

Important Topics Exposition:

[The important information of this chapter has been provided here at a glance.]

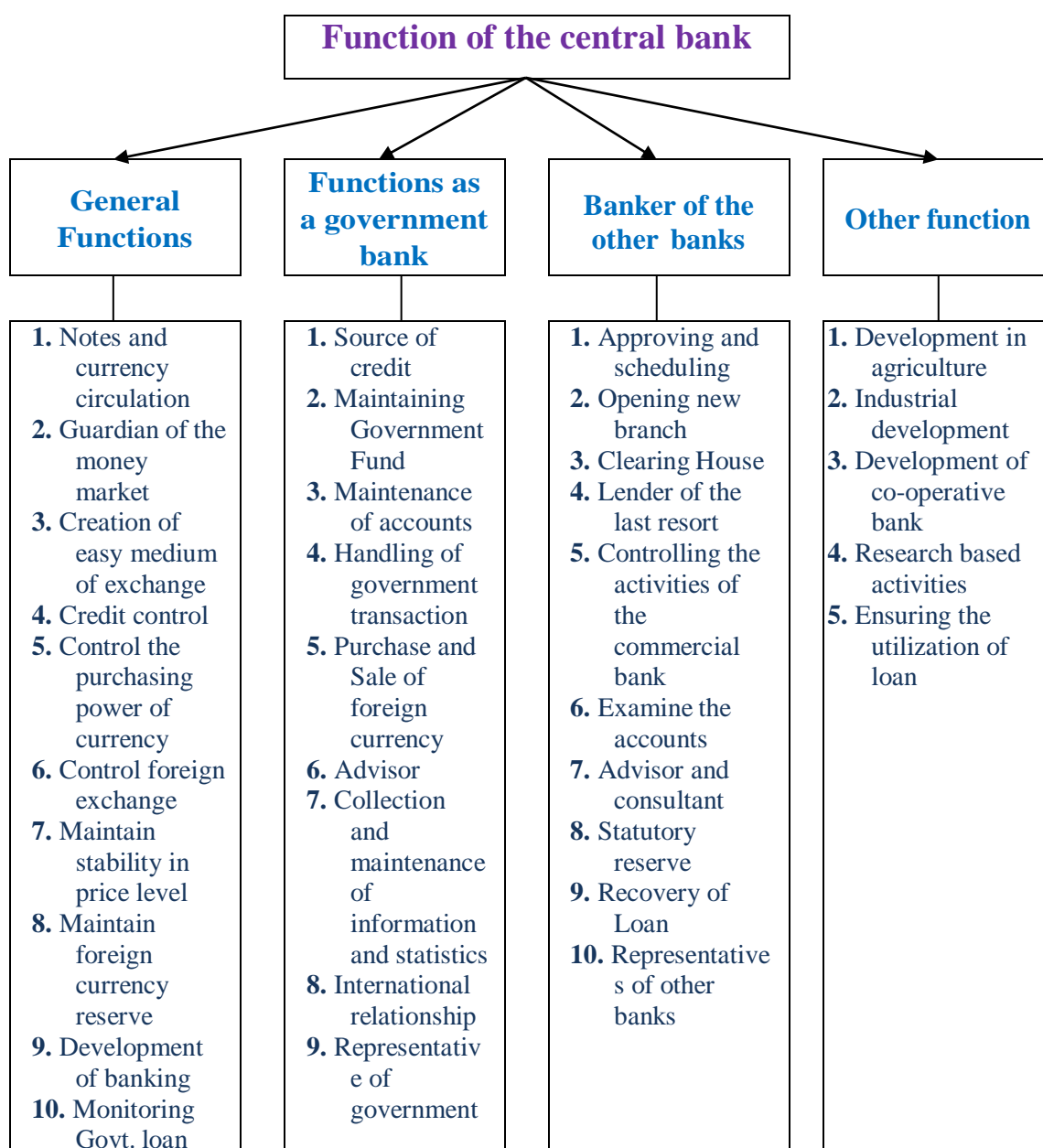
A. Definition of Central Bank:

- ❖ According to Prof. R.S. Sayers, “The central bank is the organ of government that undertakes the major financial operations of the government and by its conduct of those operations and by other means, influences the behavior of financial institutions so as to support the economic policy of the government.”
- ❖ According to Prof. Kisch & Elkin, “Central bank is a bank whose essential duty is to maintain stability of the monetary standard.”
- ❖ According to Dr. S. N. Sen, “Central Bank is as if the leader of banking society, the King and the Sun-everything. It rules the banking sector like a leader and like the sun (in monetary and currency market) gives out light and energy.”

