

CHAPTER II. THE CENTRAL BANKS – THE KEY LINKS OF CREDIT BANK SYSTEM

SECTION 8. THE CENTRAL STATE BANK, ITS ESTABLISHMENT AND DEVELOPMENT

2.8.1. Appearing of new central issuing banks

The necessity in central banks appeared as a result of commodity-money relations development at the turn of feudalism and capitalism about 300 years ago (one of the first central banks – Swedish Riksbank was found in 1668). In the XXth century the understanding of the central bank role significance for all the economic turnover of the country became consensual and on the International Financial Conference in Brussels in 1920 it was noted that “in countries where there is no central bank it is necessary to create it”.

The central bank combines the features of common (commercial) banking institution and government establishment having some imperious functions in the sphere of money and credit circulation organization. The central bank is characterized by a high level of independence from the other government institutions. Most of all it is reporting to parliament or established by parliament special committee.

The head of central bank is appointed by the head of state or parliament. But the government as a rule according to the banking legislation of the developed western countries has a right of the candidate selection for this senior position. Commonly the central bank is founded in the form of joint-stock company invested with specific authority. In most cases its capital belongs to state but the commercial banks and other financial institutions could be its shareholders either.

The degree of independence of the central banks is not similar – from the maximum independent German federal bank to the bank of France which is under the total dependence of the government.

From the point of view of the capital property the central banks could be national, their capital belongs to state (the Great Britain, FRG, France, Russia); joint-stock (USA, Italy); joint venture – joint stock companies the part of capital of which belongs to state (Japan, Belgium). Some central banks were already founded as national (in Germany, Russia); the other founded as joint stock companies, and then nationalized (in Great Britain, France).

But irrespective of whether capital belongs to the central bank or state historically between the bank and government the tight links developed which strengthened more on the modern stage. The government is interested in the central bank reliability in virtue of significant role of the last in the credit system of the country, the economic policy conduction.

However its interrelation with the government doesn't mean that the last can influence infinitely on its policy. The central bank notwithstanding its capital belonging is juridically independent: its property is separated from the property of state and it disposes it as an owner. The independence bound of the central bank from the executive authority in different countries is various. The banks legally reporting to the parliament enjoy the more independence (in USA, Germany, Switzerland, Swiss, Holland, Russia) and reporting to the Ministry of Finance – the less. Such banks are in a majority.

A definite grade of the central bank independence from the government is a necessary term of its activity efficiency of the money and credit and foreign exchange stability supporting which not unfrequently comes into collision with the short term tasks of the government anxious for example with the forthcoming regular elections. It is especially important in terms of the government capability restriction to use the resources of the central bank in order to cover the budget deficit. In 80-90s of the last century the central banks' independence tendency from the government strengthened.

At the same time such independence is comparative because the economic policy of the government couldn't be successful without the coordination and tight connection its basic

elements: money and credit and financial policy. That's why in the long term the central bank favors the macroeconomic course of the government. Eventually any central bank more or less combines the features of both bank and state authority.

2.8.2. The primary objectives and functions of the developed countries central banks

The central banks manage all the credit system of the country, they serve to regulate the money and credit circulation, to control and stabilize the national currency rate flow, to blow out the business activity, price and employment level fluctuation by its influence, to stimulate the growth of the national economy on a healthy financial basis.

The main tasks of the central banks of the developed countries are the monetary stock standards control determination, the monetary emission control, the financial institutes crediting establishment.

The central bank of France. From 20s of the XXth century France began to develop intensively in commerce and refused the old-fashioned "usurious" traditions. In particular after the World War Second it was ahead of the raw of other capitalistic countries by the industrial development rate. The French banks not stopping their international operations began to implement widely in the industry of their own country and some of them composed the list of 50 biggest banks of the capitalistic world.

The main links of the French banking system:

1. The Bank of France,
2. The deposit banks,
3. The investment banks, called les banques d'affaires,
4. The banks of medium- and long-term credits.

The role of the central emission bank of the country plays the Bank of France (la Banque de France). It was founded in 1800 in the quality of private limited company with the capital of 30 million francs, in 1803 it got an exclusive right of note issue in Paris and in 1848 – in the whole France absorbing and transforming into its branches nine provincial emission banks.

