



THE ROLE OF CENTRAL BANKS: a comparative study of China, Korea, France and U.S.

International Monetary Fund
Emergency Meeting
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Group members: 陈涛 张璆 Quentin Amandine Nikita

Central Banks

Definition&Functions

What is a central bank?

A Central Bank or reserve bank is the organization within a specific country or coalition of countries that regulates all of the currency supplies and related policies for that particular area. A Central Bank will perform various actions, but its most important job is to make certain that the national currency and remain stable. Depending on the country, Central Banks may be government owned and controlled or may be run under regulations that are specifically created to prevent extensive government interference.

Central Banks


- In a **fractional reserve banking system**, banks keep a fraction of deposits as **reserves** and use the rest to make loans.
- Central banks establish **reserve requirements**, regulations on the minimum amount of reserves that banks must hold against deposits.
- Banks may hold more than this minimum amount if they choose.
- The **reserve ratio**, R
 - = fraction of deposits that banks hold as reserves
 - = total reserves as a percentage of total deposits

International Monetary Fund Emergency Meeting


People's Bank of China



Governor
Zhou Xiaochuan



The Federal Reserve



Governor
Ben Bernanke

BANQUE DE FRANCE



Banque de France



Governor
Christian Noyer

EUROSYSTÈME

Bank of Korea



Governor
Choongsun Kim

Central Banks

Theories linked to central bank



Crisis

**Banks disrupt the
openness of financial
markets and cause
more harm than good.**

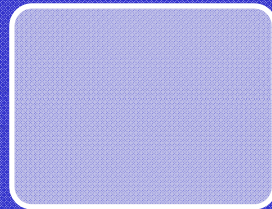


Regulation

**Without
some regulatory
agency for limiting
currency, setting
interest rates, and
regulating banking
practices, a country
would quickly find
financial disaster.**

A Comparative Study

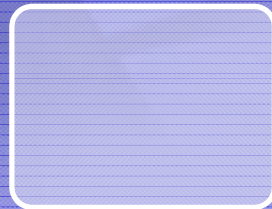
of China, Korea, France and U.S.



Objective



**Link with country's
government**



**Organizational
difference**

U.S. - Objectives



- **To address the problem of banking panics**
- **To serve as the central bank for the United States**
- **To strike a balance between private interests of banks and the centralized responsibility of government**
 - **To supervise and regulate banking institutions**
 - **To protect the credit rights of consumers**
- **To manage the nation's money supply through monetary policy to achieve the sometimes-conflicting goals of**
 - **maximum employment**
 - **stable prices, including prevention of either inflation or deflation**
 - **moderate long-term interest rates**

U.S. - Objectives



- **To maintain the stability of the financial system and contain systemic risk in financial markets**
- **To provide financial services to depository institutions, the U.S. government, and foreign official institutions, including playing a major role in operating the nation's payments system**
 - **To facilitate the exchange of payments among regions**
 - **To respond to local liquidity needs**
- **To strengthen U.S. standing in the world economy**

France - Objectives

- **Without prejudice to the objective of price stability, the ESCB shall support the general economic policies in the Community with a view to contributing to the achievement of the objectives of the Community as laid down in Article 2.**



Korea - Objectives

- **The purpose of this Act shall be to establish the Bank of Korea and to contribute to the sound development of the national economy by pursuing price stability through the formulation and implementation of efficient monetary and credit policies.**

China - Objectives

- **Maintain the stability of the value of the currency and thereby promote economic growth.**
- **Prevents and resolves financial risks, and safeguards financial stability.**

U.S. - Link with country's government

- **The Federal Reserve System is an independent government institution that has private aspects**
- **Independent within government**
- **Its authority is derived from the U.S. Congress**
- **The members of Board of Governors are chosen by the President and confirmed by Congress**

France – Link with country's government

- **Politically Independent:**

The ECB and NCBs are not allowed to seek advices from any Government of a European Union member country or any European Community Institutions

