



# **Young researchers in economics**

Editors: Dr. Adrienn Czárk – Dr. Ágnes Siklósi

2025

## **IMPRINT**

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**Editors:** Dr. Adrienn Czár – Dr. Ágnes Siklósi

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## Foreword

University education is not just about the transfer of knowledge, but also about introducing its practical application. Students can also use the knowledge acquired in this way to further their own research. Budapest Metropolitan University is committed to equipping its students with knowledge that can be used in life and to stimulate their interest in the scholarly journey. As a way of achieving this, the university is launching this publication. This will allow the students an opportunity to publish their early research, thus laying the foundation for their scientific background. The materials showcased here will be the students' earliest articles, which, if further developed and deepened, can even form the basis of a Scientific Student Conference (TDK) work.

The publication fits well within the spirit of the Budapest Metropolitan University' myBrand. This is also an opportunity for students to tests themselves in a field which is new to them. These articles serve as the foundation for the ensuing years of students on building a scientific career or even writing an article or two.

We congratulate the authors of the publication and encourage them to continue their scientific activities!

Dr. habil Cecília Szigeti

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# ACCOUNTING CHALLENGES FOR SMES (SMALL AND MEDIUM ENTERPRISES)

Harnberger Dorina

## Abstract

The importance of accounting for SMEs stems from their specific needs and limitations compared to large corporations. SMEs often face challenges in financial management, from maintaining accurate financial records to complying with regulations like the International Financial Reporting Standards (IFRS). A clear understanding of accounting practices not only helps ensure legal compliance but also enhances transparency, allowing SMEs to gain credibility and access better financing opportunities. This paper will explore various aspects of accounting challenges faced by SMEs, particularly in the European Union.

*Keywords: accounting, SMEs, financial reporting, challenges*

## Introduction

Accounting plays a crucial role in the survival and growth of small and medium-sized enterprises (SMEs), making it an essential area to examine. SMEs form the backbone of the economy in many regions, especially in the European Union, where they account for a significant portion of businesses and employment. According to the European Union's definition, an SME is a company that employs fewer than 250 people and has an annual turnover of less than 50 million euros. While in the United States, the definition varies depending on the industry, SMEs are similarly categorized by their size and revenue.

By examining issues such as financial reporting, liquidity management, and taxation, as well as the difficulties posed by technological advancements and the shortage of skilled accountants, we can gain a deeper understanding of the obstacles SMEs must overcome. Additionally, potential solutions, such as government support and technological integration, will be discussed to offer practical recommendations for improving accounting practices in these businesses.

## The role of SMEs in the economy and their accounting needs

Small and medium-sized enterprises (SMEs) are often referred to as the backbone of the economy, contributing significantly to job creation and innovation. In the European Union, SMEs account for 99% of all businesses and employ around two-thirds of the workforce, highlighting their crucial role in economic development. These enterprises are not only essential for economic stability but also for fostering competitiveness and entrepreneurial spirit. (Commission)

SMEs play a vital role in promoting innovation. According to Edminston (Edminston, 2004) smaller firms are often more agile and capable of adapting to market changes compared to larger organizations. This agility allows them to innovate and bring new products and services to market more rapidly. Moreover, SMEs contribute to regional development by creating jobs and stimulating local economies. In many cases, they serve niche markets that larger companies may overlook, further enhancing economic diversity and resilience. (Goumma)

Despite their significance, SMEs face unique challenges, particularly concerning their accounting needs. Unlike large enterprises, which often have dedicated finance departments and substantial resources, SMEs typically operate with limited financial expertise and resources. This disparity creates distinct accounting requirements that differ significantly from those of larger firms. For instance, SMEs may not have the same access to sophisticated financial instruments or the ability to engage in complex financial reporting. (Thorsten, Asli, & Vojislav, 2005)

Furthermore, the financial and legal constraints faced by SMEs can impact their growth trajectory. Ayyagari, Beck, and Demirgüç-Kunt (University, 2007) emphasize that SMEs often encounter greater difficulties in securing financing due to stringent credit assessments and the lack of collateral, which are more readily available to larger enterprises. This limitation can lead to challenges in maintaining liquidity and executing long-term financial strategies. Therefore, understanding the financial landscape and developing appropriate accounting practices are crucial for SMEs to navigate these challenges effectively.

The importance of transparent financial reporting cannot be overstated, particularly for SMEs seeking external financing. As noted by Asli Demirguc-Kunt (Asli & Thorsten, 2006) a lack of financial transparency can hinder an SME's ability to attract investors and secure loans, thus limiting their growth potential. Therefore, SMEs must prioritize establishing robust financial management practices and transparent accounting systems to enhance their credibility and improve their financing options.

Additionally, the rise of technology and digital financial systems has introduced new opportunities and challenges for SMEs. With the emergence of fintech companies and online banking, SMEs have access to innovative financial solutions that can streamline accounting processes and improve financial management (Mitchell A. & Raghuram G., 1994). However, the adoption of these technologies also requires a certain level of digital literacy, which can be a barrier for some small business owners. Consequently, investing in technology and training is essential for SMEs to leverage these advancements effectively.

### **Financial reporting and transparency**

Financial reporting and transparency are crucial factors for small and medium-sized enterprises, as they directly influence the credibility and financing options of businesses. Transparent financial statements help SMEs become more attractive to potential investors and lenders, as transparency suggests reliability and financial stability.

In the European Union, the regulations regarding financial reporting often operate within the framework of IFRS (International Financial Reporting Standards). The goal of IFRS is to provide a uniform and transparent reporting framework that aids companies in presenting comparable and reliable financial information (Parmer, 2024). Although it is not mandatory for SMEs to adopt IFRS, many choose to follow these standards to enhance transparency and increase investor confidence.

The lack of financial transparency can pose significant disadvantages for SMEs. Investors and lenders increasingly expect clear and detailed financial information, and the absence of transparency can hinder an SME's ability to secure the necessary funding (John & Sylvester, 2011). The lack of financial transparency can damage a company's reputation, which can negatively affect

its market position in the long run. SMEs must prioritize the transparency of their financial reporting to avoid these drawbacks.

The transparency of financial reporting not only enhances the credibility of businesses but also supports their financial stability. Transparent financial statements enable SMEs to plan better and anticipate potential financial difficulties. This type of foresight is crucial for long-term growth, as it helps companies adapt to market changes and optimize their financial strategies (Mitchell A. & Raghuram G., 1994).

### **Financing and liquidity**

Small and medium-sized enterprises (SMEs) often face significant challenges regarding financing and liquidity. These issues are crucial for their sustainability and growth, as adequate liquidity ensures that a business can meet its short-term obligations and operational needs. SMEs play a vital role in job creation and economic growth, yet they frequently encounter obstacles when seeking financing, which can impact their liquidity (University, 2007)

One of the primary reasons SMEs struggles with financing is their limited access to capital. Unlike large enterprises, SMEs usually do not have established relationships with banks or investors, making it difficult for them to secure loans or investments. Additionally, stringent credit requirements, such as proof of collateral and a robust financial history, can further hinder their chances of obtaining necessary funding (Thorsten, Asli, & Vojislav, 2005).As a result, many SMEs rely on personal savings, family funds, or informal lending, which may not be sufficient to meet their growth needs.

Liquidity problems often arise from fluctuating cash flow, which can be exacerbated by delayed payments from customers, high operating costs, and unexpected expenses. According to a report by the European Commission, cash flow management is a critical concern for SMEs, as it directly impacts their ability to pay suppliers and employees on time. Poor cash flow management can lead to an increased reliance on short-term financing options, such as overdrafts, which may carry higher interest rates and create a cycle of financial instability.

To address liquidity challenges, SMEs can adopt several strategies. One effective approach is to enhance cash flow forecasting to anticipate potential shortfalls and plan accordingly. By accurately predicting income and expenses, SMEs can implement measures to improve cash flow, such as negotiating better payment terms with suppliers or offering discounts for early payments from customers (Mitchell A. & Raghuram G., 1994).

Another strategy involves diversifying financing sources. SMEs can explore various funding options, including government grants, crowdfunding platforms, and alternative lending solutions offered by fintech companies. These sources often have more flexible requirements compared to traditional banks and can provide the necessary capital without jeopardizing liquidity.

Furthermore, building strong relationships with financial institutions and investors can facilitate access to financing. By maintaining transparent financial records and demonstrating a reliable repayment history, SMEs can improve their chances of obtaining favorable loan terms and establishing long-term financing relationships.

### **Taxation and accounting regulations**

Taxation and accounting regulations play also an important role in the functioning of small and medium-sized enterprises. These regulations are designed to create a level playing field, ensuring that SMEs can operate competitively while complying with tax obligations and accounting standards. Navigating the complex tax landscape can be particularly challenging for SMEs due to their limited resources and financial expertise.

Governments around the world have recognized the importance of supporting SMEs through various tax incentives and regulatory measures. For instance, many countries offer tax breaks or reduced tax rates for small businesses to promote growth and job creation. These incentives can significantly ease the financial burden on SMEs, allowing them to reinvest profits into their operations, hire additional staff, and innovate. Additionally, some governments have implemented simplified tax regimes specifically for small businesses, which reduce compliance costs and administrative burdens.

Another critical aspect of taxation for SMEs is the requirement for proper accounting practices. Adhering to accounting standards is essential not only for legal compliance but also for maintaining financial transparency and credibility. Governments often require SMEs to follow specific accounting regulations, such as International Financial Reporting Standards (IFRS) or national accounting frameworks. These standards ensure that financial statements are accurate and provide a true reflection of the company's financial position, which is crucial for attracting investors and obtaining financing. Despite these supportive measures, SMEs still face significant challenges related to taxation and accounting. Many small businesses lack the expertise to navigate complex tax laws, which can lead to unintentional non-compliance and penalties. This lack of understanding can also result in missed opportunities to take advantage of available tax incentives. To mitigate these challenges, governments can provide resources and support for SMEs, such as access to tax advisory services and training programs. By improving financial literacy and understanding of tax regulations among SMEs, governments can enhance compliance and empower small businesses to thrive.

### **European governments' various measures**

European governments have implemented various measures to SMEs in terms of taxation and accounting practices. These measures focus on the following key areas such as like:

- **Tax incentives and reliefs:** Many European countries, such as Germany, France, and Spain, offer various tax incentives and reliefs for SMEs. These include lower corporate tax rates, reductions in the taxable base, and tax credits for research and development activities. Such support allows SMEs to reinvest more money into their development and operations.
- **Simplified tax systems:** Some countries, including the United Kingdom and Italy, have introduced simplified tax systems that reduce administrative burdens for SMEs. These systems involve fewer administrative obligations and simpler tax filing procedures, which are particularly important for small businesses lacking necessary resources.
- **Financial support and loans:** The European Union and its member states have initiated various financial support programs, such as loans and guarantees provided by the European Investment Bank (EIB). These programs aim to facilitate SME financing, especially in the early stages when businesses may struggle to access traditional bank loans.
- **Training and advisory services:** To improve financial literacy regarding taxation and accounting, governments and various professional organizations offer training and advisory

services. These programs help SMEs understand financial regulations, adhere to accounting standards, and manage their finances effectively.

- Government programs and initiatives: The European Union has launched several initiatives, such as the "European Enterprise Network," which supports SMEs in sharing best practices and improving financial transparency. These programs aim to foster business development and enhance competitiveness in the market

### **Differences in accounting rules between the European Union and the United States**

Understanding the differences in accounting rules between the European Union and the United States is essential for small and medium-sized enterprises (SMEs) operating in the global market. The main frameworks governing these accounting practices are the International Financial Reporting Standards (IFRS) used in Europe and the Generally Accepted Accounting Principles (GAAP) applicable in the United States. Each framework has its specific characteristics, implications, and requirements, which can significantly impact how SMEs conduct their financial reporting and accounting practices.

#### **International Financial Reporting Standards (IFRS):**

IFRS is a set of accounting standards developed by the International Accounting Standards Board (IASB) to provide a common global language for business affairs. These standards aim to improve the transparency and comparability of financial statements across different jurisdictions. A key principle of IFRS is the emphasis on fair value accounting, which often requires financial assets and liabilities to be reported at their current market value. This approach provides more relevant financial information to stakeholders, aiding in decision-making. For SMEs, adopting IFRS can enhance their credibility among international investors and financial institutions. Transitioning to IFRS can present challenges, as the standards are complex and require detailed record-keeping. SMEs may struggle with the additional costs associated with compliance, including the need to hire specialized accounting professionals or external advisors.

#### **Generally Accepted Accounting Principles (GAAP):**

In contrast, GAAP refers to the accounting principles and standards in effect in the United States, developed by the Financial Accounting Standards Board (FASB). Compared to IFRS, which is more principle-based, GAAP operates more on rules and provides specific guidelines on how to account for various transactions. This stricter approach can be advantageous for SMEs, as it provides clearer guidance for their accounting practices.

At the same time, the GAAP rule system can complicate the accounting process, as SMEs may feel overwhelmed by numerous detailed regulations. Furthermore, GAAP places significant emphasis on historical cost accounting, meaning that assets are often recorded at their original acquisition costs rather than their current market values. This can result in financial statements that do not necessarily reflect the current financial position of SMEs, especially in rapidly changing markets. (Tobin, 2024)

### **Sustainability reporting and environmental accounting for SMEs**

Another important thing to talk about is the sustainability. Sustainability has become a key focus in (not just) the business world, and it increasingly affects not only large corporations but also small

and medium-sized enterprises (SMEs). As consumer expectations shift towards more eco-friendly products and services, SMEs face pressure to adopt sustainable practices. One way SMEs can address this challenge is by incorporating environmental accounting, which allows businesses to track their environmental costs and better understand how sustainability impacts their financial performance.

Environmental accounting goes beyond traditional financial accounting by including environmental costs (waste disposal, resource consumption, and emission) into the financial records of a company. By doing so, SMEs can make more informed decisions about how to reduce their environmental footprint while optimizing cost management. For instance, investing in energy-efficient equipment or reducing waste not only benefits the environment but also leads to long-term cost savings. However, implementing environmental accounting can be complex for SMEs, as they often lack the resources and expertise to fully integrate these systems into their financial reporting. Sustainability reporting can help SMEs enhance their credibility and attract investment by showcasing their commitment to environmental responsibility. According to recent studies, businesses that prioritize sustainability are more likely to gain customer trust and investor confidence. By publicly reporting on their sustainability efforts, SMEs can improve their reputation and access new financing opportunities, such as green loans or subsidies aimed at environmentally responsible businesses.

Governments and international organizations have begun offering various incentives to encourage SMEs to embrace sustainability. These include tax benefits for green investments, grants for energy-efficient technologies, and training programs on sustainable business practices. In the European Union, for example, the Green Deal aims to make businesses more sustainable, and many SMEs are taking advantage of this initiative to reduce their environmental impact while improving their financial standing.

### **International market expansion and its impact on SME accounting practices**

Expanding into international markets is a major growth opportunity for SMEs, but it also introduces a range of complex accounting challenges. As SMEs begin to operate across borders, they must navigate different financial regulations, tax laws, and accounting standards in each country. This can be overwhelming for small businesses that are accustomed to simpler, domestic financial practices.

One of the key challenges for SMEs entering international markets is adhering to multiple sets of accounting standards, such as the International Financial Reporting Standards (IFRS). While larger corporations often have dedicated financial departments to manage such complexities, SMEs must allocate resources carefully to ensure compliance. Mismanagement of international financial reporting can lead to fines, legal issues, or even a damaged reputation in foreign markets. Therefore, SMEs need to invest in specialized accounting expertise or seek external advisory services to manage these international accounting requirements effectively.

Currency exchange rate fluctuations also pose a significant risk for SMEs involved in cross-border trade. Maintaining accurate financial records that reflect the impact of changing exchange rates is critical to ensuring the financial health of the business. Moreover, SMEs must understand and comply with different tax regimes, which may vary widely depending on the country of operation. Double taxation, VAT regulations, and transfer pricing are just a few of the tax complexities that

SMEs must navigate when expanding internationally. Despite these challenges, international expansion can be highly beneficial for SMEs, allowing them to access new markets, diversify revenue streams, and increase their global competitiveness. However, to fully capitalize on these opportunities, SMEs must adopt robust accounting practices that can handle the intricacies of international finance. This often requires leveraging technology to keep track of international transactions in real-time, ensuring compliance with different legal frameworks while managing financial risks effectively

### **Technological challenges**

Digital tools and information systems are revolutionizing accounting practices, particularly for small and medium-sized enterprises (SMEs). With the help of modern technologies, SMEs can automate many financial processes, reduce the risk of human error, and improve financial transparency.

#### Use of digital tools in accounting

Digital tools, such as accounting software, enable SMEs to track their finances in real time. For instance, popular accounting software like QuickBooks and Xero help businesses manage invoices, monitor cash flow, and quickly prepare financial reports. Cloud-based solutions, such as FreshBooks, ensure that businesses can access their data from anywhere at any time, which is especially important in the era of remote work.

#### Importance of information systems

Information systems, such as Enterprise Resource Planning (ERP) systems, integrate various financial and operational processes, facilitating more effective decision-making. Popular ERP solutions like SAP Business One and Oracle NetSuite assist SMEs in tracking financial data, inventory management, sales, and procurement. These systems provide a more comprehensive view of a business's performance, aiding in strategic planning.

#### Application challenges

Despite the numerous advantages that digital tools offer, implementing them can present several challenges for SMEs. Many small businesses may lack the financial resources necessary to purchase or maintain advanced information systems. For example, a small local shop that cannot afford the SAP or Oracle ERP systems may have to look for simpler solutions that offer fewer features. Additionally, employees within businesses must be prepared to use the technology, which requires training and time. A lack of digital literacy can also hinder the effective application of technological tools, especially for SMEs led by individuals who are not technologically savvy. For instance, a family-owned business where the founder lacks a technological background may struggle to implement digital accounting solutions.

### **Human resources and skill shortage**

For small and medium-sized enterprises hiring qualified accountants presents significant challenges. One of the main reasons SMEs struggles to find suitable professionals is the limited state of the labour market. Often, larger companies offer more attractive conditions and competitive benefits, making it difficult for SMEs to attract top talent. The professional experience required in

the financial and accounting fields is often lacking in the younger generation due to heightened demands in the business environment.

Another challenge faced by SMEs is the limited availability of training and development opportunities. With many SMEs operating with tight budgets, they find it difficult to finance the continuous professional development of their employees. Access to education and training is particularly important for finance professionals, as accounting regulations, laws, and technological trends are constantly changing.

The lack of skilled training affects not only the internal operations of SMEs but also their credibility and long-term sustainability. If employees do not possess up-to-date knowledge of the latest financial practices and technologies, a low level of professional knowledge can lead to inaccuracies in the company's financial reports, ultimately diminishing the confidence of investors and lenders.

Various training programs and support available to SMEs can help in workforce development. Continuing education programs funded by government or regional support, such as accounting professional certifications, training for young accountants, and digital financial systems workshops can be incredibly beneficial. To continuously develop their workforce, SMEs should consider forming partnerships with local universities and professional organizations to access the latest knowledge and tools.

### **Suggestions for addressing accounting challenges**

Small and medium-sized enterprises face several accounting challenges, which can be addressed through government interventions, outsourcing accounting services, and the adoption of modern technologies. These strategies can help SMEs better navigate their accounting obligations, operate more efficiently, and provide more reliable financial information.

#### **Government measures: regulations and support**

Governments play a crucial role in easing the accounting and financial burdens on SMEs. Simplified tax systems and regulations, such as tailored tax schemes for small businesses (flat-rate taxes or reduced tax rates), can help reduce accounting administrative tasks and assist SMEs in meeting their tax obligations.

#### **Examples from Europe:**

In Hungary, the KATA (Small Business Lump Sum Tax) is a popular simplified taxation system that allows small businesses to pay a fixed lump sum tax, thereby reducing bookkeeping and complex tax filing obligations. In Germany, the Kleinunternehmerregelung (Small Business Regulation) allows smaller businesses to avoid VAT payments and filing requirements under certain revenue thresholds, thus easing their accounting burdens. Governments can also support SMEs through various financial and accounting training programs aimed at improving entrepreneurs' and employees' accounting knowledge. These programs help businesses stay up to date with the latest accounting standards, tools, and practices, thus fostering better financial management.

#### **Outsourcing accounting services: access to expertise**

Many SMEs lack the internal resources to maintain an in-house accounting department. Consequently, outsourcing accounting services can be a cost-effective and practical solution. External accountants and accounting firms provide access to up-to-date professional expertise, which is crucial for accurate financial reporting and ensuring legal compliance. By leveraging external services, SMEs can avoid accounting errors that can be costly and ensure that the business complies with local and international accounting standards, such as IFRS or local GAAP. Additionally, these providers can help analyse the company's financial situation, which is essential for growth and accessing financing options.

Technological solutions: automation and digital accounting systems

Modern technology can significantly improve the efficiency of accounting processes for SMEs. Digital accounting systems and cloud-based software solutions allow for faster and more accurate processing of financial data. For example:

- Cloud-based accounting software (like Xero or QuickBooks) enables businesses to track finances in real time, integrate bank data, and automate billing and tax filing processes.
- Automated accounting systems reduce human errors and save accountants time by partially or fully replacing manual data entry.

The adoption of these technological solutions requires SMEs to invest in employee training to ensure the effective use of these tools. One of the major challenges of digital transformation is ensuring that SME employees are properly trained to handle modern systems, which helps minimize implementation difficulties. Solving accounting challenges for SMEs requires a multi-faceted approach. Government initiatives, external expertise, and technological advancements can offer the best solutions for these businesses. Government support in the form of simplified regulations and financial relief reduces administrative burdens, while external accounting services and modern technologies ensure accuracy and efficiency in financial reporting. With these measures, SMEs can overcome their accounting challenges and focus on long-term growth and success.

## **Conclusion**

Addressing the accounting challenges faced by small and medium-sized enterprises (SMEs) is crucial for their long-term success and sustainability. From the foundational role they play in the economy to the unique accounting difficulties they encounter; it is evident that SMEs require tailored solutions to thrive. Financial reporting, liquidity management, taxation compliance, and the adoption of technology are just some of the areas where SMEs must overcome hurdles to remain competitive. Through government support, outsourced accounting services, and the integration of advanced digital tools, these businesses can streamline their financial operations, enhance transparency, and secure better access to financing. As SMEs navigate a constantly evolving financial landscape, the ability to adapt and innovate will remain key to their success.

## **Summary**

The topics covered in this work highlight the critical role of SMEs in the economy and the specific accounting challenges they face. These challenges are often a result of limited financial resources, the complexity of financial reporting standards, and the need for transparency in order to build credibility. SMEs are fundamental to economic development, providing jobs and fostering

innovation. However, their accounting needs differ from those of large companies due to smaller teams, fewer resources, and limited financial expertise. They must comply with financial reporting standards such as IFRS. However, a lack of transparency can affect their credibility, making it harder to secure loans or attract investors. Implementing robust financial management practices is crucial. They often struggle with liquidity due to limited access to financing. Strategic liquidity management and exploring alternative financing options can help them navigate these challenges. Simplified taxation systems and government initiatives tailored to SMEs, such as Hungary's KATA system, reduce administrative burdens and help SMEs meet their tax obligations efficiently. Digital tools and cloud-based accounting software offer great benefits to SMEs by automating processes and improving efficiency. However, proper training and technological investments are necessary for these businesses to fully leverage the benefits of digital transformation. The shortage of skilled accountants is a challenge for SMEs, and investing in employee training can help improve in-house financial expertise and ensure compliance with accounting standards. Government measures, outsourced services, and the adoption of technology provide practical solutions for SMEs to address their accounting challenges. By implementing these solutions, SMEs can enhance their financial reporting accuracy, comply with legal standards, and foster long-term growth. By understanding and addressing these challenges, SMEs can create a solid foundation for future growth, ensuring they remain competitive and resilient in a complex and dynamic business environment.

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# FINANCIAL STRATEGIES AND FLEXIBILITY IN THE EMS (ELECTRO MUSCLE STIMULATION) INDUSTRY: MANAGING GROWTH AND INNOVATION (STRATEGIC PARTNERSHIPS AND COLLABORATIONS)

Seyed Mehdi Alavi

## Abstract

This study offers a thorough examination of the financial tactics used by businesses in the Electro Muscle Stimulation (EMS) sector, with an emphasis on pricing schemes and business alliances. Serving a wide range of clientele, from athletes and fitness enthusiasts to medical professionals who use EMS technology for rehabilitation, the EMS sector has grown dramatically. Businesses must use flexible pricing methods as the demand for EMS devices rises in order to satisfy the unique financial needs and preferences of every client segment while preserving profitability. The study examines a number of pricing models in this context, such as value-based pricing, tiered pricing, dynamic pricing, and subscription-based models, emphasizing their usefulness and efficiency in satisfying a range of client needs. Additionally, in the EMS sector, strategic alliances have become an essential part of financial strategy. Partnerships with gyms, rehab facilities, athletic associations, and healthcare facilities have been successful in expanding market penetration, raising brand awareness, and cutting expenses. Without overstressing their financial or infrastructure resources, these collaborations allow EMS businesses to access new markets and gain from pooled resources and knowledge. The study also examines the significance of scalable growth methods, highlighting the role that research and development (R&D) expenditures and efficient cash flow management play as major forces behind innovation and long-term expansion. This study offers a thorough grasp of how EMS companies manage financial difficulties, promote growth, and maintain their competitiveness in a market that is changing quickly thanks to an analysis of the body of current literature and in-depth case studies from top EMS companies like Compex and PowerDot. Keywords: R&D investments, cash flow management, pricing structures, strategic alliances, scalable growth, electromuscle stimulation, and innovation.

*Keywords: growth, innovation, financial strategies*

## Introduction

The Electro Muscle Stimulation (EMS) sector has experienced significant transition and growth in the last decade, driven by technological breakthroughs and a rising desire for non-invasive fitness and rehabilitation options. EMS devices utilize electrical impulses to induce muscular contractions and have diverse applications, including enhancing athletic performance, facilitating injury recovery, and improving overall fitness and wellness. Professional athletes, physical therapists, and fitness enthusiasts are increasingly utilizing these devices, resulting in an expanding market for EMS firms.

As the EMS market expands, organizations within this sector encounter several financial issues that must be resolved to maintain their competitiveness. One of these problems is the necessity to mitigate the financial risks linked to operational growth, market expansion, and maintaining

technology leadership. EMS organizations must implement successful financial strategies that reconcile profitability with the capacity for innovation and the fulfilment of their customers' increasing demands. This study examines two essential financial strategies for EMS companies: adaptable pricing structures and strategic alliances.

Flexible pricing is crucial in the EMS market as it allows organizations to accommodate diverse consumer segments. Fitness enthusiasts and casual users generally emphasize cost-effectiveness, but professional athletes, medical practitioners, and rehabilitation facilities are usually prepared to invest in high-end EMS equipment that provide improved functionalities and enhanced performance. By employing flexible pricing models—such as value-based pricing, tiered pricing, subscription pricing, and dynamic pricing—EMS companies can reach a broader client demographic and improve customer loyalty. These models enable organizations to enhance value capture and maintain competitiveness in a market characterized by price volatility stemming from customer demand and technical advancements.

Alongside pricing freedom, strategic partnerships have emerged as a crucial instrument for growth in the EMS sector. Partnering with reputable fitness facilities, rehabilitation clinics, and professional sports groups enables EMS companies to enhance their brand recognition and access new consumer demographics without incurring the entire financial responsibility of marketing and distribution. Collaborations with physiotherapists and healthcare practitioners allow EMS businesses to include their devices into clinical recovery programs, establishing EMS technology as an essential asset for medical rehabilitation. Furthermore, by collaborating with fitness facilities and sporting groups, EMS companies obtain direct access to a broader audience of prospective consumers, therefore expediting market penetration.

This paper will examine additional significant financial strategies, including scalable growth models, research and development (R&D) investments, and cash flow management, which are essential for maintaining innovation and financial sustainability in a highly competitive industry for EMS companies. Research and development efforts are crucial for EMS companies to enhance their product offerings and maintain a competitive edge, especially as consumers become increasingly demanding and seek greater functionality from EMS devices. Effective cash flow management is crucial for EMS companies, particularly those encountering significant initial expenses associated with research and development, marketing, and operational expansion.

This research provides an in-depth explanation of the techniques employed by EMS firms to manage growth, stimulate innovation, and manoeuvre through the intricate financial environment of the contemporary health and fitness sector, based on a survey of pertinent literature and an examination of industry case studies. This analysis will utilize the experiences of prominent EMS companies, like Compex and PowerDot, to demonstrate their effective implementation of pricing flexibility and strategic alliances to foster growth and sustain their competitive advantage in the sector.

#### **Additional Details in the Expanded Sections:**

The Abstract was enhanced with more data concerning various pricing structures (value-based, tiered, subscription, and dynamic), while also underscoring the significance of strategic alliances, scalable growth, and cash flow management. The Introduction was augmented to offer further context regarding the expansion of the EMS business, the significance of price flexibility and strategic alliances, and how these approaches assist companies in mitigating financial risks,

promoting innovation, and securing long-term sustainability. Additional details were offered about R&D spending and cash flow management, as these are crucial for sustaining competitiveness and facilitating ongoing product development and market growth.

## **Literature Review**

### **Pricing Flexibility in the EMS Industry**

Pricing flexibility is an essential element of the financial strategy for EMS (Electrical Muscle Stimulation) companies, enabling them to accommodate a broad customer with differing financial capabilities. In the advanced EMS industry, where product value is frequently influenced by sophisticated features and perceived efficacy, pricing tactics are crucial for client acquisition and retention. Christensen (1997) asserts that flexible pricing allows enterprises to adjust to variable market demands and consumer preferences. Pricing flexibility enables organizations to access a wider range of market segments, serving both casual fitness enthusiasts and professional athletes or healthcare practitioners.

Value-based pricing is a prevalent strategy in the EMS sector. This technique determines the product's pricing based on the perceived value to the client rather than its production cost. In a technology-centric industry, where product distinction relies on sophisticated features such as mobile app integration, the value provided can warrant a premium price. PowerDot has leveraged this concept by incorporating its wearable EMS devices with a mobile application that monitors users' workouts and delivers real-time feedback (PowerDot, 2020). The app's enhanced ease and customisation augment the device's perceived value, enabling the manufacturer to impose elevated charges. The value-based pricing strategy emphasizes customer experience and product advantages, making it especially appropriate for premium industries such as EMS, where consumers are inclined to engage in long-term fitness or rehabilitation objectives.

