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CRISIS CONCEPT OF THE CENTRAL BANK FUNCTIONS OPTIMIZATION

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Abstract. *Central Bank, as the ultimate monetary institution in the financial system of a country, is striving to provide optimum monetary conditions for the economic system functioning, while performing the functions of monetary regulation, supervision and the lender of last resort of banks. Sustaining monetary stability as the goal of monetary regulation function, and financial stability as the goal of supervision and lender-of-last-resort function, imposes the need to consider the possibilities for optimization of these functions, in the direction of simultaneously achieving price and financial stability. The theoretical discussion on the functions and objectives of central banks pointed to the need to define an appropriate framework of monetary, supervision and control policies, which will foster the achievement of both price and financial stability.*

Key Words: *central bank, monetary regulation, supervision, lender of last resort of banks, price stability, financial stability*

INTRODUCTION

The Central Bank (hereinafter referred to as CB), as the ultimate monetary institution, reflects the monetary policy, and thereby a wider economic sovereignty of a country. In this respect, the definition of the central bank character, its functions and objectives is the primary task of every country. Although most central banks, from their very foundation, focused on ensuring financial stability, after the inflationary seventies, almost all of CBs set the price stability as the primary goal of their monetary policy. Of course, the preference for price stability does not challenge other objectives of economic policy, such as employment, economic growth and balance of payments equilibrium. On the contrary, the view is prevailing that the greatest contribution to these goals is provided precisely by maintaining macroeconomic stability.

In recent years, there has been a tendency to consider financial stability as a goal of CB. The recent financial crisis has shown that achieving and maintaining financial stabil-

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ity is as difficult as achieving price stability. Although, in most countries, the issue of financial stability is still not within the exclusive competence of CB, the fact that excessive expansion of money and bank loans usually results in a financial crisis, requires that monetary policy creators continuously monitor and eliminate all the phenomena that may pose a threat to financial stability. In this sense, the paper will try to point out the possibility to optimize the function of CBs, in their effort to achieve price and financial stability, with given restrictions at the same time.

The paper structure includes three parts. The first part gives a brief theoretical overview of the basic functions and goals of the CB. The second part discusses the possibility of optimizing the function of CBs, from the standpoint of the main objectives they pursue and their institutional organization. The final part of the paper provides a brief description of anti-crisis policies of the leading CBs in order to practically confirm the assumption of the need for the existence of optimal interrelation of CB functions, as a condition without which a simultaneous achievement of both price and financial stability cannot be imagined.

1. THE CHARACTER OF CB: FUNCTIONS AND OBJECTIVES

1.1. CB functions

Central bank, defined in the financial system as the central monetary institution, represents a bank of commercial banks and other financial institutions. The wide scope of its activities can be more easily comprehended through three primary functions for which each CB is responsible in its respective operation. These are: the function of monetary regulation (conduct of monetary policy), supervisory function and function of lender of last resort [11, p. 48].

The function of monetary regulation involves the role of CB in the quantification and dynamizing of money supply through the process of primary emission, in the direction of providing optimum monetary conditions of the economic system operation. In the implementation of this function, CB is primarily focused on achieving the basic objectives of monetary, and by this a broader economic policy. Of course, price stability singles out in the list of objectives, as the primary goal of monetary regulation.

The supervisory function is derived from the statutory definition of the relationship between the central bank and commercial banks. Namely, the issuing bank is defined as a bank of banks because it regulates and controls the operations of commercial banks. The financial sector is a strictly regulated sector and to a much greater extent than other sectors, due to substantial external effects that it creates. Although it has been the responsibility of CB from the very beginning, the importance of supervisory function was particularly enhanced after the 60's of the 20^{th} century, which were characterized by increased market instability. In such conditions, for the sake of higher profitability, many banks were reducing levels of capital. Therefore, the central bank defined a number of minimum standards and coefficients with which banks had to comply in their business, since noncompliance with the said would initiate enhanced surveillance and control over the operations of such banks. This function proved to be critical in the setting of global financial crisis, being that, due to the lack of adequate supervision and regulation of banks

and other financial institutions, the crisis has taken on a global character, with significant adverse implications not only for the financial, but also for the real sector.

