International Journal of Studies in Business Management, Economics and Strategies
Volume 02, Issue 11, November, 2023
ISSN (E): 2949-883X
Scholarsdigest.org

THE BANKING SYSTEM IN THE WORLD

Gulshan Sattarova
Researcher in the Academy of Banking and
Finance of the Republic of Uzbekistan
E-mail: gulshan.sattarova@inbox.ru

Abstract
The article discusses about the banking systems in the world and the main functions of financial institutions.

Keywords: banking system, loans, financial institutions, interest rates, residents, financial transactions, banknotes.

Introduction

The banking system is a collection of banks and other financial institutions that store and process money, provide loans and other services to their customers. The banking system is the main element of the economic infrastructure and ensures the uninterrupted operation of financial transactions.

In different countries, the banking system may have a different structure. But usually the banking system is divided into several levels. At the first level, there are Central Banks that regulate the country's banking system. The central bank can perform such functions as setting interest rates, regulating the money supply, and controlling other banks. At the next level, there are commercial banks that serve customers and accept deposits, give loans, etc.

Another level is regional banks, which may operate within a single region or state by providing financial services to local communities. Some countries may also have credit unions that provide financial services to members of the union, which may include employees of the same business or residents of the same community.

The oldest evidence of the use of banking instruments was found in Mesopotamia in 2000 BC, when banks were used to store valuables such as gold and silver. Over time, banks began to issue loans and credits. Banking developed further during the Renaissance. Banking houses have acquired a very high reputation.

Fractional reserve banking and the issue of banknotes emerged in the 17th and 18th centuries. Merchants started to store their gold with the goldsmiths of London, who possessed private vaults, and who charged a fee for that service. In exchange for each deposit of precious metal, the goldsmiths issued receipts certifying the quantity and purity of the metal they held as a bailee; these receipts could not be assigned, only the original depositor could collect the stored goods.

History of the Banks

Gradually the goldsmiths began to lend money out on behalf of the depositor, and promissory notes (which evolved into banknotes) were issued for money deposited as a loan to the goldsmith. Thus by the 19th century, we find in ordinary cases of deposits of money with

banking corporations, or bankers, the transaction amounts to a mere loan or mutuum, and the bank is to restore, not the same money, but an equivalent sum, whenever it is demanded and money, when paid into a bank, ceases altogether to be the money of the principal (see Parker v. Marchant, 1 Phillips 360); it is then the money of the banker, who is bound to return an equivalent by paying a similar sum to that deposited with him when he is asked for it.
The goldsmith paid interest on deposits. Since the promissory notes were payable on demand, and the advances (loans) to the goldsmith's customers were repayable over a longer time-period, this was an early form of fractional reserve banking. The promissory notes developed into an assignable instrument which could circulate as a safe and convenient form of money backed by the goldsmith's promise to pay, allowing goldsmiths to advance loans with little risk of default. Thus the goldsmiths of London became the forerunners of banking by creating new money based on credit.
Interior of the Helsinki Branch of the Vyborg-Bank in the 1910s
The Bank of England originated the permanent issue of banknotes in 1695. The Royal Bank of Scotland established the first overdraft facility in 1728. By the beginning of the 19th century Lubbock's Bank had established a bankers' clearing house in London to allow multiple banks to clear transactions. The Rothschilds pioneered international finance on a large scale, financing the purchase of shares in the Suez canal for the British government in 1875.

Size of global banking industry

Assets of the largest 1,000 banks in the world grew by 6.8% in the 2008–2009 financial year to a record US$96.4 trillion while profits declined by 85% to US$115 billion. Growth in assets in adverse market conditions was largely a result of recapitalisation. EU banks held the largest share of the total, 56% in 2008–2009, down from 61% in the previous year. Asian banks' share increased from 12% to 14% during the year, while the share of US banks increased from 11% to 13%. Fee revenue generated by global investment in banking totalled US$66.3 billion in 2009, up 12% on the previous year.
The United States has the most banks in the world in terms of institutions (5,330 as of 2015) and possibly branches (81,607 as of 2015). This is an indicator of the geography and regulatory structure of the US, resulting in a large number of small to medium-sized institutions in its banking system. As of November 2009, China's top four banks have in excess of 67,000 branches (ICBC:18000+, BOC:12000+, CCB:13000+, ABC:24000+) with an additional 140 smaller banks with an undetermined number of branches. Japan had 129 banks and 12,000 branches. In 2004, Germany, France, and Italy each had more than 30,000 branches – more than double the 15,000 branches in the United Kingdom.

