

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.

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.

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.

DEVELOPMENTAL MANDATE OF CENTRAL BANKS

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.

CENTRAL BANKING Complete Notes 1 Liners

16. Informal norms evolved into formal central banking laws.	27. Governor and Deputy Governors were appointed by the French government.
17. International best practices enhanced autonomy, transparency, and crisis-prevention capacity.	28. A board of 15 regents represented the top 200 shareholders.
BANK OF ENGLAND	
18. Founded in 1694 as the UK's central bank and government banker.	30. Note-issue monopoly expanded nationwide in 1848 after merging provincial banks.
19. Historically issued notes and managed UK gold reserves.	31. Played a major role in stabilizing France during the 1848 crisis.
20. Since 1997, it independently sets interest rates.	32. Privatized and made independent in 1993 to ensure price stability.
21. It is the world's second-oldest central bank after Riksbank.	BANCO DE PORTUGAL
22. It was nationalised in 1946.	33. Established in 1846 as a private note-issuing commercial bank.
23. The 1844 Charter Act granted it exclusive note-issuing rights in England and Wales.	34. Operated mainly for shareholder profit while managing Portugal's currency.
24. It managed major government borrowing during WWI.	BUNDES BANK
BANK OF FRANCE	
25. Established in 1800 and nationalized in 1946.	35. Formed in 1957 under the Bundesbank Law.
26. Founded using mixed state and private capital.	36. Aimed to unify Germany's coinage, weights, and measures.

CENTRAL BANKING Complete Notes 1 Liners

37.Developed a transparent monetary regime supporting economic growth.	47.Fed's role expanded to supervision, financial stability, and financial services.
38.Now part of the European System of Central Banks.	48.Structure includes Board of Governors, FOMC, 12 Reserve Banks, member banks, and advisory councils.
BANK OF ITALY	
39.Created in 1893 to rescue Italy's failing banking system.	49.Seven governors are Presidential nominees confirmed by Senate for staggered 14-year terms.
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.	50.FOMC formulates US monetary policy.
44.Created in response to recurring financial panics, especially in 1907.	51.Five Reserve Bank presidents vote at a time, with NY Fed president having a permanent vote.
45.Statutory monetary-policy goals: maximum employment, stable prices, moderate long-term interest rates.	52.The Federal Reserve's public-private structure serves both government and private banks.
46.First two objectives form the Fed's dual mandate.	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.

CENTRAL BANKING Complete Notes 1 Liners

56.Core functions: monetary policy, banker to banks, banker to government, and developmental roles.	64.Acting as government debt manager conflicts with achieving price stability.
57.Lender-of-last-resort responsibilities intensified supervisory functions.	65.Excess government credit from central banks historically caused inflation through money creation.
58.Central banks supported productive-sector finance to promote growth.	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.	67.Latin American crises demonstrated dangers of political influence over monetary policy.
60.Frequent bank failures raised the need for depositor protection and regulation.	68.Inflation targeting became a preferred independent monetary-policy framework.
61.New nation-states created central banks for sovereign monetary control.	69.Combining regulatory and supervisory roles risks conflict of interest.
62.Key functions—currency issuance, government finance, and LOLR—made central banks indispensable.	70.Separation-of-powers theory inspired calls to separate supervision from central banks.
63.Globalization increased need for coordinated international financial engagement.	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.	

CENTRAL BANKING Complete Notes 1 Liners

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.