

4.4.3 The role of central banks

- *Key functions of central banks:*
 - *Implementation of monetary policy*
 - *Banker to the government*
 - *Banker to the banks- lender of last resort*
 - *Role in regulation of the banking industry*

- **Role of the central banks:**
 - **Implementation of monetary policy:** includes inflation targeting with the use of interest rate policy and quantitative easing
 - **Banker to the government:** It manages the government's accounts and arranges loans to the government. In 1997, it was given operation independence so the responsibility for government debt management went to the new UK Debt Management Office in 1998
 - **Banker to the banks: lender of last resort:** They are willing to offer loans to financial institutions in trouble and can't obtain the funds elsewhere. This occurred on a large scale in 2008
 - **Role of regulation in the banking industry:** since 2013 the UK has had the PRA and FCA
 - The Prudential Regulation Authority ensure the stability of firms involved in financial service such as banks, building societies, credit unions and insurers
 - The Financial Conduct Authority is the City's behavioural watchdog and is designed to protect consumers, to promote competition and to maintain stability in the financial services sector
 - Financial Policy Committee (FPC) has direct supervision of the whole of the banking system and aims to identify risks and weakness across the whole system. It can ask banks to raise more money from shareholders as a buffer in case of a liquidity problem
 - By 2019, Britain's biggest banks must separate retail banking from investment banking and overseas operations
 - The Bank of England subjects the UK's biggest banks to tests to measure whether they would survive a financial shock
 - Regulators in the UK, USA and EU have fined banks more than \$9bn for rigging LIBOR, which underpins over \$300tn worth of loans worldwide