

# Structure of the Central Bank: the FED and Other Central Banks

FIN 204 Lecture 11.1.

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- 1 What Does a Central Bank Do? The FED
- 2 Other Central Banks: The CNB

# What Does a Central Bank Do?

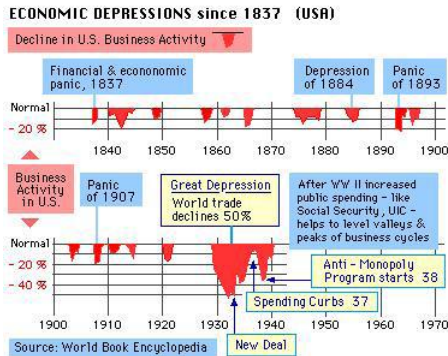
The main goals of the central bank are:

- use monetary policy tools to prevent crises
  - 1 set reserve requirements
  - 2 make open market operations
  - 3 determine discount rate
- intervene when crises occur

# How Did the FED Appear?

Several factors played major role:

- 1 US had no lender of a last resort  $\Rightarrow$  bank panics were regular events

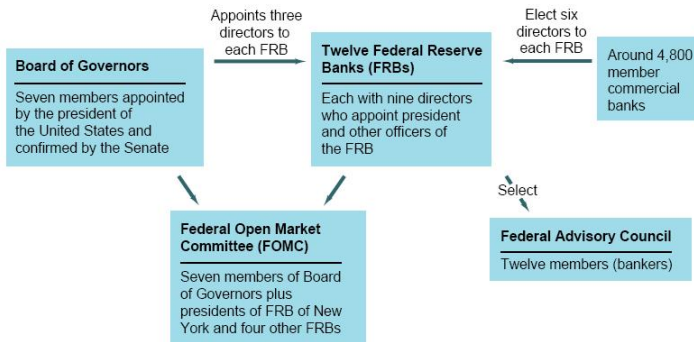


- 2 attitudes in US were against a centralized authority  $\Rightarrow$  a decentralized system of central banks  $\Rightarrow$  local representation

Creation of the FED: Federal Reserve Act (1913)

# The Structure of the FED

## Administrative Structure



What does each of these bodies do?

# The Structure of the FED

## Functional Structure

### The **Board of Governors** (BoG):

- ① sets the reserve requirements
- ② determines the discount rate
- ③ (through FOMC) plays on the open markets

### The **FOMC**:

- ① plays on the open markets

### The **FED Advisory Council**:

- ① helps in conduct of monetary policy

### The 12 **Reserve Banks**:

- ① issue currency
- ② propose the discount rate
- ③ lend to local banks at a discount rate
- ④ clear checks between local commercial banks

### The 4800 **member CBs**:

- ① purchase stocks in the 12 Reserve banks
- ② elect 6 of the 9 directors of the Reserve banks

# The FED building and conference room



# The Structure of the FED

## Geographical Structure





# The Czech National Bank: Basic Facts

## Functions of the CNB

Primary functions of the CNB:

- 1 issue new money
- 2 clears the payments between CBs
- 3 performs supervision: CBs, the stock exchange, the other financial intermediaries; monitors the foreign exchange rate
- 4 provides banking services to the state and the public sector
- 5 trades with government bonds

# The Czech National Bank: Basic Facts

## Objectives of the CNB

Primary objective: maintain price stability. How?

① inflation targetting: set a target for inflation (3%)

- repo tenders: 2-week tenders. The CNB accepts excess reserves, and pays interest.
- deposit and loan facilities
- reserve requirements

Instrument	Rate	Valid since
two-week repo operations - 2W repo rate	3.75%	February 2008
deposit facility - discount rate	2.75%	February 2008
marginal lending facility - Lombard rate	4.75 %	February 2008
reserve requirement - banks	2.00%	October 1999
reserve requirement - building societies	2.00%	October 1999

