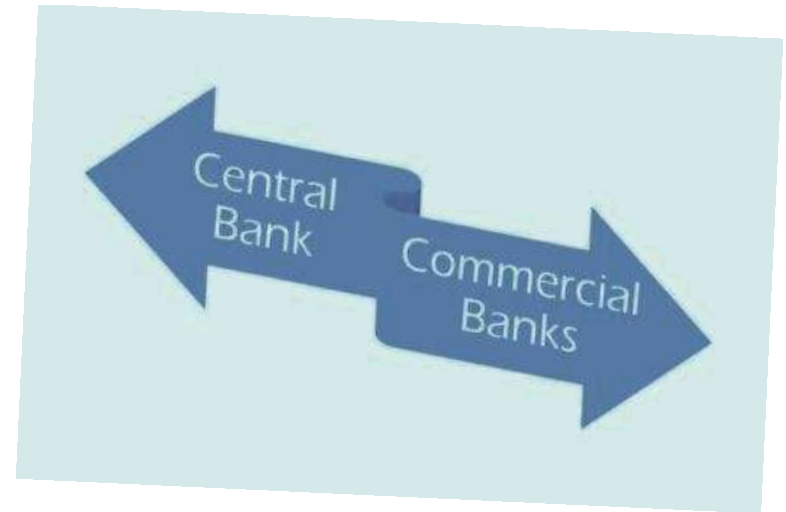


# Banking introduction



- \* Banks are an important part of the economy of a nation. They are the most critical institutions that help regulate the overall economic development of a nation.
- Banks help mobilise the money in an economy and act as a connecting link between the government and the general population
- \* There are two types of banks based on the authority, these are **central banks** and commercial banks. **Central bank** can be called the apex bank, which is responsible for formulating the monetary policy of an economy. **Commercial banks**, on the other hand, are those banks that help in the flow of money in an economy by providing deposit and credit facilities. **Commercial banks** provide financial services to the individuals and businesses.

Let us look at some of the points of difference between the central bank and commercial banks.

## Central Banks

The central bank is one of the most important institutions of any particular country because it plays an important role in managing a country's monetary policies. It helps to maintain economic growth and stability in that particular country. The Central Bank also acts as a banker to commercial banks and it holds a fractional reserve banking system under its control. If we talk about India then the Reserve Bank of India (RBI) is considered the central bank of our country.



## Features of Central Banks

Every central bank has a certain set of features, which makes it different from the others. The features are as follows:

- First , the central bank must have a strong and stable economic policy.
- It must be able to keep track of the economic growth of that particular country at all times.
- Secondly, a central bank must provide inflation-free money
- should maintain a low inflation rate at all times.
- Also, this institution should improve the pay structure of its employees.
- Lastly, a central bank should be in contact with the international banking community and it should take part in making policies through Treasury securities auctions as well as bond sales.

## **Role of Central Banks in the Economy**

the central bank of any country also plays an important role in the economic growth and development of that particular country. Here are some important roles of a central bank in the economy:

- First, it must play an important role in providing money supply to the economy at all times.
- Secondly, it must keep track of economic indicators like exchange rate, gross domestic product (GDP), etc on a regular basis so that it can take necessary actions to improve these measures.
- Thirdly, a central bank must always maintain an optimum level of liquidity so that banks can provide credit facilities to their customers at all times.

## Commercial Banks:

The main objective of a commercial bank is to provide financial services to the general public. The main clients of commercial banks are small and medium industries, agriculture, households, and business. Commercial banks also play an important role in the safe custody of bank deposits.



## Special Features of Commercial Banks

- commercial banks must maintain a low rate of inflation at all times.
- Also, it should be capable of following prudent economic policies and maintaining an adequate level of reserves in its vault. S
- secondly, a commercial bank should always look to improve the rate structure of its employees. Last but not least, a commercial bank should be capable of investing in the fund which is available in its vault at better rates.
- Lastly, a commercial bank should maintain steady contact with other central banks of other countries in order to improve its monetary policies.

## Role of Commercial Banks in the Economy

It is very important to note that the commercial bank plays a great role in the economy of a particular country.

**1) Financial services:** It provides necessary financial services with proper regulation as well as management. It helps to provide cash for lending and other business activities, which are being performed by the general public.

**2) Safe custody:** Commercial banks are known for depositing and safekeeping of cash and deposit money. This institution must be able to properly keep and store all the money deposited by the general public in its vault.

**3) Other Financial Services:** Commercial banks offer many other financial services such as payment of salaries, business loans, etc. This bank plays an important role in the economic growth of a particular country.

**4) Keep track of their Clients:** Commercial banks are known for developing their own database and database management system. Banks take strict concern about the development of database systems and hiring trained staff for this purpose.

Differences  
and  
Similarities

between Central  
and Commercial  
Banks



# Differences between Central Banks and Commercial Banks

- **1)** A central bank has much larger authority and its responsibilities are much higher than those of a commercial bank.
- **2)** Both the institutions play an important role in the economic development of a particular country providing various financial services to the people of that country.
- **3)** The Central Bank is the main banker to commercial banks while commercial banks serve the general public.
- **4)** Also, a commercial bank cannot play an important role in the economic growth, stability, and development of a particular country in the same way a central bank plays its role.
- **5)** A central bank has much larger authority and its responsibilities are much higher than those of a commercial bank.
- **6)** Central banks have a crucial role to play in all monetary policies. On the other hand, commercial banks don't provide any such services. They are not supposed to take part in making policies for the development of different countries. That's why the roles of both institutions are different from each other.

<b>Basis</b>	<b>Central Bank</b>	<b>Commercial Banks</b>
<b>Meaning</b>	Central Bank is the banker of all the banks. It is an apex body.	Commercial banks operate under the control of Central Bank. It is an individual unit.
<b>Control on money supply</b>	Central Bank controls the flow of credit within the economy.	Commercial banks create credit within the economy.
<b>Objective</b>	The objective of Central Bank is social welfare.	The objective of commercial banks are profit maximisation.
<b>Function</b>	It is the banker to the government.	Commercial banks are bankers of the common public.
<b>Custody of foreign exchange</b>	Central Bank is the custodian of nation's foreign exchange reserve.	A commercial bank is not the custodian of foreign exchange reserve.
<b>Currency issue</b>	Central Bank has the authority to issue currency.	A commercial bank does not have such rights.

## *Conclusion*

This article has highlighted the differences between central banks and commercial banks. The Central Bank is the most important financial institution while commercial banks provide financial services to the general public. Central banks are also considered the lender of last resort due to some special features which commercial banks don't have. Anyway, this article has tried to highlight these features in detail. So, you can choose either a central bank or commercial bank as your choice for better purchase/service on your future needs.