The function of lender of last resort implies acting of CBs as guarantors of liquidity in the banking sector, in the conditions of failure of the interbank market and other alternative levels of banks' liquidity defense. The position of the central bank as a "bank of banks" involves its specific responsibility towards the banking system members. The function of "lender of last resort", as a standard function of central banks around the world, indicates the willingness of the central bank to extend credit to a commercial bank when no one else wants to do it, with the aim to protect depositors and/or prevent a systemic crisis in the financial system of a country. The credit support to a bank which is in a liquidity risk indirectly protects the entire banking system as well, because the vulnerability of one bank creates a risk of transmitting the liquidity crisis to other banks, too. The global financial crisis and the concern about the liquidity of not only banks but also the entire financial system have contributed to the reaffirmation of the lender-of-last-resort function of the central bank.

Isolated observation of these CB functions is not much useful. For these reasons, their interrelation tracking is insisted upon in order to achieve optimization of these functions, in striving towards the realization of the objectives of monetary policy. The following figure gives an overview of potential relationships among these functions.

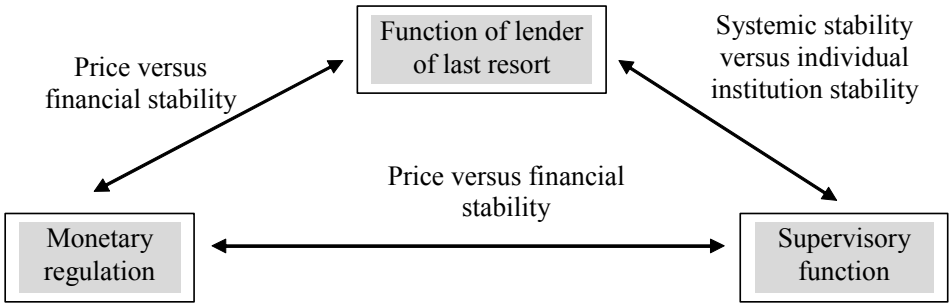

Fig. 1 Interrelation of CB functions

In studying the *relationship between the lender-of-last-resort function and the function of monetary regulation*, it should be borne in mind that, when it comes to a systemic crisis, the function of lender of last resort will not be in conflict with the objectives of monetary policy, since additional reserve money, which is in this case provided by the central bank, represents the response to changes in the demand for it [11]. So, if large sums of money, inserted through this arrangement, are returned in a short term and the money is withdrawn from circulation, there will be no significant disturbance in achieving the objectives of monetary policy. The correlation between the lender-of-last-resort and supervision functions, on the one hand, and the function of monetary regulation, on the other hand, is best illustrated by the fact that the instability of the financial system can reduce the effectiveness of monetary policy. For example, in the conditions of serious financial disorder and general instability, a reduction in interest rates (expansive monetary policy) may have less effect than it would be the case if such a policy would be implemented in normal business conditions. This situation has resulted from the increase in risk

premiums, thus preventing a fall in interest rates, on the one hand, and from credit rationing, as a result of the unwillingness of banks to lend, on the other. If successive attempts by monetary authorities to reduce the costs of lending do not contribute to credit conditions improving, the extreme situation would happen that interest rates are driven to zero. Therefore, the question may be imposed how monetary policy should react to perceived changes in asset prices or pricing boom, in order to ultimately minimize the risk to financial stability. The recent analysis by the Bank for International Settlements shows that the CB, in designing its monetary policy, should be directed toward achieving price stability over a medium term, because it is thus given reasonable time for the adjustment to price changes of financial assets, which may threaten financial stability[1].