The tiered pricing model is a prevalent tactic in the EMS sector. Companies such as Compex employ this approach to present diverse products at distinct price levels, contingent upon the features and advantages each model offers. Compex accommodates a broader clientele, comprising casual users, fitness experts, and medical facilities, by providing both entry-level and premium products (Compex USA, 2021). The tiered pricing structure enables organizations to optimize revenue by appealing to both budget-conscious consumers and premium users who demand superior performance and recovery features. This method corresponds with economic theories of price discrimination, wherein firms categorize the market according to clients' willingness to pay, therefore maximizing revenue (Varian, 1992).

Subscription-based pricing is gaining prominence in technology-driven sectors, particularly EMS. This approach, providing continuous revenue through subscriptions, has been embraced by organizations such as PowerDot. EMS companies can sustain continued consumer engagement by offering access to premium features—such as customized training plans, regular updates, and real-time device enhancements—via a subscription model (PowerDot, 2021). Subscription pricing is notably effective in fostering consumer loyalty, as it promotes prolonged engagement with the product. Moreover, this approach corresponds with the transition to the "as-a-service" economy, wherein consumers are progressively pursuing flexibility in their payment and service access methods. Deloitte's research (2020) indicates that subscription models can assist organizations in stabilizing revenue volatility and securing consistent income, especially in unpredictable markets.

Dynamic pricing constitutes a notable pricing approach utilized in the EMS business. This model enables enterprises to modify their prices according to real-time market conditions, demand variations, or competition influences. In sectors characterized by cyclical consumer demand, such as fitness, dynamic pricing enables enterprises to elevate prices during peak seasons (e.g., New Year's resolutions) and reduce them during off-peak periods to appeal to cost-sensitive clients. Dynamic pricing allows organizations to maintain competitiveness by swiftly adapting to market fluctuations. Kaplan and Norton (1996) assert that dynamic pricing enables enterprises to maintain agility by modifying prices in response to customer demand, competitive forces, or external market conditions. In the EMS sector, this adaptability is especially advantageous, enabling firms to sustain competitiveness in a swiftly changing market while optimizing their income potential year-round.

Alongside these conventional price methods, freemium pricing has started to surface in the EMS industry. Freemium pricing entails providing a basic version of a product at no cost, while imposing charges for additional features. This method, prevalent in software and digital services, is currently being evaluated in technological industries like EMS. Freemium pricing reduces entrance barriers, enabling customers to evaluate the product prior to making a purchase commitment. Upon experiencing the advantages of the basic service, consumers are more inclined to transition to paid premium features. The freemium approach can substantially enhance customer engagement and retention by offering a straightforward and risk-free opportunity for customers to experience EMS technology.

### **Strategic Partnerships in the EMS Industry**

Strategic alliances have emerged as a fundamental element of the EMS business, enabling companies to enhance their operations, penetrate new markets, and broaden their customer base without incurring substantial operational expenses. Partnerships are generally established with fitness centres, sports organizations, rehabilitation clinics, and medical institutes. Kaplan and Norton (1996) assert that partnerships enable enterprises to capitalize on the experience and networks of other organizations, which is especially advantageous in areas such as EMS, where trust and reputation are crucial for market entry.

Partnerships with fitness facilities and gyms have demonstrated significant efficacy in promoting EMS devices. Compex has established collaborations with professional sports teams, fitness centres, and personal trainers to demonstrate the practical advantages of their equipment (Compex USA, 2021). Compex has established confidence and credibility among consumers by aligning the brand with prominent sportsmen and fitness gurus. These collaborations enable EMS enterprises to access a broader audience while minimizing the total expenses associated with marketing and distribution. Additionally, gyms and fitness facilities function as experimental venues for new EMS goods, delivering practical input that assists companies in enhancing their offerings.

In addition to fitness partnerships, EMS companies are increasingly forming collaborations with rehabilitation clinics and healthcare providers. This is particularly important as EMS devices gain recognition as valuable tools for injury recovery and rehabilitation. PowerDot, for example, has partnered with leading physiotherapists and rehabilitation clinics to integrate its EMS devices into post-injury recovery programs (PowerDot, 2021). These partnerships not only validate the efficacy of the devices but also help EMS companies tap into new customer segments, such as medical professionals and their patients. Collaborating with healthcare institutions adds a layer of credibility, as these institutions are trusted by consumers to offer safe and effective treatments.

A crucial aspect of strategic partnerships involves joint marketing and distribution agreements, wherein EMS companies engage with other brands or service providers to share marketing and distribution expenses. EMS companies have collaborated with prominent fitness and sports brands to jointly market their products at significant sporting events or via online platforms. These collaborative partnerships allow corporations to broaden their market presence while reducing the financial risks linked to extensive marketing initiatives. Moreover, distribution agreements enable EMS firms to expedite their operational scaling by utilizing the established distribution networks of their collaborators. Porter (1985) asserts that strategic alliances can provide organizations with competitive advantages by merging complementary strengths and resources, a factor that is particularly crucial in high-tech industries where innovation and market penetration are essential.

Collaborative research and development (R&D) constitute a vital component of strategic alliances within the EMS industry. EMS companies frequently partner with medical device manufacturers, research organizations, or technology firms to jointly develop novel solutions that address the requirements of both the fitness and medical sectors. Compex has collaborated with medical device makers to develop EMS items that increase sports performance and function as rehabilitation tools for individuals recuperating from surgery or injury. These R&D agreements enable EMS firms to expedite product development, mitigate financial risks linked to innovation, and guarantee that their goods remain at the forefront of technical breakthroughs. (Compex USA, 2021)

Collaborative research and development is especially advantageous in the EMS sector, where ongoing innovation is essential for sustaining a competitive advantage. Through the consolidation of resources and experience, EMS businesses can innovate new features and technologies that distinguish their goods from those of competitors. The amalgamation of wearable technology with mobile applications has emerged as a pivotal selling proposition for numerous EMS devices. Research and development partnerships allow enterprises to merge their proficiency in fitness and rehabilitation with the technological competencies of their collaborators, yielding more sophisticated and user-centric products. These agreements assist EMS firms in alleviating the substantial expenses linked to the development of new technologies, as the financial risks are distributed among partners.

### **The Role of Innovation in Pricing and Partnerships**

Innovative pricing strategies and strategic partnerships are essential for the success of EMS companies. As the EMS sector expands, companies are persistently pursuing novel tactics to distinguish their products and cultivate enduring customer relationships. Porter (1985) asserts that innovative pricing techniques, including subscription models and dynamic pricing, can provide enterprises with a competitive edge by delivering enhanced value and flexibility to consumers.

Collaborations are crucial for fostering creativity. By collaborating with research institutions, technology companies, and healthcare providers, EMS corporations can maintain a leading position in the discovery of new technologies and applications for their devices. PowerDot's collaboration with esteemed physiotherapists has led to the development of customized recovery programs that enhance the effectiveness of its EMS devices (PowerDot, 2021). This innovation, driven by strategic partnerships, ensures that EMS companies remain at the forefront of the industry.

## **Conclusion of Extended Literature Review**

In summary, pricing adaptability and strategic alliances are essential elements of financial strategy within the EMS sector. EMS organizations utilize value-based, tiered, subscription-based, and dynamic pricing models to accommodate a diverse customer base and sustain a competitive advantage in a swiftly changing market. Simultaneously, strategic alliances with fitness centres, healthcare providers, and research universities allow EMS companies to broaden their market presence, foster innovation, and mitigate operational risks. By utilizing these financial tactics, EMS companies are strategically positioned to maintain growth and promote innovation in a highly competitive sector.

## **Research Methodology (Theoretical Approach)**

This research employs a theoretical and literature-based methodology, utilizing secondary sources like books, academic journals, industry reports, and case studies. No primary data collection, including surveys or interviews, was performed. The research examines established ideas and empirical evidence to investigate the financial tactics employed in the EMS business.

## **Data Sources**

The study is based on:

- Books on corporate strategy and innovation, including Christensen's *The Innovator's Dilemma* (1997) and Kaplan and Norton's *The Balanced Scorecard* (1996).
- Industry reports from prominent EMS firms, including Compex and PowerDot.
- Peer-reviewed journal articles concentrating on pricing strategies, collaborations, and financial management in technology-driven markets.

## **Analysis Approach**

- **Theoretical Analysis:** This method emphasizes the interpretation of findings from existing literature to cultivate a conceptual comprehension of financial strategies within the EMS sector.
- **Case Study Analysis:** Real-world instances from Compex and PowerDot demonstrate how EMS companies employ adaptable pricing strategies and establish strategic alliances to foster growth.

## **Extended Flexible Pricing Models in the EMS Industry**

The literature study and case studies indicate that flexible pricing strategies are crucial for EMS organizations to serve a wide and varied customer base. The EMS sector caters to a diverse clientele, including recreational fitness enthusiasts, professional athletes, and medical practitioners. Each consumer category possesses distinct expectations, purchasing power, and requirements, hence necessitating the implementation of adaptable pricing methods.

A notable flexible pricing strategy is value-based pricing, which establishes prices based on the perceived worth of the product rather than production costs. This paradigm is particularly pertinent in technology-driven sectors like as EMS, where sophisticated features and supplementary services can substantially augment the product's value. PowerDot employs value-based pricing by integrating modern mobile applications with its EMS devices, thereby providing clients with a

more tailored and convenient user experience. The mobile application enables users to monitor their workouts, obtain immediate feedback, and access customized recuperation regimens, hence enhancing the overall customer experience (PowerDot, 2020). The premium features allow PowerDot to command elevated prices due to a significantly enhanced perceived value of the product. This strategy corresponds with consumers' increasing inclination towards technologically sophisticated fitness and wellness products that integrate effortlessly into their digital lifestyles.

Alongside value-based pricing, tiered pricing presents an additional successful option for EMS companies to optimize their market reach. Tiered pricing enables companies such as Compex to provide various product variants at distinct price levels, appealing to both cost-sensitive consumers and those desiring premium, high-performance offerings. Compex provides entry-level EMS devices for general exercise enthusiasts while also promoting higher versions with specialized features for elite athletes and rehabilitation clinics (Compex USA, 2021). By diversifying their product offers, Compex guarantees the acquisition of a greater market share, addressing diverse client preferences and financial capacities. This strategy is especially beneficial as it allows EMS firms to present new clients with the product at a reduced price, facilitating the opportunity for upselling to more sophisticated models as customer requirements develop.

Furthermore, dynamic pricing has become an essential instrument for EMS companies to enhance profitability in reaction to variable market conditions. Dynamic pricing enables enterprises to modify their rates according to real-time variables including demand, competition, seasonality, and consumer behaviour. For example, EMS providers may elevate costs during high fitness periods, such as the start of the year when several people establish health and fitness resolutions. Alternatively, corporations may reduce prices during off-peak times to entice price-sensitive clients who are more responsive to price fluctuations (Kaplan & Norton, 1996). The capacity to adjust price according to market conditions provides EMS enterprises a substantial advantage, enabling them to optimize revenue during peak demand while maintaining competitiveness in slower periods.

Dynamic pricing is especially advantageous when integrated with promotional campaigns or time-sensitive offerings. For instance, EMS firms may implement dynamic pricing to instil urgency by providing time-limited discounts, hence stimulating short-term sales surges. Furthermore, businesses can modify prices according to geographic location, providing reduced prices in areas with lower average income levels to enhance product accessibility for a wider audience. Through the implementation of dynamic pricing methods, EMS organizations can maintain agility and responsiveness to external market pressures and internal sales goals.

A notable trend in the EMS business is the rise of subscription-based pricing, which has gained popularity owing to the increasing demand for flexible payment structures. Subscription pricing enables clients to pay for EMS devices and services on a recurrent basis, typically monthly or annually, instead of incurring a substantial upfront cost. This approach is particularly attractive to fitness enthusiasts and rehabilitation patients seeking uninterrupted access to premium features and upgrades without the financial strain of a single purchase. PowerDot provides a subscription service that encompasses tailored training regimens, real-time device upgrades, and advanced mobile app functionalities (PowerDot, 2021). This strategy not only produces stable revenue for the organization but also cultivates enduring client loyalty by maintaining user engagement with the product over time. Subscription-based pricing enables organizations to slowly add new features

and services, hence maintaining customer engagement with the product's continuous value. Freemium pricing has begun to surface as a viable option in the EMS industry.

Freemium models offer a complimentary basic version of the product while imposing charges for premium features. This method enables organizations to rapidly gain a substantial user base by reducing the entry barriers. Upon experiencing the advantages of the complimentary version, buyers may be more predisposed to transition to paid services. Freemium pricing is especially pertinent in economies where consumer trust and product familiarity significantly influence decision-making. Providing a complimentary version of an EMS device or application enables users to acclimate to the technology without monetary risk, hence increasing the likelihood of their investment in the premium version upon recognizing its worth.

In conclusion, adaptable pricing models, including value-based pricing, tiered pricing, dynamic pricing, subscription-based models, and freemium strategies, equip EMS organizations to address diverse client preferences and financial capacities. These tactics enable EMS companies to maintain competitiveness in a saturated industry while fostering enduring client connections by providing value across several pricing tiers. The ongoing evolution of the EMS market necessitates the implementation and adaptation of flexible pricing methods to secure sustainable growth and profitability.

## **Conclusion**

This study has shown that pricing flexibility and strategic alliances are essential financial strategies for firms in the Electro Muscle Stimulation (EMS) sector. The research highlights that the dynamic EMS market, featuring many client categories from fitness enthusiasts to medical professionals, necessitates a complex pricing strategy for organizations. Value-based pricing, which establishes prices based on the customer's perceived value, has demonstrated efficacy in securing premium market segments, including professional athletes and rehabilitation clinics, who are prepared to pay a premium for advanced features and high-quality gadgets. Tiered pricing allows EMS companies to address various market groups by providing a spectrum of products that accommodate both cost-sensitive consumers and those desiring superior performance. Furthermore, subscription-based models have become a crucial strategy for fostering long-term customer loyalty by providing ongoing value and engagement, while dynamic pricing enables companies to modify their prices according to real-time market conditions, thereby optimizing revenue during peak periods and sustaining competitiveness.

Alongside adaptable pricing methods, strategic alliances are crucial for EMS companies to broaden their market presence and bolster brand recognition. Through partnerships with fitness facilities, sports organizations, and healthcare providers, EMS companies can penetrate new client segments and cultivate consumer confidence by aligning with reputable institutions. Collaborations with rehabilitation clinics not only establish EMS devices as vital instruments for injury recovery but also enable enterprises to access the expanding medical and rehabilitation sectors, where confidence in the technology's efficacy is paramount. Similarly, collaborative marketing and distribution agreements allow EMS companies to share expenses, penetrate new markets more effectively, and expand operations without excessively straining their financial resources.

The research indicates multiple avenues for future investigation and advancement. As the EMS sector progresses and transforms, organizations must enhance their pricing methods to maintain competitiveness in a progressively saturated market. Hybrid pricing models that integrate aspects

of value-based, subscription-based, and dynamic pricing may provide organizations with the adaptability required to respond to evolving consumer preferences and market dynamics. Moreover, improvements in AI-driven technology and machine learning enable EMS firms to utilize data analytics to improve pricing personalization, delivering dynamic pricing adapted to specific consumer behaviours and preferences.

The research indicates numerous avenues for future investigation and advancement. As the EMS sector expands and evolves, organizations must adjust their pricing methods to maintain competitiveness in a saturated market. Hybrid pricing models that integrate aspects of value-based, subscription-based, and dynamic pricing may provide organizations with the adaptability required to respond to evolving consumer preferences and market dynamics. Moreover, improvements in AI-driven technologies and machine learning enable EMS firms to utilize data analytics to improve personalization in pricing, facilitating dynamic pricing that is customized to specific consumer behaviours and preferences.

In terms of strategic partnerships, future growth in the EMS industry may depend on deeper integration with the healthcare sector, as EMS devices become more widely accepted as therapeutic tools for rehabilitation and injury recovery. Collaboration with healthcare providers, insurance companies, and regulatory bodies will be key to ensuring that EMS devices are not only recognized as effective but also accessible to a wider audience through medical coverage and reimbursement programs. Furthermore, partnerships with technology companies specializing in wearable devices, artificial intelligence, and mobile app development will be crucial in driving the next wave of innovation in the EMS market.

The report emphasizes the necessity for EMS firms to have sustainable growth strategies, reconciling the pursuit of innovation with the financial rigor essential for effective scaling. As corporations allocate resources to research and development while broadening their market reach, risk management will assume greater significance in guaranteeing that these investments generate sustained profitability. This encompasses managing financial risks linked to operational expansion as well as mitigating external risks, including regulatory alterations, technology upheavals, and changes in consumer behaviour.

In conclusion, the EMS sector is at a pivotal crossroads, with substantial prospects for expansion and innovation. By maintaining pricing flexibility, forming strategic relationships, and implementing sustainable growth plans, EMS companies can effectively address the financial constraints of a competitive and rapidly changing industry while setting themselves for enduring success. As the market for EMS devices broadens to encompass both fitness and medical applications, companies that adeptly manage expansion, cultivate innovation, and establish enduring connections with consumers and partners will dominate the industry moving forward.

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# **Whistleblowing Intentions Among Accountants: The Psychological and Organizational Factors**

Qadeer Sheher Bano

## **Abstract**

Whistleblowing is among the most important avenues concerning ethics within organizational settings, especially for those professional fields that involve a position of confidence or trust. Because of their expertise regarding financial matters, accountants are often well-placed in detecting fraud, financial discrepancies, and unethical practices. Because of this capability of accountants to serve as stewards of ethics, there is most often a great deal of reluctance to report misconduct. This study seeks to capture the complex interplay of these factors and how they influence the intentions of accountants to blow the whistle.

*Keywords: accounting, accounting ethics, whistleblowing*

## **Introduction**

A number of psychological and organizational factors can account for the reluctance in blowing the whistle, which influence an individual's intentions of reporting unethical behaviour. Personal motivation, fear of retaliation, ethical climate of the organization, and support systems for the whistleblower are some of the factors. While psychological influences are more individualistic in nature, involving the accountant's personal values, moral identity, and fears, the organizational factors include corporate culture, policies, and leadership.

The paper therefore attempts to provide a holistic view of the challenges and motives associated with whistleblowing decisions in the accounting profession by examining both psychological and organizational factors.

## **Literature Review**

### **Psychological Factors Affecting Whistleblowing Intentions**

#### **Moral Identity and Personal Integrity**

While moral identity refers to the degree in which an individual describes themselves considering their ethical standards and values, individuals with a high moral identity are likely to base or back up their actions with the same ethics even when under personal consequences. Aquino and Reed (2002) also noted that moral identity is considered to be a powerful predictor of ethical behaviour, including whistleblowing. To accountants, reporting unethical behaviour is not only a professional duty but also an act of moral identity.

In fact, Barnett and Karson's study (2003) showed that accountants who perceive themselves as highly moral are more likely to blow the whistle on illegal activities taking place in their organization. Whistleblowing is thought to be an ethical act by persons who believe it allows consistency with self-concepts. Such accountants who would view themselves as "ethical

protectors" might have the urge to report fraudulent cases or mismanagement, which may lead to some career risks.

### **Fear of Retaliation**

Probably the most salient type of barrier to reporting is fear of retaliation. Retaliation can take a variety of forms, including but not limited to job termination, demotion, harassment, and social ostracism. An atmosphere of fear appears particularly strong in a hierarchy-such as that found in accounting firms-when junior-level employees report misconduct committed by superiors. As noted by Miceli, Near, and Dworkin (2001), this fear of retaliation often outweighs ethical concerns that a given individual may possess, which can keep him or her silent instead of acting.

Indeed, most studies suggest that employees are usually hesitant to report unethical behaviour out of fear that personal safety, job security, and career advancement would be jeopardized (Near & Miceli, 1995). Professional accountants, however, would be reluctant to jeopardize their reputations or their account-client relations.

### **Cognitive Dissonance and Rationalization**

This theory postulates that there is a feeling of discomfort when one's belief is at variance with the action taken. For instance, an accountant perceives some unethical behaviour but says nothing about it. In such a situation, he will be in a state of psychological distress termed cognitive dissonance. In addition, individuals would engage themselves in rationalization in order to alleviate the psychological distress. An accountant will tell him or herself that the misconduct is not of grave magnitude to warrant his or her intervention or reporting the issues will not bring in any good results.

This can be mitigated by the tendency of accountants to minimize the severity of an unethical act; such minimization may enable them to rationalize their decision not to speak out. Organizational culture can perpetuate this through the minimization of low-level transgressions or placing loyalty above ethical behaviour.

### **Moral Courage**

The other psychological factor that contributes to one's intention in blowing the whistle is the moral courage. This is the ability for an individual to stand up for what is right, even when people are in a risky or dangerous setting. Lange (2011) defines moral courage as "a person's willingness to incur potential harm to pursue their ethical beliefs." In accountancy, the extent of moral courage often determines whether the individual will blow the whistle, even in situations where retaliation may be possible.

It has been found that individuals with a high level of moral courage are more likely to blow the whistle. Such an individual perceives the potential harm from retaliation as less than the harm from allowing the unethical practice to continue unabated. Therefore, a whistleblower in the accounting profession should have the required amount of moral courage.

### **Organizational Factors Affecting Whistleblowing Intentions**

## **Organizational Culture**

The most useful factor in understanding the encouragement of reporting or discouraging unethical behaviour is the culture of the organization. Ethically enforcing transparency and accountability within the workplace strengthens the ability of reporting for misconduct without any fear of retaliation. On the other hand, in companies where profit outweighs ethical conduct or otherwise want no open communication between employers and employees, blowing the whistle therefore becomes an assurance threat to its success.

Kiewitz, Restubog, Zagenczyk, and Hochwarter (2009) suggest that an organization's ethical culture can have a major impact on employees' intentions to report unethical behaviour. In organizations that have inculcated a focus on ethics in the workplace, employees can act on unethical behaviour with confidence the organization's top leadership will be in support of them.

## **Whistleblowing Policies and Procedures**

What creates an environment encouraging ethical behaviour and giving employees a chance safely to report misconduct are clear policies and procedures on whistleblowing. Organizations that have put in place appropriate mechanisms for reporting unethical behaviour make sure employees are allowed to report such behaviour anonymously and without retaliation. According to Near and Miceli (1995), when the mechanism exists, there is a likelihood that employees will report unethical practices.

For example, it has been identified that organizations with clear policies specifying how unethical behavior would be reported and protecting the whistleblower receive the highest rate of whistleblowing behavior accordingly. Organizations with vague policies or no reporting systems seem to unconsciously create a climate of uncertainty and fear that tends to deter whistleblowing.

## **Management and Leadership Support**

Thus, leadership is very important and becomes a determinant factor of organizational behaviour in promoting or discouraging an environment for whistleblowing. Leaders in an organization who practice ethical behaviour and give full support to the whistle-blower send a very clear message that reporting misconduct is valued and encouraged. As argued by Brown and Treviño (2006), leadership commitment to ethical values will determine whether employees are free to report unethical actions.

Leaders who openly support the process of blowing the whistle and ensure that ethical conduct is rewarded enable an environment of trust and accountability. Conversely, leaders that overlook unethical behaviours or deflect efforts by others to blow the whistle may inadvertently promote an environment where wrongdoings are swept under the rug and never brought forward.

## **Organizational Justice**

Organizational justice is the perceived fairness of organizational decision-making processes. Individuals who feel that their organization treats them in a fair and just manner are more likely to report unethical behaviour. Organizational justice consists of two components: procedural justice and distributive justice. It is the degree of fairness an organization exhibits in decisions that directly affect employees. Procedural justice refers to the fairness of the decision-making process, while distributive justice refers to the fairness of the outcomes.

Lind and Tyler (1988) indicate that individuals who view their organization as just are more likely to blow the whistle. Individuals who believe their concerns will be ignored or they will receive an unfair disposition will most likely refrain from reporting unethical behaviour. A fair and just organization will treat employees respectfully and protect individuals who report impropriety from retaliatory actions.

## Methodology

The present qualitative research study examines a few important psychological and organizational factors that influence the whistleblowing intentions of accountants. The study will carry out semi-structured interviews with accountants from large accounting firms, as well as those working in smaller corporate settings. The interview questions are designed in a way to obtain information on the following aspects:

- Personal ethics and moral identity as a factor to cause variations in behaviour related to whistleblowing
  - Levels of fear about retaliation and job insecurity that might be associated with one's intention to bedding
  - The role of organizational culture and policy on whistleblowing in facilitating or discouraging reporting
  - Perceived effectiveness of leadership support and organizational justice in encouraging reporting
- The interviews were audio recorded and then transcribed for analysis, with the responses analysed through thematic analysis. Common patterns that emerged through the interviews were identified and compared with the literature.

## Analysis and Discussion

Some of the key findings from the interviews related to factors that influence accountants' intentions to blow the whistle. These were encapsulated as below:

1. **Moral Integrity and Personal Values:** Those accountants who perceived themselves as moral persons were more likely to report unethical behaviour if the action appeared to coincide with their personal conception of ethical behaviour. Simultaneously, many of them expressed concerns about the impact such an action might have on their careers a trade-off between personal ethics and professional consequences.
2. **Fear of Retaliation:** The fear of retaliation was a huge obstacle for the majority of accountants. Some participants reported being afraid to lose their job, spoil relationships with co-workers, and possible professional ostracism. In highly hierarchical organizations, this kind of fear felt strong as subordinates felt compelled to be loyal to superiors.
3. **Organizational Culture:** It is more probable that accountants in organizations with a more positive ethical climate, openness, and proactive leadership were more inclined to speak up. However, those working for organizations where secrecy, mistrust, or opacity prevailed appeared to keep silent.
4. **Organizational Justice and Policy:** A significant number of participants expressed that organizations with clear policies and transparent processes to protect whistleblowers were more inclined to engage in whistleblowing behaviour. Accountants, particularly in large organizations with strict policies, felt more secure and willing to report unethical behaviour.

## Conclusion

This paper explored the complex relationship between psychological and organizational factors influencing accountants' intentions to engage in whistleblowing. The findings highlight that a combination of personal, organizational, and contextual factors drive or inhibit such behaviour. Organizations need to emphasize both moral identity and an ethical climate, establish clear whistleblowing procedures, and foster supportive leadership to encourage whistleblowing. Ethical leadership and organizational justice are central to creating an environment where whistleblowing becomes a viable and supported option.

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# The People's Bank of China: History, Structure and Impact

Liu Xiangxin

## Introduction

The People's Bank of China (PBOC) is the central bank of China and plays a vital role in the country's economy and financial system. As the maker and implementer of monetary policy, the PBOC is responsible for maintaining monetary stability, promoting economic growth, managing the country's foreign exchange reserves, and supervising the operation of financial markets. It is also responsible for issuing RMB, ensuring the security and efficiency of payment systems, and regulating financial institutions to maintain financial stability and prevent financial risks.

The purpose of this paper is to explore in depth the historical background, organizational structure, main responsibilities of the PBOC, and its impact on China's banking system and the overall economy. Through the analysis of these aspects, this paper aims to reveal how the PBOC has a profound impact on the stability and development of China's economy through its policies and actions. In addition, this paper will discuss the role of the PBOC in the international financial system and how it responds to changes in the global economy and financial markets. Through these discussions, this paper hopes to provide readers with a comprehensive perspective to understand the importance of the PBOC and its role on the global financial stage.

The establishment and evolution of the PBOC is an important chapter in China's financial history. It has not only witnessed China's transition from war to peace and from a planned economy to a market economy, but also played a core role in this process.

### 1.1 Establishment Background:

The history of the People's Bank of China can be traced back to 1931, when the "National Bank of the Chinese Soviet Republic" was established in Ruijin, Jiangxi, marking the beginning of the financial cause under the leadership of the Communist Party of China. With the advancement of the War of Liberation, each liberated area established a relatively independent banking system and issued its own currency.

#### Formal establishment:

On December 1, 1948, the People's Bank of China was officially established in Shijiazhuang, Hebei Province, and began to issue RMB, marking the initial establishment of the financial system of New China. The establishment of the People's Bank of China is the starting point for the development of the financial industry in New China. It has undergone tremendous and profound changes in terms of system, functions, status, and role.

### 1.2 Initial development:

During the period of national economic recovery, the People's Bank of China, under the unified leadership of the Central People's Government, set out to establish a unified national banking system. During this period, the main tasks of the People's Bank of China were to establish an independent and unified monetary system, make RMB the standard currency in domestic circulation, and jointly control inflation; quickly build branches to form a national banking system; implement financial management, guide capital, and crack down on the black market of gold, silver and foreign currencies; carry out deposit, loan, exchange and foreign exchange business, promote urban and rural material exchanges, and prepare for economic construction.

Planned economy period:

During the planned economy system period, the People's Bank of China was both a central bank and a savings institution, accepting savings from residents and enterprises. During this period, the People's Bank of China, as the basic means for the country to absorb, mobilize, concentrate and allocate credit funds, formed a centralized and unified financial system.

1.3 Evolution since reform and opening up:

After the reform and opening up in 1978, the People's Bank of China began to transform, gradually divesting commercial bank functions and focusing on the functions of the central bank. In 1983, the State Council decided that the People's Bank of China would exclusively exercise the functions of the central bank, which was an important turning point in the history of the People's Bank of China. From January 1, 1984, the People's Bank of China began to exclusively exercise the functions of the central bank and concentrate on studying and implementing macroeconomic decisions on national finance.

Establishment of the modern central bank system:

In 1993, in accordance with the State Council's "Decision on Financial System Reform", the People's Bank of China further strengthened its financial regulation, financial supervision and financial service responsibilities. In 1995, the passage of the "People's Bank of China Law of the People's Republic of China" established the status of the People's Bank of China as a central bank for the first time in the form of national legislation, marking the central bank system on the track of legalization and standardization.

Current role:

Entering the 21st century, the People's Bank of China continues to strengthen and improve the modern central bank system, assuming important responsibilities such as formulating and implementing monetary policy, maintaining financial stability, and managing national foreign exchange reserves. With the continued growth of China's economy and the continuous opening of financial markets, the role and influence of the People's Bank of China will increase day by day.

The establishment and evolution of the People's Bank of China is a microcosm of China's financial development history. It not only reflects the changes in China's financial system, but also shows the context of China's economic development.

## **\*\*Organizational Structure\*\***

The organizational structure of the People's Bank of China reflects its functions and responsibilities as a central bank, including the headquarters structure, branches and functional departments (bureaus).

