



SNS COLLEGE OF TECHNOLOGY

Kurumbapalayam (Po), Coimbatore - 641 107

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DEPARTMENT OF MECHANICAL ENGINEERING

COURSE NAME :16GE302 Engineering Economics & Cost Analysis

IV YEAR /VII SEMESTER

Unit 3 - ORGANISATION

Topic : Central banking function

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Central Bank

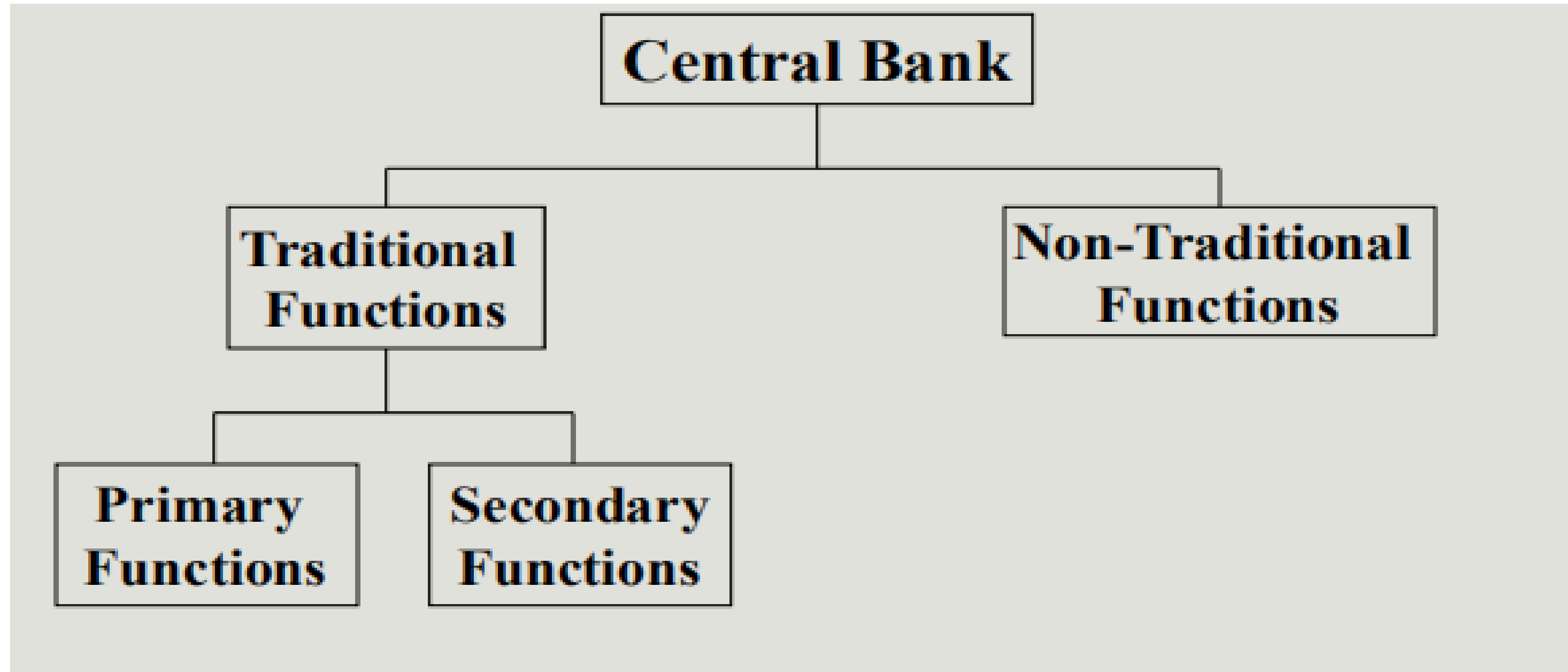


- ❖ Central Bank may be defined as an institution which is **charged with the responsibility of managing the expansion and contraction** of the volume of money in the interest of general public welfare





