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ENGLISH FOR THE FINANCIAL SECTOR

Course for first year master students in Finance and Accounting

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INTRODUCTION

English for the financial sector is reading, speaking, and writing courses for undergraduate students in finance and accounting who need to understand and express the key concepts of finance and accounting and even other related areas of business and economics.

These courses aim to:

- * present you with the language and concepts found in books, newspapers, magazine articles, and websites on finance and accounting.
- * develop your comprehension of finance and accounting texts.
- * provide you with opportunities to express finance and accounting concepts by reformulating them in your own words while summarizing and discussing ideas.

UNIT 20 Central banking

A- The functions of central banks

A journalist is interviewing Professor John Webb, an expert in central banking.

What are the main functions of central banks?

Well, most countries have a central bank that provides financial services to the government and to the banking system. If a group of countries have a common currency, for example the euro, they also share a central bank, such as the European Central Bank in Frankfurt.

Some central banks are responsible for monetary policy — trying to control the rate of inflation to maintain financial stability. This involves changing interest rates. The aim is to protect the value of the currency - what it will purchase at home and in other currencies. In many countries, the central bank supervises and regulates the banking system and the whole financial sector. It also collects financial data and publishes statistics, and provides financial information for consumers. In most countries, the central bank prints and issues currency — putting banknotes into circulation. It also participates in clearing cheques and settling debts among commercial banks,

B- The central bank and the commercial banks

How exactly does the central bank supervise the commercial banks?

Well, commercial banks have to keep reserves - a certain amount of their deposits - for customers who want to withdraw their money. These are held by the central bank, which can also change the reserve-asset ratio - the minimum percentage of its deposits a bank has to keep in its reserves.

If one bank goes bankrupt, it can quickly affect the stability of the whole financial system. And if depositors think a bank is unsafe they might all try to withdraw their money. If this happens it's called a bank run or a run on the bank, and the bank will quickly use up its reserves. Central banks can act as lender of last resort, which means lending money to financial institutions in difficulty, to allow them to make payments. But central banks don't always bail out or rescue banks in difficulty, because this could lead banks to take risks that are too big.

C- Central banks and exchange rates

What about exchange rates with foreign currencies?

Central banks manage a country's reserves of gold and foreign currencies. They can try to have an influence on the exchange rate - the price at which their currency can be converted into other currencies. They do this by intervening on the currency markets, and moving the rate up or down by buying or selling their currency. This changes the balance of supply - how much is being sold - and demand — how much is being bought.

D- Exercise

Match the two parts of the sentences. Look at A and B opposite to help you.

- 1 -The central bank will sometimes lend money
 - 2 -Banks would probably start taking too many risks
 - 3 -Central banks are usually responsible for
 - 4 -The central bank can alter
 - 5 -There will be low and stable inflation
- a- if they could always be sure of rescue by the central bank.
 - b -if there is a run on a commercial bank.
 - c- if monetary policy is successful,
 - d- printing and distributing banknotes.
 - e- the amount of money commercial banks are able to lend.