On the other hand, the analysis of the *relationship between the lender-of-last-resort function and the supervisory function*, it is important to note that, based on the assessment of existence of the systemic nature of affected banks' liquidity problems, CB decides whether to act as a guarantor of liquidity or not. Financial stability can therefore be provided only by a well-designed regulatory and supervisory framework. Regulatory framework (capital adequacy rate and other coefficients) stipulates the criteria to which the banks must adhere in their operations, so as not to endanger the financial system stability. This serves to provide the first line of defense for financial stability. To find out whether the financial stability of the entire system or just of an individual financial institution is undermined in the concrete situation, will depend on the efficiency of the supervisory function. Our view is, therefore, that the lender-of-last-resort function is directly conditioned by the efficiency of the supervisory function. However, the problem is not unidirectional, as proved by the fact that many systems of supervision and control of the banking sector emerged precisely in response to the financial crisis. In a stable business environment, regulation and supervision of banks are in the function of timely identification of defective areas of the bank's activities and development of an appropriate system of so-called early warning, in order to identify problems before they become insurmountable. In contrast, in the situation of banking panic and massive increase of deposits, the task of regulation and supervision of banks is to ensure that problems created in one or more banks do not get transferred to other banks.

Adoption of the final decision on the possibility of optimizing the function of CB, as well as on the conditions under which it would be possible, requires prior consideration of the basic goals pursued by the CBs of each country and issues related to the competence of regulatory authorities to implement these functions.

1.2. CB objectives

Price and financial stabilities are most important in the list of CB objectives. This argument is not unfounded, as shown by the current financial crisis which, despite the absence of explicit responsibility of a number of CBs in maintaining financial stability, re-

[1] The ECB considers these assumptions in the design of its own monetary policy. Instead of short-term orientation, the ECB monetary policy tends to maintain inflation rates below but close to 2% over a medium term (18-24 months). This is significantly contributed by the two-pillar monetary policy framework that includes the analysis of economic trends and monetary developments, in order to include all the risks to price stability into the analysis.

quired the care for the financial system stability to be included in the list of their goals, in addition to price stability.

Price stability represents the main goal of most CBs, and is related to achieving and maintaining a low and predictable rate of inflation [7]. This does not mean that CB is not seeking to achieve other objectives, such as full employment, economic growth and balance of payments equilibrium, but that monetary stability would be obstructed if they were taken as the basic goals. With regard to many benefits that are provided by price stability, that is, the costs created by inflation, it is considered that the greatest contribution to other goals may be given through the maintenance of price stability. This is one of the reasons why almost all CBs, after the inflationary seventies, explicitly introduced price stability as the primary goal in their respective legislations. This is actually confirmed in a brief review of the goals of selected central banks, given in the following box.

Box No. 1 – Objectives of central banks

In practice, the objectives of central banks, although defined differently, are mostly reduced to the maintenance of price stability, which can also be seen in the displayed list of goals of the selected central banks.

The main objective of the **European Central Bank** is price stability, which is thought to be achieved if the inflation rate, measured by the harmonized index of consumer prices, is less than 2%, but close to 2%. The aim is to achieve price stability over a medium-term period. Also, without endangering price stability, the ECB has to support economic policies of the Union in order to achieve high levels of employment, sustainable and non-inflationary economic growth, high level of competitiveness and convergence of economic performances.

The goal of the **Fed** is the maximum possible employment, stable level of prices and moderate long-term interest rates. The FED has never had a numerically defined targeted rate of inflation.

The aim of the **Bank of England** is to maintain price stability and support the economic policy of Her Royal Majesty and the Government, including the goals of economic growth and employment. After the concept of inflation targeting was accepted, the inflation rate has been numerically defined.

The aim of the **National Bank of Serbia** is to achieve and maintain price stability. Besides this basic objective, the additional goals are the preservation of financial stability and support to economic policy, but without endangering price stability.

Source: [7]

In recent years, there has been a tendency to consider financial stability as a goal of monetary policy. It is a goal that, qualitatively defined, means *a condition in which the financial system is able to absorb different types of shocks, the cumulation of which would impair the allocation of savings in the optimal investment projects and the efficiency of payment operations* (Padoa-Schioppa, 2003, more on this: [2]). However, due to the lack of a generally accepted definition, the possibility of its quantification, as well as the willingness of CB to cover all aspects of financial stability, no CB has explicitly stated financial stability as its *primary goal* so far. The recent financial crisis has renewed concerns about financial stability, both of individual financial institutions (micro-dimension of financial stability) and the entire financial system (macro-dimension of financial stabil-

ity) [7]. This has imposed the need to define a specific framework to employ CB functions so that the optimization of CB goals is achieved through their optimization.