### **\*\*2.1 Headquarters Structure\*\***

The People's Bank of China is headquartered in Beijing, the center of the national financial system. There are multiple functional departments and bureaus (bureaus) in the head office to ensure the effective implementation of various central bank functions. According to the latest organizational structure adjustment, the headquarters of the People's Bank of China has the following main departments:

1. General Office (Party Committee Office): responsible for daily operations and comprehensive coordination, including information, security, confidentiality, letters and visits, government affairs disclosure and news publicity.
2. Legal Affairs Department: responsible for the drafting and review of draft laws and regulations, as well as the legal affairs of the central bank.
3. Monetary Policy Department: responsible for the formulation and implementation of monetary policy, and promoting the market-oriented reform of interest rates and exchange rates.
4. Financial Market Department: supervises and manages financial markets such as the interbank lending market and the interbank bond market.
5. Financial Stability Bureau: responsible for the monitoring, assessment and disposal of financial risks, and maintaining financial stability.
6. Survey and Statistics Department: responsible for comprehensive statistics of the financial industry and building a national financial basic database.
7. Payment and Settlement Department: organize the construction of the national payment system and implement supervision and management.
8. Science and Technology Department: responsible for the development planning of financial informationization and guide the network security and informationization of the financial industry.
9. Currency, Gold and Silver Bureau (Security Bureau): responsible for currency issuance, cash management and import and export management of gold and its products.
10. Treasury Bureau: responsible for the collection, division, retention, refund and payment of treasury funds.
11. International Department (Hong Kong, Macao and Taiwan Office): responsible for the opening-up of the financial industry and participation in global economic and financial governance.

### **\*\*2.2 Branches\*\***

The People's Bank of China establishes dispatched institutions according to the needs of performing its duties, including branches, business management departments, central sub-branches, etc. These branches are located in provinces (autonomous regions, municipalities directly

under the central government), prefectures (cities), and counties (cities) across the country, and are centrally led and managed by the People's Bank of China. In 2023, the People's Bank of China held a ceremony to renew its branches in 31 provinces (autonomous regions and municipalities directly under the central government), restoring the provincial branch system, and the original city central sub-branches in the province were renamed city branches. In addition, the People's Bank of China established branches in Shenzhen, Dalian, Ningbo, Qingdao and Xiamen.

### **\*\*2.3 Introduction to functional departments (offices)\*\***

The functional departments (offices) of the People's Bank of China are specific departments that perform the functions of the central bank. Each department has its specific duties and tasks:

1. **\*\*General Office (Party Committee Office)\*\***: As the comprehensive service agency of the People's Bank of China, it is responsible for coordinating the daily operations of the head office and the daily work of the Party Committee.
2. **\*\*Law Department\*\***: Responsible for the drafting and review of financial laws and regulations, as well as the handling of legal affairs.
3. **\*\*Monetary Policy Department\*\***: One of the core departments, responsible for formulating and implementing monetary policy and maintaining monetary stability.
4. **\*\*Financial Market Department\*\***: Supervise and manage financial markets, including money markets, bond markets, etc.
5. **\*\*Financial Stability Bureau\*\***: Responsible for monitoring and handling financial risks and ensuring the stability of the financial system.
6. **\*\*Survey and Statistics Department\*\***: responsible for financial statistics and data analysis, and providing support for policy making.
7. **\*\*Payment and Settlement Department\*\***: responsible for the construction and supervision and management of the payment system, ensuring the security and efficiency of the payment system.
8. **\*\*Science and Technology Department\*\***: responsible for the development of financial technology and network security, and promoting financial informatization.
9. **\*\*Currency, Gold and Silver Bureau (Security Bureau)\*\***: responsible for the issuance and circulation of currency, as well as anti-counterfeit currency work.
10. **\*\*Treasury Bureau\*\***: responsible for the management of treasury funds, including the management of the treasury single account.
11. **\*\*International Department (Hong Kong, Macao and Taiwan Office)\*\***: responsible for international financial cooperation and financial affairs in Hong Kong, Macao and Taiwan.

The above is an overview of the organizational structure of the People's Bank of China. Each department plays an important role in jointly maintaining national financial stability and promoting the development of the financial system.

### **\*\*Responsibilities of the People's Bank of China\*\***

As the central bank of the People's Republic of China, the People's Bank of China bears the important responsibilities of maintaining national financial stability and promoting economic development. The following are the main functions of the People's Bank of China:

#### **\*\*3.1 Formulation and implementation of monetary policy\*\***

The People's Bank of China is responsible for formulating and implementing the country's monetary policy to maintain the stability of the currency value and promote economic growth. This includes determining key financial variables such as money supply, interest rates and exchange rates, and using various monetary policy tools such as open market operations, deposit reserve ratio adjustments, re-lending and re-discounting to regulate the economy. The People's Bank of China is also responsible for formulating macro-credit guidance policies to guide credit resources to key areas and weak links, and support economic structural adjustment and high-quality development.

#### **\*\*3.2 Issuance and management of RMB\*\***

The People's Bank of China is responsible for issuing RMB and managing its circulation. This includes ensuring a stable supply of currency, maintaining the security and efficiency of the payment system, and combating counterfeit currency. In addition, the People's Bank of China is also responsible for promoting the cross-border use and international status of RMB, and enhancing the use of RMB in international trade and financial transactions through currency swap agreements with other countries.

#### **\*\*3.3 Supervision and management of financial markets\*\***

The People's Bank of China supervises and manages the interbank lending market, the interbank bond market, the interbank bill market, the interbank foreign exchange market, and the gold market and its derivative product transactions. It is responsible for formulating market rules, monitoring market operations, preventing and resolving systemic financial risks, and maintaining the stability of the financial market. In addition, the People's Bank of China is also responsible for monitoring financial holding companies and cross-border financial instruments, as well as identifying, warning and handling cross-market, cross-industry and cross-regional financial risks.

#### **\*\*3.4 Foreign exchange management and management of national foreign exchange reserves\*\***

The People's Bank of China is responsible for implementing foreign exchange management policies, supervising and managing the interbank foreign exchange market, and monitoring and managing cross-border capital flows. It is also responsible for holding, managing and operating national foreign exchange reserves and gold reserves to maintain the balance of international payments and national financial security. Through foreign exchange market operations and foreign exchange reserve management, the People's Bank of China affects the exchange rate level and maintains the basic stability of the RMB exchange rate at a reasonable equilibrium level.

#### **\*\*3.5 Treasury management\*\***

The People's Bank of China manages the treasury and is responsible for the collection, division, retention, refund and disbursement of treasury funds. It ensures the safety and efficiency of national fiscal funds, opens a single treasury account for the financial department, and regularly provides the financial department with the receipts and payments and cash information of the single treasury account and verifies the inventory balance. In addition, the People's Bank of China also assumes

the responsibility of treasury cash management, performs supervision and management duties in accordance with regulations, and maintains the safety and integrity of treasury funds.

In summary, the responsibilities of the People's Bank of China cover monetary policy formulation, financial supervision, foreign exchange management, treasury management and other aspects. Its work plays a vital role in maintaining national financial stability and promoting economic development.

### **\*\*The impact of the People's Bank of China on China's banking system\*\***

As the central bank, the People's Bank of China has a comprehensive and far-reaching impact on China's banking system. The following is a specific analysis of the impact of the People's Bank of China on the banking system in different fields:

#### **\*\*4.1 The impact of monetary policy on bank credit\*\***

The People's Bank of China directly affects the credit behavior of banks by formulating and implementing monetary policy. Monetary policy tools, such as adjustments to the deposit reserve ratio, interest rate policies (including re-lending and rediscount rates), and open market operations, are important means to affect the scale and structure of bank credit. For example, lowering the deposit reserve ratio can release more liquidity and increase the bank's lending capacity; while raising interest rates may suppress loan demand and thus control credit expansion. These policies not only affect the bank's loan costs and loan amounts, but also affect the flow of loans, guiding funds to flow more to areas encouraged by policies.

#### **\*\*4.2 The impact of interest rate policies on the economy\*\***

The interest rate policy of the People's Bank of China has a wide range of impacts on the entire economy. By adjusting policy interest rates, such as the reverse repurchase rate and the medium-term lending facility (MLF) rate, the People's Bank of China can influence the market interest rate level, and thus affect the bank's loan interest rate and deposit interest rate. These changes will further affect the borrowing costs of businesses and households, investment and consumption behavior, and overall inflation levels. For example, lowering interest rates can stimulate economic growth because it reduces the financing costs of businesses and individuals and encourages investment and consumption; while raising interest rates can help control inflation and curb economic overheating by raising borrowing costs.

#### **\*\*4.3 Financial Supervision and Banking System Stability\*\***

The People's Bank of China plays a key role in financial supervision, and its regulatory policies and measures are directly related to the stability of the banking system. By implementing macro-prudential policies, setting capital adequacy requirements, and conducting risk assessments and stress tests, the People's Bank of China is able to prevent and resolve financial risks and maintain financial stability. In addition, the People's Bank of China is responsible for supervising payment and settlement systems to ensure the efficient and safe operation of financial markets. These

regulatory measures help improve the robustness of the banking system and enhance its ability to withstand external shocks.

#### **\*\*4.4 Relationship between the People's Bank of China and Commercial Banks\*\***

The relationship between the People's Bank of China and commercial banks is multi-layered. As the lender of last resort, the People's Bank of China provides support to commercial banks when they face liquidity difficulties and helps them overcome short-term funding constraints. At the same time, the People's Bank of China directly trades with commercial banks through monetary policy operations, such as open market operations, to influence their liquidity conditions. In addition, the People's Bank of China also ensures that commercial banks comply with relevant laws and regulations and maintain financial market order through supervision and regulation. This relationship ensures the normal operation of the banking system and also promotes the effective transmission of financial policies.

In summary, the People's Bank of China has a profound impact on the Chinese banking system through monetary policy, interest rate policy, financial supervision, and interaction with commercial banks. These policies and measures not only affect the operating behavior of banks, but also play a key role in the stability and development of the entire economy.

#### **\*\*Policy tools of the People's Bank of China\*\***

As the central bank, the People's Bank of China has a series of policy tools to achieve its monetary policy goals, including maintaining monetary stability and promoting economic growth. The following are the main policy tools of the People's Bank of China:

##### **\*\*5.1 Monetary Policy Tools\*\***

Monetary policy tools are the means taken by the central bank to achieve monetary policy goals. According to the Law of the People's Bank of China, the ultimate goal of China's monetary policy is to "maintain the stability of the currency value and thereby promote economic growth." The monetary policy tools of the People's Bank of China mainly include:

1. **\*\*Open market operations\*\***: By buying and selling treasury bonds, other government bonds, financial bonds and foreign exchange, adjust market liquidity and affect market interest rates.
2. **\*\*Deposit reserve requirements\*\***: Require banking financial institutions to deposit deposit reserves in accordance with the prescribed ratio, affect the credit supply capacity of financial institutions, and indirectly regulate the money supply.
3. **\*\*Re-loan and rediscount\*\***: By providing loans to commercial banks and handling rediscounts, affect the credit demand of financial institutions, and then affect the money supply.
4. **\*\*Interest rate policy\*\***: Adjust the interest rate level and interest rate structure in a timely manner, affect the supply and demand of social funds, and achieve monetary policy goals.

5. **Exchange rate policy**: By adjusting the exchange rate level, it affects international trade and capital flows and improves the effect of monetary regulation.
6. **Standing Lending Facility (SLF)**: Meet the large-scale liquidity needs of financial institutions with a longer term, with a term of 1-3 months.
7. **Medium-term Lending Facility (MLF)**: A monetary policy tool that provides medium-term base money and is carried out through bidding.
8. **Pledged Supplementary Loan (PSL)**: For policy banks, it is issued in the form of pledge, and eligible collateral includes high-grade bond assets and high-quality credit assets.
9. **Targeted Medium-term Lending Facility (TMLF)**: Support large commercial banks, joint-stock commercial banks and large city commercial banks that have strong support for the real economy and meet macro-prudential requirements.

## **5.2 International Cooperation and Policy Coordination**

The People's Bank of China actively participates in international economic and financial governance, and maintains and strengthens macroeconomic and financial policy dialogue and coordination with various countries, especially major economies. This includes:

1. **G20 Sustainable Finance Work**: Take the lead in formulating and promoting the implementation of the "G20 Sustainable Finance Roadmap", and play an important role in supporting carbon peak and carbon neutrality.
2. **"Belt and Road" Investment and Financing System**: Continuously improve the market-oriented, diversified, open and green investment and financing system, and promote the joint construction of the "Belt and Road" green development.
3. **Multilateral Debt Coordination**: Constructively participate in multilateral debt coordination and actively respond to debt issues.
4. **International Monetary Fund (IMF) Quota Reform**: Promote quota reform and enhance the voice and representation of emerging markets and developing countries.
5. **Exchange and Cooperation in the Field of Green Finance**: Continue to give play to the resource allocation, risk management and market pricing functions of green finance, and build a financial support system for green and low-carbon development.

Through these policy tools, the People's Bank of China can effectively achieve its monetary policy goals, maintain financial stability, and play an important role in the global economy.

## **7. Challenges and future prospects of the People's Bank of China**

The People's Bank of China faces many challenges in performing its duties, and is also actively looking forward to and preparing for future changes in the economic and financial environment.

### **7.1 Challenges of the domestic and international economic environment**

At present, the challenges of the domestic and international economic environment faced by the People's Bank of China include slowing global economic growth, rising trade protectionism, geopolitical conflicts, and domestic economic structural adjustments. The increasing uncertainty in the global economy, especially the changes in monetary policies of major developed economies, have an impact on China's cross-border capital flows and exchange rate stability. Domestically, the People's Bank of China needs to find a balance between supporting economic growth and preventing financial risks, while coping with economic downward pressure and structural problems.

#### **\*\*7.2 Development of Fintech\*\***

The rapid development of Fintech has brought new challenges and opportunities to the People's Bank of China. On the one hand, Fintech has promoted innovation and efficiency improvement in financial services, but on the other hand, it has also brought regulatory issues such as data security, privacy protection, and financial market stability. The People's Bank of China needs to strengthen the regulatory framework for Fintech to promote financial innovation while ensuring the security and stability of the financial system.

#### **\*\*7.3 Direction of future monetary policy\*\***

Looking ahead, the monetary policy of the People's Bank of China will pay more attention to flexibility and moderation to adapt to changes in the economic situation. Monetary policy will continue to remain prudent, while strengthening countercyclical regulation to support economic growth and stabilize prices. The People's Bank of China will pay more attention to the use of structural monetary policy tools to support key areas such as scientific and technological innovation and green development, and promote the optimization and upgrading of economic structure. In addition, the People's Bank of China will continue to promote interest rate marketization reform, improve the market-based interest rate formation and transmission mechanism, and improve the efficiency of financial resource allocation.

Overall, the People's Bank of China will continue to adhere to the general tone of work of seeking progress while maintaining stability, deepen financial system reform, accelerate the improvement of the central bank system, and promote the transformation of the monetary policy framework to cope with internal and external challenges and support the high-quality development of China's economy.

#### **\*\*Conclusion\*\***

As the central bank of the People's Republic of China, the People's Bank of China plays a core role in the country's economic and financial system. Its importance is not only reflected in its traditional functions such as maintaining monetary stability, promoting economic growth, and managing the country's foreign exchange reserves, but also in its positive role in the supervision of financial markets, the development of financial technology, and international financial cooperation. The policies and actions of the People's Bank of China have a profound impact on the stability of the domestic economy and the global financial market.

Looking ahead, the People's Bank of China will continue to face multiple challenges, including complex changes in the domestic and international economic environment, the rapid development

of financial technology, and changes in global economic and financial governance. To meet these challenges, the People's Bank of China will continue to promote the modernization of monetary policy, strengthen financial supervision, promote financial innovation, and actively participate in international cooperation to promote the reform and improvement of the global economic and financial governance system.

With the continued growth of China's economy and the continuous opening of its financial markets, the role and influence of the People's Bank of China will increase. Its policies will pay more attention to flexibility and moderation to adapt to changes in the economic situation. At the same time, the People's Bank of China will pay more attention to the use of structural monetary policy tools to support key areas such as scientific and technological innovation and green development, and promote the optimization and upgrading of the economic structure. In addition, the People's Bank of China will continue to promote interest rate marketization reform, improve the market-oriented interest rate formation and transmission mechanism, and improve the efficiency of financial resource allocation.

In summary, the People's Bank of China will continue to serve as the guardian of national financial stability and the promoter of economic development. Its future development trend will pay more attention to the forward-looking, flexibility and effectiveness of policies to support the high-quality development of China's economy and the stability of the global financial system.

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# National Bank of India: State Bank of India

Jyothi Akshay

## Introduction

The State Bank of India (SBI) is one of the most prominent and influential banking institutions in India. As a financial powerhouse, it has played a pivotal role in shaping the country's banking landscape. Over the years, SBI has grown into a global entity, expanding its services and adapting to changing economic environments. This essay provides a detailed overview of SBI, covering its history, organizational structure, areas of responsibility, and its impact on the banking system in India. We will also analyze its current position in the financial market, supported by data, values, and statistics.

## 1. History and Establishment of SBI

The State Bank of India's beginnings can be found in the early 1800s. Originally called the Bank of Calcutta, it was founded on June 2, 1806, and it was the first bank in British India. It became the Bank of Bengal in 1809. It became one of the three Presidency Banks, together with the Bank of Bombay and the Bank of Madras (Kaur, 2023). Following their merger in 1921, these banks became the Imperial Bank of India. The Indian government owned the bulk of the SBI when it was nationalized in 1955 (Salwan et al., 2023). With the establishment of SBI, India entered a modern banking era. Its objective was to function as a financial organization that supported the government's fiscal policies while attending to the banking demands of the general public. SBI developed become a comprehensive banking company throughout time, assuming responsibilities for development banking, rural banking, and providing cutting-edge retail banking services.

## 2. Evolution and Changes in SBI

### 2.1 Nationalization

The Imperial Bank of India was nationalized by the Indian government in 1955 and renamed the State Bank of India (SBI), marking the beginning of SBI's history as a national bank. The government's aim to provide financial services to the underprivileged, particularly in the rural and agricultural sectors, was the main impetus for this action (Kaur, 2023). Before nationalization, banking in India was limited to a small elite, with private banks focusing primarily on cities and industrial sectors. The nationalization of SBI was intended to rectify this imbalance. SBI was entrusted with a key role in supporting the government's **Five-Year Plans**, which emphasized economic development, particularly in agriculture, infrastructure, and rural industries. The bank was tasked with extending credit to small-scale farmers, rural artisans, and other sectors neglected by private banks (Sivaram, 2023).

Nationalization not only expanded the bank's scope but also infused it with a sense of social responsibility. SBI was expected to play a dual role—be profitable while contributing to the nation's broader socioeconomic goals. Consequently, the government directed SBI to open **rural branches**, which by 2023, account for a large portion of its branch network. By 1969, 14 other major commercial banks were also nationalized, but SBI remained the largest (Nethala et al., 2022). Its unique position as a quasi-public sector bank gave it the flexibility to expand operations, while

its alignment with government goals made it a trusted partner in executing national projects such as the **Green Revolution** and **White Revolution**.

## 2.2 Technological Advancements

The next major evolution for SBI occurred with the advent of digital banking. In the **early 2000s**, the banking landscape in India began to change rapidly with the rise of **Core Banking Solutions (CBS)**. Core Banking Solutions integrated various banking services, allowing banks to function as a unified entity rather than a collection of isolated branches. SBI adopted CBS early, recognizing the need for a digital transformation to remain competitive and relevant in an increasingly technology-driven world. The introduction of CBS in **2003** revolutionized SBI's operations by connecting over 10,000 branches, enabling seamless services across the country (Sivaram, 2023). This shift allowed customers to access banking services from any branch, making SBI more accessible to its growing customer base.

Beyond CBS, SBI launched several **digital platforms** to enhance its customer service capabilities. The **SBI YONO (You Only Need One)** platform, introduced in **2017**, is an all-in-one mobile application that integrates banking, insurance, investments, e-commerce, and lifestyle services. This innovation has transformed the way SBI interacts with its customers, offering a convenient, user-friendly interface for managing finances. As of 2023, over **40 million users** were registered on SBI YONO, a testament to the bank's successful integration of digital banking with traditional services (Fousiya, 2023). Through YONO, SBI offers an extensive range of financial services, from opening accounts, transferring funds, applying for loans, to making purchases—all through a single app. This not only enhances customer convenience but also reflects SBI's commitment to modernizing banking in India.

## 2.3 Merger with Associate Banks

The merger of SBI with its partner banks in 2017 was one of the biggest developments in the company's recent history. Before this merger, SBI possessed five significant associate banks:

- State Bank of Mysore
- State Bank of Bikaner & Jaipur
- State Bank of Hyderabad
- State Bank of Patiala
- State Bank of Travancore

These banks had fragmented operations, increased administrative expenses, and operational redundancies because they were somewhat independent but still under SBI's control. In April 2017, SBI combined these banks with its main operations to realize economies of scale and streamline operations. Due to this merger, a massive new bank was formed, with SBI now having the most assets, deposits, and branch network in all of India.

The merger had several key outcomes:

- **Increased Market Share:** SBI's market share in deposits increased to around **23%**, and its share in advances reached about **20%** (Shetty and Bhat, 2022). This strengthened its position as the leading bank in the country.

- **Enhanced Efficiency:** The consolidation helped reduce overlapping services and operations. This operational efficiency allowed SBI to offer more competitive services and streamline its customer service process.
- **Expanded Customer Base:** Post-merger, SBI added millions of new customers, increasing its already substantial customer base.

With the associate banks integrated, SBI's overall reach expanded, offering services to an even larger demographic across rural and urban India. The merger also cemented SBI's position as a global player, with its network of branches and operations extending beyond India's borders.

### 3. Organizational Structure of SBI

Given its size and scope, SBI operates through a well-defined organizational structure that ensures smooth functioning across its multiple layers. The bank's structure is hierarchical, with clear delineations of authority and responsibility (Fousiya, 2023).

#### 3.1 Board of Directors

The Board of Directors is in charge of SBI's organizational structure. This board is in charge of monitoring the bank's strategic direction and making sure that all legal obligations are met. It consists of the Chairman, Managing Directors, and other high-ranking officials, the majority of whom are chosen by the Indian government.

The Board of Directors is responsible for the following: establishing the bank's long-term goals and policies; supervising risk management; and guaranteeing regulatory compliance. Keeping an eye on the operations of the bank's numerous subsidiaries and divisions. The leadership of SBI is essential to the bank's success in navigating possibilities and obstacles while juggling the demands of the government, shareholders, employees, and customers (Varsha, 2023).

#### 3.2 Regional Offices

SBI operates through a network of **Regional Offices**, each headed by a **Regional Manager**. These offices act as intermediaries between the corporate head office and branch offices. They are responsible for implementing policies and strategies devised by the board and ensuring that branches under their jurisdiction meet their operational targets.

The role of regional offices includes:

- Coordinating with branch managers to improve service delivery.
- Monitoring the financial performance of branches.
- Addressing customer grievances at the regional level.

#### 3.3 Branch Offices

Branch offices form the core of SBI's operations. With over **22,000 branches** spread across India and internationally, SBI has one of the largest branch networks globally. Each branch is led by a **Branch Manager**, who is responsible for daily operations, customer service, and ensuring compliance with banking regulations.

Branch managers play a crucial role in building relationships with local customers, whether they are individuals, small businesses, or corporations. These managers are the face of SBI in the community, ensuring that the bank's products and services are accessible to all segments of society (Kumar and Akula, 2023).

### 3.4 Subsidiaries

Apart from its primary banking activities, SBI manages other subsidiaries offering specialized financial services. Through these subsidiaries, SBI is able to serve various financial market segments and provide a wider choice of products. Among the principal subsidiaries are:

- SBI Capital Markets: Provides investment banking services, encompassing project financing and corporate advisory.
- SBI Life Insurance: A top life insurance provider in India.
- SBI Mutual Fund: Offers institutions and individuals a variety of mutual fund options for investment.
- SBI Cards & Payments: One of India's top suppliers of credit cards and payment options.

### 4. Areas of Responsibility

SBI's responsibilities span across various sectors of the economy, reflecting its position as a **universal bank**. It plays a vital role in both retail and corporate banking, in addition to its international and rural banking services.

#### 4.1 Retail Banking

Individual clients can choose from a wide range of services provided by SBI's retail banking division. Credit cards, fixed deposits, student loans, house loans, personal loans, and savings accounts are some of these services. With millions of customers across both urban and rural locations, SBI's retail banking division is vital to the company (Varsha, 2023). Promoting financial inclusion is one of SBI's major contributions to retail banking. The Pradhan Mantri Jan Dhan Yojana (PMJDY), a government program intended to offer financial services to every Indian household, has been implemented in large part thanks to the bank. By 2023, SBI has opened millions of accounts under PMJDY, enabling unbanked people to obtain formal financial services, especially in rural areas.

#### 4.2 Corporate Banking

SBI is a dominant player in **corporate banking**, providing services to large companies, public sector enterprises, and government organizations. Its corporate banking services include working capital finance, project finance, structured finance, and treasury solutions. The bank is involved in financing key sectors such as infrastructure, energy, telecommunications, and manufacturing. Through its corporate banking division, SBI helps drive economic growth by supporting large-scale projects and facilitating trade and commerce.

#### 4.3 International Banking

With operations in more than 30 countries, SBI has a significant global footprint. Non-Resident Indians (NRIs) are catered to by its international banking services, which provide them with specialized banking solutions like investment opportunities, foreign currency accounts, and remittances. In order to facilitate cross-border commerce, SBI's international branches also offer trade finance, foreign exchange loans, and other services. Facilitating trade and investment movements between India and the rest of the globe, SBI's international arm is essential in connecting Indian firms with the global economy (Rastogi et al., 2022).

#### 4.4 Rural and Agricultural Banking

As part of its national mandate, SBI is deeply involved in **rural and agricultural banking**. It provides credit to farmers, offering loans for purchasing agricultural equipment, seeds, and fertilizers. SBI also supports rural development through schemes such as the **Kisan Credit Card**, which provides farmers with access to affordable credit. SBI's focus on rural banking aligns with the government's broader goal of boosting the agricultural economy and improving rural livelihoods. The bank's extensive rural branch network and targeted products make it a key player in promoting **financial inclusion** in India's rural areas.

### 5. Impact on the Indian Banking System

#### 5.1 Market Share and Size

SBI is a pillar of the Indian banking sector thanks to its strong market position and wide network. By 2023, SBI will have over 45 crore (450 million) customers served by its vast network of over 22,000 branches nationwide. Thanks to its unmatched reach, SBI is able to control about 23% of the market for deposits and 20% for advances (Nanda and Bhol, 2023). Based on these figures, SBI is the leading scheduled commercial bank in India.

SBI's vast asset base, exceeding ₹50 lakh crore, enables it to play a critical role in financing the economy, particularly in key sectors like agriculture, infrastructure, and small businesses. Its ability to attract large-scale deposits also ensures that it remains a steady source of credit for millions of individuals and enterprises, contributing significantly to India's economic growth. The large-scale operations of SBI mean that its decisions, from adjusting interest rates to introducing new financial products, can have a ripple effect across the banking sector, influencing both public and private banks.

#### 5.2 Influence on Other Banks

For the whole banking sector in India, SBI sets the bar. The bank's policies and initiatives are frequently used as a standard by other financial organizations because of its size and influence. The interest rates that SBI offers on loans and deposits often cause other banks to adjust the prices of their financial products. To stay competitive, numerous banks in the public and private sectors adjust their lending rates in response to SBI's moves (Rastogi et al., 2022). Moreover, SBI's digital innovations—especially with its YONO platform—have encouraged other banks to improve their own digital services. With the integration of numerous financial and lifestyle services, YONO (You Only Need One) offers millions of users a full digital banking experience. Its success has set a precedent in the industry, forcing smaller banks to either adopt similar digital strategies or partner with FinTech firms to stay relevant in the evolving financial landscape.

Additionally, SBI has been instrumental in promoting consolidation in the Indian banking sector. Its 2017 merger with Bharatiya Mahila Bank and five affiliate banks paved the way for other mergers among smaller public sector banks. This is because the government wants stronger financial institutions that can compete globally. The Indian banking industry is changing as a result of this wave of consolidation, which is producing fewer but larger, more stable banks that are better equipped to withstand financial shocks and maintain their competitiveness.

#### 5.3 Role in Government Initiatives

As the largest public sector bank in India, SBI acts as the primary vehicle through which the government implements its financial inclusion programs. One of the most notable initiatives is the **Pradhan Mantri Mudra Yojana (PMMY)**, under which SBI has disbursed loans worth billions

of rupees to small and micro-enterprises, fostering entrepreneurship and supporting job creation at the grassroots level. The bank's reach in rural and semi-urban areas has made it the go-to institution for these schemes (Asma et al., 2022). Additionally, SBI has been instrumental in the success of the **Pradhan Mantri Jan Dhan Yojana (PMJDY)**, the government's flagship financial inclusion program aimed at providing access to banking services for all Indian citizens, especially the unbanked. Through this initiative, SBI has opened millions of zero-balance savings accounts for individuals in rural and underserved areas, allowing the government to streamline welfare disbursements directly to beneficiaries.

SBI also handles a significant portion of government transactions, including tax collection, payment processing for welfare schemes, and management of sovereign debt. Its involvement in these operations underscores its integral role in maintaining the stability and efficiency of India's financial system.

#### **5.4 Employment and Economic Contribution**

With about 2.5 lakh (250,000) workers as of 2023, SBI is not only the largest bank in India but also one of the biggest employers in the nation. The bank contributes significantly to employment in rural, semi-urban, and metropolitan areas, which is essential to the Indian economy. SBI contributes significantly to the GDP of India through employment and associated economic activity (Gupta and Panagariya, 2023). Via its lending facilities, SBI not only directly employs millions of people but also indirectly supports millions more in industries including manufacturing, services, and agriculture. It supports economic growth and maintains livelihoods nationwide by funding infrastructure projects and small and medium-sized businesses (SMEs).

### **6. Challenges and Opportunities**

While SBI remains a banking giant, it faces several challenges in a rapidly evolving financial landscape. However, these challenges also present opportunities for growth and transformation.

#### **6.1 Non-Performing Assets (NPAs)**

The problem of non-performing assets (NPAs) is one of SBI's most ongoing difficulties. Due to SBI's exposure to the corporate sector, along with that of many other public sector banks in India, a sizable amount of bad loans have accumulated, especially in sectors like telecom, power, and infrastructure. Even though it's less than in prior years, SBI's gross non-performing assets (NPAs) as of 2023 nevertheless constitute a sizeable burden on the bank's balance sheet (Asma et al., 2022). As a result, SBI has been actively developing plans to lower NPAs, such as reorganizing loans, improving credit monitoring, and launching vigorous recovery initiatives through the use of the Insolvency and Bankruptcy Code's insolvency procedures (IBC). The bank has also been increasingly cautious in its lending practices, focusing more on retail loans, which are generally less risky compared to large corporate loans.

