

# **CENTRAL BANKING Complete Notes 1 Liners**

## **THEORY AND PRACTICE OF CENTRAL BANKING**

### **EVOLUTION**

#### **CENTRAL BANK – CONCEPT & FEATURES**

1. A central bank is the apex monetary authority managing money supply, interest rates, and financial stability.
2. Central banks exclusively issue and regulate national currency.
3. They act as banker, debt manager, and financial agent to the government.
4. They serve as banker's bank by offering liquidity support and lender-of-last-resort functions.
5. They regulate and supervise banks to maintain compliance and systemic stability.
6. They conduct economic research and provide policy advice to the government.
9. It received the monopoly of note issue in 1897.
10. Many European nations formed central banks during the 1800s–early 1900s.
11. Financial infrastructure needs led central banks to oversee payment and settlement systems.
12. Rising financial institutions increased central banks' regulatory and supervisory roles.
13. Risk-management frameworks were adopted as financial systems became complex.

#### **GLOBAL EVOLUTION OF CENTRAL BANKS**

7. Riksbank (Sweden, 1668) is the world's first central bank.
8. Riksbank initially operated as a joint-stock lender to government and commerce.
14. Developing nations' central banks expanded roles to support economic growth and recovery.
15. Price stability, financial stability, and risk control became major mandates amid global crises.

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16. Informal norms evolved into formal central banking laws.
17. International best practices enhanced autonomy, transparency, and crisis-prevention capacity.
27. Governor and Deputy Governors were appointed by the French government.
28. A board of 15 regents represented the top 200 shareholders.
29. Initially granted exclusive note-issuing rights in Paris for 15 years.

### BANK OF ENGLAND

18. Founded in 1694 as the UK's central bank and government banker.
19. Historically issued notes and managed UK gold reserves.
20. Since 1997, it independently sets interest rates.
21. It is the world's second-oldest central bank after Riksbank.
22. It was nationalised in 1946.
23. The 1844 Charter Act granted it exclusive note-issuing rights in England and Wales.
24. It managed major government borrowing during WWI.
30. Note-issue monopoly expanded nationwide in 1848 after merging provincial banks.
31. Played a major role in stabilizing France during the 1848 crisis.
32. Privatized and made independent in 1993 to ensure price stability.

### BANK OF FRANCE

25. Established in 1800 and nationalized in 1946.
26. Founded using mixed state and private capital.
33. Established in 1846 as a private note-issuing commercial bank.
34. Operated mainly for shareholder profit while managing Portugal's currency.

### BANCO DE PORTUGAL

### BUNDESBANK

35. Formed in 1957 under the Bundesbank Law.
36. Aimed to unify Germany's coinage, weights, and measures.

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37. Developed a transparent monetary regime supporting economic growth.

38. Now part of the European System of Central Banks.

### BANK OF ITALY

39. Created in 1893 to rescue Italy's failing banking system.

40. Restored financial strength by cleaning balance sheets and rebuilding capital.

41. Reorganized Italy's monetary and credit system to prevent future crises.

42. Now integrated into the European System of Central Banks.

### FEDERAL RESERVE SYSTEM (USA)

43. Established in 1913 under the Federal Reserve Act.

44. Created in response to recurring financial panics, especially in 1907.

45. Statutory monetary-policy goals: maximum employment, stable prices, moderate long-term interest rates.

46. First two objectives form the Fed's dual mandate.

47. Fed's role expanded to supervision, financial stability, and financial services.

48. Structure includes Board of Governors, FOMC, 12 Reserve Banks, member banks, and advisory councils.

49. Seven governors are Presidential nominees confirmed by Senate for staggered 14-year terms.

### FUNCTIONING OF THE FOMC

50. FOMC formulates US monetary policy.

51. Five Reserve Bank presidents vote at a time, with NY Fed president having a permanent vote.

52. The Federal Reserve's public-private structure serves both government and private banks.

53. Fed profits go to US Treasury after paying 6% dividend to member banks and maintaining surplus.

### EVOLUTION AND DIVERSIFICATION OF CENTRAL BANK FUNCTIONS

54. Expanding financial systems compelled central banks to broaden policy scope.

55. The Great Depression shifted mandates toward stability, employment, and growth.

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56. Core functions: monetary policy, banker to banks, banker to government, and developmental roles.
57. Lender-of-last-resort responsibilities intensified supervisory functions.
58. Central banks supported productive-sector finance to promote growth.
64. Acting as government debt manager conflicts with achieving price stability.
65. Excess government credit from central banks historically caused inflation through money creation.
66. Global inflation episodes highlighted need for independent central banks.

### REASONS FOR PROLIFERATION OF CENTRAL BANKS

59. Economic complexity and financial expansion required centralized monetary authority.
60. Frequent bank failures raised the need for depositor protection and regulation.
61. New nation-states created central banks for sovereign monetary control.
62. Key functions—currency issuance, government finance, and LOLR—made central banks indispensable.
63. Globalization increased need for coordinated international financial engagement.
67. Latin American crises demonstrated dangers of political influence over monetary policy.
68. Inflation targeting became a preferred independent monetary-policy framework.
69. Combining regulatory and supervisory roles risks conflict of interest.
70. Separation-of-powers theory inspired calls to separate supervision from central banks.
71. The UK created the FSA in 2000 as an external supervisory authority.

### CONFLICTING ROLE AND RESPONSIBILITIES OF CENTRAL BANKS

### DEVELOPMENT OF CENTRAL BANKS IN DEVELOPED COUNTRIES

72. Developed countries established central banks early alongside industrial growth.
73. Mandates evolved from currency issuance to policy, stability, and regulation.

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74. Independence became key to stable monetary-policy implementation.

75. Developed-country central banks lead adoption of innovative financial tools and systems.

### DEVELOPMENT OF CENTRAL BANKS IN DEVELOPING COUNTRIES

76. Developing nations formed central banks later, often post-independence.

77. Early focus was currency stabilization and building basic financial infrastructure.

78. Political interference and limited resources restricted early effectiveness.

79. Reforms increasingly aimed at independence, inflation control, and global standards.

80. Adoption of global norms improved resilience and policy credibility.

### EVOLUTION AND EXPANSION

81. Central banks expanded mandates to integrate growth, stability, and global financial cooperation.

82. Alignment with international standards strengthened transparency and crisis-management capabilities.