

Central Banking (Optional)

I. Subject overview and Objective

Central banking has evolved from basic commercial banking to a monetary and financial policy-maker and regulator in the World. The central banks world over have diverse operational models depending on the country-specific economic and financial needs and their governance systems also differ. In general, central banks print currency, carry out monetary policy for

macroeconomic objectives; regulate banks for safe and sound banking system, manage international reserves of the country to preserve international confidence in the economy and provide objective economic and financial policy advice to respective governments. The businesses as well as stability of banking and financial sectors are greatly influenced by or dependent on central bank policies both locally and globally. Businesses may encounter unexpected outcomes when the business managers are unable to predict or comprehend central bank policies. Meanwhile, central bank policies will promote and help stability of the economy and banking and financial sectors. Therefore, this subject is designed to provide an overall knowledge on operations of central banks both theory and practice to banking and financial professionals to enable them to perform better in the central banking environment.

II. Recommended Subject Coverage

- (a) Evolution of Central Banking in the World and underlying events
- (b) Evolution of Central Banking Functions: Currency issue, monetary policy, bankers' bank, lender of last resorts, foreign reserve management, banking/financial regulation
- (c) Central Banking Objectives: single, dual or multiple
- (d) Operations of the Central Bank of Sri Lanka: Currency Board system, establishment of the Central Bank, its objectives and key functions, Monetary Board, organization of the Central Bank, major provisions of the Monetary Law Act, financial statements, strategic plans, major policies in the past
- (e) Survey of leading global central banks and recent policies:

Bank of England, US Federal Reserve System, European Central Bank, Bank of Japan etc. evolution of monetary policy instruments (conventional and unconventional), quantitative easing, bailing out of banks and financial institutions, major policy challenges
- (f) Independence of central banks: Concept, legal provisions, global practices