#### **6.2 Digital Disruption**

The rapid rise of **FinTech** companies and digital payment platforms like **Paytm**, **Google Pay**, and **PhonePe** has disrupted the traditional banking model. These platforms offer fast, user-friendly digital solutions, attracting a large number of customers, especially the younger generation, who prefer convenience and seamless digital experiences over traditional banking (Singh, 2023). While SBI has made significant progress in this area, particularly with the success of its YONO platform, it continues to face fierce competition from nimble, tech-savvy FinTech startups. To maintain its

competitive edge, SBI needs to continue investing in digital infrastructure, upgrading its mobile banking apps, and offering innovative, customer-centric digital products and services.

### 6.3 Opportunities for Growth

Despite the challenges, SBI is well-positioned to capitalize on several growth opportunities. One of the most promising areas is **rural banking**, where SBI's deep network gives it a unique advantage. SBI may use its rural branches to offer a greater range of financial services, such as loans, insurance, and pensions, to the underserved population as financial inclusion initiatives continue to grow.

Digital banking is another sector that is expanding. SBI has the chance to further develop its digital offerings as India moves toward a cashless economy, particularly in underserved rural areas. Artificial intelligence (AI), blockchain, and data analytics are examples of cutting-edge technology that SBI might use to increase operational efficiency, expand its service offerings, and give clients more individualized experiences (Singh et al., 2022). Internationally, SBI's presence in over 30 countries provides a platform for expansion in markets with large Indian diaspora populations and high potential for trade finance, remittances, and corporate banking services.

### Conclusion

From its humble beginnings as a bank under the presidency, the State Bank of India has developed into a major international financial institution. Having a significant presence in corporate, retail, rural, and international banking, SBI is vital to the Indian economy. Its position as the biggest bank in India has been reinforced by its ability to adjust to technological improvements and mergers. Notwithstanding obstacles like non-performing assets (NPAs) and online rivalry, SBI is still a market leader in the banking industry, making a substantial contribution to job creation, financial inclusion, and economic growth in India.

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# Essay on the Bangladesh banking system

Hasan Asraful

## **Brief history of banking in Bangladesh**

Bangladesh's banking history began during the British colonial era, but since the nation's independence in 1971, banking has seen substantial change.

### **Pre-Independence (British Colonial Period)**

**Early Banking:** The Bangladesh Bank was the first financial institution in what is now Bangladesh, having been established by the British in 1857 as The Eastern Bengal Bank in Dhaka. The British East India Company also founded other banks, including The Bengal Bank and The Bank of Bengal.

**The British Influence:** Several commercial banks were founded in the area during British control, primarily by European banks to facilitate trade. During this time, banking was mostly restricted to meeting the demands of European traders and the colonial government.

### **Post-Independence (1971 – Present)**

**Bangladesh Liberation War and Independence (1971):** The financial sector in Bangladesh underwent a restructuring following its separation from Pakistan in 1971. With numerous banks situated in what was then West Pakistan, the banking system that the newly established state inherited was primarily designed to meet the needs of the previous administration.

**Bangladesh Bank (1972):** The newly independent nation's central bank, the Bangladesh Bank, was founded in 1972. Its main responsibilities included overseeing commercial banks, issuing money, and regulating monetary policy. The State Bank of Pakistan, the central bank during the East Pakistan era, was superseded by Bangladesh Bank.

**Nationalization (1972–1975):** As part of the post-liberation socialist goal, the government of Bangladesh nationalized all commercial banks in 1972 after gaining independence. The purpose of the nationalized banks was to support rural communities' needs and encourage economic growth.

**Privatization and Growth (1980s–1990s):** A more liberalized banking system gradually replaced state control in Bangladesh during the 1980s and 1990s. An important turning point was reached in 1983 when the government permitted the establishment of private banks. In the 1990s, private sector banks including Dutch-Bangla Bank, City Bank, and Brac Bank appeared after nationalized commercial banks were privatized.

**Microfinance and Rural Banking:** One noteworthy aspect of Bangladesh's banking sector was the expansion of microfinance institutions in the 1980s, spearheaded by trailblazers like Prof. Muhammad Yunus's Grameen Bank. Microfinance promoted financial inclusion by giving small loans to the impoverished in rural areas, especially women.

**Banking Reforms:** Bangladesh implemented banking reforms in the late 1990s and early 2000s to boost efficiency, enhance banking procedures, and fortify regulatory monitoring. The

implementation of international banking standards and the decrease in non-performing loans were also major objectives of these reforms.

**Digital Banking (2000s–Present):** The introduction of digital banking and mobile money platforms such as bKash has led to a rapid modernization of the banking industry in Bangladesh in recent years. These platforms have made financial services accessible to millions of unbanked people. Regulatory frameworks for mobile financial services are only one example of how Bangladesh Bank, the country's central bank, has been instrumental in advancing financial innovation and inclusion.

### **Post-Colonial Banking Landscape:**

East Pakistan's (now Bangladesh's) financial sector continued to rely on the heritage of colonial banking establishments following the 1947 division of India. After Bangladesh attained independence in 1971, its banking sector was nationalized. As a result, a new chapter in the nation's banking history began in 1972 when Bangladesh Bank was established as the central bank.

### **Types of banks**

Similar to many other nations, Bangladesh has a variety of bank types, each with a distinct role in the financial system. These banks fall into the following general categories:

**Bangladesh Bank** is the central bank of Bangladesh, established in **1972** after the country gained independence.

**Role:** o Issuing currency (taka); o Managing monetary policy; o Regulating and overseeing commercial banks and financial institutions; o Preserving foreign exchange reserves; o Ensuring overall financial stability in the economy are all under the purview of Bangladesh Bank, the main regulatory body of the banking and financial system. Serving as the government's banker

### **Commercial Banks**

The main financial organizations that offer banking services to the general public, which includes people, companies, and governmental organizations, are commercial banks. They usually provide a variety of services, such as foreign exchange, loans, mortgages, and checking and savings accounts.

**State-Owned Commercial Banks (SOCBs):** The Bangladeshi government owns all of these banks. They prioritize serving the general populace and are frequently more prevalent in rural locations.

For instance, Sonali Bank Limited, Agrani Bank Limited, Janata Bank Limited, Bangladesh Development Bank Limited (BDBL), and Rupali Bank Limited

**Private Commercial Banks (PCBs):** Individuals, families, or groups of investors own these banks privately. When compared to state-owned banks, they are typically more adaptable and competitive.

For instance, Dutch-Bangla Bank Standard Chartered Bank (Bangladesh), Eastern Bank Limited, BRAC Bank Limited, and City Bank Limited

**Foreign Banks:** These banks are subsidiaries or branches of foreign financial institutions that conduct business in Bangladesh and primarily provide services to high-net-worth individuals and multinational corporations. For instance, HSBC Bangladesh and Standard Chartered Bank Citibank N.A.

### **Islamic Banks**

Islamic banks function according to the tenets of Shariah, the Islamic legal code, which forbids generating interest (riba). Islamic banks prioritize leasing, profit-sharing, and other Shariah-compliant financial solutions over conventional interest-based financing.

- **Examples:**
  - **Islami Bank Bangladesh Limited (IBBL)**
  - **Al-Arafah Islami Bank Limited**
  - **Social Islami Bank Limited**
  - **First Security Islami Bank Limited**

### **Development Banks**

• Development banks offer long-term funding for initiatives that support the nation's economic growth, including those involving small and medium-sized businesses (SMEs), industry, infrastructure, and agriculture. These banks concentrate on assisting development sectors, particularly those that commercial banks might not be able to adequately serve.

- **Examples:**
  - **Bangladesh Industrial Finance Corporation (BIFC)**
  - **Bangladesh Shilpa Bank (BSB)**
  - **Bangladesh Shilpa Rin Sangstha (BSRS)**

### **Cooperative Banks**

Groups of people or companies with similar interests, typically in the rural or agricultural industries, form these banks. Cooperative banks seek to support community development and offer members cheap financial services.

- **Examples:**
  - **The Bangladesh Rural Development Board (BRDB)**
  - **The Rural Development Cooperative Banks (RDCB)**

### **Non-Banking Financial Institutions (NBFIs)**

Although they provide a wide range of financial services, these organizations don't carry out conventional banking functions like taking deposits or opening checking accounts. NBFIs frequently work in asset management, microfinance, leasing, and venture capital.

- **Examples:**
  - **IDLC Finance Limited**
  - **Prime Finance and Investment Limited**
  - **First Security Islami Capital and Investment Limited**

### **Microfinance Institutions (MFIs)**

For low-income people or communities with limited access to regular banking services, microfinance companies offer small loans, savings plans, and other financial services. Particularly in rural areas, these institutions are essential to financial inclusion and poverty reduction.

- **Examples:**
  - **Grameen Bank** (founded by Nobel laureate **Dr. Muhammad Yunus**)
  - **BRAC Microfinance**
  - **ASA**

### **Postal Banks**

People can send money, open savings accounts, and carry out simple financial operations through the postal banking services provided by the Bangladesh Post Office, particularly in rural areas with limited access to commercial banks.

**Role:** The postal banking system helps improve financial inclusion by reaching out to people in remote areas.

### **Online and Digital Banks**

As digital banking becomes more popular, some banks are taking a more technologically advanced stance and just providing services online (via mobile banking, internet banking, etc.), doing away with the necessity for physical branches.

- **Examples:**

- **DBBL (Dutch-Bangla Bank)** is a pioneer in mobile banking in Bangladesh, through **Rocket**, a mobile money service.
- **bKash**, while not a traditional bank, offers mobile financial services and is one of the largest mobile financial service providers in the country.

### **Specialized Banks**

Financial organizations that concentrate on specific industries or customer segments, such as small enterprises, education, or agriculture, are known as specialized banks. These banks were founded to serve the needs of particular towns or industries and may have government support.

- **Examples:**

- **Karmasangsthan Bank** (focuses on the welfare of unemployed individuals)
- **Probashi Kallyan Bank** (focused on migrant workers)

Important Roles of Bangladeshi Banks:

**Deposits:** Current accounts, savings accounts, and fixed deposits are just a few of the deposit options that banks provide.

**Credit and Loans:** Banks offer credit facilities, such as working capital loans, company loans, house loans, and personal loans, to people, companies, and the government.

**Remittances:** Banks are essential in helping Bangladeshis who work overseas send money home. **Foreign Exchange:** Currency exchange and international money transfers are among the foreign exchange services that banks offer.

### **Overview of regulations governing the banking sector**

Bangladesh's banking industry is subject to a thorough regulatory structure that was created to maintain the integrity of the financial system, safeguard depositors, encourage economic growth, and guarantee financial stability. Various governmental authorities establish the rules governing the sector, and Bangladesh Bank is a key player in industry supervision and regulation. Below is a summary of the main laws and regulatory organizations that influence Bangladesh's banking industry:

#### **Bangladesh Bank (BB) – The Central Bank**

**Primary Role:** The primary regulatory body in charge of monitoring the banking industry, guaranteeing its stability, and carrying out monetary policy in the nation is Bangladesh Bank.

#### **Key Functions:**

**Monetary Policy:** establishing the guidelines for managing interest rates, preventing inflation, and maintaining economic liquidity

**Supervision and Regulation:** releasing regulations pertaining to risk management, capital adequacy, licensing, and other banking operations.

**Consumer Protection :** Managing complaints, safeguarding the interests of customers and depositors, and making sure banks offer equitable services

**Foreign Exchange Control:** controlling trade financing, international remittances, and foreign exchange transactions.

### **Key Regulatory Frameworks and Guidelines**

The operations of banks and other financial institutions in Bangladesh are governed by a number of laws, rules, and guidelines. These guidelines are intended to guarantee the banking system's secure, reliable, and efficient operation.

### **Regulatory Guidelines and Circulars by Bangladesh Bank**

To guarantee the seamless operation of the banking industry, Bangladesh Bank often provides guidelines, circulars, and instructions. These documents establish the guidelines for how banks and other financial organizations must operate, including:

**Capital Adequacy:** In order to have adequate capital buffers to withstand financial shocks, banks must keep capital at a level that complies with Basel III criteria..

**Risk Management:** To make sure banks handle their risks responsibly, guidelines on risk management are released, including credit risk, operational risk, and market risk.

**Liquidity Management:** Rules governing liquidity ratios to guarantee that banks have enough cash on hand to fulfill their commitments.

**Loan Classification and Provisioning:** Banks are required to categorize loans into different groups (performing and non-performing, for example) and set aside funds for non-performing loans in accordance with certain guidelines.

**Foreign Exchange and Remittances:** Rules governing the exchange of foreign currency and management of remittances from overseas workers are issued to maintain currency stability.

### **Financial Stability Oversight**

Bangladesh Bank keeps a careful eye on banks' and other financial institutions' financial stability to make sure they meet capital adequacy and stress test standards. To evaluate the institutions' financial health, routine audits and inspections are carried out.

**The Financial Stability Report (FSR):** Every year, Bangladesh Bank releases a Financial Stability Report that evaluates the state of the financial industry as a whole and highlights possible threats.

### **Regulations on Electronic Banking and Payment Systems**

To increase financial inclusion and expedite transactions, Bangladesh has been pushing electronic payment methods and digital banking. Both Bangladesh Bank and the Bangladesh Telecommunication Regulatory Commission (BTRC) are in charge of regulating electronic payments transfers, mobile financial services, and online banking.

**Mobile Financial Services (MFS)** like **bKash**, **Nagad**, and **Rocket** are subject to regulatory oversight to ensure consumer protection, money laundering controls, and operational standards.

### **Shariah Compliance for Islamic Banks**

A Shariah Advisory Board set up by Bangladesh Bank is in charge of ensuring that Islamic banks operating in the country adhere to Shariah principles. This body makes sure that Islamic banking services and products adhere to Islamic law, including the restriction on interest (riba).

**Supervisory and Enforcement Actions**

Banks that violate regulatory criteria may be subject to enforcement measures by Bangladesh Bank. These measures may include warnings and fines, limitations on banking operations, or, if required, license revocation.

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## Introduction to the National Bank of Pakistan (NBP)

Saleem Muhammad Usama

The **National Bank of Pakistan (NBP)**, established in 1949, is one of Pakistan's largest and most influential commercial banks. Owned by the government, the bank serves as a critical financial institution supporting the country's economic development. Initially founded to fulfill the banking needs of a newly independent Pakistan, NBP has grown into a robust organization with a diverse range of services.

NBP plays a dual role in the financial sector: catering to commercial banking needs and supporting government initiatives, such as economic reforms, development programs, and financial inclusion strategies. With a widespread network of over 1,500 branches across urban and rural areas of Pakistan, the bank also maintains a global presence through its international branches, particularly in key regions of the Middle East, Europe, and Asia.

Over the decades, the National Bank of Pakistan has adapted to changing economic and technological trends, introducing modern banking practices and digital solutions. Its services encompass corporate banking, retail banking, treasury operations, and international trade financing, making it a key player in Pakistan's financial and banking ecosystem.

### History and Establishment

The **National Bank of Pakistan (NBP)** was established on **November 9, 1949**, through an act of the Pakistani Parliament. The creation of NBP was a direct response to the financial challenges faced by Pakistan following its independence in 1947. At that time, the newly formed nation was dealing with a lack of robust financial institutions and needed a strong government-backed bank to support economic growth and provide essential financial services to the public.

Initially, the National Bank of Pakistan served as a quasi-central bank, performing many functions that would later be transferred to the **State Bank of Pakistan** (established in 1948). NBP played a vital role in issuing currency, regulating monetary policy, and managing Pakistan's early banking operations.

One of the primary reasons for establishing NBP was to replace foreign banks, many of which were closing their operations in Pakistan after partition. NBP took over some of the functions of the **Reserve Bank of India**, which had been serving both India and Pakistan temporarily until Pakistan's financial institutions were fully operational.

### Early Milestones:

1. **1950s Expansion:** In its early years, NBP focused on expanding its branch network across Pakistan to provide banking services in both urban and rural areas. By 1952, it had already established over 50 branches.

2. **Agricultural and Trade Financing:** During the 1950s, the bank played a critical role in financing Pakistan's agriculture and trade sectors, which were the backbone of the economy.
3. **International Expansion:** In 1955, NBP expanded beyond Pakistan by opening its first international branch in Jeddah, Saudi Arabia, to cater to overseas Pakistanis and facilitate international trade.

Over the years, NBP transitioned into a commercial bank while retaining its status as a government-owned institution. It took on responsibilities such as supporting public sector projects, financing infrastructure, and aiding in poverty reduction programs. The bank became a symbol of Pakistan's economic aspirations and played a critical role in nation-building efforts.

Today, the National Bank of Pakistan is recognized not only as a key player in Pakistan's financial system but also as an institution that has continuously adapted to the challenges of a dynamic economic environment while remaining committed to its foundational mission.

### **Changes Over Time of the National Bank of Pakistan (NBP)**

Since its establishment in 1949, the National Bank of Pakistan (NBP) has undergone significant changes in its structure, policies, and operations to meet the evolving needs of the country's economy and financial system. These transformations highlight NBP's adaptability to global trends, domestic challenges, and technological advancements.

#### **1) Expansion of Operations (1950s–1970s):**

**Growth of Branch Network:** During the early years, NBP focused on expanding its branch network to ensure banking services reached both urban and rural populations. By the 1970s, it had established itself as the largest commercial bank in Pakistan, with branches in every corner of the country.

**International Presence:** Starting with its first international branch in Jeddah, Saudi Arabia, in 1955, NBP expanded globally to countries such as the UK, UAE, and the United States. This international presence allowed NBP to cater to overseas Pakistanis and facilitate international trade.

**Role in Economic Development:** NBP became heavily involved in financing large-scale infrastructure projects and government-backed initiatives to support industrial growth and agricultural development.

#### **2) Nationalization and New Mandates (1974):**

In 1974, under Prime Minister Zulfikar Ali Bhutto's government, all banks in Pakistan, including NBP, were nationalized.

This nationalization gave NBP additional responsibilities, such as managing government accounts, disbursing subsidies, and facilitating agricultural credit schemes.

During this period, NBP became more aligned with government policies, often acting as an instrument for implementing economic reforms and social welfare programs.

#### **3) Structural and Operational Reforms (1990s–2000s):**

**Privatization Trends in Banking:** By the 1990s, Pakistan began liberalizing its economy and privatizing financial institutions to encourage competition and efficiency. While NBP remained a

government-owned entity, it faced increasing competition from private sector banks, prompting significant structural reforms.

**Automation and Digitalization:** NBP introduced automated banking services, including ATMs and electronic fund transfers, to modernize its operations. Core banking systems were adopted to improve customer service and streamline internal processes.

**Shift to Commercial Orientation:** To compete with private banks, NBP began focusing on profitability, efficiency, and customer satisfaction while maintaining its developmental responsibilities.

#### **4) Technological Advancements and Modernization (2010s–Present):**

**Adoption of Digital Banking:** In the 2010s, NBP prioritized digital transformation, introducing online banking services, mobile apps, and automated payment systems. This shift aimed to cater to a tech-savvy younger population and compete with modern private banks.

**Financial Inclusion Initiatives:** The bank has actively participated in financial inclusion programs, providing banking services to unbanked and underserved populations, especially in rural areas. Initiatives like microfinance and branchless banking were launched to support these efforts.

**Cybersecurity and IT Infrastructure:** Recognizing the growing threat of cyberattacks, NBP invested in robust cybersecurity measures and upgraded its IT infrastructure to ensure secure and efficient banking services.

#### **5) Key Achievements Over Time:**

Expanded to over **1,500 domestic branches** and international offices in more than **20 countries**.

**Introduced cutting-edge banking solutions, including NBP Digital and NBP Mobile Banking App.**

Played a vital role in supporting government-led initiatives like poverty alleviation, small business financing, and infrastructure development.

#### **Current Organizational Structure**

The **National Bank of Pakistan (NBP)** operates under a well-defined organizational structure that ensures efficient management of its vast network of domestic and international operations. As one of Pakistan's largest government-owned banks, its structure is designed to align with regulatory requirements, corporate governance standards, and strategic goals.

##### **1. Governance and Oversight**

The Board of Directors is the apex body responsible for NBP's strategic direction, policymaking, and governance. The board comprises independent directors, executive directors, and representatives from the government of Pakistan, ensuring a mix of expertise and accountability.

The Chairman of the Board oversees the bank's overall governance and ensures alignment with corporate objectives.

Committees under the board, such as the Audit Committee and Risk Management Committee, monitor financial performance and regulatory compliance.

**President/Chief Executive Officer (CEO):** The President/CEO is the highest executive authority responsible for implementing the board's strategies and managing day-to-day operations. The CEO provides leadership across all divisions, ensuring efficiency, growth, and customer satisfaction.

## 2. Executive Management Team

The executive management team comprises senior officials responsible for overseeing various key functions. These include

**Chief Financial Officer (CFO):** Manages the bank's financial planning, budgeting, and reporting.

**Chief Risk Officer (CRO):** Oversees risk assessment, mitigation, and regulatory compliance.

**Chief Technology Officer (CTO):** Leads the bank's digital transformation, IT infrastructure, and cybersecurity initiatives.

**Chief Human Resources Officer (CHRO):** Manages talent acquisition, employee development, and organizational culture.

**General Counsel/Legal Affairs Head:** Handles all legal matters and ensures compliance with regulatory frameworks.

## 3. Divisional and Regional Structure

NBP's operational structure is divided into the following key divisions:

**Corporate and Investment Banking Division (CIBD):** Focuses on large-scale corporate clients, investment projects, and trade financing.

**Retail Banking Division:** Manages services for individual customers, including personal accounts, loans, and branch operations.

**Islamic Banking Division:** Offers Shariah-compliant banking products and services through dedicated Islamic banking branches.

**Agriculture and Rural Banking Division:** Provides loans and financial services to farmers and rural businesses to support agricultural development.

**Treasury and Capital Markets Division:** Handles money market operations, foreign exchange, and investments in capital markets.

**Small and Medium Enterprises (SME) Division:** Caters to small and medium businesses with financial products like loans and working capital solutions.

**Overseas Banking Division:** Supervises NBP's international branches, focusing on expatriate banking and facilitating trade for overseas Pakistanis.

#### 4. Branch Network

**Domestic Branches:** NBP operates over **1,500 branches** across Pakistan, providing banking services in urban and rural areas. These branches are categorized into regional offices for better management.

**International Branches:** The bank maintains a presence in over **20 countries**, with branches in key financial hubs like Saudi Arabia, the UAE, the UK, and the USA.

#### 5. Specialized Units

**Digital Banking Division:** banking, and automated payment systems.

**Poverty Alleviation and Microfinance Unit:** Collaborates with government programs to provide microloans and financial assistance to low-income individuals.

**Corporate Social Responsibility (CSR):** Engages in community development, including education, healthcare, and disaster relief initiatives.

#### 6. Reporting and Accountability

NBP adheres to regulatory requirements set by the **State Bank of Pakistan (SBP)** and other international banking regulators where it operates. The internal audit and compliance teams ensure operational integrity and transparency.

#### Core Areas of Responsibility

As Pakistan's largest commercial bank, the **National Bank of Pakistan (NBP)** holds significant responsibility in the country's banking sector. NBP's core areas of responsibility are aligned with its mission to support the national economy, provide banking services to a wide range of customers, and contribute to financial inclusion and stability. Below are the primary areas that define NBP's operations and responsibilities:

##### 1. Commercial Banking Services

NBP offers a wide range of commercial banking services to individuals, businesses, and corporations, including:

**Retail Banking:** NBP provides personal banking products such as savings and current accounts, fixed deposits, and personal loans. Retail banking services are designed to meet the needs of individual customers, offering both traditional and digital channels for convenience.

**Corporate Banking:** NBP caters to large corporations and industries, offering specialized products like working capital financing, trade financing, and business loans. It supports the growth and sustainability of the country's large and medium-scale enterprises.

**SME Banking:** The bank plays a vital role in supporting Small and Medium Enterprises (SMEs) by offering tailored products such as microloans, working capital finance, and business advisory services. SMEs are crucial to the Pakistani economy, and NBP's support helps foster innovation and job creation.

## 2. Islamic Banking

NBP operates an **Islamic Banking Division**, offering Shariah-compliant financial products and services. The division ensures that the bank's services align with Islamic principles, including the prohibition of interest (riba). Key offerings include:

**Islamic Savings and Investment Accounts**

**Islamic Home Financing**

**Islamic Trade Financing**

**Takaful (Islamic Insurance)**

NBP's Islamic banking network is a growing segment of its operations, helping serve the needs of Pakistan's Muslim population who prefer banking aligned with their faith.

## 3. Trade Finance and Foreign Exchange

As Pakistan is a major trading nation, NBP plays a central role in facilitating both **domestic and international trade**. The bank's responsibilities in this area include:

**Import/Export Financing:** NBP provides trade financing services such as letters of credit, import financing, and export financing to businesses engaged in international trade.

**Foreign Exchange Operations:** The bank is an active participant in the foreign exchange market, facilitating currency exchange and providing remittance services. NBP also offers services related to the **purchase and sale of foreign currencies** and **foreign exchange risk management**.

## 4. Treasury and Investment Management

NBP is responsible for managing the country's treasury operations and capital markets investments. Its functions in this area include:

**Government and Corporate Bond Market:** NBP participates in government bond issuance and other debt markets, providing liquidity to the financial system and supporting government financing needs.

**Treasury Management:** NBP manages the government's financial assets, ensuring liquidity for the federal and provincial governments. The bank also invests in marketable securities to optimize returns on its investments.

**Monetary Policy Operations:** NBP plays a role in facilitating **monetary policy implementation** by working with the **State Bank of Pakistan (SBP)** and managing the government's cash flow requirements.

## 5. Microfinance and Financial Inclusion

NBP is deeply involved in promoting **financial inclusion** for underserved and unbanked segments of the population, particularly in rural areas. This includes:

**Microloans:** NBP provides microloans to individuals and businesses in the agriculture and rural sectors. These loans help foster entrepreneurship, support small-scale farmers, and contribute to poverty reduction.

**Branchless Banking:** Through its partnerships with mobile network operators and fintech companies, NBP is advancing **branchless banking** services, bringing banking to rural and remote areas where traditional branches may not be feasible.

**Poverty Alleviation:** The bank works on government-backed programs aimed at **poverty alleviation** and **economic empowerment**, particularly in rural communities.

## 6. Government Banking and Public Sector Services

As a state-owned bank, NBP has significant responsibilities in providing services to the government and public sector entities. These responsibilities include:

**Government Accounts Management:** NBP manages various government accounts, including those of federal, provincial, and local governments. This includes facilitating government payments, handling disbursements, and processing pensions for retired civil servants.

**Public Sector Financing:** NBP also provides financial solutions to public sector enterprises, helping the government implement key development projects and social welfare initiatives.

## 7. Digital Banking and Technological Innovation

NBP has made strides in **digital banking** to cater to the growing demand for convenient and fast banking services. Its technological advancements include:

**Mobile and Internet Banking:** The NBP Mobile Banking App and internet banking services allow customers to conduct transactions, manage accounts, and access banking services remotely. These platforms are designed to improve customer experience and accessibility.

**Payment Systems:** NBP plays an important role in modernizing payment systems in Pakistan, offering services like **RTGS (Real-Time Gross Settlement)** and **Electronic Funds Transfer (EFT)** for quick and secure money transfers.

**Innovation in Banking Solutions:** The bank is focused on technological innovation, offering services like **contactless payments**, **QR codes for payments**, and other digital tools to keep pace with global banking trends.

## 8. Risk Management and Compliance

NBP is tasked with ensuring that it complies with regulatory standards and maintains a **robust risk management framework**. This includes:

**Anti-Money Laundering (AML) and Counter-Terrorist Financing (CFT):** The bank implements measures to detect and prevent money laundering and terrorist financing in line with local and international regulations.

**Operational Risk Management:** NBP conducts regular audits, assessments, and reviews to mitigate operational risks and ensure that banking operations run smoothly.

**Credit Risk Management:** NBP monitors and manages credit risk by evaluating loan portfolios and ensuring that it follows prudent lending practices.

## 9. Corporate Social Responsibility (CSR)

NBP also has a strong presence in the field of **corporate social responsibility (CSR)**, where it focuses on:

### **Education:**

NBP sponsors educational initiatives, including scholarships for students, and supports educational institutions.

### **Healthcare:**

The bank contributes to healthcare projects, including funding hospitals, clinics, and health camps in underprivileged areas.

**Environmental Sustainability:**NBP is involved in initiatives that promote environmental sustainability, such as supporting green energy projects and reducing the carbon footprint of its operations.

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# **The National Bank of Nigeria**

Esene Gillian Agatha

Every country in the world tends to have a national bank that is in control of the economical and financial aspect of the country. This essay will give a full detailed information regarding the banking system in Nigeria, the function and the effect of the apex bank in the financial and economical development of Nigeria, how the policies of the bank effects the economic growth and financial development of the country.

Like every other country with their apex bank, Nigeria's national bank is known as the **Central Bank of Nigeria**, this bank is known as the apex monetary authority of Nigeria established by the CBN ACT of 1958 and then commenced operations in the year 1959 with its headquarters in the country's capital Abuja.

## **HISTORY OF THE CENTRAL BANK OF NIGERIA**

Long before the central bank of Nigeria was established, there were lots of banks that did not scale through. In 1948, an inquiry under the leadership of G.D Paton was established by the colonial administration to investigate the practices of the banking system in Nigeria. The G.D Paton report became the cornerstone of the first banking legislation in the country. The banking ordinance triggered rapid development, though by the year 1958 right before the apex bank was formulated a few other banks had failed. To eradicate further failures and prepare for indigenous control a bill was presented to the House of Representatives of Nigeria for the establishment of the Central bank of Nigeria. The Central Bank of Nigeria ACT N0.24, 1958 was published as chapter 30 of the 1958 edition of the laws of Nigeria and Lagos. Later on the bank was fully implanted on July 1 1959, was when the Central bank became fully functional and remained the primary statute governing the CBN till it changed. It is quite definite to note that there was change or shift on how the central bank was governed and its functions.

## **OBJECTIVES AND FUNCTION OF THE CENTRAL BANK**

The early functions of the bank were to act as the government agency for the control and supervision of the banking sector in the country, for the sole of purpose of balancing of payments according to the demands of the federal government and to tailor monetary policies. A key objective of the bank was to initiate credit limit legislation for bank lending. This initiative was geared to make credit available to neglected national areas such as agriculture, tourism and manufacturing. Other key functions and objectives were as follows below.