After the World War Second according to the law dated from December 2, 1945 the Bank of France was nationalized. The joint-stock capital of the bank in amount of 250 million francs is all of a piece in the state's hand.

As a single emission bank of the country the bank of France puts into circulation the notes, besides in 1939 its emission is not limited by any predetermined contingents.

The Bank of France is a place of keeping of the gold and foreign exchange reserves of the country. It performs either the function of state bank. The direct crediting of the state is performed in the amounts determined by the agreement between the bank executive and the minister of finance and economic affairs. The indirect bank crediting of the state is hidden under the heading of "the registration portfolio" in a compound of which a significant place take the treasure bills. The Bank of France also buys the state paper holdings and grants the loans against them. The available monetary means of the treasury are keeping on its current account in this bank. The important side of the bank's activity is a foreign exchange rate and credit regulation performed by means of interest rates and rates of mandatory reserves manoeuvring.

The structure of the Bank of France consists of 258 divisions and it serves as "the bank of banks" what expresses in an accumulation in it of all the bank's reserves and in granting credits by it. There is a new specific occurrence in the banking system of France (the other countries do not have it) – the implementation from April of 1971 of the rates of mandatory reserves for commercial banks and financial institutions which could be kept in the Bank of France against the granted credits.

The state conducts a credit policy by means of interest rates, minimum reserves standards, etc. regulation. The state control and the credit resources distribution regulation play a significant role in the state programming of the French economy.

The central bank of England was found by a special Act of Parliament in 1694 for granting the loans in favor of the King for the purposes of the war with France pursuant in the quality of Joint Stock Company. It has 1 268 shareholders the first installment of which amounted 1 200 pounds of sterling. It was the first sum granted by the Bank of England to the government. The loan was granted under the 8% interest rate per annum in the form of banknotes and bills. The Bank of England was allowed to purchase and sale gold and silver, to issue the bills of exchange, to conclude the deals with commercial bills, to grant loans under the collateral including commodity. However without the sanction of the parliament the bank hasn't right to grant the loans to the King.

In 1946 the Bank of England was nationalized, the joint-stock capital was favored to the treasury and the former shareholders got the compensation in the form of government bonds. The nationalization legislated the tight links of the government and bank which were formed historically: the Bank of England performed the function of the governmental banker before its nationalization.

According to the Act of 1946 the treasury can after the initial consultation with the head of the Bank of England give him the recommendations mandatory for performance. Formally the responsibility for the decisions solutions in the sphere of money and credit policy is imposed on the head of treasury answerable to the parliament. The bank consults the government according to the questions of money and credit policy, coordinates these questions with the treasury.

In such a manner the treasury has very wide rights in regard to the Bank of England formalized in legislation. Among the industrially developed countries the Bank of England is one of the most dependent to the government. On practice it works in tight connection to the treasury.

The key role of the Bank of England in the credit system first of all is determined by the fact that it serves as the cash emission center of the country and performs the notes issue on the monopoly basis. Its obligations (both as in the form of notes and in the form of deposits of other banks) are the monetary base of the all credit system. Any bank considers deposits in the Bank of England in the quality of its cash reserves because in case of necessity it can recall money from its account. Increasing or decreasing the volume of its obligations the Bank of England influences on the banks' value of cash reserves and monetary stock in circulation.

The English bank is a governmental consultant on the questions of money and credit policy and its guide. In the post-war period it used almost all the basic methods of the money and credit policy (as common and selective). In 40s of the XXth century the money and credit policy in accordance to the Keynesian recipes was considered as an addition to the financial and mainly was intended on the maximum national debt cheapening: the policy of "cheap" money was conducted, i.e. the loan interest supporting on a low level.

The Bank of England didn't use such traditional method of regulation as trend of discount rates. The basic instruments of the money and credit policy served the fixed relation of cashed reserves establishment to the bank deposits and operations on open market.

