

# The Role of Central Bank

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A central bank is at the heart of the banking system. It is because the central bank is the “banks’ bank” and the government’s bank. Most countries have some form of central bank serving for the nation’s financial matters. Legal mechanism and the mandate of central banks depend on some features such as economic considerations, social preferences, political environments etc. There is need to answer several questions for clarifying the role of central banks, such as: What are central banks’ purposes? What powers should be given to central banks within their purposes? What structure and legal form is the best model for establishing such body? How is its independence determined? What functions should be realized by central banks? Whether gathering of several functions in one hand is effective way or not?

The central banks are the main part of banking system in all countries. There are called by different names in different countries, such as, Central Bank, State Bank, Federal Reserve, Emission Bank, Nation’s Bank etc. In some countries central banks are called just with regard to country’s name, for example, Bank of Japan, Bank of Italy, Bank of England etc.

According to the some authors the degree of a central bank’s autonomy is generally determined by four elements of its legal underpinnings:

1. Mandate: a mandate that is precise, clear and not contradictory is a hallmark of central bank autonomy;

2. Relationship to the state: a central bank’s autonomy is high when the activities is it is required to perform for the government are clearly specified and exclude the obligatory financing of government activities;

3. Power to make policy decisions: autonomy

is also when the state has no say in and cannot overturn, decisions made by the central bank;

4. Appointment process and term limits for its officers: it is desirable to involve the state in the appointments process, but once appointed, officials can be insulated from political influence through various means.

The main features which determine certain subject’s functions are its purposes and duties. Only after investigating these issues we can clarify the functions of certain subject. Because functions are main directions by which certain subject tries to impact certain relations and to implement its duties. So, there is a need to clarify general duties of central banks. Central banks have essential duties which are based on historical experience. These duties can be enumerated as follows:

- central bank is the central emitter of the country - it has monopoly in the area of issuing of banknotes;

- central bank is bank of banks – it is “the lender of last resort”, namely it lends loan to the banks and prevents the country’s banking system from failing;

- central bank is banker of government – it supports and realizes economic program of government, lends to the government for its needs, saves the government’s gold-currency reserves;

- central bank is prime settlement center of the country – it acts as an intermediary between the other banks of the country for implementation of non-cash payments;

- central bank is an organization which regulates economy of the country through money-lending methods.

The central bank of the Old World type was a bank of banks. “Its primary function was

to rediscount bills of exchange which have their origin in various parts of the country and which pass through inferior banks whose endorsement they bear". After many years the other functions mentioned above were transferred to the central banks.

Central Bank is significant and regulator ring of banking system as it is noted. Because its activity is related strengthening of money circulation, defense and stability of national currency, developing of banking system, realizing of payments systems by continuous and efficient way. There are several characteristic and general functions and duties of central banks with regardless to in which country it is situated. But every country's banking system has its specific functions and duties besides those general functions and duties. The specific functions and duties are stated in certain countries' banking legislation. The status of Central Bank of Azerbaijan Republic and regulation of its activity are regulated by the Law on Central Bank. Definition and legal status of central bank, its purposes, functions, relations with public authorities, its structure and management and other essential issues are established in this Law. Besides this law the Constitution of Azerbaijan Republic, other legislative acts and international treaties are also the source of the regulation of Central Bank's activity. According to the Constitution only the Central Bank has a right of issuing money for circulation and withdrawal of them from circulation. Central Bank of Azerbaijan Republic is in exclusive ownership of the state.

The Central Bank of Azerbaijan Republic has an independent balance sheet, authorized capital and other property. The Central Bank, in accordance with the Civil Code of the Republic of Azerbaijan, owns, uses and disposes of the property on its books. The capital and the property of the Central Bank may not be alienated without its consent. And the independence of Central Bank is provided by the Constitution and Law too. Thus the Central Bank is independent in discharge of its responsibilities and exercise of its authorities prescribed by the Constitution and laws of the Republic of Azerbaijan, and no state authority or self-administration body, individuals or legal entities may directly or indirectly by any reason constrain, illegally influence or interfere with its activities. But the primary goal of the Central Bank

is not profit making, it does not work for profits. According to the Law on Central Bank the main purpose of the Central Bank is to ensure price stability. The goal of the Central Bank's activity is to ensure stability and development of the banking and payment systems as well. So the role of the central bank is behind of its purposes. To implement a monetary policy, to manage the production and distribution of the nation's currency, to promote the stability of the country's financial system, to ensure price stability are essential issues for the country's economy and the central bank plays a significant role in country's economy by regulating these issues.

