

УДК 336.711:336.74

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РОЛЬ ЦЕНТРАЛЬНОГО БАНКА В РЕГУЛИРОВАНИИ ДЕНЕЖНОГО ОБРАЩЕНИЯ

Аннотация: в статье описывается денежно-кредитная политика
центральных банков в настоящее время, взаимосвязь монетарной политики и
обменных курсов.

Ключевые слова: Центральный банк, денежное обращение, денежно-
кредитная политика, обменный курс

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THE ROLE OF CENTRAL BANK IN REGULATION OF MONETARY CIRCULATION

Abstract: The article describes the monetary policy of Central Banks in modern
times, relationship of monetary policy and exchange rates.

Keywords: Central Bank, monetary circulation, monetary policy, exchange rate

A Central Bank is an integral part of the financial and economic system. They
are usually owned by the government and given certain functions to fulfil. These

include printing money, operating monetary policy, the lender of last resort and ensuring the stability of financial system. Examples of Central Banks includes,

- Federal Reserve – US
- Bank of England – UK
- Reserve Bank of India
- Bank of Japan (BOJ)
- European Central Bank (ECB) – EU

To control economic turbulence and attain price stability, central banks employ monetary policy, which results in low and steady inflation. In many developed countries, central banks have explicit inflation goals. A lot of emerging nations are implementing inflation control as well. By changing the amount of money available, central banks change their monetary policy. Typically, they do this by purchasing or selling securities on the open market. Short-term interest rates are impacted by open market activities, which in turn affect longer-term rates and the economy. The monetary policy is relaxing when central banks reduce interest rates. Monetary policy tightens when interest rates are increased [2].

Following the global financial crisis that began in 2008, central banks in established countries relaxed monetary policy by lowering interest rates until they nearly reached zero, limiting the scope for further reductions. In order to further reduce long-term rates, some central banks employed unconventional monetary strategies, purchasing long-term assets. Some even used short-term rates that were negative. In reaction to the COVID-19 epidemic, central banks took steps to loosen monetary policy, supply markets with liquidity, and keep credit flowing. Many central banks in developing markets used asset buy plans and foreign exchange interventions for the first time to reduce the tension in the currency and bond markets. Recently, central banks around the globe have tightened monetary policy by raising interest rates in reaction to rapidly rising inflation [6].

The exchange rate system of a nation is closely related to its monetary policy. Interest rates have an impact on a country's currency's worth, so nations with fixed exchange rates will have less latitude for autonomous monetary policy than nations

with flexible exchange rates. An efficient inflation-targeting strategy is supported by a completely flexible exchange rate policy [1].

Despite the continuation of many other functions that are crucial to the efficiency of financial systems and monetary trade, the monetary policy function obviously dominated public view of central banking activities by the end of the 20th century. Direct regulatory tools were largely abandoned in favour of market-based mechanisms as financial systems progressed and matured, particularly in industrialized countries. Regulation and supervision of the banking sector had changed significantly. In advanced countries in particular, regulation of entry to the market for intermediaries was scaled back. However, the official monitoring and examination of banks was developed as a result of the management component. In some nations, the central bank's oversight role has lately been delegated to other organizations in favour of the central bank's more expansive goal of promoting financial stability [3].

Primarily central bank holds responsible for several roles. Namely some of them are, Issuing of money, being the lender of last resort to commercial banks, being the lender of last resort to government, operating monetary policy/interest rates, and ensuring stability of the financial system [1].

1) Issuing of money: The Central Bank will be in charge of printing currency, including notes and tokens, and ensuring public confidence in printed currency, for example, by safeguarding against fraud. Because excessive money production can lead to inflation, printing money is a crucial duty.

2) Lender of last resort to commercial banks: If banks experience a lack of liquidity, the Central Bank is able to give the private bank enough money to prevent a shortfall. This role plays a crucial role in preserving public trust in the financial system. People would lose trust in the bank and want to remove their money if it ran out of money. People have high trust in keeping their funds in banks because we don't anticipate a cash problem with our banks due to the existence of a lender of last resort. For instance, the US Federal Reserve was established in 1907 as a result of J.P.

Morgan's involvement to prevent a financial panic, which prompted the establishment of a central bank with this purpose [5].

3) Lender of Last Resort to Government: The sale of notes on the open market is used to pay for government financing. The government might experience a deficit in some months if it doesn't sell enough notes. Bond buyers might become panicked as a result, and they might unload their government bonds and demand higher interest rates. However, they can prevent these "liquidity deficits" if the Bank of England steps in and purchases some government assets. This increases the trust of bond holders and enables the government to borrow money at a reduced interest rate. The ECB's unwillingness to serve as the financier of last resort in the Eurozone in 2019 contributed to higher bond rates.

4) Operating monetary policy/interest rates: In order to aim low inflation and sustain economic growth, the Central Bank set interest rates. The MPC will convene each month to discuss whether rising forces in the economy warrant raising interest rates. They will look at a variety of economic data to get a picture of the overall economy and investigate every part of the economic situation to make a determination about rising pressures. See the Bank of England's interest rate setting process. A central bank will also take into account other socioeconomic goals like low unemployment and economic development. For instance, the Central Bank may tolerate a greater rate of inflation during a temporary cost-push inflation time if it means preventing the economy from entering a recession [7].

5) Ensure stability of the financial system: In order to aim low inflation and sustain economic growth, the Central Bank set interest rates. The MPC will convene each month to discuss whether rising forces in the economy warrant raising interest rates. They will look at a variety of economic data to get a picture of the overall economy and investigate every part of the economic situation to make a determination about rising pressures. See the Bank of England's interest rate setting process. A central bank will also take into account other socioeconomic goals like low unemployment and economic development. For instance, the Central Bank may tolerate a greater rate

of inflation during a temporary cost-push inflation time if it means preventing the economy from entering a recession [3].