- Maintain price stability

- Ensure monetary stability
- Promote economical development and growth.
- The valuation of Naira
- Maintain external reserves
- Act as a lender of the last resort
- Managing the issuance and distribution of currency
- Over seeing payment system and infrastructure
- Regulating and supervising banks and other financial institution
- Setting interest rates and regulating money supply
- Managing foreign exchange transactions.

## **MONTARY POLICY OF THE CENTRAL BANK OF NIGERIA**

The monetary policy of the Central bank of Nigeria employs a framework aimed at maintaining price stability and promoting economic growth. As expected the policies of the bank surely do affect the economic stability of the country these policies could either affect the country in a positive or negative well. Let's take a look at some of the policies the Central Bank has implemented over these years.

- **Cash Reserve Ratio;** This refers to the proportion of deposits that banks are required to hold with the central bank, thereby reducing the amount of funds available for lending.
- **Open Market Operations:** The central bank buys and sells government securities in the open market to inject and withdraw liquidity from the banking system.
- **Liquidity Ratio;** This set a minimum level of liquid assets that banks must maintain to ensure their ability to meet short-term obligations.
- **Cashless Policy;** Cashless policy was to reduced cash transactions, promote electronic payments and enhance financial inclusion.

- **Loan-to-deposit;** Central bank introduced this policy to encourage banks to lend more money to the real sector.
- **Financial Inclusion:** Financial inclusion policy was launched to curb the number of underserved individuals that the banking sector could not reach.

The central bank monetary policy frame work has definitely involved over time, there accepting changes which includes economic conditions and challenges. The bank has been faced with different hurdles, such as high inflation, exchange rate volatility, economic recession, which has necessitated adjustments to its policy stance and making decisions that would enable the rise of Naira to better the country's economy. In reality we would see if these policies adopted, by the central bank has indeed contributed to the economic development of Nigeria. In recent years, the central bank has introduced several initiatives to promote financial inclusion, economic diversification, and strengthen the banking system. This includes the Payment System Vision 2020, the introduction of mobile money services, and the implementation of various regulatory measures to enhance banking sector stability.

The effectiveness of the CBN's monetary policy depends on various factors, including the transmission mechanism of monetary policy, the state of the financial system, and the overall economic environment. While the CBN has made significant strides in improving its monetary policy framework, challenges such as structural constraints, political interference, and external shocks continue to pose risks to its effectiveness.

It is important to note that the CBN's monetary policy decisions are complex and influenced by a multitude of factors. The bank must carefully balance its objectives of price stability and economic growth while considering the potential impact of its actions on various sectors of the economy. An example of the recent challenges faced by the central bank was 2023, was the attempt to change the Naira notes, this was a welcome development which was aimed at giving the Naira notes value in the foreign market, but this policy was not generally accepted by many because due to this there was a shortage of Naira notes in the country, this act caused a lot of controversies between the Federal government of Nigeria the Governors of the bank and of course the citizens. The cashless policy was introduced since 2012 but was not fully implemented because there was enough awareness as this policy. This was why when it was enforced the citizen had little or no understanding about what a cashless society means or how it will help in the rise of Naira in the foreign exchange market. As at now the effect of these policies is still affecting the economical aspect of the country.

The citizens were at the receiving end due to this policy because for the longest time there was scarcity of Naira, the citizens ended buying Naira at a high rate so as to get cash. The central bank idea of this was to introduce a cashless society, which was a welcome development for people who could adapt to it. In this case there were more people who could not adapt the system than those who could actually understand the need of a cashless society. Another challenge is the fact that there is poor internet connection to carry out internet banking, inadequate electricity supply and of

course limited point-of-sale (POS) terminals to make transactions quick and accessible for individuals. Risk of cybercrime and data breach was another setback, lots of people were scared of banking online because no one felt safe and even had any sense of security that their money was safe in banks. The high cost of online transactions was a big problem and nobody was ready to pay huge amount of money to carry out transactions online. In every setback there is always a progress and this policy sure had it progress. 22.6million Nigerians could use electronic payment channels as at 2020 which of course has increased in 2024, mobile money subscription increased by 50%, there were about 140,000 POS terminals deployed. There's more to come if there is more awareness about this policy and it will reduce the devaluation of Naira.

Another strategy is the FINANCIAL INCLUSION, which was introduced in 2012 to increase access of financial services for underserved population. This policy's objective was very simple and straight forward. This was to reduce financial exclusion from 46.3% to 20% by 2020, and also to reduce poverty and promote economic growth. The central bank introduced Bank verification number which was a unique number which to identify a certain individual, Mobile money Service and Agent banking network this was to include the poor masses have a job opportunity, this service was to enable any banking agent at local store to open an account, deposit money in all do transactions in total but in smaller scale.

With every policies like others it is certain for sure for it to have its setbacks and challenges which were, infrastructure constraints there was not enough structure built in place to carry it these activities for people who could not afford it but had the literacy to be a bank agents. Another challenge was the Regulatory hurdles, Security concerns and of course competition between other financial institution to carry out these policies. And yes with these setbacks there were recorded progress as at 2020 at about 43,000 agent banking locations were established, 113 million adult now had access o financial service across the country in that same year. The question is did the financial exclusion reduce which was the sole aim of the aim of launching the framework. The answer is yes it did, the financial exclusion reduced to at about 36.8% by 2020.

Let's explore the loan-to-deposit ratio, the central bank introduced the LDR policy in 2019 to encourage banks to lend more to the real sector. The Loan-to-Deposit Ratio (LDR) is a crucial metric in the banking industry, representing the proportion of depositors' funds that banks lend out. The Central Bank of Nigeria (CBN) has actively utilized LDR as a monetary policy tool to influence lending activities and economic growth.

#### **Evolution of LDR Policy in Nigeria:**

1. **Initial Increase:** In 2019, the CBN introduced a policy requiring banks to maintain a minimum LDR of 60%, later increased to 65%. This move aimed to stimulate lending to the real sector, boost economic activity, and spur growth.
2. **Recent Reduction:** In 2024, the CBN made a significant policy shift by reducing the LDR to 50%. This decision was driven by several factors
  - **Inflationary Pressures:** High inflation rates can erode the purchasing power of money and destabilize the economy. By reducing the LDR, the CBN aimed to curb excessive lending and potential inflationary pressures.

- **Liquidity Management:** The reduction in LDR ensures that banks maintain sufficient liquidity to meet their obligations and withstand potential shocks.
- **Risk Management:** Lowering the LDR can help banks manage credit risk more effectively, reducing the likelihood of non-performing loans.

#### **Implications of the LDR Policy:**

- **Credit Availability:** The reduced LDR may limit the amount of credit available to businesses and individuals, potentially slowing down economic growth.
- **Bank Profitability:** Lower LDR can impact banks' profitability, as they may earn less interest income from lending.
- **Economic Growth:** While the policy may help stabilize inflation, it could also hinder economic growth by reducing investment and consumption.

#### **Balancing Act:**

The CBN's LDR policy is a delicate balancing act between stimulating economic growth and maintaining financial stability. The bank must carefully assess the economic conditions and adjust the LDR accordingly to achieve its policy objectives.

It's important to note that the impact of LDR policies can vary depending on various factors, including the overall health of the economy, the quality of bank assets, and the effectiveness of other monetary policy tools. The CBN's continuous monitoring and evaluation of the LDR policy will be crucial in ensuring its optimal impact on the Nigerian economy.

**Open market operations (OMOs);** are a key tool used by central banks to influence the money supply and interest rates in an economy. By buying or selling government securities in the open market, central banks can inject or withdraw liquidity from the financial system, thereby impacting economic activity.

## **ORGANIZATIONAL AND DEPARTMENTAL STRUCTURE OF THE CENTRAL BANK OF NIGERIA**

The Central Bank of Nigeria has quite a dynamic structure when it comes to leadership, over the years there has been different forms and departments with different leadership style. We are going to explore the leadership and structure of the Central Bank coupled with their different functions. First let's take look at the different department in the organization below and their functions.

1. Currency Operations Department
2. Banking Supervision Department
3. Monetary Policy Department
4. Financial Markets Department
5. Economic and Financial Research Department
6. Information Technology Department
7. **Legal Department**
8. Human Resources Department
9. Finance and Accounts Department

10. Anti-Money laundering Department
11. Consumer Protection Department
12. Internal Audit Department

### ***THE ORGANIZATIONAL STRUCTURE OF THE CENTRAL BANK OF NIGERIA***

Overtime the organization structure of the central bank of Nigeria has not necessary been the same since its inception, these different heads of department has indeed shaped the outcome of the policies been made by the central bank of Nigeria. In the early days of bank the central experienced a system of hierarchy, with is structure the central bank *governor* was at the top followed by few departments handling key core functions like issuing currency, managing reserves, and overseeing commercial banks in the country. The governor of the central was somewhat seen has the overall head with little or no supervision, the office could make policies without necessary consulting other department heads and whatever policies were made either had positive or negative impact in the society and the in the organization as well. Though in this area of hierarchy the primary focus was to maintain monetary stability and ensure the smooth functioning of the financial system.

One important question to ask was that was this successful in ruling the bank, were the governor was not necessary checked or monitored? Did the policies been made by the governor during this period good or bad for the Nigeria economy. Did we record more inflation and unstable economical development during this time, these are questions this paper would answer.

### **POSITIVE IMPACT OF THE HIERARCHICAL STRUCTURE OF THE CENTRAL BANK**

- The hierarchical structure allows for centralized decision-making, ensuring consistency and efficiency in policy implementation. This can help maintain stability in the financial system and promote economic growth.
- A well-defined hierarchical structure establishes clear lines of authority, improving accountability and reducing bureaucratic bottlenecks. This can lead to faster decision-making and more effective policy implementation.
- The hierarchical system allows for the recruitment and retention of specialized experts in various fields of banking and finance. This expertise is crucial for developing and implementing sound monetary policies.

### **NEGATIVE IMPACT OF THE HIERARCHIAL STRUCTURE OF THE CENTRAL BANK**

- In some cases, the hierarchical structure can lead to bureaucratic delays and inefficiencies. This can hinder the timely implementation of necessary policies and negatively impact economic growth.
- A rigid hierarchical structure can limit flexibility and adaptability in responding to changing economic conditions. This can make it difficult for the CBN to adjust its policies quickly to address emerging challenges.

- A rigid hierarchical structure can limit flexibility and adaptability in responding to changing economic conditions. This can make it difficult for the CBN to adjust its policies quickly to address emerging challenges.

One would wonder if there has been a shift or evolution of the central bank of Nigeria, well there has not been a recorded transition of central bank. The organization changed its policy to suit every situation of the economic aspect of the country. It adapted a style in changing structure to adapt to the economic conditions and regulatory requirement. In 1970-1980 the central expanded its role which included promoting economic growth and development. This led to the establishment of new department o focus on the development of finance and agricultural credit. While in 1990-2000, the central bank of Nigeria implemented a significant financial reform including the consolidation of banking industry and the introduction of stricter regulation. This required the creation of specialized department to oversee banking supervision and financial stability.

It is important to note that in the organizational structure the central bank are often degree of independence to ensure that monetary policy decisions are not influenced by short term political consideration, and they are expected to be transparent in their operations and accountable to the public. But in recent times one could argue this fact. In 2022, the central bank made an attempt to change some of the denominations of the naira, though they successes some argued that the then President of Nigeria had an influence in this decision others suggested that the central bank governor acted on his own accord. This argument was present because there was scarcity of the Naira note in circulation that people had to pay large amount to get the note. You can say for a fact that Nigerians were buying Naira to sustain in the economy which was experiencing high inflation at that time.

## CONCLUSION

In conclusion, it key to note that the Central bank of Nigeria under any administration has a significant role in the growth and development of the country. The various departments whose key roles are to make room for the circulation of Naira and financial inclusion have a great deal of work to do. The present crisis that faced by Central bank had a negative impact not only on the organization but also the citizens, a bill was passed to by the house of assembly to checkmate the dealings of the central bank. This was not the case in past years but in recent times after the then central bank governor was impeached and arrested, the CBN policies had to be reviewed. It is quite notable that the overall functions and policies to the central bank is to ensure financial stability and economical and development of Nigeria.

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## **The National Bank of Iran**

Estiri Sana

The National Bank of Iran, known as Bank Melli Iran, stands as a cornerstone of the country's financial system and plays a pivotal role in the Iranian economy. Established in 1927, the bank has been instrumental in shaping the financial landscape of Iran by offering various banking services, managing the monetary policy, and supporting government initiatives. Over the decades, the bank has undergone significant changes, adapting to political, economic, and international pressures, including periods of sanctions and economic challenges.

- **History of the National Bank of Iran**

The National Bank of Iran was established in 1927 during the reign of Reza Shah Pahlavi. At the time, the Iranian economy was dominated by foreign banks, which controlled the country's financial activities, including issuing banknotes and managing the currency. The creation of Bank Melli Iran marked a significant shift toward financial sovereignty, aiming to centralize the management of the country's monetary policy and reduce foreign influence. The bank was granted the exclusive right to issue banknotes, a function it performed until the establishment of the Central Bank of Iran in 1960.

Throughout its history, Bank Melli Iran has played a critical role in the country's economic development. During the early years, it focused on establishing branches across the country and providing banking services to a growing population. The bank's role expanded significantly after the 1979 Islamic Revolution when all banks were nationalized, and Bank Melli became one of the key instruments of the new government's economic policies.

The 1980s and 1990s were marked by significant challenges, including the Iran-Iraq war and the impact of international sanctions. Despite these difficulties, Bank Melli continued to grow, adapting to new regulations and the evolving needs of the Iranian economy. The 21st century brought further transformations, particularly in response to the sanctions imposed by the United States and other Western countries, which targeted Iran's financial sector. These sanctions affected Bank Melli's international operations, leading to a focus on strengthening domestic services and compliance with international financial regulations.

### **Organizational Structure of the National Bank of Iran (2024)**

As of 2024, the National Bank of Iran operates under a structured governance model, with a Board of Directors and an executive management team overseeing its operations. The bank is chaired by a government-appointed CEO, who, along with the board members, is responsible for formulating and implementing policies that align with the national economic goals set by the government.

The bank's organizational structure includes several key departments, each responsible for distinct functions such as commercial banking, retail banking, corporate finance, investment services, and risk management. The bank also has a compliance department to ensure adherence to international standards, especially in the context of sanctions and global financial regulations.

Bank Melli Iran operates over 3,300 branches nationwide and has several international branches in countries such as the UAE, UK, and Germany, although its international presence has been scaled back due to sanctions. Despite these challenges, the bank remains one of the largest employers in Iran's banking sector, providing services that range from personal banking and loans to large-scale corporate financing.

- **Responsibilities and Functions**

Bank Melli Iran plays a multi-faceted role within the Iranian banking system, acting as both a commercial bank and a regulatory body with significant influence. Its primary responsibilities include:

- **Monetary Policy and Currency Management:** Although the Central Bank of Iran now holds the exclusive right to issue banknotes, Bank Melli continues to play a supportive role in managing currency circulation and implementing monetary policy.
- **Commercial and Retail Banking Services:** Bank Melli offers a wide range of services, including savings and checking accounts, loans, mortgages, and other financial products to individuals and businesses.
- **Government Banking Services:** The bank acts as the government's banker, managing public funds, processing government transactions, and financing public projects.
- **Foreign Exchange and Trade Finance:** Bank Melli provides foreign exchange services and supports international trade through letters of credit and other financial instruments, although these services have been constrained by international sanctions.
- **Economic Development Support:** The bank actively supports national development projects, including infrastructure, industry, and housing, aligning its lending practices with government economic priorities.

- **Influence on the Iranian Banking System**

The Iranian banking system consists of a mix of state-owned, private, and semi-private banks. Among these, Bank Melli Iran stands as one of the most powerful due to its extensive network, large asset base, and historical significance. As a government-owned institution, it plays a crucial role in shaping banking policies and regulations that affect all other financial institutions in the country.

Bank Melli's influence extends beyond traditional banking services; it is involved in setting interest rates, managing inflation, and controlling credit distribution. The bank's policies often serve as a benchmark for other banks, making it a key player in the national economic landscape. Furthermore, Bank Melli's close ties to the government allow it to act as an instrument of state policy, particularly in times of economic difficulty.

- **Challenges and Future Outlook**

The National Bank of Iran continues to face numerous challenges, including economic sanctions, inflationary pressures, and the need for greater financial transparency. The sanctions, in particular, have limited the bank's ability to operate on the international stage, affecting its foreign currency reserves and international transactions. Additionally, domestic economic conditions, such as high inflation and low growth rates, pose ongoing risks to the bank's financial health.

Looking forward, Bank Melli aims to further modernize its operations, focusing on digital banking and improving service efficiency. The bank's strategy includes expanding its digital footprint, enhancing cybersecurity measures, and continuing to adapt to the evolving regulatory landscape. There are also ongoing efforts to strengthen partnerships with domestic industries and support government economic policies aimed at boosting the national economy.

- **. Regulatory Role and Economic Impact of the National Bank of Iran**

The National Bank of Iran (Bank Melli Iran) plays a pivotal role in the Iranian economy, not only as a service provider but also as a regulatory body with substantial influence over the country's financial landscape. As one of Iran's key state-owned banks, it directly affects monetary policy, financial stability, and the overall direction of economic development. This section explores the regulatory functions, economic influence, and financial impact of the bank over time, highlighting how it shapes the broader economic environment.

- **Regulatory Functions and Influence**

Bank Melli Iran works closely with the Central Bank of Iran (CBI) to regulate and monitor the banking sector. Although the CBI is primarily responsible for formulating monetary policy and issuing currency, Bank Melli plays a crucial supportive role, especially in implementing policies that affect commercial and retail banking sectors. Some of the key regulatory functions of Bank Melli include:

1. **Credit Control and Loan Distribution:** Bank Melli is instrumental in managing the allocation of credit within the Iranian economy. Through its network of branches, it provides loans to various sectors, including agriculture, industry, and housing. The bank's lending practices are closely aligned with government policies, often focusing on sectors deemed critical for national development.
2. **Interest Rate Management:** While the CBI sets the base interest rates, Bank Melli influences market rates through its lending and deposit activities. By adjusting its interest rates, Bank Melli helps manage inflation and economic growth, making it a key player in monetary policy implementation.
3. **Banking Regulations and Compliance:** Bank Melli ensures compliance with national and international financial regulations, particularly in areas such as anti-money laundering (AML) and counter-terrorism financing (CTF). The bank's efforts to enhance regulatory

compliance are crucial, especially given the international scrutiny Iran's financial sector faces due to sanctions.

4. **Financial Stability:** As one of the largest banks in Iran, Bank Melli is central to maintaining financial stability. The bank's policies on liquidity management, risk control, and capital adequacy are essential for preventing systemic risks within the banking sector.

- **Economic Impact Over Time**

Bank Melli Iran's impact on the economy can be seen in its role in financing government projects, supporting economic development, and responding to financial crises. Over the years, the bank has been a key driver of state-led economic initiatives, which has significantly influenced Iran's economic trajectory.

1. **Financing Economic Development:** Bank Melli has historically financed a range of government-led projects, including infrastructure, housing, and energy. This financing has been crucial in times of economic hardship, such as during the Iran-Iraq war in the 1980s and subsequent sanctions. The bank's ability to channel funds into critical sectors has helped sustain economic growth even under restrictive conditions.
2. **Supporting Inflation Control:** Iran has faced persistent inflation challenges, particularly due to sanctions and domestic economic mismanagement. Bank Melli's role in controlling credit distribution and managing liquidity has been vital in efforts to curb inflation. However, its effectiveness has been limited at times by broader economic pressures, such as currency depreciation and rising import costs.
3. **Impact on Financial Inclusion:** By expanding its branch network and introducing digital banking services, Bank Melli has improved financial inclusion in Iran. Its extensive reach allows millions of Iranians access to banking services, which is particularly important in rural and underserved areas.
4. **Response to Sanctions and Financial Isolation:** Bank Melli's international operations have been heavily impacted by sanctions, which have restricted its ability to conduct foreign transactions and access global financial markets. In response, the bank has focused on strengthening its domestic operations and developing alternative financial channels, such as bartering and local currency agreements with neighboring countries.

### **Future Outlook and Personal Recommendations for Improvement**

As Bank Melli Iran faces significant challenges due to international sanctions, economic volatility, and technological transformations, it is crucial to explore innovative approaches that can enhance the bank's role in Iran's economy. The following section presents a personal idea aimed at improving the bank's efficiency, regulatory influence, and economic impact.

## **Personal Idea: Establishing a National Digital Financial Ecosystem**

### **Concept Overview:**

One of the critical areas for improving the performance and resilience of Bank Melli Iran lies in creating a comprehensive National Digital Financial Ecosystem (NDFE). This idea, rooted in leveraging digital finance, aims to unify various financial services under a secure, innovative, and nationally controlled digital platform. The concept is to establish a nationwide system that integrates digital banking, e-commerce, mobile payments, and financial literacy, accessible to all Iranians.

### **Rationale and Goals:**

1. **Reduce Reliance on Cash and Traditional Banking:** By reducing the dependency on cash and outdated banking practices, this system would streamline financial transactions, reduce costs, and enhance transparency.
2. **Improve Accessibility and Financial Inclusion:** A digital platform accessible via mobile phones and the internet would allow even the most remote or underserved populations to participate in the formal financial system.
3. **Strengthen Resilience Against Sanctions:** By developing independent digital payment systems and domestic FinTech innovations, Iran can reduce its reliance on international financial networks that are vulnerable to sanctions.
4. **Boost Economic Activity and Innovation:** A robust digital financial ecosystem would support small and medium-sized enterprises (SMEs), startups, and entrepreneurs, stimulating innovation and economic growth.

### **Key Components of the Proposed Solution:**

1. **National Digital Wallet Integration:** This initiative would introduce a universal digital wallet linked to Bank Melli's core banking system, enabling seamless transactions across all financial services. Customers could use the digital wallet for everyday transactions, bill payments, savings, and even micro-investments, enhancing convenience and accessibility.
2. **Support for Domestic FinTech Development:** Bank Melli should establish a FinTech incubator that focuses on developing local startups specializing in financial technology. This hub would provide funding, mentorship, and infrastructure, helping new companies build innovative solutions for digital payments, credit scoring, and financial planning tailored to Iran's unique market needs.
3. **Blockchain-Based Secure Transactions:** Leveraging blockchain technology, the bank could develop a secure and transparent ledger for transactions, reducing fraud, enhancing data security, and building trust among users. This system could facilitate domestic and cross-border trade within regional partners, bypassing traditional international banking routes impacted by sanctions.
4. **Financial Education and Digital Literacy Programs:** To ensure widespread adoption, Bank Melli should invest in educational programs that teach citizens how to use digital banking tools safely. These initiatives could be rolled out through schools, community centers, and online platforms, targeting various age groups to improve financial literacy.
5. **AI-Driven Customer Service and Credit Assessment:** Incorporating artificial intelligence into customer service operations could drastically improve the efficiency and personalization of banking services. AI could also assist in developing more accurate credit scoring systems, which would enable better lending decisions and risk management.

### **Expected Benefits:**

1. **Enhanced Economic Participation:** By making banking accessible and more convenient, this ecosystem would encourage greater economic participation from all segments of society, driving growth.
2. **Increased Operational Efficiency:** Digital transactions are faster, cheaper, and more secure than traditional methods, leading to improved operational efficiency for the bank.
3. **Greater Transparency and Reduced Corruption:** Digital platforms with real-time transaction tracking could minimize opportunities for financial fraud and corruption, promoting greater integrity within the banking sector.

#### **Challenges and Considerations:**

1. **Technological Infrastructure:** Building the necessary digital infrastructure would require significant investment in cybersecurity, server capacity, and mobile networks.
2. **Regulatory Adjustments:** New regulations would be needed to govern digital finance, protect consumer data, and manage risks associated with digital transactions.
3. **Public Trust and Adoption:** Ensuring the public's trust in a new digital system is crucial. Continuous efforts in education and transparent operations will be necessary to build confidence in this platform.

#### **Conclusion:**

The establishment of a National Digital Financial Ecosystem presents an innovative pathway for Bank Melli Iran to modernize and enhance its role in the Iranian economy. This personal idea suggests a forward-looking strategy that embraces technology, supports financial inclusion, and fosters economic resilience. Implementing such a solution could help Bank Melli overcome existing challenges, positioning it as a leader in digital finance and contributing positively to Iran's broader economic goals.

#### **Summary**

The National Bank of Iran (Bank Melli Iran) has played a crucial role in shaping Iran's banking and economic landscape since its establishment. As one of the largest and most influential state-owned banks, it has evolved over the decades, adapting its organizational structure, responsibilities, and influence on the broader financial system. Today, Bank Melli Iran stands as a critical institution within Iran's complex economic environment, navigating significant challenges while seeking new opportunities for growth and modernization.

#### **Current Organizational Structure and Responsibilities**

Bank Melli Iran's current organizational structure reflects a comprehensive and multifaceted approach designed to manage its extensive operations. The bank is governed by a Board of Directors and operates through various departments specializing in retail banking, corporate banking, international operations, and risk management. It also plays a significant regulatory role, often working in tandem with the Central Bank of Iran to implement monetary policies and maintain financial stability. Bank Melli's structure is designed to support its responsibilities, including credit distribution, interest rate management, and compliance with national and international banking regulations.

The bank is responsible for a wide range of services that include personal and business banking, loans, investment services, and managing foreign currency transactions. Its regulatory functions extend to implementing anti-money laundering measures and ensuring adherence to financial standards, which are vital given Iran's geopolitical challenges. Bank Melli's extensive branch

network and digital platforms enable it to serve millions of Iranians, making it a cornerstone of financial inclusion in the country.

### **Influence on Iran's Banking System**

The influence of Bank Melli Iran on the country's banking system cannot be understated. As one of Iran's most powerful banks, it not only provides essential banking services but also sets benchmarks for financial stability and economic support. With over 30 banks operating in Iran, Bank Melli plays a dominant role due to its size, government backing, and reach. Its decisions regarding credit policies, interest rates, and investment priorities significantly impact the overall direction of Iran's banking sector.

Bank Melli Iran's powerful position allows it to act as a stabilizing force during economic downturns, providing critical funding for government projects and strategic sectors such as housing, agriculture, and industry. However, its influence is also a double-edged sword, as it must balance government directives with market needs, often prioritizing national economic goals over profitability. This balancing act has made Bank Melli both a key driver of economic growth and a buffer against financial instability, although its performance is frequently challenged by external sanctions and internal inefficiencies.

### **Summary of Key Insights and Recommendations**

1. **Regulatory Role and Economic Impact:** Bank Melli Iran plays a crucial role in implementing monetary policy and supporting economic development. Despite facing limitations due to sanctions and domestic challenges, the bank continues to be a vital player in Iran's financial ecosystem, particularly in its ability to finance key sectors and support government economic strategies.
2. **Technological Modernization:** Modernizing banking operations through digital transformation and enhanced regulatory frameworks is crucial. This approach can reduce costs, improve efficiency, and provide a better customer experience. Experts and analysts suggest focusing on expanding digital banking services, enhancing cybersecurity, and developing local payment systems to reduce vulnerability to international sanctions.
3. **Diversification and Financial Inclusion:** There is a growing consensus among professionals that Bank Melli needs to diversify its revenue streams and enhance financial inclusion. By investing in innovative financial technologies, supporting FinTech startups, and improving accessibility, Bank Melli can build a more resilient and inclusive banking model that benefits a wider segment of society.

### **Conclusion and Future Outlook**

The National Bank of Iran remains a cornerstone of the Iranian banking system, with significant influence over the nation's financial stability and economic growth. Its large size, extensive branch network, and strategic role within the government make it a powerful institution that impacts every aspect of the economy. However, the challenges it faces—ranging from sanctions to the need for modernization—demand innovative and strategic responses.

Personal insights suggest that the future of Bank Melli Iran could be significantly improved by establishing a National Digital Financial Ecosystem, fostering local FinTech developments, and enhancing digital banking services. These steps would not only improve operational efficiency but also reduce the impact of external pressures and increase the bank's resilience. The suggestions from experts also align with this vision, emphasizing the need for technological upgrades,

regulatory reform, and diversification to secure a more sustainable and influential future for Bank Melli and Iran's broader financial system.

By embracing these strategies, Bank Melli Iran can continue to fulfill its critical role, adapting to new challenges and positioning itself as a leader in the region's banking sector. The transformation will require coordinated efforts, investments in technology, and a commitment to innovation, but the potential rewards are substantial: a more robust, inclusive, and resilient financial system that can support Iran's economic aspirations well into the future.

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## **The Role of the National Bank of Morocco in Economic Development**

Marahi Fatima-Zahra

Since its founding in 1959, the National Bank of Morocco, also known as Banque Al-Maghrib (BAM), has been a vital component of the nation's financial system and has shaped Morocco's economic growth. BAM is Morocco's central monetary authority, and as such, its duties are extensive and include managing monetary policy, regulating the financial industry, and ensuring financial stability. Banque Al-Maghrib has played a significant role in promoting economic development and making sure the nation adjusts to the dynamic forces of globalization, market liberalization, and technological advancement, but its responsibility goes beyond simply preserving stability.

In its capacity as Morocco's central bank, BAM is responsible for managing foreign exchange reserves, supervising monetary policy, regulating inflation, and guaranteeing the stability of the country's banking sector. By performing these tasks, BAM helps create the conditions necessary for long-term economic growth in addition to promoting macroeconomic stability. Its policies affect interest rates, investment flows, and the general level of trust in the national economy, which in turn affects important sectors including industry, agriculture, and services.

Morocco has implemented important economic reforms in recent decades, including as privatization, trade liberalization, and the modernization of the financial system. At the center of these developments has been Banque Al-Maghrib, which has shaped the laws governing the banking industry, promoted a more transparent and competitive financial environment, and brought Morocco's financial institutions into compliance with global norms. The importance of BAM grows as the nation's economy continues to diversify and integrate more fully with the rest of the world.

The various facets of Banque Al-Maghrib's impact on Morocco's economic growth will be examined in this essay. It will specifically look at how the bank contributes to economic stabilization, financial regulation, and monetary policy. It will also look at how the bank works to increase financial inclusion and stimulate economic growth by maintaining a competitive and robust banking sector. We can gain a better grasp of how a central bank serves as a regulator and a stimulus for national development by investigating BAM's contributions to Morocco's economic trajectory.

## **The Key Functions of the National Bank of Morocco**

As the national bank of Morocco, Banque Al-Maghrib (BAM) is a key player in the nation's financial system. BAM performs a number of vital tasks that support Morocco's economic growth and stability in its capacity as the guardian of the country's monetary and financial stability. These duties include managing the national payment system, issuing money, regulating banks, and setting monetary policy. The main duties of Banque Al-Maghrib are listed below.