- **(Article 108 of the Treaty)**



Korea - Link with the government

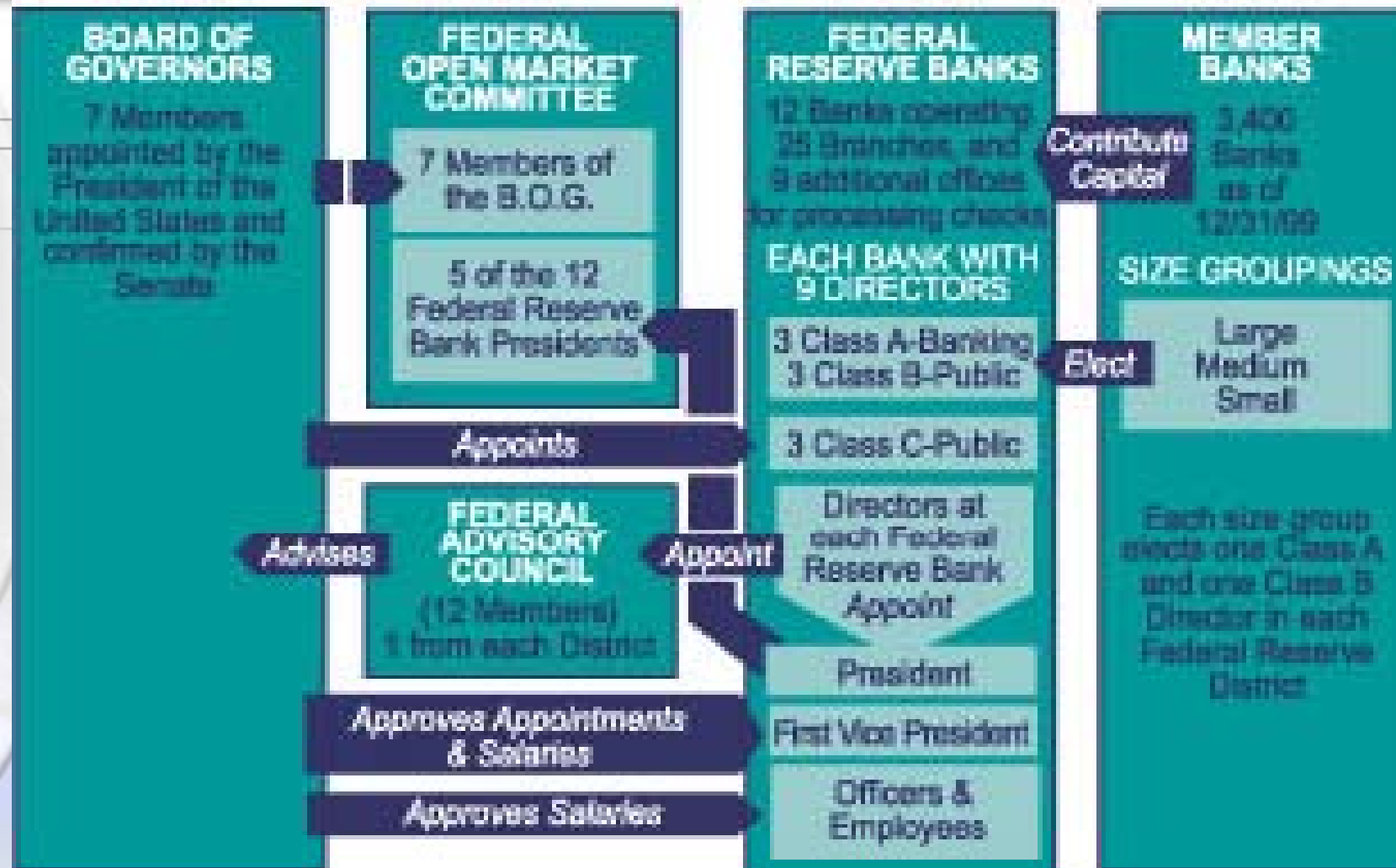
- **Article 90**
(Governor's Attendance at the State Council)
- **Article 3**
(Neutrality of the Bank of Korea)
- **Article 92**
(Request for Reconsideration of a Decision of the Monetary Policy Committee)

China - Link with the government

- **The Committee plays its advisory role research on macroeconomic situations and the macro targets set by the government.**