Functions of Central Bank





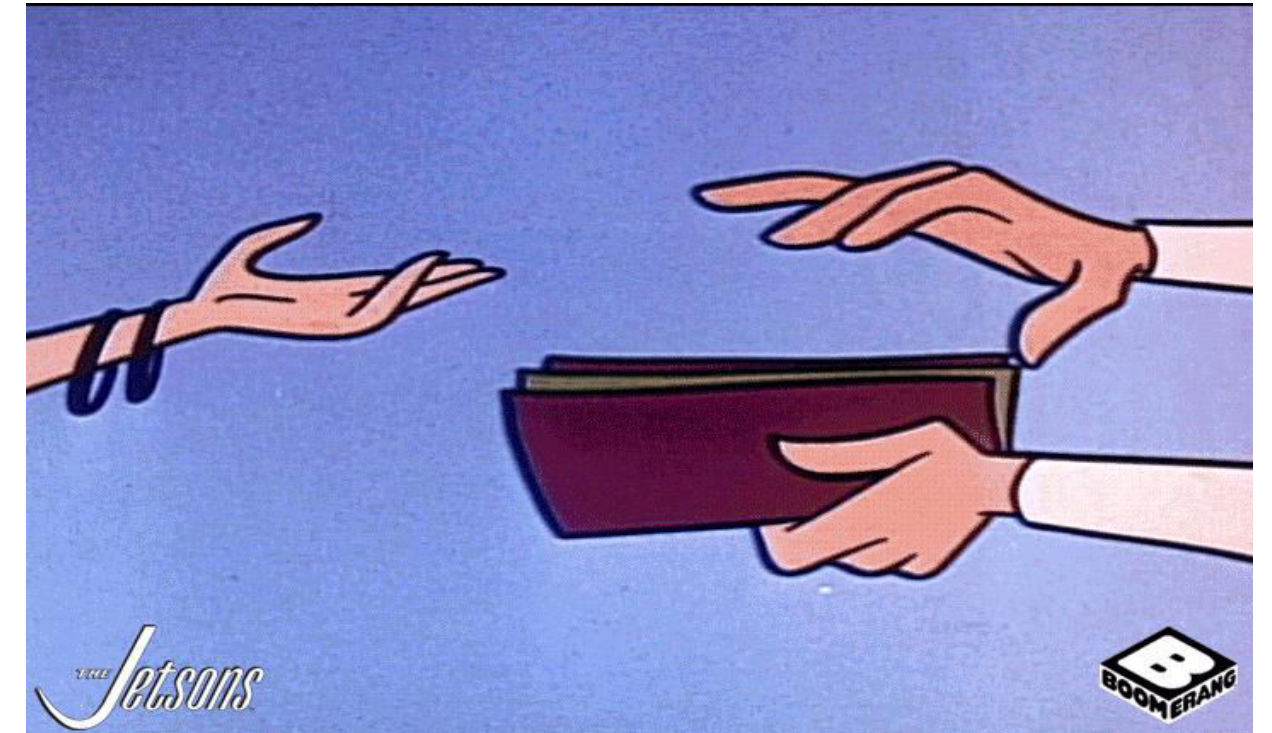
Functions of Central Bank



• **Traditional Functions** : Which are generally performed by central banks all over the world, are classified into two groups;

Primary Functions: including issue of notes, regulation of financial system, and conduct of monetary policy

Secondary Functions: including management of public debt, management of foreign exchange, advising the government on policy matters, and maintaining close relationships with the international financial institutions





Functions of Central Bank



Non-Traditional Functions:
these functions are performed by the Central Bank include development of financial frame work, provision of training facilities to bankers, and provision of credit to priority sectors.





Functions of Central Bank



• FUNCTIONS OF CENTRAL BANK

- The main functions of a central bank are common all over the world.
- But the **scope and content** of policy objectives may vary from country to country and from period to period **depending on the economic situations of the respective country.**
- Generally all the central banks aim at **achieving economic stability along with a high growth rate** and a favourable external payment position through proper monetary management.





Functions of Central Bank



The common functions of central banks are as below :

- Regulator of currency
- Banker, Agent and Adviser to the Government
- Custodian of cash Reserves of commercial banks
- Custodian and Management of Foreign Exchange reserves
- Lender of the last resort
- Clearing house Function
- Controller of credit



Regulator of currency



Regulator of currency

- The **issue of paper money** is the most important function of a central bank
- The central bank is the authority to issue currency for circulation, which is a legal tender money
- The issue department of the central bank has the responsibility to **issue notes and coins to the commercial banks**
- The central bank regulates the credit and currency according to the **economic situation of the country**
- In the methods of note issue, the central bank is required to keep a certain amount or a fixed proportion of gold and foreign securities against the total notes issued





Regulator of currency



Regulator of currency

- The Reserve Bank of India is required to keep **Rs.115 crore in gold and Rs.85 crore in foreign securities**, but there is no limit to the issue of notes
- Having the monopoly of note issue, central bank gains advantages as Ensuring uniformity of the notes issued and a proper control over the supply of money can be exercised
- Bring stability in the monetary system and creates confidence among the public
- Government is able to earn profits from printing currencies





Banker, Agent and Adviser to the Government



Banker, Agent and Adviser to the Government

- The central bank of the country acts as the **banker, fiscal agent and advisor to the government.**
- As a banker, it keeps the **deposits of the central and state governments** and makes payments on behalf of governments. It buys and sells foreign currencies on behalf of the government.
- It **keeps the stock of gold of the country.** As a fiscal agent, the bank makes short-term loans to the government for a period not exceeding 90 days.





Banker, Agent and Adviser to the Government



Banker, Agent and Adviser to the Government

- It **floats loans and advances** to the State governments and local bodies
- It **manages the entire public debt** on behalf of the government
- As an adviser, the bank gives useful **advice to the governments** on important monetary and economic problems like devaluation, foreign exchange policy and budgetary policy





Custodian of cash Reserves of commercial banks



Custodian of cash Reserves of commercial banks

- Commercial banks are required to keep a **certain percentage of cash reserves with the central bank**
- On the basis of these reserves, the central bank **transfers funds** from one bank to another to facilitate the clearing of cheques





Custodian and Management of Foreign Exchange reserves



Custodian and Management of Foreign Exchange reserves

- The central bank keeps and manages the **foreign exchange reserves of the country**
- It **fixes the exchange rate** of the domestic currency in terms of foreign currencies
- If there are any **fluctuations** in the foreign exchange rates, it may have to **buy and sell foreign currencies** in order to minimize the instability of exchange rates






Lender of the last resort



Lender of the last resort

- By giving accommodation in the form of re-discounts and collateral advances to commercial banks, bill brokers and their financial institutions, the central bank acts as the lender of the last resort
- The central bank lends to such institutions in order to help them when they are faced with difficult situations so as to **save the financial structure of country from collapse**



DISCOUNT



Clearing House Function



Clearing House Function

- The central bank acts as a **'clearing house'** for other banks and mutual obligations are settled through the clearing system
- Since it holds cash reserves of commercial banks, it is easier for the central bank to act as a **'clearing house'**





Practise quiz



(1) Which bank enjoys monopoly power of Note issue?

(i) NABARD

(ii) Commercial Bank

(iii) Central Bank

(iv) Public sector bank

Ans: 1-3





Thank You