

What are the functions of Central Bank?

Ans. The entity responsible for overseeing the monetary system for a nation is known as the Central Bank of that nation. Central banks have a wide range of responsibilities, from overseeing monetary policy to implementing specific goals such as currency stability, low inflation and full employment.

Example- Reserve Bank of India, Federal Reserve System in U.S.

Functions of the Central Bank:

1. Monopoly of Note-Issue: Note-issue primarily is the main function of a central bank in every country. These days, in all the countries where there is a central bank generally it has got the monopoly or the sole right of note-issue.
2. Banker, Agent & Adviser to the Government: As banker to the government, central bank performs following functions: It operates the accounts of the public enterprises. It manages government departmental undertakings and government funds and when there is a need gives loans to the government. It looks after the management of public debt. It accepts the payment of taxes from the public on behalf of the government and makes payment for the cheques issued by the government. It also undertakes transactions relating to foreign currencies on behalf of the government.
3. Custodian of Cash Reserves of Commercial Bank: Central bank is the bank of banks. It regulates commercial banks by provides security to their cash reserves, gives them loan at the times of need, gives them advice on financial and economic matters and works as clearing house among various member banks.
4. Custodian of Nation's Reserves of International Currencies: Central bank is the custodian of the foreign currency obtained from various countries in order to stabilize the external value of the currency.
5. Lender of the Last Resort: Central bank works as lender of the last resort for commercial banks because in the times of need it provides them financial assistance and accommodation by discounting their bills and securities.
6. Clearing House Function: All the commercial banks have their accounts with the central bank. Therefore, central bank settles the mutual transactions of banks.
7. Credit Control: The most important function of central bank is to control the volume of credit for bringing about stability in the general price level and accomplishing various other socio-economic objectives. There are number of methods which a central bank may use for controlling the volume of credit such as bank rate, open market operations, change in reserve ratio and various selective controls.