Theory and Practice of Banking
First Year Second Semester
Bachelor of Business Administration (BBA)

Chapter-3

Central Banking Practice

Definition of Central Bank

A government established agency responsible for controlling the nation’s money supply & credit conditions & supervising the financial system especially in commercial banks & other depository institutions.

Characteristics/ features/ nature/ functions of central bank.

- Note Issue
- Banker to The Govt
- Banker's Bank
- Lender of Last Resort
- Controller of Credit
- Adviser to The Govt
- Clearing House

Central Vs. Commercial bank

Particular	Commercial Bank	Central Bank
Function	The main function of a Commercial Bank is to accept deposits from public for the purpose of lending to industry and others.	The Central Bank regulates money supply in the country. It also acts as a banker to the government and to the other banks operating in a country.
Printing of Currency	The Commercial Banks cannot print currency notes and make coins.	The Central has the power to print currency notes.
Acceptance of Deposit	The Commercial Bank accepts deposits from the public.	The Central Bank don't accept any deposit from the public.
Provision of Loans	The Commercial Bank provides loans to the industry and to the public.	The Central Bank provides loans to scheduled banks and financial institutions.
Ownership	Commercial Banks can be owned by private and / or Government agencies. Commercial Banks can be owned by private and / or Government agencies.	Central Bank is owned and controlled by Government of Bangladesh.
Total Number	There are several Commercial Banks currently operating in Bangladesh.	However, there is only one apex Central Bank in Bangladesh.

Principles of note issue

- **Currency Principle: C**entral bank must issue currency against gold reserve or any kinds of reserve.
- **Banking Principle: C**entral bank must issue currency on the basis of demand unlikely to the currency principle.

Methods of note issue

Full Reserve System	Fixed Fiduciary System	Maximum Fiduciary System	Proportional or Percentage Method	Minimum reserve system

Credit Control

Credit control is an important tool used by the central Bank. It is a major weapon of the monetary policy used to control the demand and supply of money (liquidity) in the economy.

Methods of credit control used by the central bank

Qualitative Method

- Marginal Requirement
- Rationing of credit
- Publicity
- Direct Action
- Moral persuasion

Quantitative Method

- Bank Rate
- Open Market Operations
- Repo Rates and Reverse Repo Rates
- Cash Reserve Ratio
- Statutory Liquidity Ratio
- Deployment of Credit

Why central bank regulate credit

- To encourage the overall growth of the "priority sector" i.e. those sectors of the economy which is recognized by the government as "prioritized.
- To keep a check over the channelization of credit so that credit is not delivered for undesirable purposes.
- To achieve the objective of controlling "Inflation" as well as "Deflation".
- To boost the economy by facilitating the flow of adequate volume of bank credit to different sectors.

Checking deposit

A checking deposit or checking account is a deposit account held at a financial institution or a bank that allows withdrawals and deposits. It is Also called demand accounts or transactional accounts.

Advantages a checking account

- Head start on money management
- Establish Credit
- Save Money
- Earn Interest
- Secure Your Money
- Receive Direct Deposit
- Proof of payment
- Gain Accessibility
- Enhance Your Financial Portfolio
- Future Planning Tool

Definition of cheque

A cheque is a writing instrument containing an unconditional order to pay a certain sum of money payable on-demand to a specific person or to the bearer of the instrument.

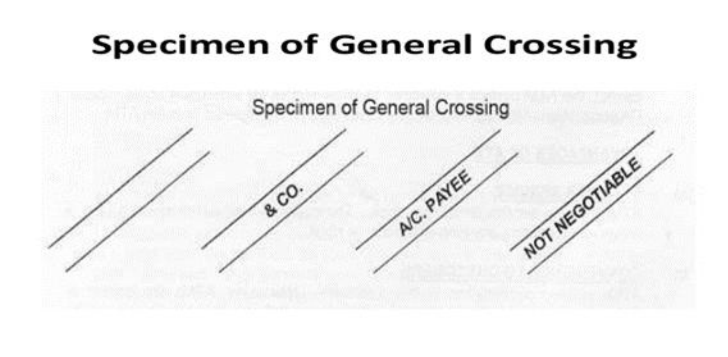
Different types of cheque

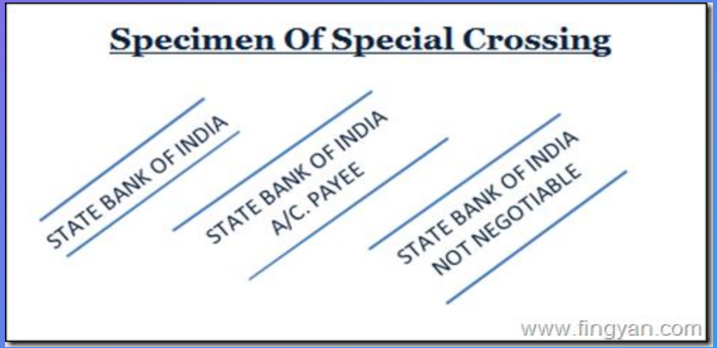
- Bearer Cheque
- Order Cheque
- Crossed Cheque
- Open cheque/ Uncrossed
- Ante-dated cheques
- Post-dated Cheque
- Stale Cheque
- Traveler's Cheque