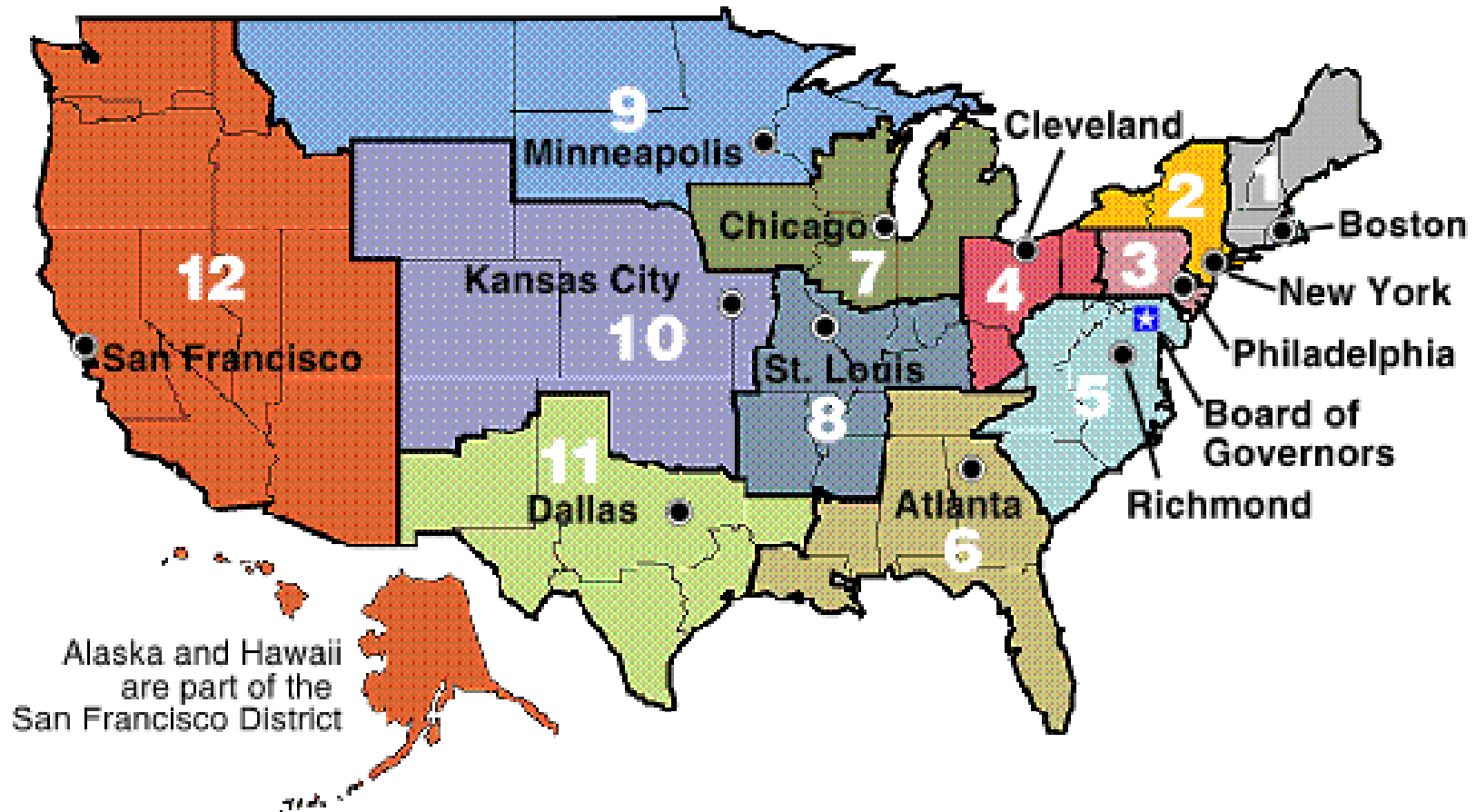
U.S. - Organization

ORGANIZATION OF THE FEDERAL RESERVE SYSTEM



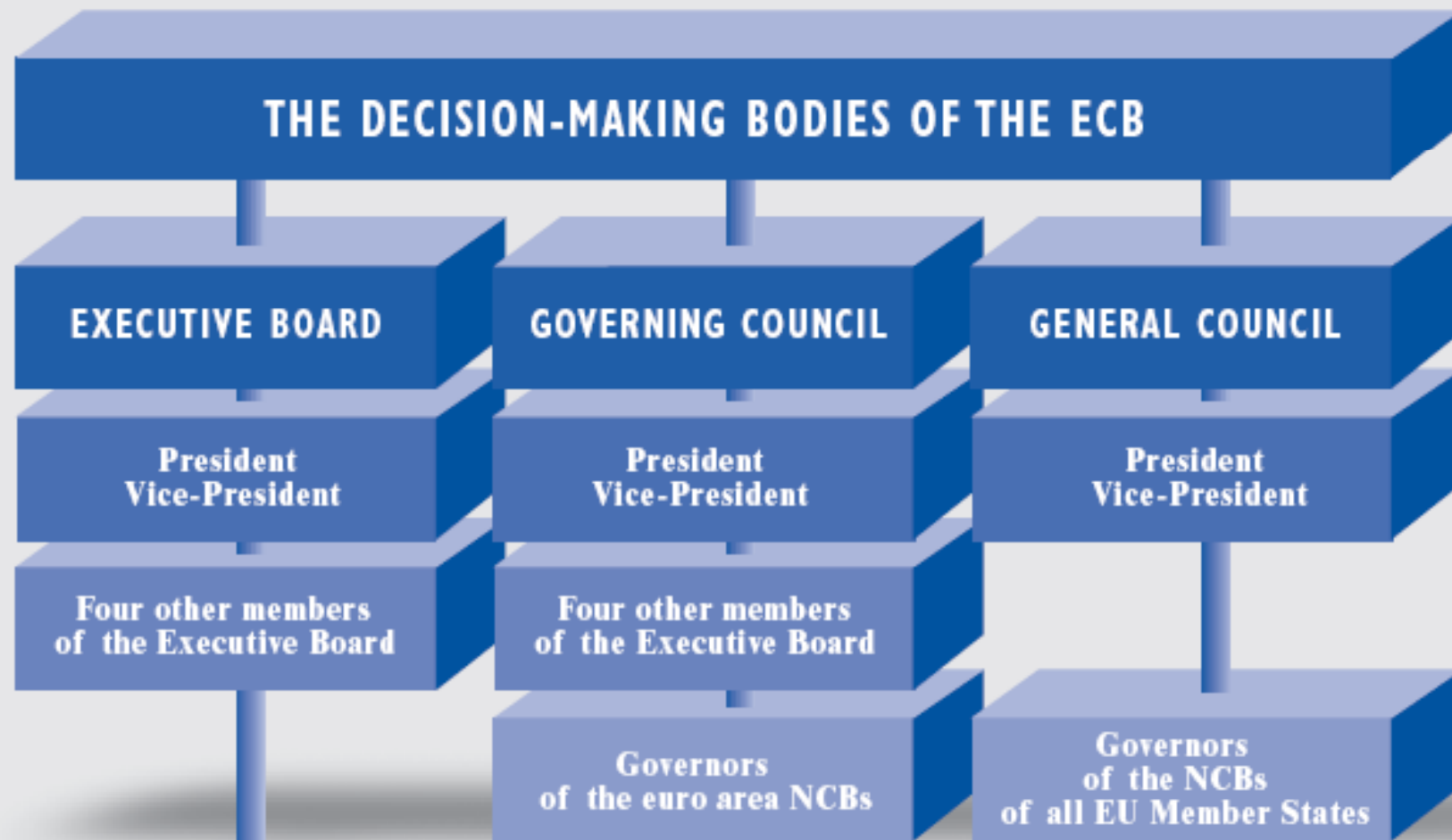
Source: Board of Governors of the Federal Reserve System.

12 regional Federal Reserve Banks



France - Organization

Chart 1.1 The decision-making bodies of the ECB



Source: ECB

ECB Decisions Bodies' Functions

➤ The Governing Council

- Ensure the performance of the tasks entrusted to the Eurosystem
- Formulates monetary policy for the euro area