B. Objectives of the Central Bank:

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| 1) Money Market
Formation and control | 8) Maintain price stability |
| 2) Economic Development | 9) Bank of the government |
| 3) Notes and currency
circulation | 10) Public welfare |
| 4) Controlling foreign
currency | 11) Equal Distribution of
Wealth |
| 5) Maintain currency value | 12) Facilitate capital
Formation |
| 6) Banker of the other
Bank | 13) Establishing organized
banking system |
| 7) Give advice to the
Government | 14) Guide of banking system |
| | 15) Credit Control |
| | 16) Act as a clearing house |

C. Functions of the Central Bank:



D. Relationship between the Central Bank and Commercial Bank:

From the view point of economic activity, as a guardian of money market Central Bank has following relationship with the Commercial Bank:

- 1. Statutory Reserve:** It is obligatory for the commercial bank to maintain fixed portion of their deposit with the central bank as a statutory reserve.
- 2. Clearing House:** Central Bank provides the clearing house facility to the commercial bank thus a good relation creates between them.
- 3. Working Paper:** Commercial Bank has to send weekly or monthly working

paper to the central bank. By analyzing the information of the working paper, central bank gives guidance to the commercial bank.

4. Information provider: Central Bank collects worldwide information on the money market, economic condition and other related information on banking.

5. Liquidity: Every commercial bank has to maintain specific portion of total deposit as liquid asset and central bank always monitor the liquidity position of the commercial bank to protect the client's interest.

6. Role as guardian: Central Bank acts as a guardian of the commercial bank.

7. Lender of the last resort: Central bank provides loan to the commercial banks.

8. Benefit of scheduling: Central bank provide advice, guidance, financial support to the scheduled bank.

9. Bank- Client relationship: Bank provides loan to the clients and clients keep their savings in the bank as deposit.

10. Assistance: Central Bank implements its plan and policy through commercial Bank.

11. Banker of all Banks: Central Bank is closely related with the commercial bank as banker of the other banks.

E. Role of Bangladesh Bank as a Central Bank in the economic development:

Bangladesh Bank has great contribution in economic development. Bangladesh Bank mainly:

1. Issue Notes
2. Maintain the foreign currency reserve
3. Conducts Government's Account.
4. In distributing the industrial and agricultural loan, this bank Execute the policy of the government through commercial bank.
5. Control scheduled and non- scheduled bank's activities and Monitoring cell of Bangladesh Bank tie all commercial banks by rules —regulations.
6. Through the publication of economic and statistical information Bangladesh Bank keeps aware of the entire scheduled bank.
7. Plays important role in transferring and handling the foreign currency.
8. Research Division of Bangladesh Bank provides guidance through different research based activities.
9. Through the monitoring of Rural Micro Credit projects and other special credit projects this bank is struggling to ensure the economic freedom of the distressed class.
10. Creates employment opportunities to eliminate poverty.
11. Keep on active to stabilize the price level by the controlling of foreign exchange rate.
12. Beside this, Bangladesh Bank assists government in implementing different developmental activities.
13. Now-a-days Bangladesh Bank is contributing lots in protecting the Law and Order of the country which also has great economic impact.

CQs for Self-assessment (Board CQ):

1. Mr. Arman is serving in 'B' bank, when he drew new notes for Eid his seven years old daughter asked him why the name of bank 'A' is written on all bank notes?.
 - a. What is clearing house?
 - b. How does central bank maintain the currency value or purchasing power of currency? Explain.
Or "Central Bank is the government bank"? Explain.
 - c. What type of bank is bank 'A'? Discuss.
 - d. Which role will bank 'A' play in liquidity crisis of bank 'B'?

2. In our country, central bank is the regulator of banking system and does different development works on behalf of government, public and country. Central bank does its duty in controlling other banks and as a guardian of money market.
 - a. How many Deputy Governors are there in Central Bank?
 - b. Why central bank is called lender of the last resort? Explain.
 - c. What are the functions that a central bank does as government bank?
 - d. What are the objectives of central bank? Discuss.