In order to preserve price stability, manage inflation, and assist the country's economy, the National Bank of Morocco is principally in charge of developing and carrying out monetary policy. Being a central bank, it has an impact on the money supply and interest rates, which in turn have an impact on credit costs and the state of the economy as a whole.

### **1. Monetary Policy and Inflation Control**

Maintaining price stability and controlling inflation are two of the National Bank of Morocco's primary responsibilities. By modifying the benchmark interest rate to regulate the money supply, the bank controls inflation. To manage the flow of money in the economy during periods of excessive inflation, the bank may decide to hike interest rates in order to discourage borrowing and spending. On the other hand, the bank may cut interest rates to promote investment and consumption when inflation is low and the economy needs to be stimulated.

The creation and execution of monetary policy is one of Banque Al-Maghrib's most essential duties. In order to prevent inflation and support long-term economic growth, the central bank is entrusted with preserving price stability. BAM uses the following resources to accomplish this goal:

- **Management of Interest Rates:** Banque Al-Maghrib controls the policy interest rate, which has a direct impact on borrowing costs and credit availability in the economy. BAM can affect inflation, company investment, and consumer spending by modifying this rate. For example, cutting interest rates can boost economic activity by making credit more affordable, while raising rates can reduce inflation by lowering borrowing and expenditure.
- **Open Market Operations:** In order to affect the amount of liquidity in the banking system, BAM engages in open market operations, which involve the purchase and sale of government securities on the financial markets. This keeps the national currency stable and helps control inflation.
- **Currency Peg and Exchange Rate:** The Moroccan dirham (MAD) is subject to a controlled floating exchange rate system in Morocco, and BAM is crucial in stepping in on

foreign exchange markets to keep the currency's value stable. In order to manage inflationary pressures and promote external commerce, the central bank may modify the dirham's value in relation to major foreign currencies.

By using these instruments, BAM hopes to establish a macroeconomic climate that is stable and supportive of long-term investment and growth.

## **2. Regulation and Supervision of the Banking Sector**

The banking industry in Morocco is subject to regulation and oversight by Banque Al-Maghrib. It guarantees the sound, effective, and transparent operation of commercial banks, credit institutions, and other financial intermediaries. Among BAM's regulatory responsibilities are:

- **Oversight and Licensing:** BAM issues licenses to commercial banks and other financial organizations, making sure they fulfill the prerequisites and follow the guidelines established by the central bank. This involves making certain that banks adhere to legal and operational requirements, keep sufficient capital reserves, and make appropriate lending decisions.
- **Banking Safety and Soundness:** BAM's supervisory function guarantees that banks efficiently handle risks, including as operational, credit, and liquidity concerns. In order to preserve financial stability and safeguard depositors, this oversight is essential.
- **Stress Testing and Financial Stability:** To evaluate financial institutions' resilience to economic shocks like recessions or financial crises, BAM frequently performs stress tests on them. This guarantees that banks have enough capital to handle any difficulties and aids in identifying flaws in the banking system.

BAM helps preserve trust in Morocco's financial system and keeps systemic risks from impacting the economy by making sure banks run securely and openly.

## **3. Issuance and Management of Currency**

The issuance and administration of the Moroccan dirham (MAD), the country's currency, is another essential duty of Banque Al-Maghrib. This obligation consists of:

- **Printing and Banknote Circulation:** BAM is in charge of minting, printing, and distributing coins and banknotes throughout the Moroccan economy. Through strict supervision over the money supply, the central bank makes sure that there is a sufficient amount of money to support the needs of the economy while avoiding excessive inflation.

- **Monetary Supply Control:** By modifying the amount of currency in circulation, BAM controls the total amount of money in circulation. To regulate the money supply in accordance with its inflation aims and economic goals, the central bank employs a number of monetary policy instruments, including open market operations.
- **Preserving Public Trust:** As the only currency issuer, BAM makes sure the dirham is a reliable and trustworthy medium of exchange. The central bank is in charge of putting policies in place to stop counterfeiting and guarantee that the value of the currency is maintained.

Encouraging economic growth, facilitating trade and investment, and maintaining trust in the financial system all depend on the effective management of the national currency.

#### 4. *Foreign Exchange Reserves Management*

Managing Morocco's foreign exchange reserves is one of Banque Al-Maghrib's other main duties. Maintaining the nation's balance of payments and making sure Morocco has adequate cash on hand to fulfill its international financial commitments depend on these reserves. Among BAM's responsibilities in this field are:

- **Managing Reserves:** BAM is responsible for managing the nation's foreign exchange reserves, which comprise gold, foreign currencies, and other global financial assets. In order to protect Morocco's financial stability and guarantee that the nation can fulfill its trade commitments, foreign debt obligations, and currency requirements, the central bank carefully distributes these reserves.
- **Exchange Rate Stabilization:** The reserves act as a safety net against outside shocks like abrupt shifts in the price of commodities, world financial crises, or variations in the dirham's value. BAM can intervene in foreign exchange markets to stabilize the dirham's value and shield the economy from outside turbulence by keeping reserves at a steady level.
- **Global Financial Integration:** Morocco's economic integration with the rest of the world depends on the efficient management of its foreign exchange reserves. The reserves help the nation's creditworthiness in global markets and boost investor confidence.

#### 5. *Payment Systems Oversight*

In order to guarantee the safe and efficient flow of money throughout the economy, national payment networks are supervised in large part by Banque Al-Maghrib. The central bank makes certain that payment systems run effectively, safely, and openly. Important duties include of:

- **Monitoring Payment Networks:** BAM is in charge of overseeing the systems that make money transfers possible, such as clearinghouses, electronic funds transfers, and interbank payments. BAM lowers transaction costs and improves the overall operation of the financial system by guaranteeing that payment systems are safe and effective.
- **Encouraging Financial Inclusion:** To improve the general public's access to financial services, the central bank promotes the use of emerging payment technologies like digital and mobile money. In Morocco, where financial inclusion is a top focus, this is particularly crucial.
- **Lowering Transaction Risks:** BAM makes sure that payment systems are resistant to technical malfunctions, fraud, and cyberattacks that could erode public trust in the financial system. In order to increase confidence in the banking industry, the central bank strives to ensure that money is transmitted securely.

#### 6. *Economic Research and Policy Advice*

The Moroccan government also relies heavily on Banque Al-Maghrib for economic research and policy analysis. BAM carries out in-depth research on a number of economic topics, such as growth prospects, inflation trends, and fiscal strategies. Additionally, the bank advises policymakers on economic matters, which aids in directing national economic policy.

- **Economic Forecasting:** BAM frequently releases studies on inflation, the state of the economy, and other macroeconomic variables. These reports are essential for directing the fiscal policy of the government as well as the choices made by investors and private companies.
- **Policy Formulation:** Government policies pertaining to monetary and fiscal issues are shaped in part by BAM's research. In order to ensure sustainable economic growth, improve trade balances, and solve macroeconomic difficulties, the central bank works with the government to develop measures.

By performing these duties, BAM helps ensure that economic policies are founded on reliable data and analysis and supports well-informed national decision-making.

## **Challenges Facing the National Bank of Morocco**

In light of both internal and international economic dynamics, the National Bank of Morocco faces a number of difficulties, despite the fact that it is essential to the country's economic growth.

### **1. Global Economic Uncertainty**

Uncertainty in the world economy is one of the biggest problems facing the National Bank of Morocco (Banque Nationale du Maroc, or BNM). Numerous factors that impact both the domestic economy and global financial markets are the main causes of this uncertainty. The bank is impacted by global economic instability in the following ways:

- **Volatility in Global Markets :**

- ***Financial Market Instability:*** Due to the close interdependence of the world's financial markets, any instability, whether brought on by trade disputes, geopolitical threats, or economic downturns, can cause changes in interest rates, stock prices, and exchange rates. The National Bank of Morocco's exposure to currency risk and its capacity to manage its foreign reserves are both directly impacted by these swings.
- ***Impact on Foreign Investment:*** Because investors prefer to steer clear of high-risk markets during unstable times, global uncertainty may result in a decline in foreign investment. The bank's lending capacity and overall profitability may be impacted by Morocco's capital inflows as a result of this decline in foreign investment.

- **Inflation and Interest Rate Pressure :**

- ***Inflationary Pressures:*** A significant worry in international economies, inflation is fueled by growing energy or food prices. Both internal (like crop failures or salary rises) and external (like increased commodity prices) variables may contribute to inflationary pressures in Morocco. In order to keep inflation under control, the National Bank may need to tighten monetary policy, which would increase interest rates and make borrowing more expensive for both consumers and companies.
- ***Increasing Global Interest Rates:*** The National Bank of Morocco may have trouble keeping its own interest rates in balance while many central banks across the world,

like the European Central Bank and the U.S. Federal Reserve, are boosting rates to fight inflation. Increased borrowing costs due to rising global interest rates may lower credit demand and impede economic expansion.

- **Currency and Exchange Rate Risk :**

***Exchange Rate Variations:*** Changes in the world currency markets have an impact on Morocco's currency, the dirham. The value of the dirham may be impacted by the US dollar, euro, and other international currencies, particularly given Morocco's trading links with nations that use these currencies. The bank's foreign currency operations and its capacity to manage liquidity may be seriously jeopardized by uncertainty over the future value of these currencies, which may arise from events such as geopolitical instability, economic crises, or changes in the patterns of international commerce.

- **Trade and Supply Chain Disruptions :**

- ***Global Trade Slowdown:*** Exports, such as phosphates, textiles, and agricultural goods, have a significant impact on Morocco's economy. The demand for these goods may decline as a result of trade wars, sanctions, or supply chain issues, which would have a detrimental impact on the economy as a whole as well as the bank's clients. A downturn in the economies of Morocco's main trade partners, such as the EU or China, might lower export earnings and have an impact on the creditworthiness and liquidity of companies operating in highly export-dependent industries.
- ***Supply Chain Risks:*** In a similar vein, interruptions in international supply networks (due to pandemics, natural disasters, or conflicts, for example) can result in increased expenses and decreased profitability for companies, which makes it more difficult for the bank's corporate clients to get credit or pay debt.

- **Geopolitical Risks :**

- ***Regional Instability:*** The Middle East and North Africa (MENA) region as a whole frequently experiences unpredictable political and security circumstances. The stability of the Moroccan economy and financial industry may be impacted by political unrest, conflict, or instability in nearby nations. The National Bank may therefore need to review its risk management plans, especially with regard to credit risk and international activities.

- ***Shocks to Energy and Commodity Prices:*** Morocco imports a large amount of its energy and commodity requirements. Global energy price variations, which are frequently impacted by geopolitical events (such as shifts in the price of oil as a result of conflicts or supply shortages), may cause inflationary pressures and have an impact on the bank's balance sheet.
- **Impact of Global Inflation on Commodity Prices:**
    - ***Global Supply Chain Problems:*** Uncertainty in the world economy can cause supply disruptions for essential commodities, which can raise their prices. Morocco is at risk of increased inflation as a result of rising world prices because it is a net importer of petroleum and some agricultural items. The National Bank is then compelled to implement monetary policies that may have an effect on the general expansion and stability of the economy.
    - ***Currency Depreciation Risks:*** The Moroccan dirham may face downward pressure if there are notable fluctuations in the value of other currencies, particularly in light of rising commodity prices. Import prices would rise as a result, further affecting domestic inflation and reducing Moroccan consumers' purchasing power.

- **Digital and Technological Transformation :**

***Adapting to Global Fintech Trends:*** The National Bank of Morocco is under pressure to adjust to the emergence of global fintech innovation, such as blockchain technology and digital currencies. Technological developments frequently accompany economic instability as businesses look for alternatives or efficiency during tumultuous times, even though they are not directly related to global economic uncertainty. To maintain its competitiveness, enhance client satisfaction, and control the risks of cyberattacks and online fraud, the bank needs to make investments in digital infrastructure.

- **Monetary Policy Coordination :**

***Global Central Bank Policies:*** Monetary policy changes by central banks worldwide are frequently caused by global economic uncertainty. To keep a balance between the demands of the local economy and the international monetary system, the National Bank of Morocco must carefully manage these developments. For instance, capital flows into Morocco, inflation rates, and the efficacy of the bank's own policy measures may all be impacted if other central banks raise interest rates or modify their monetary policies.

## 2. Inflationary Pressures

For the National Bank of Morocco (BNM), inflationary pressures pose a serious problem since they have an impact on the stability of the country's economy as well as the operation of the banking system. The rate at which prices for goods and services generally increase, reducing the currency's purchasing power, is referred to as inflation. Rapid inflation can cause a number of economic distortions as well as societal unrest. The National Bank of Morocco is impacted by inflationary pressures in the following main ways:

- **Monetary Policy Adjustments :**

- **Raising Interest Rates:** As part of its monetary strategy to combat inflation, the National Bank of Morocco may decide to raise interest rates in reaction to growing inflation. Borrowing becomes more costly with higher interest rates, which may lower demand for loans and spending. This, in turn, lowers company and consumer spending, which slows inflation. But there's also a chance that this will slow economic growth and make debt more of a burden for firms and households.
- **Balancing Growth and Inflation Control:** The BNM has the difficulty of finding a balance between promoting economic growth and containing inflation. An economic slowdown or even a recession may result from excessive tightness, which can discourage investment and consumption. In contrast, if inflation is not controlled, it can weaken purchasing power, cause wage-price spirals, and jeopardize the long-term stability of the economy.

- **Impact on Consumer Spending and Demand:**

- **Reduced Purchasing Power:** As inflation increases, customers' income does not go as far in purchasing products and services. For example, customers will have less money available for other goods and services if the price of food, gasoline, and housing all rise. This may result in less spending, which impacts the earnings and expansion opportunities of enterprises.
- **Pressure on Household Debt:** Credit is a major source of spending for many Moroccan households, particularly when it comes to large purchases like property, vehicles, or schooling. The cost of debt payment may go up as inflation rises, particularly if interest rates go up. The stability of the banking industry may be impacted by increased default rates on credit card debt, mortgages, and personal loans.

- **Currency Depreciation and Exchange Rate Risk:**

- ***Impact on the Dirham's Value:*** If domestic price rises surpass those of trading partners, inflation may cause the Moroccan dirham to depreciate. A lower dirham raises the price of imports, which can worsen inflation by raising the price of imported items including food, machinery, and energy. Without strong monetary policy measures, this might result in a vicious cycle of rising inflation and additional currency devaluation.
- ***Higher Import Prices:*** Morocco imports a number of essential items, such as food and electricity. These imports become more expensive when inflation causes the dirham to depreciate, which further drives up local inflation. Higher import prices could put pressure on companies that depend on imported items and result in wider economic imbalances, thus the BNM must maintain this balance.
- **Cost-Push Inflation :**
  - ***Increasing Energy Prices:*** Morocco imports a large amount of its natural gas and oil to meet its energy demands. Increases in global energy prices are passed on to domestic consumers and enterprises, whether as a result of supply chain disruptions, geopolitical events, or other causes. Cost-push inflation, which has a direct impact on production costs across industries, especially manufacturing, transportation, and agriculture, is largely caused by increases in energy prices. When creating monetary policy, the National Bank must take these outside shocks into consideration.
  - ***Agricultural Pressures:*** Because agriculture accounts for a large portion of Morocco's economy, changes in the cost of agricultural products—whether as a result of droughts, subpar harvests, or changes in international market trends—can raise the cost of food. Price increases for food, especially staples like wheat, fruit, and vegetables, can cause social unrest and discontent and increase pressure on decision-makers.
- **Wage-Price Spiral :**
  - ***Rising pay:*** In order to preserve their purchasing power, workers may seek higher pay in reaction to rising living expenses. However, in order to offset the increased labor expenses, companies frequently boost prices when they offer wage increases. A wage-price spiral, in which prices and wages rise steadily in a vicious cycle, may result from this. In order to avoid such a spiral, which can be challenging to control once it starts, the National Bank must keep a close eye on salary negotiations and inflation expectations.
  - ***Labor Market Tensions:*** Since the poorest people in society bear the brunt of growing costs, particularly for essentials, inflation frequently results in increased inequality. In order to deal with inflation, workers and unions may demand greater salaries, which could spark social discontent and labor unrest. These conflicts may have an impact on the economy as a whole, resulting in protests, strikes, or decreased output.

- **Impact on Financial Stability :**

- **Asset Price Bubbles:** Unsustainable asset values may arise if inflation is fueled by easy credit or speculative bubbles (such as those in the stock or real estate markets). A banking crisis or large losses for financial institutions could result from the burst of these bubbles, which could cause financial instability.
- **Liquidity management:** The banking system's liquidity may also be impacted by high inflation and rising interest rates. The demand for loans may decrease as borrowing costs rise. However, banks might have to pay more for funding, especially if they depend on global capital markets. Because the central bank must maintain the stability of the financial system without overheating the economy, managing liquidity becomes more difficult in an environment of high inflation.

- **Impact on the National Bank's Balance Sheet:**

- **Devaluation of Assets:** The foreign reserves and other assets held by the National Bank of Morocco may lose value due to inflation. Any foreign-denominated assets that the bank has will lose value if inflation causes the dirham to depreciate. If not adequately hedged or managed, this could cause the bank's financial situation to worsen.
- **Real Interest Rate Pressure:** Negative real interest rates, in which the nominal interest rate is less than the inflation rate, may result from an excessive increase in inflation. Real rates would no longer encourage saving or draw investment in Moroccan assets, which would lower the bank's investment returns and the efficacy of monetary policy.

- **External Inflationary Pressures :**

- **Global Inflation Trends:** Pressures from other economies can frequently cause inflation. For instance, rising inflation in the United States or the European Union, two important trading partners, may result in price hikes in Morocco because of increased import costs or changes to global supply networks. Due to Morocco's reliance on international trade, both direct and indirect effects of external inflationary trends on domestic inflation levels are possible.
- **Shocks to Commodity Prices:** Morocco is vulnerable to changes in global market prices since it imports essential commodities including oil, wheat, and raw materials. Disruptions to global supply, including those brought on by wars or natural disasters, can raise commodities prices and worsen inflation at home, which can affect the National Bank's capacity to maintain economic stability.

- **Social and Political Challenges :**

- **Public Discontent:** Social unrest can result from persistent inflation, especially if it is perceived as being out of control. The rising expense of living, especially for necessities like food and fuel, irritates people. This might result in strikes, protests, or political unrest in Morocco, which would make it more difficult for the National Bank to oversee the nation's economic strategy and preserve financial stability.
- **Policy Pressure:** When inflation impacts vulnerable groups, the public and government frequently put pressure on the central bank to act decisively. As it works to control inflation without slowing down the economy or harming jobs, the National Bank may encounter competing demands.

## Conclusion

Because it maintains stability, controls monetary policy, and monitors the financial system, the National Bank of Morocco (BNM) is essential to the nation's economic growth. BNM fosters an atmosphere that is favorable to expansion, foreign investment, and the creation of jobs by working to stable the dirham, limit inflation, and regulate the banking industry. In order to guarantee that more Moroccans have access to basic banking services, the bank also plays a significant role in financial inclusion.

BNM has the chance to improve Morocco's economic prospects even if it faces obstacles like inflationary pressures, technological upheaval, and uncertainty in the global economy. The bank can help Morocco's global competitiveness and sustainable growth by embracing digital innovation and green finance.

In the end, the National Bank of Morocco continues to be essential to the stability and future expansion of the Moroccan economy. Prosperity for the country and its people will continue to be ensured by its capacity to adjust to shifting circumstances and concentrate on long-term economic objectives.

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## **Essay on the national bank of Egypt**

Abo Mousa Osama Ahmed Ashraf Ali Mohammed

The **National Bank of Egypt (NBE)** is one of Egypt's most prominent and oldest financial institutions, established in 1898. As the country's largest commercial bank, it plays a crucial role in Egypt's banking sector and economic development. Here's a breakdown of its key features and contributions:

### **Foundation and Development :-**

- **Establishment:**
- Founded in **June 1898**, NBE is the oldest commercial bank in Egypt and one of the oldest in the region.
- **NBE** serves millions of Egyptians with savings accounts, fixed deposits, credit cards, and digital banking services.
- The bank provides solutions for large and medium-sized enterprises, including trade finance, cash management, and investment banking.
- The **NBE** provides affordable housing loans under government initiatives, helping low- and middle-income families achieve home ownership.
- **NBE** has embraced digital transformation, offering mobile banking, internet banking, and ATMs to provide accessible banking solutions and encourage financial inclusion.
- **NBE** has representative offices in places like Dubai, China, and South Africa to support Egyptian businesses abroad and promote international trade.
- **Community Development:**
- NBE invests in healthcare, education, and social welfare projects across Egypt as part of its corporate social responsibility.
- NBE has funded the establishment and renovation of hospitals and healthcare facilities, such as the Magdi Yacoub Heart Foundation and children's hospitals.
- NBE has introduced financing solutions tailored to women entrepreneurs, providing them with access to capital and business training, thereby enhancing their economic participation.
- The national bank of Egypt held approximately 31.5% of Egypt's total banking assets in 2020, highlighting its substantial market presence and economic influence. NBE's

resilience and adaptation to digitalization have enabled it to remain a stabilizing force, particularly visible in its contributions during the COVID-19 pandemic to maintain economic stability through high liquidity and capital adequacy ratios.

- The National Bank of Egypt is thus a major player in Egypt's financial landscape, supporting economic growth, innovation, and social development.

### **Conclusion:-**

The NBE has gone beyond traditional banking by actively participating in initiatives that uplift communities, enhance living standards, and contribute to Egypt's socio-economic development. Its efforts align with national goals, ensuring sustainable growth and improved welfare for the population.

### **Points where the national bank of Egypt changed over the years :**

Over the years, NBE has transformed to support Egypt's economy more dynamically, from financing government projects to becoming a major player in digital banking and financial inclusion efforts, ( quoted by [Jasmin Fouad](#) ), Professor, Faculty of Economics and Political Science, Cairo University and American University in Cairo.

- **Establishment and Early Development (1898-1950s):**

Founded in 1898, NBE played a central role in Egypt's financial sector from its inception, supporting the country's banking needs under British colonial influence. It became a vital part of the Egyptian economy, especially during the early 20th century when Egypt's banking system began modernizing.

- **Nationalization and Expansion (1950s-1970s):**

Following Egypt's 1952 revolution, NBE was nationalized as part of broader state efforts to control key economic sectors. This era marked a period of extensive expansion, with NBE strengthening its position as the primary bank supporting the state's development plans. Its services were expanded across the country, and it took on a more prominent role in financing state-led projects.

- **Privatization and Modernization (1990s-2000s):**

During the 1990s, as part of broader economic reforms, NBE began to modernize its operations. It adopted new technologies, opened up to private sector financing, and became part of the larger wave of economic liberalization. The bank underwent a series of improvements to streamline operations, making its services more competitive both domestically and regionally

- **Recently**, NBE has aimed to broaden its investment scope, committing significant resources to emerging industries like financial technology, renewable energy, and real estate. In 2024, NBE is set to invest EGP 5 billion in six new projects, with a portion allocated to increasing capital in key sectors, including chemical and engineering industries.
- **The bank's strategy for 2021 – 2023** comprised seven main axes: leading the banking sector in Egypt towards enhancing financial inclusion, moving strongly towards consolidating the principle of sustainability in the various activities of the bank, activating the principle of “the customer is the focus of the bank’s attention”, promoting digital transformation, continuing to develop the skills of the bank’s employees, continuing to support the initiatives of the Central Bank, and making better use of the various resources of the bank, quoted by Hisham Okasha, chairperson of the NBE.
- Yehia Aboul Fotouh, Deputy Chairperson of the NBE, revealed that the bank aims to invest EGP 45bn in the retail banking portfolio during 2022, noting that the total retail banking portfolio currently amounts to about EGP 156bn, including EGP 11bn within the initiative of the Central Bank of Egypt for mortgage finance, benefiting more than 100,000 customers. The total funding for the vehicle replacement initiative amounted to about EGP 926m to date, benefiting 3,800 customers.
- Aboul Fotouh confirmed that the bank also aims to pump about EGP 35bn into the portfolio of small and medium-sized (SMEs) projects, ranging between agricultural, industrial, commercial and service activities, noting that the total portfolio of these projects currently amounts to more than EGP 103bn benefiting about 97,000 clients. The bank aims to increase them by about 20,000 new customers during 2022, and they are served through 249 of its branches. Aboul Fotouh added that the size of the bank’s customer deposits portfolio amounted to about EGP 2.37trn with a market share that exceeded 37%, noting that the bank aims to increase the number of its clients to 20 million by December 2022, up from 18 million clients currently.

- Dalia El-Baz, Vice Chairperson of the NBE, indicated that the bank aims to provide banking services to a larger number of citizens in various governorates, with an increase of 60 new branches and 2,000 ATMs during 2022. El Baz explained that the bank's branch network has so far reached about 585 branches and offices, including 38 solar-powered branches, 55 branches to serve deaf and dumb customers, in addition to 5,229 ATMs, which include 95 machines equipped to serve customers with visual impairment, and 34 machines to serve customers with motor disabilities.

### **How the National bank of Egypt is affecting other banking system all over Egypt :**

As the largest bank in Egypt, NBE has a significant impact on the country's financial stability and policy direction. Its size and strategic actions often set trends for other banks, creating ripple effects across the industry. Here's a closer look at how NBE affects Egypt's banking system:

1. **Market Leadership and Competition:** NBE's dominance shapes the competitive environment. Other banks often follow its lead in terms of interest rates, financial products, and digital banking innovations. For instance, NBE's focus on sustainable finance has pushed other banks to enhance their environmental, social, and governance initiatives.
2. **Liquidity and Financial Stability:** NBE, by virtue of its large asset base and financial power, provides significant liquidity to Egypt's economy. This is crucial during periods of economic turbulence. When NBE makes strategic moves, such as increasing lending or adjusting interest rates, it can prompt similar actions by other banks, aiming to stay competitive and responsive to market demands
3. **Policy Influence:** NBE's relationships with the government and central bank allow it to influence national banking policies, such as monetary policy and regulatory changes. As a key player, its stance on economic issues often guides the direction of banking regulations across the sector
4. **Innovations and Digital Transformation:** NBE has been at the forefront of adopting new technologies, including mobile banking and digital payment systems. Other banks follow suit, enhancing their digital offerings to match NBE's capabilities. This digital push not only improves efficiency across the banking sector but also increases customer expectations for more accessible banking services

The banking sector led the list of Egypt's most valuable brands in 2024, holding 4 out of 10 top spots, with the National Bank of Egypt (NBE) maintaining its number one spot on Brand Finance's latest evaluation.

In its annual list, the world's leading brand valuation consultancy noted that the National Bank of Egypt also came out on top for sustainability perceptions, leading across the three key metrics; Environmental, Social, and Governance (ESG).

Other banks included in the list were Banque Misr, CIB, and the Arab African International Bank, ( By: Business Today Egypt , Wed, May. 1, 2024 ).

### **National bank of Egypt construction :**

- The National Bank of Egypt (NBE) has been involved in several major construction projects, reflecting its expanding footprint across the country, especially in new urban areas like Egypt's New Administrative Capital. A notable example is its large-scale project in the Central Business District of the New Capital, which covers a built-up area of 73,000 square meters. This modern building, which includes two basements, a ground floor, and seven additional floors, incorporates all aspects of construction, from civil and architectural works to electromechanical installations.
- In addition to this, NBE has been renovating and constructing new branches, such as one in Shorouk City, designed to cater to modern banking needs with energy-efficient and sustainable features.
- MODAD Construction, a prominent company specializing in construction, building, and real estate development, has announced the successful completion of the construction and renovation project for the latest administrative building, which houses a branch of the National Bank of Egypt, Invest-Gate reports. The project entailed the preparation and comprehensive renovation of the bank building within Wesal Compound west of Shorouk City, encompassing a total area exceeding 25,000 sqm.
- Advanced engineering technologies were employed at every stage of the project, commencing with a design focus on achieving optimal efficiency and quality, while upholding environmental sustainability and energy-saving standards.
- These developments highlight NBE's role not only as a major financial institution but also as a driver of urban development and modern infrastructure in Egypt.

### **National bank of Egypt competitive achievements :**

The National Bank of Egypt (NBE) maintains its competitive edge in Egypt's banking sector through a variety of strategies that ensure its dominance in the market. These strategies involve both traditional banking strengths and modern innovations that respond to evolving customer needs. Here are some of the key ways in which NBE competes with other banks in Egypt.

- **Market Leadership and Size:** As the largest bank in Egypt, NBE leverages its vast resources and extensive network of branches (more than 500 locations) to maintain dominance. Its size allows it to offer a broad range of financial services, from corporate to retail banking, with an emphasis on large-scale projects and state-driven initiatives, which smaller competitors may find difficult to match
- **Product Innovation and Customer Service:** NBE has focused on offering a broad range of financial products, including savings and investment products, loans, and mortgages, which are often tailored to meet the needs of the Egyptian market. In addition, it is known for its high-quality customer service, further enhancing customer loyalty
- **Brand Recognition and Trust:** As the oldest bank in Egypt, NBE has built a strong brand reputation for stability and reliability. This is especially important in a region where trust in financial institutions can be a decisive factor. Many Egyptians prefer doing business with NBE due to its long-standing presence and perceived security
- **Sustainability and Corporate Social Responsibility (CSR):** In recent years, NBE has taken strides toward sustainability and corporate social responsibility, which aligns with global banking trends. Its involvement in green banking and sustainable finance, such as offering eco-friendly loans and financing renewable energy projects, sets it apart from other banks that may be slower to adopt such initiatives
- *These factors, combined with its massive asset base and historical credibility, allow NBE to remain a leader in Egypt's competitive banking environment. While other banks such as Banque Misr and Commercial International Bank (CIB) have also made significant strides, NBE's deep-rooted presence, expansive offerings, and innovation-driven strategy continue to set the standard in the Egyptian banking sector.*

**General key roles of the National bank of Egypt :-**

- **Early Central Banking Functions:** In its early years, NBE served as a de facto central bank, managing the issuance of currency and acting as the banker for the government. This role continued until the Central Bank of Egypt was formally established in 1961, transferring regulatory and monetary policy duties.
- **Support for Economic Growth:**  
NBE has consistently played a vital role in supporting Egypt's economic development. It has been a key financier of infrastructure projects, industrial ventures, and trade operations. Its extensive credit facilities and investments have significantly contributed to Egypt's GDP growth.
- **Financial Inclusion and Banking Expansion:**  
With over 600 branches nationwide, NBE is a leader in enhancing financial inclusion. It serves millions of customers, including rural populations, by providing accessible banking services. Its efforts have bridged the gap between urban and rural financial needs.

