

Difference between a Central Bank and a Commercial Bank

By CBSI Media

A lot of people have misunderstood the functions of these two banks. Hence this article aims to help you understand the differences between Central Bank & Commercial Banks.

What is a Central Bank?

A Central Bank is formed under an act or ordinance of the Government. Central Banks controls the amount of foreign exchange in the country. The sole duty is to safeguard and promote the banking sector. They are regarded as the regulator. Central Banks has the sole authority of issuing currency note. Central banks do not deal with customers directly. Instead a Central Bank is known as the banker's bank and controls the entire banking industry. Central Bank is also known to offer a number of services for the Government in terms of supporting and issuing government bonds, preparing government trade, monetary and fiscal policies and transferring of money from one place to another. The objective of a Central bank is not to earn a profit but to work in the best interest of the nation or the public. Hence Central banks does not accept the deposit of public. There can only be one Central Bank in a country.

In Solomon Islands, the Central Bank of Solomon Islands (CBSI) is the only premier financial institution in the country which is known as the banker's bank who controls the entire banking industry. The important role CBSI plays is, regulating the financial system by maintaining price stability to sustain the value of Solomon Dollar by evading high inflation and deflation. Also, under the CBSI Act of 2012, CBSI is the only financial institution allowed to issue currency as legal tender. (More details are available on www.cbsi.com)

What is a Commercial bank?

A commercial bank is an institution formed under the company's ordinance. It accepts deposits, lend money to the public and transfers money from one place to another. Commercial banks have nothing to do with Foreign reserves. They are not responsible for the growth of the banking sector and cannot issue currency note but can provide banking facilities for members of the public to deposit or withdraw their money including credit facilities. These banks are mostly privately owned, and their main objectives is to make profit. There maybe more than one commercial bank in the country and they can be closed due to unsuccessful business.

In Solomon Islands we have four Commercial Banks. They are; Bank of the South Pacific (BSP) Australia & NewZealand Banking Limited (ANZ), Pan Oceanic Bank (POB) and Bred Bank.

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