2. OPTIMIZATION OF CB FUNCTIONS

2.1. Price and financial stability: trade offs

The recent financial crisis has shown that achieving and maintaining financial stability is as difficult as achieving price stability. While the conventional doctrine about the relationship between price and financial stabilities holds the view that monetary stability is at the same time a guarantee of financial stability, an increasing number of authors oppose this view in recent years [3]. As financial stability is assuming growing importance in the list of CB objectives, the question is whether an appropriate trade-off can be established between price and financial stabilities, in terms of their comprehension as dual and not duel goals of CB. According to Tinbergen's rule, simultaneous achievement of price and financial stability requires the development of additional instruments subordinated to the realization of both policy targets [4]. This way, the interest rate policy serves to the monetary stability, while prudential policies (policies of supervision and control) serve to the maintainance of financial stability (Tinbergen, 1952, quoted in [8, p. 60]). Thus, CB can simultaneously achieve both price and financial stability only by defining an appropriate framework of monetary and prudential policies shown in Table 1.

Table 1 Framework for Monetary and Prudential Policy

	Objectives	**Instruments**
Monetary policy	**Price stability**	Repo rate
Prudential policy[2]	**Financial stability**	
	Financial markets	Liquidity guaranteeing mechanisms
	Financial institutions	Micro- prudential regulation
	Financial system	Macro- prudential requirements

Source: [8, p. 61]

The proposed framework of monetary and prudential policy imposes a dilemma of institutional separation or unification of monetary and prudential policy, because of which more attention shall be paid hereinafter to the analysis of numerous arguments for/against their institutional separation, on the one hand, or unification, on the other.

2.2. Organizational structure of CB functions

In addition to the conflicting quality of the objectives, the optimization of CB functions also has to take into account the issue of organizational structure of CB functions, in

[2] Prudential policy in this context means a set of all measures to ensure financial stability: a) preventive (ex ante), which include supervision and regulation and which are aimed at preventing financial instability, and b) reactive (ex post), which involve various mechanisms for liquidity support and which are aimed at managing the consequences of the crisis. For these reasons, we shall in further text regard the function of supervision of banks and the function lender of last resort as a part of a wider prudential policy.

the context of arguments for/against institutional separation or unification of CB functions.

***Arguments for the institutional separation of CB functions*:** Traditionally it was thought that CB should be responsible synchronously for monetary regulation, banking supervision and guaranteeing the liquidity of the banking sector. However, the dynamic characteristics of modern banking[3] contributed to the growing institutional separation of these functions. In this matter, the most common arguments for the institutional separation are the following [9, pp. 8-23]:

- *The trend of homogenization in banking*: The process of deregulation in the 1980s caused the emergence of numerous non-banking institutions, which represented a significant blow to the banking institutions that were, until then, occupying a central position among financial intermediaries. In such an environment, there is a homogenization of banking activity, with banks increasingly performing non-banking activities, and non-banking institutions increasingly practicing banking transactions. As the institutions differ more and more regarding the line of financial services they provide, and not by their names, the need arose to establish regulatory bodies to exercise unified control over all the institutions that provide specific lines of financial services [12, p. 225]. However, as the CB is not, in its essence, responsible for non-bank financial institutions, if the ultimate efficiency of regulation required the formation of a single regulatory body, such a role should be taken by a body different from the CB, with regard to the mentioned arguments.
- *Internationalization of banking activities*: Ever increasing international activity of banks is a significant barrier to effective monetary control by the CB. In the conditions of a flexible exchange regime, however, the autonomy of monetary policy is guaranteed since it is not subject to the maintenance of certain parity, so the CB shall be able to simultaneously provide price and financial stability. Contrary to this, in the conditions of a fixed exchange rate regime, in all its varieties[4], the monetary policy is subject to maintaining the fixed parity, which implies limitation, or eventually incompetence of the CB for monetary regulation. In these systems, therefore, the CB struggles to keep under its "umbrella" at least the function of supervision, as the other way round the basis of its existence would be missing.
- *Risk of reduction in CB credibility*: Supervision of banks is an unrewarding task that can significantly damage the credibility of CB, since the blame almost always falls on the supervisor for a disruption of the banking sector stability.
- *Conflict of interest*: The last and also the most argumented in the list of reasons for the institutional separation of CB functions, is the conflict of interest between the monetary regulation and the supervision of banks. This conflicting quality of interest is explained by the fact that the monetary regulation is expected to have an anti-cyclical effect, while the prudential supervision is supposed to have a pro-cyclical impact. Prudential regulation is pro-cyclical because it requires slowing down of banking activities in the phase of a slow economic growth. Specifically, as the volume of nonperforming banking assets increases in the phase of economic recession, supervision authorities may require from banks to increase capital ratios that will cover the losses arising from nonperforming loans, which puts pressure on banks to improve the quality of their assets. Because of this,

