided to vest this authority of note issuance only to an original bank in the country. This decision gives birth to the idea of central banking. The first central bank was established in Geneva in 1578. In those days central bank was merely recognized by its sovereignty over the function of note issue.

After that, Risk bank of. Sweden was established in 1661. Bank of England in 1694, Bank of France in 1800, Bank of Netherlands in 1814 Bank of Austria in 1817,Bank of Russia in 1860, Bank of Japan in 1882 and so on.

It was until 1920, that the need of consolidated central banks characterized by maybe special functions and powers was strongly realized. After the World War 1, there were great depressions and failure in the world economy. There were bank ruins and many other panics. There were widespread monetary and fiscal defaults and series of problems.

In order to find solution for all this, a conference was held in Brussels in 1920 and it was decided hat to avoid such disturbances in future, every country must set up its central bank to perform specialized function and exercise special rights and powers.

Definition:

Central banks is a unique and special institution whose customers are commercial banks and state Central bank supervises the whole banking structure, ensures healthy infrastructure, maintains steady rate of economic growth, takes measure to achieve full employment and efficiency while at the same time giving profit a secondary consideration.

In words of Dekock: “The guiding principal of the central bank is that it should act only in the public interest for the welfare of the country as a whole and without regard to profile as a whole and regard to profile as a primary consideration”.

In words of R.P. Kent: “An institution which is charged with the responsibility of managing the expansion and contraction of the volume of money in the interest of the general public welfare.”

In words of Lipsy: “A bank that acts as bankers to the commercial banking system and often to tile institution that control the banking system and is the safe money issuing authority.

Central Banking Principles (Objectives):

Following are the principles / objectives of central banking.

1.Safeguarding Financial Stability:

The main objective of the central bank is to protect and safeguard economical and financial stability. It is established in order to design and implement policies to avoid depressions and unwanted fluctuations in the economy.

2.Working in Public Interest:

Central bank works in the best interest of the economy and public. It does not give advances, nor does it allow any interest on deposits. It performs its functions without any consideration of profit.

3.Supervisioin of Banking System:

Central banking object is to have supervision and effective control over commercial banks structure. Central bank is they policy makers for commercial banks and it ensures the solvency of entire banking system.

4.Control of Credit & Money Supply:

Central bank’s object is to exercise effective control over credit and currency supply in the economy. It has a sole monopoly over note issue and it constantly keeps eye on the supply of currency in the economy. It’s another important objective is to watch the credit creation by commercial banks. In case of any emergency, it uses its special powers to restrict commercial banks from creating credit.

5.Accommodating Commercial Banks:

Another object of Central bank is to save commercial banks from bank ruins and bank publics. In case commercial banks find any difficulty in meeting its liabilities, the central bank comes to its help.

6.Ensuring Economic Development:

Central banks while analyzing and supervising the whole banking structure ensures economic development. The object of central bank is to direct finances towards important sectors are fulfilled.