With the advent to power in 1979 of the Conservative government of M. Thatcher which declared itself a "monetarist" the money and credit policy became the main instrument of the economic strategy execution, the government refused the short-term policy "stop go". The policy began to be determined by the monetary stock growth ratio deviation from the set limits. The Bank's of England main method of control of the monetary stock growth became its operations of the purchase and sale of promissory notes where mainly commercial were but not the treasury and placement of the national obligations beyond the banking system. In 90s of the last century the main instrument of the money and credit policy in Great Britain as in other developed countries became the operations on open market.

Executing an external-economic function the Bank of England in the name of treasury conducts the operations of the official gold and foreign exchange reserves controlling which from 1939 passed to the countervailing Exchange Fund. The bank conducts the currency

interventions for the exchange rate of pounds of sterling regulation, participates actively in the name of the government in the international monetary and financial organizations.

The Bank of England is a banker of all the other banks. Almost all the banks have the accounts in it. The most significant among them are the accounts of the London Clearing Bankers which keep an essential part of their cash reserves in the form of deposits. The banks' settlements with each other are regulated by means of records on these accounts.

The Bank of England credits all the banking system whether by means of the debt obligations purchase from banks or via the mechanism of the loans granting on security of treasury bonds.

In 1979 the Law about the banking activity for the first time in the history of Great Britain recognized for the Bank of England the equity rights and obligations arising from the banking system oversight. The Law of 1987 developed these rights and obligations. In the end of 1997 it was announced about the banking oversight functions transfer of the Bank of England to newly founded controlling body (New Regulatory Authority).

Either the Bank of England is considered to be the bank of the government. There the governmental accounts are opened where all the profits come and from which all the expenses are covered. The most important function of the bank is the national debt management. Though the bank keeps in its portfolio a part of treasury bonds the major part of the governmental demands in funds is satisfied with the help of market, i.e. the government liability placement on the securities market in the name of treasury.

The current expenses of the government are financed by means of the short-term crediting of the state the main instruments of which are the treasure bills. The necessity of short-term crediting of the state exists always. The fact is that the taxes (the main source of the state income) go into the budget irregularly basically in the end of the financial year. That's why in the other periods the expenses of the government exceed its revenues. In the conditions of budget deficit the issue of the short exchange bills increases especially. The treasure bills are issued by the Bank of England in the name of treasury weekly. The new issues of treasure bills are placed by the tender system partially (by tender) between the banks and brokers, by the fixed price partially between the public (government) organizations including state and the savings banks, governmental insurance funds, emission department of the Bank of England and countervailing Exchange Fund controlled by the state.

Besides the treasure bills the short-term government bonds serve as an instrument of crediting. In England the short-term bonds are considered the obligations with the maturity to 5 years.

The German central bank. In FRG after the war the two-tier banking system was created where the upper level takes the central bank of the country – German Federal Bank and the lower – the commercial or credit banks and also the specialized credit institutions.

The German Federal Bank (Deutsche Bundesbank) is a successor of the German central bank – Reichsbank.

The Law about the credit system of 1934 granted Reichsbank the exclusive rights in regard to the credit system and the Law about Reichsbank of 1939 submitted it entirely to Fuhrer.

After the capitulation of Germany in 1945 in the Soviet zone of occupation all the branches of Reichsbank were closed, while in the western zones they continued their activity. In February of 1948 on their basis the Bank of German Lands was founded and in 1957 its merger to the central banks of lands and foundation of the German Federal Bank happened.

According to the Law about the German Federal Bank (of 1957 and in its new edition of 1992) it was independent from the government. However taking into account the operational commitments it is obliged to maintain the government in the sphere of the total economic policy.

Bundesbank performs the following important national economic functions:

1. of the emission center of the country, i.e. performs the notes emission into the circulation;
2. of the state foreign exchange center;
3. of the “governmental cashier” (Bundesbank conducts the federal budget execution through the current accounts of the government);

4. of the “bank of the banks” – the credit institutions servicing in regard to the equities and assets;
5. of the settlement center of the country;
6. of the subject of monetary accommodation of the country.

For these purposes the following regulating instruments are used:

- The account or discount policy where in the purposes of investment Bundesbank conducts the policy of “cheap” money (of the low interest rates). However it restrains an inflow of foreign capital from abroad what decreases the payment balance activity of the country;
- The open market policy – operations with the consolidated stocks;
- The policy of minimal or obligatory reserves.