[3] More on this: Krstić, 2003
[4] Monetary union, currency board and dollarization.

according to the requirements of supervisory authorities, stricter lending criteria shall be applied in the next period. Monetary regulation, on the other hand, will act counter-cyclically in the conditions of slow economic growth, by pursuing expansionary monetary policy to stimulate the volume of lending, and therefore further economic growth. Therefore, in the conditions of systemic instability, the CB, which is responsible both for bank supervision and for monetary regulation, may undertake expansive monetary policy, because a restrictive monetary policy, under such conditions, would only further deepen the problems of the banking sector [5]. However, being that conduct of such monetary policy would lead to price instability, the evident conflict of interest supports the institutional separation of monetary regulation and supervision of banks [10].

***Arguments against the institutional separation of CB functions*:** The atmosphere of global financial crisis highlighted the existence of certain synergy of monetary regulation and supervision of banks, in their effort to provide both monetary and financial stability [13]. For these reasons, we will hereafter give a brief overview of the main arguments against the institutional separation of functions CB.

- *Maintaining financial stability*: Concern for financial stability is the main argument against the institutional separation of monetary regulation and supervision of banks. As banks are the chief financial intermediaries through which the CB mechanism transmits to the real sector, the concern for their financial stability is the pivotal condition for effective implementation of monetary policy [1]. Therefore, under the conditions of general panic in financial markets and threatened liquidity of a number of financial institutions, CB acts as a guarantor of liquidity in the banking sector and, if necessary, a wider circle of institutions, as well. In fulfillment of this mission, CB must have adequate information to carry out assessment of the existence of a systemic character of the problem of endangered liquidity of banks. It is indisputable, therefore, that provision of adequate support to liquidity can be effective only if accompanied by adequate system of supervision and regulation of institutions with vulnerable liquidity.
- *Information synergy*: Information provided by the function of supervision can be of invaluable significance for the functions of monetary regulation and lender of last resort, because they represent a valuable input for making macro-monetary policy decisions, especially during periods of financial instability [6]. Papers addressing these issues say that confidential supervisory information can improve prediction of inflation and unemployment rates, on the one hand, and the development of numerous arrangements to support the liquidity of the institutions with the lack of liquidity, on the other hand [14].

The exposed arguments for/against the institutional separation of monetary and supervisory functions make it clear that the model of institutional separation is suitable for developed market economies, while the unification is recommended to the transition and young market economies, whose financial systems are mainly banking-oriented. However, regardless of the institutional separation of CB functions in the developed market economies, CB requires a high degree of coordination and cooperation among competent regulatory authorities in order to achieve optimization of functions. Lack of cooperation and early action of relevant regulatory bodies during the period of crisis produced significant negative effects on the world's leading economies. Therefore, we will briefly show hereafter how and in what way the CBs of the world's leading economies reacted during the period of crisis, and what is the plan of their activities aimed at coming out of the economic recession.