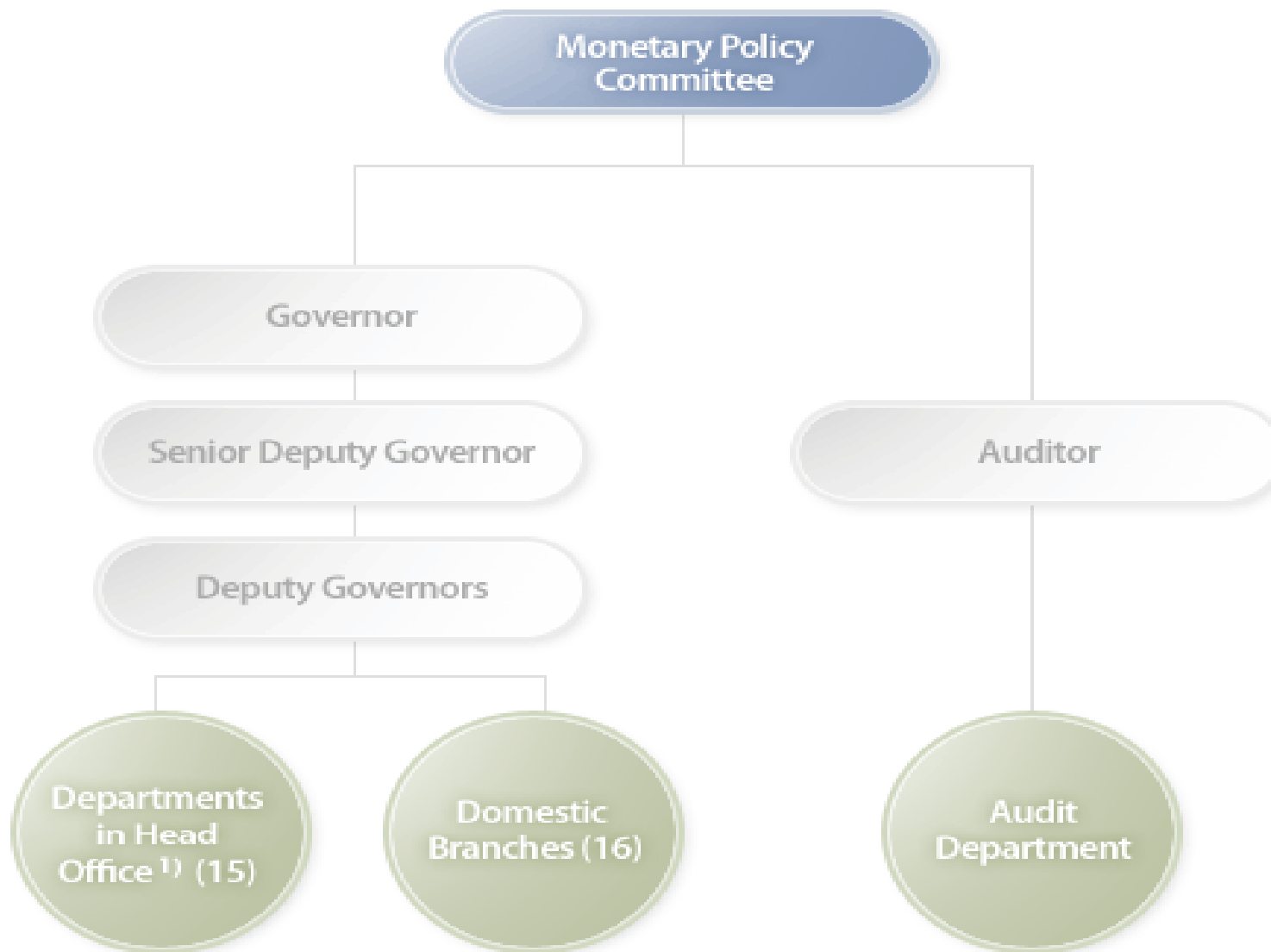
➤ The Executive Board

- Implements the monetary policy determined by the Governing Council
- Manage the day-to-day business of the ECB

➤ The General Council

- Ensure a good cooperation between the ECB and the NCBs of the non-euro countries within the Union.
- Try to standardizing the Central Banks policies in all the European Union.

Korea - Organization



China - Organization

- PBC is composed of the governor and a certain number of deputy governors.
- The PBC adopts a governor responsibility system under which the governor supervises the overall work of the PBC while the deputy governors provide assistance to the governor to fulfill his or her responsibility.

Look back: Crisis in 2009

Actions taken by 4 central Banks to solve the crisis



France



U.S.



Korea



China



A - France

- **European Central Bank took several measures to support the global economy during the crisis:**
 - Injecting massive amounts of liquidity into the banking system.
 - Fixed lower interest rates.