Bundesbank has its branches in the form of the central banks of the lands.

The monetary, foreign exchange and credit policy of Bundesbank is set by the Bank Central Council. It consists of the board members of Bundesbank which are appointed by the federal president under the offer of Bundesrat (the upper chamber of parliament). The Central Council of Bundesbank is headed by its president and vice-president. Bundesbank is located in Frankfurt on the Main.

The central bank of Japan is founded in 1882. Its authorised capital amounts 100 million yen and more than half of the bank belongs to state. The private shareholders doesn't participate in its activity management.

The basic functions are the monopoly notes emission, the money and credit economy regulation. In particular the international settlements performance and the operations conduction on the exchange market and also the treasury cash services.

According to the Law adopted in 1942 the Bank of Japan is under strict governmental control, i.e. the Ministry of Finances has a right to intervene actively into its policy. The supreme interests of the state in the area of financial, money and credit spheres are determined by the political committee founded in 1949.

The competence of this committee is the principles elaboration of banking activity in the country and the Bank of Japan management. The committee changes the level of interest rates, determines the terms of bills rediscount, establishes a procedure of secured lending usage and operations conduction on open market. On the basis of correspondent legislative securing and upon the agreement with the Ministry of Finance the committee changes the maximum level of interest rates on the market and establishes the volume of mandatory reservation rate, accepts the decisions of the Bank of Japan and reports to the parliament of the country.

To the methods of the Bank of Japan management relate the banking activity licensing; the authorized capital lower limit establishment; the authorization of banks name changes; creation and liquidation of their branches. The central bank establishes the low limits of the banking liquidity indexes: the norm of its own capital determining the share of the banks own capitals in its whole volume; the norm of liquid assets reflecting the capital correlation to the debt obligations; the norm of real estate; the restrictions on big loans granting, etc. The banks obligations of the reporting documentation furnishing are also established.

The main organs of the country's monetary accommodation are the Bank of Japan, the Ministry of Finance and the Federation of economic organizations. To the main methods of regulation refer the loan interest and mandatory reserves rate changes; conducting the operations with consolidated stocks and foreign exchange rate; administrative measures conducted together with government.

The administrative measures domination which occurred in 70s of the XXth century changed on the market methods of regulation. The state control of the banks' activity weakened. However the government still controlled the function of crediting of the objects with a high level of activity and low profitability.

The following economy development led to the loan capital market tension easing, its internationalization, the alternative appearance – the actively developing securities market. The

administrative control weakening appeared in the grown flexibility of interest rates – they got a market nature. In the beginning of 70s the Bank of Japan began to conduct the operations on a bill market and then on the formed government securities market. The active operations on other markets were initiated in particular of short-term capital.

The Bank of Japan being “the bank of banks” plays the role of a partner of the private lending and financial institutions and other subjects. It keeps on the current accounts their reserve funds and on the basis of official interest rate grants them the loans.

The Bank of Canada is a central emission bank of the country. It was founded as a joint stock company but the commercial banks and their employees as the foreigners either couldn't be its shareholders. The government of Canada within 1935-1938 bought all the shares of the bank from private owners strengthening thereby the bank as central.

Its activity is determined by the federal government which appoints the board of directors the composition of which the deputy minister of finance joins. The Bank of Canada is regularly reporting about its activity to the parliament.

The basic functions of the Bank of Canada are the monetary circulation and credit control, the foreign exchange rate of the national currency supporting, the price level stabilization and inflation control.

The Bank of Canada issues the banknotes, renders the advances to the commercial banks, regulates the clearance accounts' settlements between the banks, regulates the state gold value assets. It plays role of the federal government agent, manages the state paper holdings, its cash balance, provides the links with the central banks of other countries. The Bank of Canada doesn't purchase the shares of commercial banks, doesn't grant credits and doesn't accept the deposits from private persons and companies.

It plays the function of “the bank of banks”, i.e. acts as the lender of last resort for the commercial banks to which it grants the short-term credits in small amounts, makes little investments into the foreign paper holdings.

