Chapter 5
The Central Banking Operations in Global Economy

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ABSTRACT

Global economic improvements with new economy concept are starting to get more competitive day by day. The competitive transformation that comes as a result of active using the information in real sector markets has started to show itself in finance sector. Decreasing profit margins, customer-oriented approach to service, international banking regulations and activities, put the banking sector in an important actor in a highly competitive environment. Central bank strategies and the regulation activities on market in developed countries is said to be one of the important parameters for the banks’ current activities in financial markets. In this context, this work presents the operations and basic historical process of the Central Banking in Developed Markets for banks that are global actors.

INTRODUCTION

Banks have been established and developed in with very different purposes at the banking history of the past ever since. Past meaning and the meaning of the activities that are presenting now is partially similar. Banks that are established and operate with same purposes are economic service institutions. Banks operate like economic brokerage firms that collect funds from customer and giving funds to the customer on loan when they need. After Jews who are Italian and from Lombard, the first bankers in history perform operations on a table in marketplaces (Banco); banks came around (Oçal, et al. 1997:19). Nowadays banks are the economic institutions that are providing services in finance and capital market through the credit.

It is possible to drive up the history of banking to the far back. Modern banking is considered to occur in Italian cities in the 14th and 15th century. Improvement of commercial papers in the 17th and 18th century causes new developments in modern banking. Especially with the progress
of banknote in 18th century, along 19th century banking was spread out and performed economic activities on a huge service area (Hiç, 1992:41).

Banks are operating in a way that is grant to them by law and for a particular purpose with limits of liability. The Bank’s management objective is to maximize profit in the liabilities. Thus, the bank acts between investors and debtors. Banks are intermediary in between other finance institutions (like buyer and seller) like brokers. However, other than deposits, with granting of bank loans, banks also serve financial institutions (Heffernan, 2005:1-2)

Banks which are considered as the basis of financial system are the institutions that lend the funds (deposits), collected from the public, to those in need of credit. One of the important roles of bank is to take on the risk of borrower’s failure to pay for the owner of funds. The bank evaluates risks and information about the borrower’s ability to pay better. Another unique feature of the Bank is the creation of money. Loans create funds and that leads to banks to have the possibility of deploying more funds. The creation of money and management of means of payment requires a strong trust relationship among banks. This confidence is guaranteed by the Central Bank by ensuring the circulation and exchange of receivables and payables with the healthy functioning of the system is guaranteed (Aksoy, 1998:13).

The main purpose of this study, in the globalized financial system, together with the basic functions of the banks in economy; is to emphasize the effect of the Central Banking practices and functioning the level of economic development, that gives effect to finance and banking system in developed countries.

**ECONOMIC FUNCTION OF BANKING SECTOR**

Banking system constitutes the foundation of the economy with the functions like collecting the savings as loans and returning back into the economy, ensures the distribution of resources. In liberal systems that are dominated by monetary economy, according to the Keynesian view, one of the most important functions of money is to use money as a mean of saving. So that, every person in society and all parts of society can make savings. In modern banking operations, acceptance of deposits comes first at the activities of banks based on loan transactions. Even if deposits divided into deposits of public organization, deposits of commercial organization and deposits between banks according to investment patterns of individuals, basically it is said to be there are term deposits and demand deposits (Barda, 1967: 165; O’Neill, 2001: 8-12). Not being idle of funds in the existing economic system and transferring these funds to those who are in need of investment is the most important element in the smooth functioning of the system. Credit marketing, directly or indirectly takes place in the economic system. Direct method consists of selling papers that you have on the market to those who seek funding. However, in indirect method, those in need of funds can reach the fund they wish thanks to financial intermediaries. In this method, while the saver, who has fund in the hands, transfers funds to the agent, for those who want to use credit also consults the agent. Process takes place in a safe way that sellers and buyers will not come face to face each other thanks to agent(Mishkin, 1992:10-39; Woods, 2000: 78-88).

In addition to banks change collected deposits and other resources, according to the demands of the current economy in their means, it is also important to distribute the existing idle funds according to the needs of its economy. If the funds remain idle, it causes units needing them not to stimulate. If the idle funds are not injected into the economy with the credit method in selective way, it will interfere with the distribution of resources more efficiently. Banks are getting effective with these roles especially to get effective results from the government policies. Although banks seem like an agent with the fund’s distribution, originally they are placed on economic units and they are in