Interest rate cuts

Key interest rate cuts

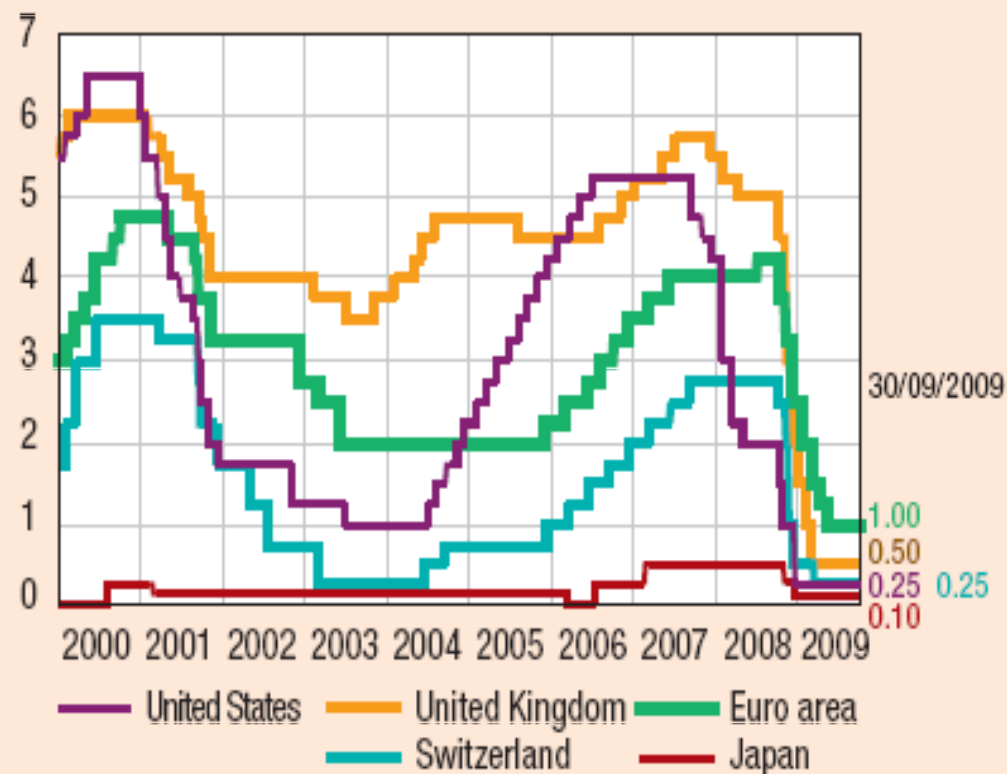
Dates	European Central Bank
October 2008	
November	Rates cut by 50 bp to 3.25%.
December	Rates cut by 75 bp to 2.50%.
January 2009	Rates cut by 50 bp to 2%.
February	
March	Rates cut by 50 bp to 1.5%.
April	Rates cut by 25 bp to 1.25%.
May	Key rate cut by 25 bp to 1%.

Note : bp = basis points.

Source: Banque de France

Central Bank Rates

(%)



Source: Bloomberg.

“Quantitative Easing” & “Credit Easing”

➤ “Quantitative Easing”

ECB purchase government debt securities

➤ “Credit Easing”

ECB refinance more loans than before and make outright purchases of securities representing lending to the economy.

	Measure	Purchases of govt. securities	Purchases of corporate securities
Objective			
Increasing the quantity of money in the economy		Yes	Yes
Unfreezing credit markets		No	Yes

B – U.S.