The main article of the Bank of Canada equities is issued by it banknotes. A part of them sink in the commercial banks in the quality of cash reserves. Besides the noninterest deposits of the commercial banks are also an article of reserves. The commercial banks as the creditors of the Bank of Canada according to the legislation should keep in it their reserves. The bank deposits are placed by the government of the country and the gross foreign central banks.

The principal directions of the Bank of Canada activity formed after the world economic crisis and were oriented on to the state control strengthening of the money and credit system. In the post-war period the state transferred to the well-directed management of the economy. The Bank of Canada being the instrument of credit and money state regulation conducts the work of the long-term decisions of the economic development solution.

The biggest activity in the monetary circulation regulation the Bank of Canada displayed in the second half of 50s of the XXth century. The economic activity regulator was the interest rate which changed in 1944, 1950 and 1955 in the limits of 1-2.5%.

The interest rate manipulation was complicated by the flows from USA influence – in the interest of the foreign investors' stimulation within a long time it was higher than in banks of the Federal Reserve System, USA.

The low efficiency of the interest rate policy, its insufficient flexibility forced the Bank of Canada in the money and credit regulation to switch on the operations with paper holdings on open market. For the first time such operations of the Canadian dollar stabilization the Bank held during the currency crisis of 1962.

In the second half of 60s a portfolio of bonds of the federal government in the commercial banks which complicated the activity of the Bank of Canada to some extent increased sharply.

The Bank conducts a policy of the rate of mandatory reserves control method usage for the commercial banks. Changing them the Bank of Canada increased or decreased the monetary means volume of the commercial banks for crediting.

In the regulating functions performance the Bank of Canada suffered embarrassment connected first of all with the country's peculiarities – here appears a high level of independence of the provinces from the federal government in the economic questions. A significant role was played by the foreign capital influence. From 1971 the Bank of Canada establishes the limits of the monetary stock increase in circulation. However these measures don't always help to an enough economy regulation.

On the modern stage one of the main instruments of the money and credit policy in Canada is the deposits flow which belong to the government from the commercial banks and other clearing institutions to the central bank (“withdrawal”) and either their transfer to the clearing banks – “redeposit”.

Since the Bank of Canada doesn't pay any interests for deposits kept in it the change of clearing balances volume influences directly on the most short-term segment of the monetary market – the market of overnight loans.

The Bank of Canada daily takes a decision of cash balances regulation by means of the mechanism “withdrawal” – “redeposit”. These operations are periodically accompanied with the cash paper holdings purchase.

The low inflation in Canada is supported by the different decisions in the sphere of economic policy. In open economy the existing terms in money, credit and currency sphere are determined by the short-term interest rates and current currency rate changes. The central bank target involves these variables optimal combination search. For this purpose the Bank of Canada uses the developed by it the so called “monetary conditions index” (MCI).

The relative interest rates and foreign exchange rates values in this index got by means of averaging of the raw of empirical studies results the purpose of which is in the influence degree evaluation on the composite demand of different foreign exchange rates and short-term interest rates combinations. In consequence a correlation 1:3 was got which means that the changes of short-term interest rates on 1% have an almost similar impact on the composite demand as the change of the foreign exchange rate on 3%.

The changes in “the monetary conditions index” against the initial level play role of an indicator of the stiffening or attenuation degree of “the monetary terms”. Thus the Bank of Canada influences on the economy controlling the changes of the foreign exchange rates and short-term interest rates.

In whole the money, credit and currency policy of the Bank of Canada is intended on the national currency strengthening by means of the inflation control measures and the foreign exchange rate stabilization of the Canadian dollar.

The central bank of Italy. The supreme authority of credit system is a state institution – the interministerial committee on credits and savings which was found in 1947 and represents a peculiar mini-government invested with the large authority. There are the following functions:

- development and security of the credit policy basic directions and its performance control;
- control of all the basic structural changes in the banking system; opening of new credit institutions; revocation of licenses; by the committee's approbation the adoption of new rules by the banks occurs: introduction of alterations there, leading positions appointment;
- sanctioning of all the instructions which determine norms and rules of the credit institutions' activity, the paper holding emission;
- control of the Bank of Italy activity, development of basic recommendations for its activity.