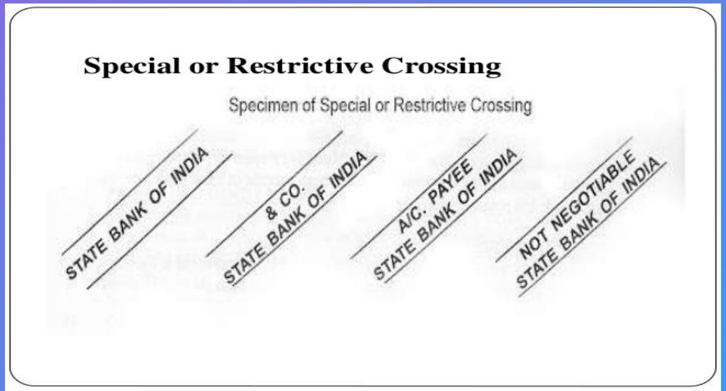
Characters of cheque

- Must be in Writing
- Must be Unconditional
- Must be drawn on a Specified Banker
- Certain Sum of Money
- Certain Payee
- Date
- Parties to the Cheque

Types of crossing cheque







Parties can cross a cheque

Drawer

- The drawer can cross the cheque generally or especially.

Holder

- If the drawer has not crossed cheque, the holder can cross it generally or specially.

Banker

- Where a cheque is crossed specially, the collecting banker may cross it again to another banker as it agent for collection, this called doubled special crossing.

Financial deepening

Financial deepening generally means an increased ratio of money supply to GDP or some price index. It refers to liquid money. The more liquid money is available in an economy, the more opportunities exist for continued growth.

Loan classification

- Classification means differentiating, grouping or arranging or categorizing of loans and advances based on the perceived risk and other relevant characteristics.

Loan classification system

Substandard	When they are overdue for more than three months and less than nine months.
Doubtful	Loans overdue for between nine and 12 months
Bad	Loans will be classified as bad only once they are overdue more than 12 months.

Paper Standard

The monetary standard in which paper notes are used as monetary purpose.

Gold Standard

The gold standard is a monetary system where a country's currency or paper money has a value directly linked to gold.

Merits of the Paper Standard

- Economical
- Elastic
- Price Stability
- Free from Cyclical Effects
- Full Utilization of Resources
- Equilibrium in Exchange Rate
- Portable
- Easy to count
- Easy to store
- Cognizable
- Replaceable

Demerits of the Paper Standard

- Inflationary Bias
- Price Stability a Myth
- Exchange Instability
- Lacks Confidence
- Lacks Durability
- Unstable
- Uncertainty
- Token Money
- Not Automatic

It is the branch of economics that studies the different competing theories of money: it provides a framework for analyzing money and considers its functions (such as medium of exchange, store of value and unit of account), and it considers how money, for example fiat currency, can gain acceptance purely because of its convenience as a public good.

Monetary economics

Monetary policy

The monetary policy refers to a regulatory policy whereby the central bank maintains its control over the supply of money to achieve the general economic goals.

Monetary tools to control money supply.

Qualitative Method

- Marginal Requirement
- Rationing of credit
- Publicity
- Direct Action
- Moral persuasion

Quantitative Method

- Bank Rate
- Open Market Operations
- Repo Rates and Reverse Repo Rates
- Cash Reserve Ratio
- Statutory Liquidity Ratio
- Deployment of Credit

Reserve requirement of central bank

- Reserve requirement means the minimum amount of reserves that must be held by a commercial bank with central bank as CRR or SLR.
- **CRR:** CRR stands for Cash Reserve Ratio, and specifies in percentage the money commercial banks need to keep with Bangladesh Bank in the form of cash.
- **SLR:** Stands for Statutory Liquidity Ratio and is prescribed by Bangladesh Bank as a ratio of cash deposits that banks have to reserve in Bangladesh bank in the form of gold and other securities approved by Bangladesh Bank.

Demand for money

In monetary economics, the demand for money is the desired holding of financial assets in the form of money that is, cash or bank deposits rather than investments.

Commodity money

Commodity money is a type of good that functions as currency.

Representative Money

Representative money is any medium of exchange, often printed on paper that represents something of value, but has little or no value of its own (intrinsic value).

Functions of Money

- Medium of Exchange
- Unit of Account
- Store of Value
- Measure of Value
- The Basis of Credit

Thanks for your patience