

Central Bank – A Vital Organization of an Economy

Yogesh Prasad Kolekar¹

Introduction

A 'Central Bank' plays a vital role in the economy of a country. A Central Bank is an independent apex monetary authority which regulates banks, and provides important financial services like storing of foreign exchange reserves, control of inflation, monetary policy report.² It has been described as the 'the lender of last' rescuing commercial banks and preventing the economy from failing.³ The functions of a Central Bank vary from country to country and are autonomous or quasi autonomous body and perform or through another agency vital monetary functions for the country.⁴

The term 'Central Bank'

A Central Bank is known by different names in different countries like The Federal Reserve in United States,⁵ Bank of England in England,⁶ Monetary Authority of Singapore in Singapore,⁷ Central Bank of U.A.E in United Arab Emirates,⁸ State Bank of Pakistan in Pakistan,⁹ South African Reserve Bank in Republic of South Africa,¹⁰ Swizz National Bank in Switzerland,¹¹

¹ BAL,LLM,NET, Asst.Professor, Ismailsaheb Mulla Law College, Satara

² <http://useconomy.about.com/od/glossary/g/Central-Banks.htm>

³ <http://www.investopedia.com/articles/03/050703.asp>

⁴ <http://www.businessdictionary.com/definition/central-bank.html>

⁵ <http://www.federalreserve.gov/>

⁶ <http://www.bankofengland.co.uk/about/Pages/default.aspx>

⁷ <http://www.mas.gov.sg/>

⁸ <http://www.centralbank.ae/en/index.php>

⁹ <http://www.sbp.org.pk/>

¹⁰ <https://www.resbank.co.za/Pages/default.aspx>

¹¹ <http://www.snb.ch/en/>

Bank of Canada in Canada,¹² Deutsche Bundesbank in Federal republic of Germany,¹³ Reserve Bank of India in India.¹⁴

The management

The Central Banks are generally state owned with autonomous status and limited Government control.¹⁵ However, in the initial stage of the development of the Central Bank, most of them were a private entity and even today they differ in control and management.

The Federal Reserve

The Federal Reserve is the Central Bank of the United States established through the Federal Reserve Act¹⁶ and acts as an independent agency within the Government as it is empowered to take monetary decisions without approval from the executive or legislative branches of the Government.¹⁷ The prime purpose of the Federal Reserve is to conduct monetary policy, supervise and regulate banks, maintains stability of the financial system, financial services to the Government.¹⁸

Bank of England

The Bank of England was established in the year 1694, with the object to raise funds for the Government, gradually assuming more responsibilities. The Bank of England was initially privately owned and was nationalized in the year 1946.¹⁹ The mission of the Bank of England to *'promote the good of the people of the United Kingdom by maintaining monetary and financial stability.'*²⁰ The Bank of England is also known as the 'old lady' of Threadneedle Street.²¹ The Bank of England is a corporation wholly owned by the UK government.²²

¹² <http://www.bankofcanada.ca/about/>

¹³ http://www.bundesbank.de/Navigation/EN/Home/home_node.html

¹⁴ <https://www.rbi.org.in/>

¹⁵ <http://lexicon.ft.com/Term?term=central-bank> Last accessed on June 4, 2015

¹⁶ <http://www.federalreserve.gov/aboutthefed/fract.htm> Last accessed on June 4, 2015

¹⁷ http://www.federalreserve.gov/faqs/about_14986.htm Last accessed on June 4, 2015

¹⁸ http://www.federalreserve.gov/faqs/about_12594.htm Last accessed on June 6, 2015

¹⁹ <http://www.bankofengland.co.uk/education/Documents/resources/postcards/history2.pdf>

²⁰ <http://www.bankofengland.co.uk/about/Pages/onemission/default.aspx>

²¹ <http://www.bankofengland.co.uk/about/Pages/default.aspx>

²² <http://www.bankofengland.co.uk/about/Pages/default.aspx>

Monetary Authority of Singapore

The Monetary Authority of Singapore is a corporation²³ which act as a banker to and financial agent of the government. It was established in the year 1971 through an Act of parliament and prior of its establishment vital monetary functions were performed by different departments of the government. The Monetary Authority of Singapore performs vital functions including regulation of the insurance industry, banking, securities and financial sector, etc.²⁴ The object of the Monetary Authority of Singapore is to promote monetary stability and to adopt credit and exchange policy of the growth of the economy.²⁵

Central Bank of U.A.E

The Central Bank of United Arab Emirates is a public institution²⁶ established in the year 1980 with the object to issue currency notes, to maintain internal and external stability, to advise government on financial issues, to promote banking and supervisory function over the banking system, etc.²⁷ Prior of establishment of the Central Bank of United Arab Emirates, a Currency Board functioned for issuing of currency notes.²⁸

Bank of Canada

The Bank of Canada is the Central Bank of Canada, whose principle role is to promote the economic and financial welfare of Canada.²⁹ The Bank of Canada is a special type of Crown corporation having considerable autonomy even though owned by the Federal government.³⁰

Reserve Bank of India

The Reserve Bank of India is fully owned by the Government of India³¹ though initially privately owned.³² It was established in the year 1935 through Reserve Bank of India Act, 1934 and was

²³ <http://www.mas.gov.sg/>

²⁴ <http://www.mas.gov.sg/about-mas/overview.aspx>

²⁵ *ibid*

²⁶ <http://centralbank.ae/pdf/OffGazetteB.pdf>

²⁷ Chapter 2, objects of the bank, Article (5), Union law no.(10) of 1980 concerning the central bank, the monetary system and organization of banking

²⁸ http://www.centralbank.ae/en/index.php?option=com_content&view=article&id=148&Itemid=106

²⁹ Preamble of the Bank of Canada Act, <http://laws-lois.justice.gc.ca/PDF/B-2.pdf>

³⁰ <http://www.bankofcanada.ca/about/>

³¹ <https://www.rbi.org.in/Scripts/AboutusDisplay.aspx>

nationalized in the year 1949.³³ The preamble of the Reserve Bank of India Act, 1934 states its object as *'to regulate the issue of Bank notes and the keeping of reserves with a view to securing monetary stability in India and generally to operate the currency any credit system of the country to its advantage'*

Conclusion

A central bank is a vital financial apex institution of an economy and the key objects of central banks may differ from country to country still they perform activities and functions with the goal of maintaining economic stability and growth of an economy. The management and control of central to differ from country to country and however, most of the central banks are independent and free from political control which is in fact is important for its operation and function. A central bank is an important monetary institution which is also entrusted with many economic functions like control of inflation, interest rate stability and financial market stability.

³² <https://www.rbi.org.in/Scripts/AboutusDisplay.aspx#EP>

³³ *ibid*