Notwithstanding the variety of functions the committee doesn't have a right to make a direct control of the credit system. This function is delegated to the central bank.

The functions of the central bank are played by the Bank of Italy which was founded in 1893 and from 1926 being the single emission center of the country. Beginning from 1893 the Bank of Italy displayed the tight relations with the government though being the joint stock company.

From 1895 it was vested with authority to conduct the operations of the treasury. In 1926 the Bank received the right of control over the credit system and the lira foreign exchange rate.

From 1936 it became “the bank of banks”. Nowadays according to the organization plan the Bank of Italy is the central emission bank, the public institution with the capital of 300 thousand personalized shares which are distributed between the public and para-public institutions such as savings-banks, public institutions, banks of national interests, institutions of social security, insurance companies. Practically the Bank is a state institution.

The Bank of Italy exercises the executive power in the money and credit sphere and plays as a powerful economic institution in the sphere of economic state regulation. Administratively it is reported to the treasury and in the sphere of credit policy follows the recommendations of the interministerial committee on credits and savings.

In Italy the targets of the Bank of Italy legally formalized only in general terms. Below are the basic functions of the Bank:

- Emission of credit money;
- Accumulation and saving of the official gold and foreign exchange reserves;
- The bank plays role of the governmental cashier, it serves an account of government on which the cash inflow and outflow are conducted. Within this framework there is some differentiation of duties of the Bank of Italy and treasury. The cash inflow and expenses are provided by the treasury and the Bank only registers them;
- Credits granting to the credit institutions and government. The government has a right of unlimited receipt of the concessional loans the terms of which are defined by law coincidentally or annually. At the same time the credit institutions refinancing is limited;
- Control of the credit institutions activity. These powers are delegated by the interministerial committee on credits and savings and are performed by the Bank of Italy directly with the support of the Association of the Italian banks. The interministerial committee on credits and savings is basically responsible for the total control in the sphere of credit policy and savings deposits security.

The central bank prepares the projects of decisions and offers in the matter of control according to the committee’s resolutions, sets its rules and makes a control directly both in documentary and distance forms. To its authorities besides enter the control and inspection of the banks activity, the credit institutions registration, the provision of normal functioning of the credit system in whole.

The bank controls the currency circulation, the foreign exchange rate of the lira, the introduction of the European currency unit – euro. In 1997 in Italy was introduced into the circulation 0.5 billion euros.

The Bank conducts the monetary credit policy the key directions of which are determined together with the treasury and committee but executed solely. The Bank of Italy constantly observes the monetary stock dynamics and takes the required measures of its regulation on the basis of key directions.

The main instruments of the monetary credit policy are the accounting policy, operations on open market (especially repo), policy of minimum cash reserve. For the Bank of Italy a high norm of minimum cash reserve is featured (to 25%), besides these obligations for it are chargeable. The one more peculiarity is that the reserves distribute on a major part of passives of the Banks balance.

The operations of the Italian bank represent the operations of the monetary means attraction (passive) and of their placement (active). To passive relate the notes emission, the deposits of credit institutions, government, foreign banks, capital and reserves. Active are the bills’ rediscount with maturity not more than four months. The direct bills’ rediscount of the private clients by the central bank is prohibited in Italy. The Bank grants credits on security of the state paper holdings, hypothecary bonds of credit institutions, mortgage certificates with the term of not more than four months, conducts the investments into the state paper holdings.

The core of *the credit system of the USA* is the Federal Reserve System (FRS) which consists of 12 Federal Reserve Banks and a big number of member banks. According to the Federal Reserve Act of 1913 all the member banks of the FRS should:

- a) to deposit 6% of their own capitals in the quality of share contribution into the basic capital of the Federal Reserve Banks;
- b) to hold in them their own reserves in amount of 3% from the time deposits' sum and from 7 to 23% from the call deposits' sum.

The Federal Reserve Banks were obliged to have the reserve in gold and legal means of payment in amount of 35% of their deposits. Thus the passives of the Federal Reserve Banks consist of:

- 1) their own capitals created in the expense of member banks' share contributions;
- 2) the note issue;
- 3) the bank deposits which represent the reserves of the member banks of the FRS.