Governments in some nations are in charge of monetary policy. However, there has been a recent movement toward granting central banks autonomy over monetary policy and interest rate fixing. For instance, the Bank of England became autonomous in 1997. However, monetary policy is frequently subject to some degree of government influence [5].

The majority of central banks have failed to create impartial monetary policies, free from undue political influence. The Federal Reserve, the European Central Bank (ECB), and the Bank of Japan are the three most flagrant violators, collectively referred to as the Big Three modern central banks (BOJ). Modern observers have called for wide central banking change in light of their transgressions, where independence is of utmost importance for any successful central bank policy. The Fed has faced challenges on two fronts. First, there was a significant data breach by Goldman Sachs Group, where it is claimed that Joseph Jampietro, a former managing director, acquired and disseminated private Federal Reserve information in an organized effort to secure new contracts. Following a \$50 million settlement in October 2019 after a different Goldman employee acquired 35 secret Fed papers, this action eventually compelled Goldman to pay a \$36.3 million settlement. Poor efficiency was the second major problem. According to a June 2020 article by analyst Mohamed El-Erian for Bloomberg, "Unconventional central bank policies are overstretched and on the verge of fatigue." An unprecedented level of debt, inflated asset markets, and growing disparity have been placed on countries as a result of central banks' frantic asset acquisitions and interest rate cuts over the past half-decade [4].

The third iteration of a meeting named "Rethinking Macro Policy" was conducted in April 2020 by the International Monetary Fund (IMF). The majority opinion was that central banks should continue to have complete freedom from conventional monetary policy. Professor of Economics Joseph T. Salerno of Pace University suggests a more constrained and open procedure between finance divisions

and central banks that is governed by administrative orders. This should reduce the moral hazard of the lender of last resort and cut off central banks' connections to powerful financial institutions while giving citizens more influence over the outcome of such a process from a political standpoint. Mr. Fels agrees, arguing that cooperation between central banks and states under democratic authority makes sense [3].

According to a study with 45 central banks, researchers has found out that usually, the primary monetary policy goal stated in legislation is price equilibrium. Price stability, or its counterpart, stability in the domestic buying power of the currency, appears to be the primary legal goal in 33 of the 45 central banks, or one of the primary legal objectives. Most of the time, it is a distinct goal or is more important than other macroeconomic goals laid out in the law (as is evident, for instance, in mandates requiring central bank support for the government's overall economic strategy without jeopardizing the central bank's primary price stability objective).

On the other hand, when price stability or its immediate counterpart is not outlined in law as one of the main goals of monetary policy, those goals tend to take on a more general character (or to be defined in more general terms). In fact, there isn't typically a legally dominant goal when price stability isn't explicitly mentioned as one in the law; instead, a broad meaning of currency worth is used [7].

China, Hong Kong SAR, Indonesia, Russia, and South Africa are among the jurisdictions that do not adhere to this general pattern; all of them function with a legally dominant goal despite having no price-related one. For instance, the main goal is stated in terms of the monetary conversion rate in Hong Kong SAR. When various monetary policy actions are driven by various goals, potential disputes may emerge. A especially significant illustration of possible conflict involves competing goals for price stability and actual economic variables. The laws of Malaysia and the United States both include aspects of price and actual economic aims in a way that makes it appear as though these two distinct goals may be of equal importance.

Another illustration involves exchange rate regimes that are flexible; maintaining domestic price stability and maintaining the exchange rate can necessitate interest rate changes that are contrary from one another. In a number of nations where

both price stability and currency stability are stated as monetary policy goals, this possible clash raises questions about how law objectives should be interpreted [4].

One strategy is to clearly state which of several goals comes first. Such a hierarchy is outlined in the EU Treaty (also known as the Maastricht Treaty), which means that it pertains to nations that are a part of the euro region.

Recognizing that lower levels of law may be used to understand and elucidate higher levels of law is a second strategy. Constitutional references to central banks and monetary policy are frequently succinct and high level, outlining general principles. In comparison, the central bank law is more comprehensive and outlines how the legislature has interpreted the constitutionally mandated principles. As an illustration, Article 227 of the Polish Constitution mandates that the National Bank of Poland be in charge of maintaining the value of the national currency, while Article 3 of the law governing the National Bank of Poland specifies that maintaining price stability is the primary goal of the institution's operations. The legislative act makes it obvious that the accepted reading is that currency stability also implies price stability. The wording of the constitution alone would leave open the option of interpreting the central bank's role as being to stabilize the exchange rate. Furthermore, the Polish Constitutional Tribunal's court rulings have supported this view [2].

A third strategy is to make use of extra-statutory declarations or agreements that give the legislation a practical meaning that the central bank and succeeding governments can both concur upon. Australia, Brazil, Canada, Chile, Israel, Norway, the Philippines, and South Africa are just a few countries that use this strategy as examples. In these instances, inflation targeting has been implemented through the release of a statement that clarifies the working interpretation of what the central bank must do in accordance with the law (and is consistent with questions of technical feasibility). The statement may be issued unilaterally by either party, or it may be issued jointly.

However, the extra-statutory statements' increased freedom in some situations may result in a lack of dedication and, consequently, a lack of certainty. Extra statutory

comments may be challenged if they have the ability to conflict with legally required goals. Extra-statutory comments, last but not least, are typically discretionary. An extra-statutory declaration could be withdrawn by a new group of officials without violating the law, even though doing so would lessen the policy's transparency [6].

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