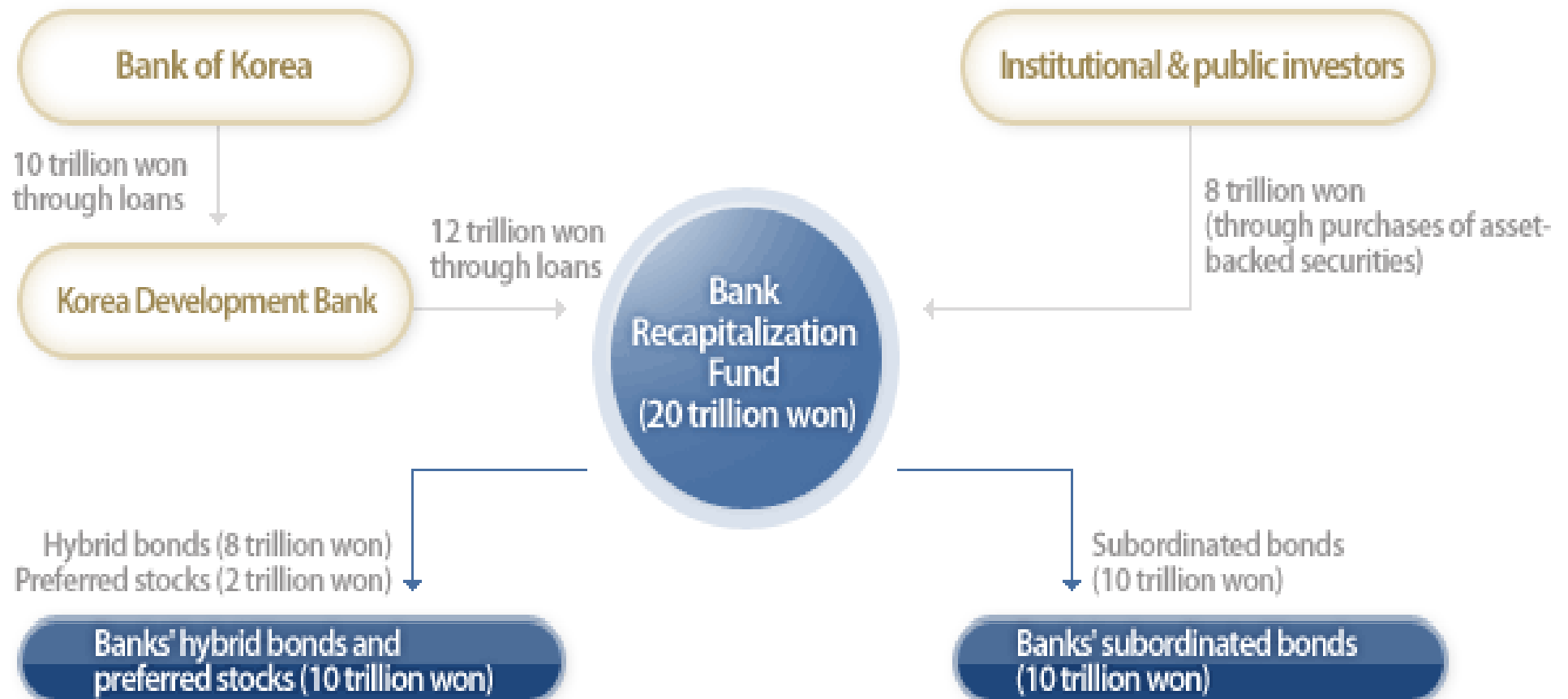


➤ **The U.S. Federal Reserve have taken steps to expand money supply:**

- The largest liquidity inject into the credit market and the largest monetary policy action in world history
- Fixed lower interest rates (between 0% and 0.25%)
- “Credit easing”
- A number of emergency and short-term responses

C - Korea

Plan for formation and method of operation of Bank Recapitalization Fund



C - Korea

Currency swap arrangements	US Federal Reserve	People's Bank of China	Bank of Japan
Ceiling	30 billion US\$	1,800 billion yuan/ 38 trillion won	20 billion US\$ equivalent
Date of announcement	Oct.30, 2008	Dec.12, 2008	Dec.12, 2008
Expiry date	Oct.30, 2009	3 years	Oct.30, 2009

Deposits

b. Flexible management of BOK-Wire operating hours

Table 1. China's November 2008 Domestic Stimulus Package

	In Chinese Yuan (billions)	In U.S. Dollars (billions)	As a Percent of Total Stimulus Package	As a Percent of China's 2008 GDP
Transport infrastructure investment	1,500	220	37.5	5.0
Post-earthquake reconstruction	1,000	146	25.0	3.3
Public housing	400	59	10.0	1.3
Rural infrastructure	370	54	9.3	1.2
Research and development and structural change	370	54	9.3	1.2
Environmental development	210	31	5.3	0.7
Healthcare and education	150	22	3.8	0.5
Totals	4,000	586	100.0	13.3

Source: Global Insight

Notes: Ranked according to planned spending levels.

Debate - International Monetary System?

VOTE

- a.continuation of the US dollar as the dominant global currency
- b.emergence of a multi-global currency system
- c.creation of a supranational international currency



CENTRAL BANKS

Thanks!

谢谢!

MERCI!

감사합니다!