The concentration of the monetary stock of the commercial banks in the Federal Reserve Banks became the factor of money saving. The FRS organization promoted the cash money economy in one more relation either – thanks to cashless settlements development which became widely spread through the Federal Reserve Banks.

In the meantime the FRS creation strengthened the centralization of the US banking system and the big banks' dominancy – citadel of the financial oligarchy. From the end of 1915 till August of 1972 the FRS relative share in total number of the American commercial banks raised from 28 to 41% and in total amount of their deposits – from 48 to 78%. Though the FRS has a lot of members only some of the biggest banks have a decisive influence there.

In August, 1935 a law which introduced some organizational modifications into the FRS was adopted. The essence of this law is first of all in the following centralization of the US banking system. All the state banks with the deposits not less than 1 million dollars were obliged to enter the FRS at the set term; the rights of the FRS central organs increased widely: in the head of the FRS was placed the board of governors (consisting of 7 members appointed by the president of the USA for the period of 14 years) which was authorized to determine the Federal Reserve Banks' interest rates, paper holdings, to approve the chosen by the Reserve Banks the boards of directors.

Either a special committee of the operations on open market was founded, besides all the Federal Reserve Banks should follow its regulations during their operations conduction.

The resources of the Federal Reserve Banks are forming at the expense of the banknotes emission – the federal reserve notes and the deposits acceptance mainly from the member banks and treasury. The inconspicuous part of the federal reserve banks' funds consists of its own capital (paid and additional).

Eventually the banks stopped to be the keepers of gold reserves but in the actives of banks the gold certificates were registered.

The main active operation of the banks is the purchase of the state paper holdings.

The Federal Reserve Banks are the state creditors mainly. But the funds invested by them into the state paper holdings eventually are used in the interests of the corporations because in a great measure are spent by the government on the state orders and goods purchase payment.

Apart from the Federal Reserve Banks the US banking system includes:

- 1) the commercial banks;
- 2) the investment banks;
- 3) the mutual savings banks;
- 4) the banking houses.

The bright expression of the US banks' concentration is a consolidation. Their number increased after the World War First.

The peculiarity of the US banks concentration against for example England is that it is concealed. One of the hidden forms is the usage by the big banks of the small banks' resources

through the system of correspondent relations. The obvious factor of this is the interbank deposits. Thus via the correspondent relations the big American banks increase their resources.

The form of hidden banks' concentration is a so called system of the interlocking directors which represents a mutual participation of one banks' directors in the other banks' management.

One more form of hidden concentration is the system of chain link. In this case the whole "chain" of banks unites by an agreement of temporality about the mutual conduction of some big financial operations or by a permanent agreement about the mutual support and exchange of shares.

The important form of hidden concentration is the system of banking groups consisting of the unions of many banks under the control of one joint stock company and usually called "the community for shares holding" (holding company). The biggest of these banking holding companies is The Western Bank Corporation.

In USA as in other developed countries the state intervention strengthening into the banking system is observed. But the central emission banks are not included into the state property nevertheless it governs them.

The direct state property is the Federal Land Banks, the Commodity Credit Corporation and the Export-Import Bank.

2.8.3. The structure and juridical status of the National Bank of Kazakhstan

As was mentioned below Kazakhstan has a two-tier banking system. The National Bank of the Republic of Kazakhstan (NB RK) is a central bank and represents the superior (first) level of the Kazakhstani banking system.

The National Bank represents the interests of the Republic of Kazakhstan in the relations with central banks and banks of other countries, in the international banks and other financial institutions. *NB RK during the execution of its tasks shouldn't be motivated by a profit earning target.*

The legal status of the National Bank of RK is determined by the Constitution of RK, the RK Law dated from March 30, 1995 №2155 "About the National Bank", the RK Law "About the banks and banking activity", the Act of the President of the Republic of Kazakhstan and the international treaties (agreements) concluded by the Republic of Kazakhstan.

The National Bank is a legal entity in the legal organizational form of the state institution which has an own balance, in cooperation with its branches, representatives and organizations constitutes a single centralized structure with vertical scheme of subordination. According to the legislative acts of the Republic of Kazakhstan it can open its branches and representatives in Kazakhstan and abroad with regard to the receiving country's legislation.