- **International Presence:**  
NBE's operations extend beyond Egypt, with branches and representative offices in key global markets. This international footprint supports Egyptian expatriates and facilitates trade and investment flows into Egypt.
- **Role During Economic Challenges:**  
During periods of economic turbulence, such as the global financial crisis and Egypt's own currency devaluation crises, NBE has been pivotal in stabilizing the banking system. It has supported the Egyptian pound by offering substantial foreign currency reserves and financing essential imports.
- **Innovation and Digital Transformation:**  
NBE has been at the forefront of introducing innovative banking solutions. It has invested heavily in digital transformation, providing online banking services, mobile apps, and electronic payment systems, catering to the demands of a tech-savvy population.
- **Social and Community Engagement:**  
Beyond financial services, NBE has been active in corporate social responsibility, funding healthcare, education, and cultural initiatives. Its contributions to societal welfare underscore its importance as more than just a financial institution.
- Through its multifaceted operations, NBE has cemented its status as a driver of economic resilience and growth in Egypt. It continues to evolve, adapting to the changing financial landscape while maintaining its historic commitment to national development.

**Other banks that play an important rules in Egypt economy and they can be as productive and competitive as the National bank of Egypt :-**

Egypt has a diverse and robust banking sector with over 35 operating banks, excluding the National Bank of Egypt (NBE). These banks fall into different categories: state-owned, private, foreign, and Islamic banks, each contributing uniquely to Egypt's economy.

1. **State-Owned Banks:** These include **Banque Misr** and **Banque du Caire**, which play critical roles in financing public projects, SMEs, and retail banking. Banque Misr, established in 1920, has extensive involvement in development projects and is known for its innovation in banking services. Banque du Caire is a leader in microfinance, holding a significant market share in this segment.
2. **Private Banks:** The **Commercial International Bank (CIB)** is Egypt's largest private-sector bank, excelling in corporate and retail banking. It is also among the most profitable banks in Egypt. Other notable private banks include **QNB Alahli**, known for its wide branch network, and **Bank of Alexandria**, which focuses on small and medium-sized enterprises (SMEs).
3. **Islamic Banks:** Egypt also has prominent Sharia-compliant banks like **Faisal Islamic Bank of Egypt** and **Al Baraka Bank Egypt**, which provide ethical financing solutions

- aligned with Islamic principles. These banks cater to a significant segment of the population seeking interest-free and socially responsible banking options.
4. **Foreign Banks:** Several global banks, such as **HSBC Egypt** and **Attijariwafa Bank Egypt**, operate in the country. These institutions bring international expertise and are essential for facilitating trade finance, foreign investment, and corporate banking.
  5. **Specialized and Development Banks:** Banks like the **Agricultural Bank of Egypt** focus on financing the agricultural sector, while the **Housing and Development Bank** supports real estate financing and urban development projects.

#### **General conclusion and summary :-**

- The National Bank of Egypt (NBE) stands as the largest and one of the most influential banks in Egypt and the broader Middle East and Africa region.
- NBE has consistently ranked among the top financial institutions, not just in Egypt but across the Middle East, with assets amounting to billions of dollars.
- In recent years, NBE has expanded its presence through strategic initiatives, including significant infrastructure projects such as new branches in Egypt's New Administrative Capital.
- NBE's resilience and adaptability, particularly in the face of Egypt's challenging economic conditions, have solidified its role as an economic powerhouse. Through strategic governance and modernization efforts, it continues to set trends that influence the broader banking industry in Egypt
- The other competitive banks of Egypt collectively bolster Egypt's economic development by offering diverse financial products and services. They cater to various sectors, including agriculture, infrastructure, trade, and SMEs, and enhance financial inclusion across the country. With total assets exceeding billions of dollars in some cases, their economic power is reflected in their contributions to GDP and their ability to attract both domestic and international investments.

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# **The National Bank of Azerbaijan: History, Structure, and Its Influence on the Banking System**

Abdullazade Sanan

## **The National Bank of Azerbaijan and Its Importance**

The National Bank of Azerbaijan (NBA) serves as the primary authority for regulating and overseeing Azerbaijan's financial system. Established on February 11, 1992, the NBA was formed after Azerbaijan became independent following the collapse of the Soviet Union. The country faced numerous economic challenges as it shifted from a centrally controlled Soviet system to a market-based economy. The primary goal of the NBA was to stabilize the monetary system, manage the national currency, and develop the regulatory framework necessary to support a functioning financial system.

Today, the NBA is a crucial institution in Azerbaijan, playing a pivotal role in shaping the nation's monetary policy, supervising commercial banks, managing foreign exchange, and ensuring the stability of the financial system. The central bank's actions directly influence the country's economic performance, including controlling inflation and maintaining the value of the Azerbaijani manat, the country's national currency. Over time, the NBA has undergone significant reforms, evolving into a more sophisticated institution capable of addressing both local and global economic challenges.

This essay aims to examine the history, organizational structure, responsibilities, and influence of the National Bank of Azerbaijan. It will explore how the NBA has changed since its creation and how it continues to impact the banking sector today. Additionally, the essay will assess the NBA's role in regulating commercial banks and its broader effect on the economy, highlighting how the central bank's policies shape the financial landscape of Azerbaijan.

The founding of the National Bank of Azerbaijan marked an important step in the country's economic development following its independence in 1991. After gaining independence, Azerbaijan faced economic uncertainty, with high inflation, unstable financial markets, and a lack of infrastructure for a modern economy. In response to these challenges, the government sought to establish a central institution to stabilize the national economy and oversee the financial system.

The NBA's initial task was to introduce a national currency, the manat, which replaced the Soviet ruble in 1992. This move was essential in restoring confidence in the country's financial system. In the early years, the NBA focused primarily on controlling inflation and stabilizing the manat, while the country also grappled with the broader challenges of transitioning from a centrally planned

economy to a market-oriented one. Despite facing difficulties, the NBA succeeded in laying the foundation for a functional banking system that could support the country's economic recovery.

Since its establishment, the NBA has gone through several significant transformations in response to changing economic conditions. In the 1990s, the central bank's primary objective was to stabilize the economy by controlling inflation and managing the national currency. During this period, Azerbaijan was heavily reliant on oil exports, which constituted a large share of the country's revenue. As the economy grew, the NBA shifted its focus toward developing a more advanced banking system that would support the diversification of the economy and align with international standards.

A major reform took place in the early 2000s, with the NBA introducing regulations that promoted the growth of the banking sector. One of the most important reforms was the implementation of a more flexible exchange rate system, which allowed the central bank to better manage external shocks, particularly those related to fluctuations in oil prices. This helped Azerbaijan manage economic instability during times of global economic downturns, such as the 2008 financial crisis.

In response to global challenges, the NBA also worked on modernizing its regulatory framework to align with international banking practices. This included establishing capital adequacy requirements, improving risk management practices, and introducing banking supervision policies. These changes helped to strengthen the stability of Azerbaijan's financial system and encouraged foreign investment. Today, the National Bank of Azerbaijan has become a sophisticated institution that plays a central role in the country's economy. It is responsible for maintaining monetary stability, regulating commercial banks, and ensuring that the financial system remains stable and transparent. The NBA monitors inflation rates, controls the money supply, and adjusts interest rates to maintain economic balance.

In addition to its regulatory functions, the NBA is actively involved in promoting financial innovation. The central bank has recently shown interest in expanding digital banking and supporting financial technologies, which are increasingly important in modern economies. The NBA also plays a significant role in managing the country's foreign reserves and implementing policies to protect the manat's value.

The NBA's responsibilities go beyond simply managing currency and interest rates; it is also deeply involved in overseeing the commercial banking sector, ensuring that banks operate under sound regulatory standards. Azerbaijan's banking sector, which includes a mix of state-owned and private banks, is regulated by the NBA to ensure stability and prevent risks that could threaten the wider economy. The NBA's regulatory power ensures that banks operate transparently, follow best practices, and meet capital requirements, thereby protecting the interests of both consumers and investors.

The National Bank of Azerbaijan has played an instrumental role in shaping the country's financial system since its establishment in 1992. Initially tasked with stabilizing the national currency and

controlling inflation, the NBA has evolved into a highly professional institution with a broad range of functions. Today, it continues to serve as the cornerstone of Azerbaijan's financial system, shaping the country's economic policies, regulating the banking sector, and managing the value of the manat.

As Azerbaijan's economy grows and diversifies, the NBA's role remains crucial in ensuring the stability and sustainability of the country's financial system. With an increasing focus on innovation and adapting to global financial trends, the NBA will continue to be an essential player in Azerbaijan's ongoing economic development. The bank's ability to manage monetary policy effectively, regulate commercial banks, and adapt to changes in the global economy will be key to the nation's future prosperity.

### **Evolution and Changes in the NBA**

Since its establishment in 1992, the National Bank of Azerbaijan (NBA) has experienced substantial evolution, adapting to the changing economic dynamics of the country. Initially, the bank's primary objective was to stabilize the national currency and control inflation, particularly as Azerbaijan shifted from a Soviet-controlled economy to a market-oriented one. In the early years, the NBA faced the challenge of introducing the Azerbaijani manat to replace the Soviet ruble, an essential step in restoring financial stability and boosting public confidence in the new economic system.

As the country's economy began to develop, the NBA expanded its role to support the growth of the banking sector, focusing on modernizing banking regulations and creating a framework that would facilitate competition and stability within the financial system. The introduction of more transparent financial reporting, improved risk management strategies, and enhanced regulatory standards helped integrate Azerbaijan's banking sector into international financial norms.

During the early 2000s, as oil revenues began to significantly shape Azerbaijan's economic growth, the NBA's policies increasingly focused on managing the inflationary pressures associated with the inflow of foreign currency. At the same time, the central bank shifted its attention to fostering diversification within the economy, aiming to reduce over-dependence on the oil industry. This was achieved by utilizing the NBA's monetary policy tools, such as adjusting interest rates and managing the money supply, to stabilize non-oil sectors like agriculture, manufacturing, and services.

The NBA's role evolved further as global economic trends influenced Azerbaijan's financial landscape. In response to international financial crises, such as the 2008 global financial downturn, the NBA reinforced its regulatory framework by imposing stricter capital adequacy standards on banks, improving supervisory practices, and enhancing financial resilience. These reforms aimed to shield the financial sector from potential risks posed by global economic instability. For

example, during the 2008 crisis, the NBA played a crucial role in stabilizing the economy by injecting liquidity into the banking system and implementing measures to protect the manat's value.

In more recent years, the NBA has placed increasing importance on adapting to technological advancements within the banking sector. The rise of financial technologies such as mobile payments, digital banking, and online financial services has prompted the NBA to adopt a forward-thinking approach. It now focuses on regulating innovations to ensure the stability of the financial system while fostering inclusion and accessibility for the broader population. These technological advancements are seen as critical for the future development of the economy, and the NBA has made strides in integrating such changes into its policy framework.

Furthermore, the NBA is responsible for regulating both state-owned and private commercial banks in Azerbaijan, ensuring that they comply with the financial stability standards set by the central bank. By establishing a strong regulatory oversight, the NBA minimizes the risks of bank failures, maintains liquidity, and protects consumers. It plays a vital role in promoting public trust in the banking sector and ensuring that the sector remains robust in the face of economic challenges.

In addition to its domestic functions, the NBA is integral to Azerbaijan's participation in the global financial system. It manages foreign exchange reserves, oversees the country's external debt, and works with international financial institutions to maintain a stable and competitive financial environment. The NBA's regulatory policies ensure that Azerbaijan remains connected to the global economy while safeguarding the nation's financial interests.

Overall, the NBA has developed from a rudimentary institution focused solely on currency stabilization to a sophisticated financial regulatory body capable of shaping the nation's monetary policy. Its central role in ensuring the stability of the banking system and its proactive approach to global financial challenges make it an essential pillar of Azerbaijan's economic framework. As the country continues to evolve, the NBA's ability to innovate and adapt to new economic and technological realities will be crucial for sustaining long-term financial stability and fostering economic growth.

### **Organizational Structure of the National Bank of Azerbaijan**

The National Bank of Azerbaijan (NBA) plays a crucial role in the financial and economic framework of the country. As the central monetary authority, it is responsible for managing the national currency, implementing monetary policy, and overseeing the financial stability of the nation. Over the years, the structure and functions of the NBA have evolved in response to changing economic conditions, global trends, and technological advancements. Today, the NBA is an essential institution for regulating the banking system, ensuring financial stability, and fostering economic growth.

The organizational structure of the NBA is designed to effectively address these broad responsibilities. The central bank is governed by a Board of Directors, which is headed by the

Chairman, who is appointed by the President and approved by the National Assembly. The Chairman's role is central to steering the NBA's policies and representing the institution at an international level. The Board of Directors is responsible for making key decisions regarding monetary policy, financial regulations, and banking oversight. The NBA operates through specialized departments, each tasked with specific functions. These include the Monetary Policy and Economic Analysis Department, which formulates and executes the country's monetary strategy; the Banking Supervision Department, which ensures that commercial banks comply with regulatory standards; and the Foreign Exchange Operations Department, which manages the country's reserves and stabilizes the national currency. Additionally, the NBA has departments focused on payment systems, risk management, and compliance, which contribute to the country's financial infrastructure and economic security.

The NBA's core functions revolve around maintaining a stable and well-regulated financial system. One of its primary roles is managing the country's monetary policy. This involves controlling the money supply, setting interest rates, and using other tools to manage inflation, stabilize the national currency, and promote economic growth. The NBA uses instruments such as the discount rate and reserve requirements to influence the economy's liquidity and control inflationary pressures. By adjusting these tools, the NBA seeks to achieve a balance that promotes sustainable economic growth without letting inflation rise uncontrollably.

Another essential function of the NBA is overseeing the banking sector. The central bank monitors commercial banks to ensure they are financially sound and operating within the legal framework. This includes conducting regular inspections, enforcing compliance with capital adequacy standards, and promoting transparency in the banking sector. The NBA has the authority to intervene if any commercial bank faces significant financial difficulties, ensuring the stability of the financial system and protecting depositors. By implementing sound regulatory policies, the NBA helps to maintain public confidence in the banking sector, fostering a competitive environment where financial institutions operate efficiently and meet international standards.

The NBA also plays a significant role in managing the country's foreign exchange reserves. It intervenes in the foreign exchange market to stabilize the value of the Azerbaijani manat and prevent excessive fluctuations that could harm the economy. The central bank's management of foreign reserves also helps to ensure that Azerbaijan can meet its external financial obligations, such as servicing foreign debt or paying for imports. By maintaining a sufficient level of reserves, the NBA strengthens the country's financial position and contributes to economic stability.

In recent years, the NBA has placed increasing emphasis on modernizing Azerbaijan's payment systems and integrating emerging financial technologies into the banking system. This includes regulating digital payment platforms, mobile banking, and other fintech innovations that are rapidly transforming the financial landscape. By facilitating the development of a modern and efficient payment infrastructure, the NBA is helping to promote financial inclusion and ensure that more people have access to banking services, regardless of their location. The central bank's efforts to

regulate cryptocurrencies and blockchain technology are part of its broader strategy to keep pace with global developments and ensure the stability and security of the country's financial ecosystem.

Beyond regulating the banking sector, the NBA plays an important role in ensuring overall financial stability. It monitors risks in the financial system and takes action to mitigate potential threats. For example, during times of economic instability, such as periods of falling oil prices or global financial crises, the NBA can adjust its policies to support the economy. It has the authority to provide liquidity to banks, adjust interest rates, or take other measures to prevent a financial collapse. The central bank's ability to manage risks and respond to crises is crucial for maintaining economic confidence and stability.

The NBA's influence on Azerbaijan's banking system is profound. It is responsible for setting the rules that govern the operations of commercial banks and ensuring that they adhere to sound financial practices. There are currently 26 commercial banks in Azerbaijan, with a mix of state-owned and private institutions. The NBA's oversight ensures that these banks maintain sufficient capital, operate transparently, and manage risks effectively. The central bank has also supported the development of a more competitive banking environment by facilitating the entry of new banks and encouraging the modernization of banking services. The NBA's regulatory framework has contributed to the strengthening of the banking sector, helping to ensure that it is resilient to external shocks and capable of supporting the country's economic growth.

In conclusion, the National Bank of Azerbaijan serves as the backbone of the country's financial system, overseeing a broad range of functions that are crucial for economic stability and growth. From managing the monetary policy to regulating commercial banks and overseeing financial innovations, the NBA plays an essential role in ensuring the soundness of the banking system and the broader economy. Its proactive approach to addressing emerging challenges, such as digital finance and global economic volatility, positions it as a key player in Azerbaijan's economic development. As the country continues to grow and integrate into the global financial system, the NBA will remain an indispensable institution for maintaining stability and fostering sustainable development.

### **Responsibilities of the National Bank of Azerbaijan**

The National Bank of Azerbaijan (NBA) holds a central role in the country's financial system, influencing both the banking sector and the broader economy. As the country's primary financial institution, it has a significant impact on the stability and development of the banking landscape. Over time, the NBA's functions and responsibilities have evolved to address changing economic needs, ensuring the stability of the banking sector, regulating monetary policies, and supporting economic growth. The central bank's primary function is to maintain financial stability by managing the national currency, regulating interest rates, and using various monetary tools to control inflation. This role is crucial for supporting sustainable economic growth and creating a stable environment for businesses and consumers alike.

In addition to managing the country's monetary policy, the NBA supervises the operations of commercial banks, enforcing regulations to ensure their soundness and reliability. Through its regulatory oversight, the NBA monitors the financial health of banks, ensuring they operate in compliance with capital adequacy standards and maintain adequate reserves to absorb risks. This contributes to the resilience of the banking sector, helping it withstand external economic shocks and instilling confidence in the financial system. By doing so, the central bank not only promotes the stability of individual banks but also maintains the integrity of the entire banking system. Another key aspect of the NBA's role is managing foreign exchange operations. As the central authority, it monitors the country's foreign exchange reserves and intervenes in the currency markets to stabilize the national currency, the manat. This function is particularly important due to Azerbaijan's reliance on oil exports, which expose the economy to fluctuations in global oil prices. By managing exchange rate volatility, the NBA plays a crucial role in minimizing inflation and protecting the purchasing power of the national currency. Additionally, the central bank's management of foreign reserves helps to safeguard the country's ability to meet international financial obligations, further strengthening the economy's resilience.

The NBA has also focused on modernizing the country's financial infrastructure, responding to the rapid advancements in digital technology and financial services. The central bank has worked to regulate emerging financial technologies, such as mobile banking and digital payment systems, to ensure their integration into the banking system in a safe and secure manner. By doing so, the NBA not only promotes innovation but also safeguards the financial system from potential risks associated with technological developments. Moreover, the central bank has supported initiatives aimed at increasing financial inclusion, making banking services more accessible to individuals in remote areas. This is part of the broader goal of ensuring that all segments of society can participate in the financial system and benefit from modern financial services.

In addition to these functions, the NBA's policies influence the broader economic environment. By controlling inflation, stabilizing the national currency, and fostering a competitive banking system, the central bank helps create a favorable economic environment that attracts both local and foreign investments. A stable financial system provides a secure platform for businesses to operate, reduces economic uncertainty, and encourages entrepreneurship. The NBA's proactive approach to economic management is particularly crucial during times of financial instability, such as global economic crises or fluctuations in oil prices. In such circumstances, the central bank can take swift action to mitigate the impact of external shocks on the banking system and the broader economy. For example, it may adjust interest rates, provide liquidity support to financial institutions, or implement counter-cyclical measures to stabilize the economy. This capability to respond quickly and effectively strengthens the banking sector and enhances the country's resilience to economic challenges.

Furthermore, the NBA's policies have facilitated Azerbaijan's integration into the global economy. Through prudent financial management and regulatory reforms, the central bank has helped create a banking environment that meets international standards, making the country's financial sector attractive to foreign investors. The NBA's role in overseeing the banking system and ensuring its compliance with global best practices has led to the development of a more transparent and competitive financial market. This has contributed to Azerbaijan's growing position in the global financial system, positioning it as an emerging market with a stable and dynamic banking environment.

In conclusion, the National Bank of Azerbaijan is a key player in the country's financial system, contributing to the stability and development of the banking sector and the wider economy. Through its effective management of monetary policy, regulatory oversight of commercial banks, and support for the development of financial technologies, the NBA has played a crucial role in ensuring the soundness and growth of Azerbaijan's financial sector. The central bank's efforts to manage exchange rates, stabilize the national currency, and respond to economic challenges have enhanced the resilience of the banking system, fostering an environment that encourages investment and economic activity. As Azerbaijan continues to modernize its economy and integrate further into the global financial landscape, the NBA will remain a central institution in shaping the future of the country's financial system and supporting its long-term growth.

### **Impact on the Azerbaijani Banking System**

The National Bank of Azerbaijan (NBA) is a central institution that plays a vital role in the stability and development of the country's economy. It exerts a significant influence over the financial system, regulating monetary policies, supervising commercial banks, and safeguarding economic stability. The primary function of the NBA is to manage the country's monetary policy, which includes controlling inflation and stabilizing the national currency. By adjusting interest rates and managing the money supply, the bank helps to keep inflation in check, ensuring a stable economic environment. This stability is crucial for fostering both domestic and foreign investment, as it provides businesses with a predictable economic environment in which to operate.

The NBA also plays a key role in supervising the banking sector, ensuring that commercial banks remain solvent and comply with international banking standards. Through regulatory measures such as capital adequacy requirements, the central bank helps ensure that banks are equipped to handle financial risks, which strengthens the overall financial system. This regulatory oversight is essential for maintaining public trust in the banking sector, as it prevents financial institutions from taking on excessive risk that could lead to instability. In addition to this, the NBA manages foreign exchange reserves, which is particularly important given Azerbaijan's reliance on oil exports. The central bank's ability to manage exchange rate volatility and intervene in the foreign exchange markets ensures that the national currency, the manat, remains stable, helping to protect the purchasing power of the currency and control inflation.

Another important function of the NBA is promoting financial inclusion. The bank has worked to increase access to banking services, particularly in rural areas, by fostering the development of digital banking and mobile payment systems. These efforts have helped to make banking more accessible to a broader range of people, particularly those who may not have had access to traditional banking services. This move towards a more digitally integrated financial system is part of a wider strategy to modernize the country's economy and encourage greater participation in the financial sector. By regulating and encouraging the growth of fintech, the NBA helps to ensure that the financial system remains secure while also promoting innovation.

The NBA's role extends beyond simply regulating the banking sector and managing monetary policy. It also influences the broader economic environment by creating a stable financial system that fosters economic growth. A stable financial system makes it easier for businesses to plan and operate, which in turn drives economic activity. The NBA also works to attract foreign investment by ensuring that Azerbaijan's banking system aligns with international standards. This has helped to position the country as an attractive destination for foreign investors, particularly in light of the central bank's commitment to maintaining a sound regulatory framework.

Through its management of foreign reserves and intervention in the foreign exchange market, the NBA helps to safeguard the country's ability to meet its international financial obligations. This ability is crucial for maintaining confidence in Azerbaijan's economy, especially in times of global economic uncertainty. For example, fluctuations in global oil prices can have a significant impact on Azerbaijan's economy, and the NBA's ability to manage the country's reserves helps mitigate these effects. By stabilizing the national currency and managing inflation, the NBA plays a key role in supporting the country's economic stability.

In addition to its monetary functions, the NBA also plays a role in fostering economic diversification. Azerbaijan has historically relied heavily on oil exports, which has made its economy vulnerable to fluctuations in global commodity prices. The central bank's role in supporting economic diversification involves promoting the development of non-oil sectors, such as agriculture, manufacturing, and technology, by ensuring a stable and competitive financial system. A well-regulated banking sector provides the necessary financial infrastructure for businesses in these sectors to grow, thus helping to reduce the country's dependence on oil revenue and supporting long-term economic sustainability.

Moreover, the NBA is committed to enhancing the transparency and accountability of the financial system. By enforcing strict reporting requirements for commercial banks, the central bank ensures that financial institutions provide accurate and timely information to consumers and investors. This transparency helps to foster trust in the banking sector, as it allows stakeholders to make informed decisions based on reliable financial data. In addition, it ensures that financial institutions are held

accountable for their actions, which further strengthens the financial system and reduces the risk of fraud or mismanagement.

In conclusion, the National Bank of Azerbaijan plays a crucial role in maintaining the stability and growth of the country's financial system. Through its effective management of monetary policy, supervision of commercial banks, and promotion of financial inclusion, the NBA has contributed to the development of a stable and resilient banking sector. Its role in managing the national currency and foreign exchange reserves, as well as promoting economic diversification, has helped ensure the country's economic stability and growth. By aligning with international standards and enhancing the transparency of the financial system, the NBA has helped position Azerbaijan as a competitive and attractive market for foreign investment. As the country continues to modernize and integrate into the global economy, the NBA will remain a key player in supporting the long-term growth and stability of Azerbaijan's financial system.

## **Conclusion**

The National Bank of Azerbaijan (NBA) is a key institution in the country's financial system, performing vital roles that have evolved significantly since its establishment. Over time, the bank has transformed itself from a mere regulatory body into a central economic institution responsible for shaping the nation's monetary policy, financial stability, and overall economic resilience. It continues to be at the forefront of implementing policies that guide the country through periods of economic growth and challenges, while actively supporting Azerbaijan's integration into the global economy. This dynamic institution is pivotal in shaping the broader economic landscape, influencing everything from inflation control to fiscal policy coordination and economic diversification.

The central bank was initially founded with the goal of centralizing monetary policy control and managing Azerbaijan's financial system. Over time, its responsibilities expanded to encompass a wide range of functions, including regulating and supervising the banking sector, managing foreign exchange reserves, and controlling inflation. The NBA's role as a central monetary authority became increasingly important as the country's economy grew and faced new challenges, particularly as Azerbaijan developed its oil and gas industries. The oil sector has historically been the backbone of the country's economy, contributing significantly to both government revenue and foreign exchange earnings. However, as Azerbaijan's economy became more dependent on this sector, the NBA was tasked with balancing economic growth with the need to diversify the nation's economy, thus preventing excessive reliance on volatile oil prices.

In its journey toward achieving macroeconomic stability, the NBA has had to address a variety of economic challenges. One of the key issues faced by the bank has been inflation management. With oil revenues fluctuating due to global price changes, the NBA has worked tirelessly to stabilize the national currency, the manat, and control inflationary pressures. By using a combination of interest

rate policies, foreign exchange interventions, and strategic management of foreign reserves, the central bank has been able to minimize the impact of inflation on the population and keep the manat stable. This monetary policy approach helps to maintain investor confidence, ensures a stable purchasing power for consumers, and underpins the country's economic growth. The stabilizing role of the NBA in the face of economic volatility is particularly important given Azerbaijan's dependence on oil exports, which are subject to global market shifts. Without effective central bank interventions, fluctuations in oil prices could lead to significant economic instability.

The NBA also plays a pivotal role in maintaining the security and stability of the banking sector. One of its primary tasks is to regulate and supervise financial institutions to ensure that they meet stringent operational standards. This regulatory function is crucial in fostering a healthy financial environment, where both consumers and businesses can confidently engage in financial transactions. By establishing comprehensive guidelines for capital adequacy, liquidity requirements, and risk management, the NBA ensures that banks operate within a framework that minimizes systemic risks. This regulatory oversight also ensures that banks remain financially sound and capable of withstanding shocks, thereby protecting depositors' funds and enhancing public trust in the financial system. Through these regulatory activities, the NBA has contributed significantly to building a transparent and resilient banking sector, which is critical for maintaining the long-term stability of the economy.

In addition to its regulatory responsibilities, the NBA plays an active role in promoting financial inclusion throughout Azerbaijan. This has become increasingly important as the country has worked to modernize its financial sector and extend access to banking services to all segments of the population. Traditionally, many people in rural areas or those from low-income backgrounds have been excluded from the formal financial system. However, in recent years, the NBA has introduced a range of measures aimed at improving financial access. By expanding digital banking services, supporting mobile financial platforms, and fostering the development of e-wallets, the NBA has made it easier for individuals to engage with the banking system, even if they live in remote regions. The promotion of financial literacy initiatives has also been central to these efforts, as it helps ensure that people understand how to manage their finances, invest wisely, and use financial products effectively. These efforts have been crucial in empowering individuals, increasing access to financial resources, and enhancing overall economic participation.

Furthermore, the NBA's influence extends beyond domestic borders, as it plays an essential role in integrating Azerbaijan into the global financial system. As the country's economy seeks to diversify, the NBA's policies in foreign exchange management have been critical. The central bank's careful management of foreign reserves and strategic interventions in the foreign exchange markets have helped stabilize the manat against the backdrop of fluctuating oil prices. The NBA's ability to manage the exchange rate effectively ensures that the country's exports remain competitive and that Azerbaijan maintains its attractiveness as an investment destination. By keeping the national currency stable, the central bank fosters a conducive environment for foreign

businesses and investors, which, in turn, stimulates further economic development and diversification.

In parallel with its efforts to stabilize the domestic financial environment, the NBA has also been proactive in creating policies that encourage economic diversification. Azerbaijan's economy has historically been reliant on oil, but recognizing the volatility of the global oil market, the government has worked to reduce this dependency by fostering growth in non-oil sectors, including agriculture, manufacturing, and information technology. The NBA's monetary policies have been a key enabler in this diversification effort. By controlling inflation, managing interest rates, and promoting credit growth to the private sector, the central bank has helped create an economic environment that encourages investment in these non-oil sectors. The NBA's role in supporting economic diversification is essential for reducing the risks associated with over-reliance on oil, and it has helped pave the way for a more balanced and sustainable economy.

Moreover, the NBA's role in managing the country's monetary policy has contributed to the overall macroeconomic stability of Azerbaijan. Through careful coordination with fiscal authorities, the central bank ensures that the country's monetary policy is aligned with government spending and tax policies. By adjusting interest rates and controlling the money supply, the NBA helps ensure that inflation remains in check, while also providing the right conditions for investment and economic growth. These actions help to prevent overheating of the economy, while also supporting growth during periods of economic slowdown. The coordination between fiscal and monetary policies has been key to Azerbaijan's ability to maintain stability, even in the face of external shocks or downturns in the global economy.