3. GLOBAL RESPONSE OF CB IN THE ATMOSPHERE OF GLOBAL FINANCIAL CRISIS

Acting in the direction of alleviating negative consequences of the global financial crisis, the largest central banks pursued a relaxation of monetary policy, in late 2007 and early 2008. Thus the discount rate policy, in the direction of its reduction, became a common measure of most central banks. With this, the borrowing costs were significantly reduced and the liquidity of the economy was improved in the end. Table 2 shows official interest rates of individual central banks. In some cases, these are the discount rates in the classical sense (Japan, Croatia, Serbia), while the others are the cases of minimum rates at which the central bank loans to the banking sector, where the Fed uses the interest rate for primary credits, the ECB applies the minimum rate for the main refinancing operations in the open market, and the United Kingdom uses the official interest rate of the central bank.

Table 2 Official interest rates of central banks

State	Rate
Fed - primary credits (discount rate)	0.25%
ECB - European Central Bank	1.00%
Japan	0.10%
United Kingdom - official interest rate of the central bank	0.50%
Croatia	9.00%
Slovenia	1.00%
Serbia	8.00%

Source: www.federalreserve.gov, www.ecb.int, www.boj.or.jp, www.bankofengland.co.uk, www.hnb.hr, www.bsi.si, www.nbs.rs (access: 10.07.2010)

In order to provide liquidity support to vulnerable banks in the conditions of non-functioning of the interbank market, the Fed, in addition to the aggressive reduction of short-term interest rates, introduced a new set of instruments that do not belong to the group of traditionally defined monetary policy instruments[5]. In this manner, the Fed has approached crediting of a number of bank and non-bank institutions, accepting as collateral even the assets of dubious quality. Apart from reducing short-term interest rates, the Fed has managed, by buying bonds of the Ministry of Finance and mortgage bonds, to lower the long-term interest rates on mortgages and corporate bonds. According to the latest assessment of the Federal Open Market Committee, such policy of the Fed contributed significantly to the improvement of market conditions for business operations, with-

[5] Applied arrangements are divided into two groups. The first set of instruments, closely associated with the traditional role of central bank as the lender of last resort, includes rendering of short-term liquidity support to deposit and other financial institutions. This set consists of the traditional *Discount Window*, *Term Auction Facility* or *TAF, Primary Dealer Credit Facility* or *PDCF* and *Term Securities Lending Facility* or *TSLF*. Currency swap arrangements, which the FED has signed with 14 other central banks, were also singled out as a special segment of this group of measures. The second set of instruments covers rendering of liquidity support directly to borrowers and investors in key credit markets and includes the following arrangements: *Commercial Paper Funding Facility* or *CPFF, Market Mutual Funds Liquidity Facility* or *AMLF, The Money Market Investor Funding Facility* or *MMIFF* and *Term Asset-Backed Securities Loan Facility* or *TALF*.

out having endangered price stability in this process[6]. Although, with the first signs of market recovery, there was a cancellation of individual measures from the group of non-conventional monetary policy instruments, their use during the period of crisis has significantly increased the balance sum of CB. In addition, being that the plan of monetary authorities is to continue with the policy of low interest rates in the next period in order to alleviate the burden of debt service repayment to borrowers, the risk of increased inflationary pressure in the future period is quite certain.

European Central Bank (hereinafter referred to as ECB), in a manner similar to the Fed policy, started with the relaxation of monetary policy immediately after the outbreak of the crisis. In order to carry out its function of a guarantee of the banking sector liquidity more effectively, the ECB shifted in mid-October to the *fixed rate tender procedure with full allotment*, through which the banking institutions with affected liquidity borrowed in the desired amount, paying a fixed interest rate determined by the CB. This procedure was applied to all refinancing operations, both those with weekly main refinancing operation and those with longer -term refinancing operation The ECB anti-crisis policy has shown some differences in relation to the anti-crisis policy of the Fed, in particular due to the nature of the European financial system as bank-oriented[7]. For these reasons, the support to liquidity in the financial system of the EU is primarily focused on the banking sector. Relaxation of the conditions under which banks borrow, support to more efficient functioning of money markets and improvement of market liquidity for the private debt securities segment as a significant source of liquidity for banks in the euro area, represent the key measures by which the ECB has managed to mitigate the risk of systemic insolvency of the banking sector and provide optimal crediting of households and business entities in the eurozone. However, although anti-crisis policy of the ECB has many similarities with the anti-crisis policy of the Fed, the plan of monetary authorities is to turn to a more restrictive monetary policy in future, so that monetary stability would not be jeopardized.