Creating money

Banks also create money. They do this because they must hold on reserve, and not lend out, some portion of their deposits—either in cash or in securities that can be quickly converted to cash. The amount of those reserves depends both on the bank's assessment of its depositors' need for cash and on the requirements of bank regulators, typically the central bank—a government institution that is at the center of a country's monetary and banking system. Banks keep those required reserves on deposit with central banks, such as the U.S. Federal Reserve,

International Journal of Studies in Business Management, Economics and Strategies
Volume 02, Issue 11, November, 2023
ISSN (E): 2949-883X
Scholarsdigest.org

the Bank of Japan, and the European Central Bank. Banks create money when they lend the rest of the money depositors give them. This money can be used to purchase goods and services and can find its way back into the banking system as a deposit in another bank, which then can lend a fraction of it. The process of relending can repeat itself a number of times in a phenomenon called the multiplier effect. The size of the multiplier—the amount of money created from an initial deposit—depends on the amount of money banks must keep on reserve. Banks also lend and recycle excess money within the financial system and create, distribute, and trade securities.

Banks have several ways of making money besides pocketing the difference (or spread) between the interest they pay on deposits and borrowed money and the interest they collect from borrowers or securities they hold. They can earn money from:

income from securities they trade; and

fees for customer services, such as checking accounts, financial and investment banking, loan servicing, and the origination, distribution, and sale of other financial products, such as insurance and mutual funds.

Banks earn on average between 1 and 2 percent of their assets (loans and securities). This is commonly referred to as a bank's return on assets.

Transmitting monetary policy

Banks also play a central role in the transmission of monetary policy, one of the government's most important tools for achieving economic growth without inflation. The central bank controls the money supply at the national level, while banks facilitate the flow of money in the markets within which they operate. At the national level, central banks can shrink or expand the money supply by raising or lowering banks' reserve requirements and by buying and selling securities on the open market with banks as key counterparties in the transactions. Banks can shrink the money supply by putting away more deposits as reserves at the central bank or by increasing their holdings of other forms of liquid assets—those that can be easily converted to cash with little impact on their price. A sharp increase in bank reserves or liquid assets—for any reason—can lead to a "credit crunch" by reducing the amount of money banks have to lend, which can lead to higher borrowing costs as customers pay more for scarcer bank funds. A credit crunch can hurt economic growth.

Banks can fail, just like other firms. But their failure can have broader ramifications—hurting customers, other banks, the community, and the market as a whole. Customer deposits can be frozen, loan relationships can break down, and lines of credit that businesses draw on to make payrolls or pay suppliers may not be renewed. In addition, one bank failure can lead to other bank failures.

Conclusion

Banks perform a myriad of functions, including deposits and withdrawals, currency exchange, forex trading, and wealth management. Also, they act as a link between depositors and borrowers, and they use the funds deposited by their customers to provide credit facilities to people who want to borrow.

Banks make money by charging an interest rate on loans, where they profit by charging a higher interest rate than the interest rate they pay on customer deposits. However, they must comply with the regulations set by the central bank or national government.

REFERENCES

1.Compare: "Bank of England". Rulebook Glossary. 1 January 2014. Retrieved 20 July 2020. bank means: (1) a firm with a Part 4A Permission to carry on the regulated activity of accepting deposits and is a credit institution, but is not a credit union, friendly society or a building society; or (2) an EEA bank.
2.Choudhry, Moorad (2012). The Principles of Banking. Wiley. p. 3. ISBN 978-1119755647.
3.M. Chahin – The Kingdom of Armenia: A History Routledge, 2001 ISBN 0700714529
4.ME Stevens Temples, Tithes, and Taxes: The Temple and the Economic Life of Ancient Israel Baker Academic, 2006 ISBN 0801047773
5.N Luhmann – Risk: A Sociological Theory Transaction Publishers, 2005 ISBN 0202307646 (p. 181)
6.Davies, R; Davies, G. A History of Money from Ancient Times to the Present Day. Cardiff: University of Wales Press, 1996.
7.naissance de la banque universalis.fr Accessed 15 September 2018.