Functions and powers can be stated explicitly in the law as it seems. Different sorts of legislation will be necessary to support different functions and to provide the central bank with the legal means to accomplish its duties. The functions of central banks can be generally distinguished as supervisory and regulatory functions. The Central Bank of Azerbaijan Republic realized both supervisory and regulatory functions before the amendments to the legislation. First of all combining of all functions in one hand is not right way in government management. Because in this case the certain state body shall be decision-maker and supervisor of realizing of its rules at the same time. With regard to separation of powers it is not reliable. The Central Bank is the most related body to banks, so it should know better what sphere of bank's activity needs to be regulated and how it should be regulated. So the central bank may be the subject of making of rules. From this aspect, regulatory function has to be one of the main functions of central bank. But according to the additions and amendments to the legislation Central Bank is not entitled to realize these functions. New public legal entity is established and both of these functions are transferred this public legal entity. But it has to be emphasized that this shall not make any difference from the practical aspect, because in this case only the subject executing certain functions will be changed and it shall not result any advantages. Because I think problem is not due to Central Bank being, problem is realizing of both of these functions by the same body. So transferring of both of these functions will not solve any problem.

Central banks in a single country may be

established as a single institution or as multiple institutions that are joined together in a federated system. Here, the issue of multiple jurisdictions does not arise, although careful attention is often given to the balance between the powers of the federation and those of the constituent parts. Some federal countries – Brazil, Canada, Germany and India, for example – also have regional offices of the central bank that are established in the law. But in the most unitary states, such as Azerbaijan Republic it is a single institution – state body as it is mentioned above. The structure of a central bank can contribute indirectly to its accountability as well. For example, the Central Bank of Azerbaijan Republic is solely report to the President of the Republic of Azerbaijan on its activities. The Governor of the Central Bank advises the Milli Majlis of the Republic of Azerbaijan on key directions of monetary policy for the upcoming year as well.

The other main roles of central bank are reflected in the economy of the country. This influence is realized in two level: macroeconomic and microeconomic. The first level is related to regulating inflation and price stability, the second one is related to being the lender of last resort. To be “the lender of last resort” means that the central bank is responsible for providing its economy with funds when commercial banks can not cover their shortage. Namely the central bank prevents the country’s banking system from failing with regard to its name “banks’ bank and the government’s bank”.

As a result the role of central banks’ in the countries’ life can be generalized as follows:

Central banks:

- implement a monetary policy;
- manage the production and distribution of the nation’s currency;
- promote the stability of the country’s financial system;
- supervise and regulate financial system (differs from country to country);
- ensure development of the banking and payment systems;
- ensure price stability by controlling inflation;
- are “the lender of last resort”;
- prevent country’s banking system from

failing;

- provide durability of banking system by making prudential requirements for them.

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#### Xülasə

Məqalədə mərkəzi bankların ölkələrin maliyyə siyasətində rolu, məqsəd və funksiyaları, strukturu məsələsinə toxunulmuş, bir sıra suallar ortaya qoyulmuşdur. Müxtəlif ölkələrdə mərkəzi bankların səlahiyyətlərinə təsir edən amillər barədə müəllif yanaşmaları öz əksini tapmışdır. Eyni zamanda mərkəzi bankların ölkə iqtisadiyyatına təsiri və bu təsirin hansı dərəcələrdə özünü göstərməsi məsələsinə aydınlıq gətirilmişdir.

#### Резюме

Значение в статье о роли центральных банков в финансовой политике стран, были выдвинут ряд вопросов касательно их задач функции и структуры. Факторы, влияющие на полномочия центральных банков различных стран находит свое отражение в подходе к авторскому праву. В то же время было выяснено стадии влияние центральных банков на экономику страны.