Escalating financial crisis in the world's leading economies and its transfer to almost all countries brought about a need to re-activate the function of lender of last resort under the arrangement of CB. Relaxation of monetary policy through the policy of low interest rates and the introduction of a set of non-conventional monetary policy instruments was the common measure of almost all CBs. Performance evaluation of the applied arrangements, within the functions of monetary regulation and lender of last resort, is directly conditioned by the efficiency of the function of supervision. Belated action of some CBs appeared precisely as a result of different institutional organization of CB functions and the lack of coordination and cooperation among competent regulatory bodies. Regarding the institutional organization of CB functions, we have concluded in the previous segment of this paper that the dislocation of the function of supervision from the jurisdiction of CB and its assignment to a specialized supervisory agency represents an issue of organizational character, which should not exert crucial influence on the efficiency of activities in guaranteeing liquidity by CB. However, the US Fed, in its mission of rescuing institutions

[6] According to estimates of the Committee, it is below 2%, while unemployment rate is still high (close to 10%).

[7] In contrast to Europe, the financial systems of England and the United States are characterized by their market orientation due to ever greater participation of non-bank financial institutions and capital markets in relation to banking financial institutions.

with serious systemic problems, was much more successful than the CB of England, owing to the unification of the functions of monetary regulation, liquidity guaranteeing and supervision of banks within the CB framework. In contrast to this, in the financial system of the United Kingdom, characterized by separated monetary and supervisory functions, the lack of an appropriate degree of coordination among competent regulatory authorities appears to be a significant obstacle to successful liquidity guaranteeing by the CB.

The application of unconventional instruments of monetary policy caused that almost all countries have found themselves in the so-called liquidity trap situation, which threatens to undermine monetary stability in future. In addition, significant fiscal costs, growth of unemployment and wage cuts are just some of the consequences of the lacking optimization of functions and objectives of CB, before and during the crisis. The proposed reforms of the supervisory function infrastructure, in the world's leading economies and elsewhere, are developing in the direction of increased involvement of CBs in the supervision. This implies that numerous institutional changes have not substantially altered the central banking because, regardless of the trend of power consolidation, CB remains the supreme monetary institution, which is finally the only one capable of simultaneously ensuring monetary and financial stability.

CONCLUSION

The global financial crisis has shown that financial stability achieving is equally difficult task as compared to monetary stability achieving. In this matter, the activity of monetary authorities should not be organized to "clean up the mess after the price bubble has burst" through the policy of aggressive cuts in interest rates. On the contrary, the employment of this policy in the long run may, apart from its potential threat to monetary stability, also lead to a wrong perception of risks and, therefore, to taking above-average risks, which would only further deepen the problem. Instead, the CB must define an appropriate framework of its policy, through which it will direct its function of monetary regulation towards ensuring price stability, and its functions of supervision and lender of last resort towards securing financial stability. Only in this way the optimization of the objectives and functions of CB can be made possible.

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KRIZNI KONCEPT OPTIMIZACIJE FUNKCIJA CENTRALNE BANKE

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Centralna banka, kao vrhovna monetarna institucija u finansijskom sistemu jedne zemlje, nastoji da obezbedi optimalne monetarne uslove funkcionisanja privrednog sistema, obavljajući pritom funkcije monetarne regulacije, supervizije i poslednjeg utočišta banaka. Očuvanje monetarne stabilnosti, kao cilja funkcije monetarne regulacije, i finansijske stabilnosti, kao cilja funkcije nadzora i poslednjeg utočišta, nameće potrebu razmatranja mogućnosti optimizacije ovih funkcija, u pravcu postizanja cenovne i finansijske stabilnosti, istovremeno. Nakon teorijske rasprave o funkcijama i ciljevima centralne banke, ukazano je na potrebu definisanja odgovarajućeg okvira monetarne i politike nadzora i kontrole, koji će pogodovati istovremenom postizanju cenovne i finansijske stabilnosti.

Ključne reči: *centralna banka, monetarna regulacija, supervizija, poslednje utočište banaka, cenovna stabilnost, finansijska stabilnost*