NB RK coordinates its activity with government, conducts regular consultations with it. Following "the strategy of development of Kazakhstan till 2030" it considers the economic policy of the government of the Republic of Kazakhstan and promotes its realization if this doesn't contradicts its basic functions performance and execution of the monetary credit and currency policy.

The government of the RK is not responsible for the National Bank obligations either as the National Bank is not responsible for the government of Kazakhstan obligations excluding the cases when it accepts such responsibility.

The bodies of the National Bank of Kazakhstan are the board of directors and directorate. The structure of the National Bank consists of the central administrative office which includes the departments and other subdivision, branches, representatives and organizations.

The supreme management body of the National Bank is the board of directors which consists of nine members. They are the Governor of the NB RK and five executives of the National Bank, one representative from the President of Kazakhstan and two representatives from the government.

The board of directors of the National Bank has a right to examine and adopt solution on any question which falls under its competence. The board sessions are conducted as required but not less than once a month.

The directorate is the body of *operational control* of the National Bank and it makes the decisions on the questions being under the jurisdiction of the NB RK excluding the questions which are under the jurisdiction of the board of directors and the Governor of the National Bank or his deputies.

The directorate consists of the Governor of the National Bank, his deputies and the heads of organisational units upon the recommendation of the Governor. The board sessions are conducted as required but not less than once a month. They are conducted by the Governor but in case of his absence – by the alternative person.

The decisions of directorate could be adopted as on the session and by voting. During the session the decisions are made by a simple majority of votes of the directorate members under the condition of participation of not less than two thirds from the total number of members including the Governor or the alternative person. In case of an equality of votes the vote of the Governor will be decisive.

Regarding the questions considering by voting the decisions are taken by the two thirds of votes from the total number of the directorate members.

The Governor NB RK has a right to return the decision of directorate within a week including his amendments for reconsideration and new voting. If the directorate confirms the accepted decision by the two thirds of votes from the total number the Governor of the National Bank of the Republic of Kazakhstan signs the decision. The directorate on the questions attributed to its exclusive competence accepts the decision.

The National Bank Governor is appointed by the President of the Republic of Kazakhstan **Председатель** with consent of the parliament for a term of 6 years. He has a right to submit a resignation presenting to the President of RK a written application two months before retiral. The Governor is dismissed by the President.

The Governor of the NB RK is authorized to accept the operative and executive administrative decisions on all the questions of the National Bank activity. Either he takes a solution of the administrative penalty impositions the consideration of which according to the legislation of the Republic of Kazakhstan attributed to an exclusive competence of the National Bank.

The Governors' deputies of the NB RK are also appointed by the President upon the recommendation of the Governor for a term of 6 years notwithstanding the term of the Governor himself. They are dismissed by the President and upon the recommendation of the Governor either. They can submit a resignation presenting their written application conformed to the Governor of the NB RK to the President. The deputies consider and adopt the decisions in accordance with and on the basis of their functional duties distribution.

The heads of organizational units of the central administrative office of the NB RK perform their activity on the basis of these organizational units' directives confirmed by the directorate.

The branches of the National bank of Kazakhstan (further – branches) are founded on the decision of the directorate, form a part of a single centralized structure of the National Bank with vertical scheme of subordination, are reported to it and act within the determined competence.

In its activity the branch is independent from the local government bodies and is not liable for the government's obligations excluding the cases when such responsibility is conferred on it by the National Bank.

The National Bank of Kazakhstan is responsible for the branches' liabilities.

The branch is governed by its director who is appointed and dismissed by the board of directors of the National Bank of Kazakhstan. The branch director leads its activity on the basis of the general power of attorney of the National Bank.

The Representatives of the National Bank of Kazakhstan are opened by the decision of the directorate both as on the territory of the Republic and abroad, enter the single centralized

structure of central bank and secure and represent the interests of the National Bank within the limits of their competence and authority.

The comprehension questions

- 1. List the reasons of the central emission banks appearance.*
- 2. Name the basic targets and functions of the central banks.*
- 3. Determine the legal basis of the National bank of RK functioning.*