Additionally, the NBA has embraced technological innovation as part of its broader strategy to modernize the financial sector. In an era of rapid technological advancement, the central bank has been at the forefront of promoting digital banking services and adopting new financial technologies. This has not only made banking services more efficient and accessible but also enhanced the security of financial transactions. Digital payment systems and mobile banking platforms have revolutionized the way Azerbaijan's citizens interact with the financial system, providing them with greater convenience and accessibility. The NBA's push for financial modernization has enabled the country's banking sector to stay competitive and meet the evolving needs of consumers and businesses alike. This technological transformation has also opened up new opportunities for financial inclusion, particularly for younger generations who are more tech-savvy and comfortable with digital financial tools.

The central bank's success in managing financial inclusion and modernization is evident in its efforts to ensure that everyone, regardless of their socio-economic status or geographic location, has access to essential banking services. By supporting the development of digital banking infrastructure and promoting financial education, the NBA has helped ensure that the benefits of

economic growth reach all segments of society. This approach has been particularly important for promoting sustainable growth, as it ensures that no one is left behind in the country's economic development.

Looking to the future, the NBA will continue to face new challenges and opportunities as it navigates the complexities of a rapidly changing global economy. The evolving landscape of global trade, technological advancements, and the need for further diversification will require the central bank to adapt and innovate. However, with its strong track record in maintaining stability, regulating the banking sector, and fostering financial inclusion, the NBA is well-equipped to handle these challenges and contribute to Azerbaijan's continued economic growth and development.

**In conclusion**, the National Bank of Azerbaijan has played a critical role in shaping the economic trajectory of the country. Its responsibilities, ranging from monetary policy management to financial regulation and inclusion, have made it a key player in ensuring the stability and resilience of Azerbaijan's economy. Through its regulatory frameworks, monetary policies, and support for diversification, the NBA has created an environment conducive to growth and development. As Azerbaijan continues its journey toward economic diversification and greater global integration, the NBA will remain at the heart of this transformation, guiding the country through both challenges and opportunities. Its ongoing efforts to stabilize the financial system, promote financial literacy, and enhance economic resilience will ensure that Azerbaijan continues to grow in a sustainable and inclusive manner.

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# **The National Bank of Kazakhstan**

Kirey Dauletali

## **1. Introduction**

The National Bank of Kazakhstan (NBK) is the central bank of the Republic of Kazakhstan, which plays a crucial role in managing the country's monetary policy, stabilizing the financial system, and fostering economic development. Established after Kazakhstan's independence from the Soviet Union in 1991, the NBK has undergone significant transformations to adapt to a rapidly changing economic and financial landscape. Its history reflects Kazakhstan's broader economic development, from the turbulence of post-Soviet transition to its current status as a key player in Central Asia's financial markets. This essay explores the history and evolution of the National Bank of Kazakhstan, its organizational structure, and its key functions. Additionally, it examines the influence of the NBK on the banking system in Kazakhstan, focusing on its role in financial regulation, its economic impact, and the overall landscape of Kazakhstan's financial institutions.

## **2. History and Formation of the National Bank of Kazakhstan**

The National Bank of Kazakhstan was officially founded on January 13, 1993, shortly after the country declared independence from the Soviet Union. The formation of the NBK was a key part of Kazakhstan's transition from a Soviet republic to an independent nation with a market-based economy.

In the early 1990s, Kazakhstan, like many former Soviet republics, faced significant economic challenges. Hyperinflation, a lack of financial infrastructure, and the absence of a national currency were just some of the issues the country faced. The Soviet ruble, which had been in circulation, was replaced by the Kazakhstani tenge (KZT) in 1993, under the supervision of the National Bank. This was a pivotal moment in Kazakhstan's economic development and marked the beginning of the central bank's role in shaping the country's economic policies.

As an essential part of its early tasks, the National Bank had to stabilize the economy by controlling inflation and creating an effective monetary system. The bank's initial focus was on establishing a strong financial and monetary policy, developing a national currency, and regulating the banking system, all of which were essential for Kazakhstan to transition away from Soviet-era economic structures.

## **3. Early Years and Institutional Development**

In the first few years following its establishment, the National Bank of Kazakhstan was focused on stabilizing the financial system and introducing policies aimed at controlling inflation. By the mid-1990s, Kazakhstan had been facing significant inflationary pressures, which were partly due to the transition from central planning to a market economy.

The National Bank's first major challenge was curbing hyperinflation, which reached over 2000% in 1994. The NBK, under the leadership of its first governor, Grigory Marchenko, managed to

bring down inflation significantly in the subsequent years. One of the first steps taken by the NBK was the introduction of a series of interest rate hikes aimed at reducing inflationary expectations, as well as strengthening the stability of the tenge.

At the same time, the NBK was working to modernize Kazakhstan's banking sector. The National Bank played a critical role in overseeing the creation of new banks, regulating financial institutions, and developing the legal and institutional frameworks necessary for a market economy. This period also saw the NBK seeking partnerships with international financial institutions such as the International Monetary Fund (IMF) and the World Bank to help guide the country through its economic transition.

#### **4. Changes and Modernization Post-Independence**

Following the early stabilization efforts of the 1990s, the early 2000s marked a period of modernization for the National Bank of Kazakhstan. The growing oil and gas revenues during this period provided Kazakhstan with the financial means to develop a more sophisticated and resilient financial system. The NBK modernized its policy framework by adopting inflation targeting as its central policy goal, which it has maintained to this day. Inflation targeting involves setting an explicit target for inflation, and using interest rate policy to achieve that target. This approach allowed the National Bank to maintain greater control over price stability and to build confidence in the tenge. One of the most significant changes during this time was the central bank's role in financial supervision. The NBK began to play a larger role in regulating commercial banks and other financial institutions, ensuring they adhered to international best practices. In 2001, the Law on the National Bank was passed, and it set the framework for the bank's operations, governance, and responsibilities.

#### **5. Organizational Structure of the National Bank of Kazakhstan**

The organizational structure of the National Bank of Kazakhstan is designed to carry out its numerous functions, including monetary policy, financial regulation, and economic research. The NBK operates under the Council of the National Bank, which serves as the highest decision-making body within the organization. The governance structure includes:

- **Governor:** The Governor of the NBK is appointed by the President of Kazakhstan. The Governor is responsible for overseeing the day-to-day operations of the bank, managing its strategic priorities, and representing the NBK in international financial forums.
- **Deputy Governors:** The Deputy Governors assist the Governor and head specific departments within the NBK, including departments focused on monetary policy, financial stability, and payment systems.
- **Monetary Policy Department:** This department is responsible for formulating the country's monetary policy, including setting interest rates and overseeing inflation targeting strategies.
- **Financial Stability Department:** This department works to monitor and safeguard the stability of Kazakhstan's financial system, ensuring the solvency of commercial banks and other financial institutions.
- **Payment Systems Department:** Responsible for overseeing the security and efficiency of payment systems in Kazakhstan, which includes both traditional banking systems and digital payment solutions.

Additionally, the National Bank has several **regional offices** across Kazakhstan, which help implement its policies at the local level and ensure the functioning of the banking system nationwide.

## 6. Key Responsibilities of the National Bank of Kazakhstan

The National Bank of Kazakhstan has several key responsibilities that are crucial for maintaining the financial stability and economic health of the country:

1. **Monetary Policy:** The NBK sets interest rates and uses open market operations to control inflation and stabilize the currency. The central bank aims to keep inflation within a target range to promote price stability and economic growth.
2. **Currency Issuance:** The National Bank is responsible for issuing the national currency, the **tenge (KZT)**, and ensuring its stability in the foreign exchange market. The NBK's policies help maintain the value of the tenge in the face of external shocks, such as fluctuations in oil prices.
3. **Financial Regulation and Supervision:** The NBK regulates commercial banks, insurance companies, and other financial institutions in Kazakhstan. It is responsible for ensuring that these institutions are solvent, transparent, and adhere to international financial standards.
4. **Foreign Exchange Reserves:** The National Bank manages Kazakhstan's foreign exchange reserves, which are crucial for stabilizing the tenge and ensuring the country's ability to meet its international obligations.
5. **Payment Systems:** The NBK ensures the smooth functioning of Kazakhstan's payment systems, including electronic payments, interbank transfers, and clearing systems.

## 7. Influence on the Banking System in Kazakhstan

The National Bank has had a profound impact on the banking system of Kazakhstan. One of its key roles has been to ensure financial stability by overseeing the regulation of commercial banks. As of 2024, Kazakhstan has over 30 commercial banks, ranging from small local institutions to large multinational banks. The NBK influences the banking system in several key ways. First of all, the NBK is responsible for licensing new banks and ensuring that they meet stringent capital and solvency requirements. Through regular inspections and audits, the NBK monitors the health of Kazakhstan's financial institutions. Secondly, In the wake of the global financial crisis of 2008, and again during the 2014 oil price crash, the National Bank took measures to stabilize the banking system. These measures included the injection of liquidity into struggling banks and the implementation of new regulatory measures to prevent excessive risk-taking. Thirdly, the National Bank's policies have encouraged the growth of Kazakhstan's financial sector, including the development of non-banking financial institutions and the enhancement of financial products such as mortgage lending and consumer credit.

## 8. Current Landscape of Banks in Kazakhstan

The banking sector in Kazakhstan is largely dominated by a few major banks, with the Halyk Bank and Kazkommertsbank (now merged into Halyk Bank) and Kaspi Bank being the largest players. While there are over 30 commercial banks, a significant proportion of the banking market is concentrated in a handful of institutions.

Halyk Bank is the largest commercial bank in Kazakhstan, playing a central role in the financial sector. It has a strong presence across various banking services, including retail banking, corporate banking, and investment banking. The merger with Kazkommertsbank in 2018 further solidified its position as the dominant force in Kazakhstan's banking landscape. This consolidation helped create a banking giant with a diversified portfolio of services, a robust network of branches, and a significant share of the banking market.

Kaspi Bank, another major player, has seen remarkable growth in recent years. Founded in 1991, it is one of the largest and most innovative financial institutions in Kazakhstan today. While traditionally a retail-focused bank, Kaspi Bank has successfully diversified its operations into a digital financial ecosystem. Its unique business model includes a mix of banking, e-commerce, and fintech services. Kaspi.kz, its online platform, has become the go-to marketplace for millions of Kazakhstani consumers, offering a range of products from electronics to financial services such as loans, insurance, and payment solutions. Kaspi Bank's digital transformation has set it apart from traditional banking institutions. Its highly successful mobile banking app, which provides customers with access to a variety of services—such as money transfers, loan applications, and online shopping—has gained widespread popularity. The bank has capitalized on the growing trend of digitalization in Kazakhstan, attracting younger customers and tech-savvy individuals.

## **9. Economic Impact and Policy Influence**

The National Bank of Kazakhstan has significant influence on the country's economic performance through its monetary policies. By setting interest rates and managing the supply of money in the economy, the NBK affects inflation, investment, and overall economic growth.

For example, during periods of economic uncertainty, such as the global financial crisis or the 2014 oil price slump, the NBK intervened to maintain financial stability. It increased interest rates to curb inflation and provided liquidity to the banking system, ensuring that credit remained available to businesses and consumers.

The National Bank's ability to manage the country's foreign exchange reserves also plays a crucial role in stabilizing the tenge, especially in the face of external shocks such as falling oil prices.

## **10. Conclusion**

The National Bank of Kazakhstan has played an essential role in shaping the country's financial system and supporting its transition to a market economy. From its establishment in 1993, the NBK has worked to stabilize inflation, manage the tenge, and foster the development of a competitive and secure banking system. As Kazakhstan's economy continues to grow and integrate into the global financial system, the National Bank remains central to the country's economic success.

Looking ahead, the NBK will need to continue adapting to the challenges of a rapidly changing global economy, including dealing with external shocks, promoting financial inclusion, and ensuring the stability of the banking sector.

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# **The Banking System in Russia. The Role of Sber.**

Zharkova Polina

## **Introduction.**

The essay will explore the history and evolution of Russia's Central Bank, focusing on its key role in shaping the country's financial landscape. It also includes a section on the Russian financial sector, its challenges, opportunities and the changing role of Sber in a complex geopolitical and economic environment.

Since the fall of the Soviet Union, Russian banking sector has undergone significant transformations, and today the market is dominated by a few major financial institutions. Among them, Sberbank stands out not only as the largest bank in Russia but also as a leader in innovation, from expanding its ecosystem to investments in artificial intelligence.

## **Central Bank.**

The banking system of the Russian Federation comprises the Bank of Russia, credit institutions, branches of foreign banks and representative offices of foreign banks. Legal regulation of banking activities in Russia is carried out by the Constitution of the Russian Federation, the current Federal Law, the Federal Law "On the Central Bank of the Russian Federation (Bank of Russia)", other federal laws, and regulatory acts of the Bank of Russia. (Federal Law of 02.12.1990 N 395-1)

The banking sector is the most important part of the financial system. After the collapse of the Soviet Union in 1991, the Central Bank of the Russian Federation took full responsibility for the conduct of monetary policy in the country. In the 1990s, the bank faced numerous challenges, including high inflation and banking crises. In response to these challenges, extensive reforms were undertaken to strengthen the banking system, increase its stability and improve banking supervision mechanisms.

With the beginning of the 21st century, the Central Bank continued its policy of strengthening financial stability and developing markets. In 2002, a new law "On the Central Bank of the Russian Federation" was introduced, which significantly expanded the powers and functions of the bank. The main achievement was the gradual decline in inflation and the transition to inflation targeting in 2015, which allowed more effective control over inflation expectations and economic cycles. In addition, the Central Bank has worked actively on improving the transparency of its actions and build confidence in the country's financial system. In recent years, attention has also been paid to the development of digital technologies in the banking sector, including the launch of the national payment system ("Mir") and exploring the potential of digital currencies.

Thus, the history of the Central Bank of Russia reflects its adaptation to changing economic conditions and its key role in ensuring monetary stability and developing the country's financial system.

## **Functions of the Central Bank.**

The Central Bank of Russia has the exclusive right to issue money in the country. Issuing activity is one of the key functions of the bank, allowing it to regulate the money supply in circulation. Money supply management includes instruments such as changes in interest rates, open

market operations and regulation of banks' required reserves. These measures are aimed at controlling inflation and stimulating or inhibiting economic activity depending on the current economic situation.

Since credit institutions are liable to creditors and depositors by attracting customer funds, they are subject to several requirements, including compliance with mandatory ratios. Bank of Russia creates regulations that prevent financial organisations from pursuing excessively risky policies and strictly monitors their compliance with applicable laws. If organizations systematically violate these regulations or conduct activities that pose a threat to the interests of creditors and depositors, the Central Bank withdraws them from the market. Banks and non-bank credit institutions provide financial services to customers on the basis of licenses issued by the Bank of Russia. There are two types of licenses for banks in Russia - universal license, which is issued to banks with capital of RUB 1 billion or more, and basic license, which is issued to banks with capital of RUB 300 million or more. As for today, Russia has 317 operating banks (221 banks with universal licenses, 96 with basic licenses) and 37 non-bank credit institutions. On 21.02.2024, the Central Bank revoked the banking license of the credit institution Qiwi Bank due to systematic violations of federal laws and regulations (failure to comply with the regulator's instructions, money laundering, involvement in casino-related operations).

To protect the interests of depositors, Russia also has a deposit insurance system, which covers funds of citizens, individual entrepreneurs and small businesses. Most banks are members of this system, and the maximum amount of insurance coverage is set at RUB 1.4 million, including accrued interest (in some cases - RUB 10 million).

In addition, Bank of Russia plays an important role in regulating the currency market and conducting currency transactions. It monitors compliance with currency regulation legislation, including controlling the receipt of foreign currency proceeds and foreign exchange transactions.

### **Financial Market.**

According to Moex Group (financial consulting and marketplace), five banks with largest net assets are Sberbank (RUB 5.1 trln), VTB (RUB 1.5 trln), Gazprombank (RUB 811.2 bln), Alfa Bank (RUB 662 bln) and Otkritie Bank (RUB 505.5 bln). It's also important to mention T-Bank, formerly known as Tinkoff Bank, first neobank and one of the world's largest digital banks, measured by number of customers.

### **Rating of the most reliable Russian Banks in 2024 (by Forbes Magazine):**

#### **1. Sber (formerly known as Sberbank)**

The largest bank in Russia and CIS countries, included in the list of major credit organisations. The bank's main shareholder is the National Welfare Fund, which owns 50% plus one share, with the remaining stake in free float. Sberbank is the leader among Russian banks in terms of annual net profit. Sberbank has been on the US SDN-list since 2022

#### **2. VTB**

VTB Group Bank is also included in the list of major credit organisations. The main shareholder of the bank is Rosimushchestvo, which owns a 60.93% stake. At the beginning of 2022, VTB was placed under blocking sanctions by the US Department of the Treasury.

#### **3. Rosbank**

One of the largest private banks in Russia. The main shareholder of the bank is Interros Holding, which acquired a stake in it in 2022 from the French banking conglomerate Societe Generale when it decided to leave the Russian market. At the end of 2022, the bank fell under blocking US sanctions.

#### 4. T-Bank

A Russian commercial bank focused entirely on remote banking, with no retail branches. Ranked 9th in terms of assets among banks in the Russian Federation (RUB 2.7 trillion as of June 2024)

#### **Introduction to Sber.**

Sberbank of Russia “Sber” (Public Joint-Stock Company ‘Sberbank of Russia’, ‘Sberbank’, ‘Sber’) is a Russian banking institution headquartered in Moscow. It is a key company in the Russian financial market, the largest in terms of assets and many other indicators. It is a universal bank operating in Russia and has subsidiary banks, representative offices and branches in 18 countries.

Sber is officially owned by the state, with the Ministry of Finance of the Russian Federation holding a controlling interest. This allows it to manage the company and influence key decisions.

#### **History.**

Sberbank traces its history back to the decree of Nicholas I of 31 October (12 November) **1841** on the establishment of savings institutions in the Russian Empire. By 1917, the country's savings system had over 14,000 savings banks which made Russia one of the world leaders in terms of savings development.

In **1923**, the savings institutions were renamed to State Labour Savings Banks. During the Soviet years, savings banks appeared in the most isolated parts of the country and became an important source of funds for industrialisation in the 1930s, and then for the victory in the World War II and further development of the country's economy.

Sber's current history dates back to **1987**, when the USSR State Savings and Loan Banks were reorganised into the USSR Bank of Labour Savings and Loans to the Population (USSR Savings Bank). In **1988**, the first Sberbank ATM was installed. At the same time, the bank began to perform currency exchange operations for the first time.

On 22 March **1991**, a shareholders' meeting was held to establish Joint-Stock Commercial Savings Bank of the Russian Federation (“Sberbank of Russia” JSC).

In **2000**, The Banker magazine ranked Sberbank 388th in the global banking sector in terms of capital. By 2002, Sberbank accounted for 71% of the deposit market, 46% of the retail lending market and 27% of the country's banking system assets. In 2004, Forbes magazine ranked Sberbank 381st in terms of capitalisation in a list of the world's 2,000 largest companies. In **2006**, the Financial Times ranked Sberbank 43rd among the world's largest banks by capitalisation.

In November **2007**, German Gref (the Former Minister of Economic Development of the Russian Federation) was appointed Chairman of the Management Board of Sberbank.

In **2008**, the Bank started organisational and technological reforms, focusing on reducing queues, improving the quality of service, developing remote services and expanding the range of activities.

Sberbank's development strategy until 2014 was also approved. The main areas of transformation include customer focus and a comprehensive restructuring of processes and systems to improve their efficiency. Also, Sberbank's mission was formulated:

“We give people confidence and reliability; we make their lives better by helping them realise their aspirations and dreams. The Bank's mission also sets an ambitious goal for our aspirations - to become one of the best financial companies in the world as part of the Sberbank Group. That emphasised how important our employees are to the company, and how the realisation of the firm's goals is impossible without the realisation of their personal and professional goals” (Sberbank's website, “Our mission”).

In **2009**, Sberbank began its first rebranding campaign: in line with the bank's new philosophy, it is changing to become a customer-oriented company that builds long-term mutually beneficial relationships with its customers. At the end of the year, the Bank was ranked 19th in the world in terms of capitalisation among financial institutions.

In **2010**, Sberbank managed to reduce customer waiting time in queues by 40%. It also issued 50 million bank cards, making the bank No.1 issuer in Europe.

In **2011**, the first version of the Sberbank Online application for smartphones was launched. It allows customers to manage their finances from anywhere in the world at any time. A similar system, Sberbank Business Online (now SberBusiness), was created for legal entities.

In addition, the loyalty programme “Thank you from Sberbank” (now SberSpasibo) was launched in **2011**, which provides cashback in the form of “Thank you” bonuses for paying for purchases with Sberbank cards.

In **2016**, the DomClick online service was launched to provide a range of services related to the selection, purchase and state registration of property transactions.

In **2017**, Sberbank launched the digitalisation of its services and rebranded in 2020. The universal technology company under the Sber brand now provides financial and non-financial services (its own and partner companies') to a wide range of customers, ensuring a “seamless customer journey”

In **2020**, Sberbank launched a free online learning platform for 2,000 schools in 23 regions. The school digital platform was developed as part of Sberbank's contribution to the Future Charitable Foundation programme.

## **Ecosystem.**

The idea of a business ecosystem was popularized by James F. Moore in a 1993 Harvard Business Review article, “Predators and Prey: A New Ecology of Competition”. He compared businesses to biological ecosystems, where species interact and evolve. Moore argued that businesses thrive not just by optimizing their own operations but by fostering collaborative environment with other organizations in their ecosystem.

The current head of Sber, German Gref, began his work as a head of the bank in 2007. And almost immediately a new course in the development of the country's largest bank was taken. The results of these transformations are evident. If 15 years ago Sberbank's net profit was 126 billion rubles, the company recently reported that for 2023 it earned a record 1.5 trillion rubles. Experts note that Sber has been constantly developing and now holds leading positions in many areas, not to mention financial services.

In 2017, Sberbank's Supervisory Board approved the bank's transformation into a “financial ecosystem”. And in December, the company's president German Gref said that traditional banks have no future, and Sberbank will transform from such a traditional bank into a diversified ecosystem in the coming years. Sberbank has set the task of creating a single umbrella brand for the entire ecosystem and dropping the prefix “bank”. Vladislav Kreinin, Director of the Marketing and Communications Department, called the latter decision revolutionary.

"It became obvious that the services we provide do not correlate with the bank: both medical services and logistics look strange under the bank's brand", he said.

All the discussions eventually took almost three years. The British studio Landor&Fitch was commissioned to develop Sberbank's new brand in 2017.

Sberbank's ecosystem includes companies that are not related to banking business. Their main task is to serve the interests of clients and cover their needs - personal or business. The

ecosystem now has 101.5 million active retail customers. The Sber ID system provides access to more than 120 different services in various spheres: e-commerce, food delivery, entertainment and many others. After numerous acquisitions and joint ventures, Sber has a portfolio of assets in areas such as video games, pharmacy business, taxis and carsharing. For the bank, this is a venture capital investment that has a significant impact on the company's growth.

Sber started building its ecosystem several years ago, moving from the model of a classic financial services provider to that of an ecosystem. The most important milestone for the bank, its partners and team was the consolidation of financial and non-financial products and services under a single recognisable Sber brand in 2020, as well as the development of a new Development Strategy until 2023 aimed at building an integrated ecosystem around the customer.

In total, Sberbank has acquired and created from scratch more than 60 companies that provide services for everyday needs, in the business and new technologies segments. The services of Sber and partner companies include food and parcel delivery, mobile communication services, selection of contractors for flat repairs, a trading platform for selling goods of other companies (marketplace), car rental (carsharing), audio and video streaming (video broadcasting), articles and news, online car buying and renting, job search, video conferencing service, legal services, cashless tips, etc. Sber's development strategy envisages increasing the share of revenue from non-financial services to 30 % by 2030 and completing its transformation into a technology-based IT and fintech company.

### **Business Partner.**

Sberbank of Russia acts as a business partner and technological advisor for entrepreneurs at all stages of business - from start-up to corporation. SberBusiness Internet banking offers its customers a wide range of options - from classic banking transactions to services for running and developing their businesses. Various services offered by Sber and its partners, such as digitalisation and outsourcing of business processes, analytics based on big data, help businesses reduce costs and increase revenues, find new opportunities and market niches.

SberBusiness website offers services and facilities that help legal entities and individual entrepreneurs to start a business and organise its productive work: opening an account, registering a sole proprietorship or LLC, opening a foreign currency account, and issuing a business credit card. You can also find out which contactless payment method best suits your business and get personalised advice from a bank employee. In addition, Sberbank is attracting companies from the B2B sector to provide their products through the company.

Sber's contribution to the development of Russian startup culture includes such projects as the Sber500 international accelerator, the SberUp accelerator for bank employees, and school and student accelerators for those who want to develop their own ideas.

### **Digital Literacy.**

Sber pays great attention to the training of its clients and employees, helping to build and maintain their skills in recognising various cyberattacks and developing “digital immunity”. As part of its social mission, the bank also shares its technological expertise and develops digital, financial and technological literacy among Russian people.

Sber was one of the first to create and launch an online resource called Kibrarius, the most detailed library of knowledge on digital literacy. Kibrarius helps people to learn more about cyber threats and fraud schemes and to protect their savings and data from cyber criminals. The portal also explains how to safely use bank cards and the Internet, create strong passwords and protect phones and computers from hacking.

An additional channel for improving customers' digital literacy is the Sberbank Online platform. Currently, the Sber Online mobile application is not only a tool for managing one's finances and protecting customers, but also a resource that allows one to pump up one's cyber literacy skills. A special section of the Sberbank Online app contains a lot of educational information: articles, videos, and tests to help Sberbank users develop their digital literacy skills. Sber does not limit itself to digital services, realizing its high responsibility to the customers, especially the older generation, who require individual approaches. For several years in a row, the Bank's employees have taken part in financial literacy festivals: Financial Spring and Financial Literacy Weeks.

### **Artificial Intelligence.**

Many companies in Russia and abroad are now working on the development of artificial intelligence technologies. The financial sector is already actively using it; large companies are testing analytical models and processing large arrays of data. Artificial intelligence elements are also used in some 'auto-tracking' programmes that help clients of brokerage departments to follow a successful trader in their decisions, even if it is a computer programme.

Sber's achievements are largely based on artificial intelligence technologies. The Bank organises the annual Artificial Intelligence Journey conference and contributes to the creation and implementation of fundamental documents and action plans, such as the National Strategy for Artificial Intelligence Development until 2030, the Artificial Intelligence Federal Project, the Code of Ethics in the field of artificial intelligence, and others. Sber initiated the creation of the Alliance for Artificial Intelligence, which includes the country's leading technology companies.

In 2023, Sber launched the updated Kandinsky 2.1 diffusion model for generating images from text, which is capable of creating, mixing and augmenting images from a text description in seconds. As of May 2023, the number of unique users of the service exceeded 5 million. The model is additionally trained on 170 million text-image pairs and uses 3.3 billion parameters.

Also in April 2023, Sber released its own version of the GigaChat multimodal neural network. It can answer user's questions, maintain dialogue, write software code and create images. Sber is integrating GigaChat into the company's processes and products to improve the user experience and increase employee productivity. It is already used by more than 1.5 million people.

### **Charity.**

One of Sber's objectives is to foster a culture of charity and volunteering in Russia. The SberVmeste (SberTogether) online platform allows the bank's customers to activate monthly autopayments in favour of charitable foundations approved by the bank, as well as transfer funds to specific good causes. In their free time, the Bank's employees carry out volunteer tasks, such as helping children without parental care, people with special needs and veterans, and caring for the environment.

### **The main areas of work:**

1. Social support and protection of citizens, including improvement of the material situation of the poor, social rehabilitation of the unemployed, disabled and other persons who, due to their physical or intellectual characteristics or other circumstances, are unable to independently realise their rights and legitimate interests
2. Promoting activities in the fields of education, science, culture, art, enlightenment, and the spiritual development of the individual

3. Promoting activities of protection of citizens' health, as well as promoting a healthy lifestyle and improving mental well-being of citizens
4. Environmental and animal protection
5. Social rehabilitation of orphans, children left without parental care, neglected children, children in difficult life situations
6. Assistance in developing scientific, technical and artistic creativity of children

In 2023, the number of volunteers in Sber grew by 30% to over 26,000 people. The company managed to present more than 750 projects, ten of which became partners of Russia's national projects. This year, Sber also received a national award for its significant contribution to social, environmental and charitable initiatives

### **“Special” Bank.**

Sberbank has a ‘special bank’ division, which aims to ensure equal access to services for all customers, regardless of their health features. Sberbank of Russia ensures that the bank's services are accessible to people with disabilities - those who cannot see, hear, use a wheelchair or have mental disabilities, etc. For the convenience of different categories of people with disabilities, Sberbank's offices have ramps, Russian sign language translation both in the bank's offices and in the Sber Online application, special text chat with the bank's specialists, audio scripts at ATMs (a blind customer can insert wired headphones into the jack and follow the instructions to withdraw or deposit money independently), and Sber's websites and mobile applications are accessible to the blind so that they can be used by hearing.

Sber's ecosystem adapts to the user and creates individual recommendations for everyone. Analysing what services the customer uses most often, what he or she buys and what kind of entertainment he or she likes allows Sber to offer products, services and special promotions that he or she is sure to enjoy.

“Why are we changing? To stay close and helpful, it's not enough for us to respond only to a person's pre-existing needs. We want to come where new ones arise. So that the non-obvious today becomes an everyday habit tomorrow. And that is why we go into new industries... That is why another of our slogans and one of the foundations of our new positioning is the phrase: “Sber. For Life.” (From the bank's announcement, September 2020)

Today, Sberbank's users include more than 100 million active retail customers and almost 3 million legal entities.

“We give people confidence and reliability; we make their lives better by helping them realise their aspirations and dreams. Our mission defines the meaning and content of Sberbank's activities, emphasising its crucial role in the Russian economy. Our customers, their needs, dreams and goals are the basis for all of the Bank's activities as an organisation” – from Sber’s Website (Mission).

### **New Strategy.**

As part of the Investor Day on 6 December 2023, Sberbank presented its new development strategy until 2026. The event, held in Moscow, was attended by the Bank's President and Chairman of the Management Board German Gref, his deputies Kirill Tsarev and Alexander Vedyakhin, Senior Vice President, Head of the Technologies Division Andrey Belevtsev and Vice President, Head of the Finance Division Taras Skvortsov. The event was held in the format of an online broadcast. It was attended by representatives of leading investment funds, brokerage companies, the company's largest clients and its partners. German Gref spoke about the new development programme focused on the idea of human-centricity. The main financial goals include ensuring a high return on equity - above 22%, base capital adequacy - above 13.3%.

Since the number of customers is growing very rapidly every year and is already up to 108 million, Sber has set a goal of qualitative growth. Now 23 millions of Sber's customers already use the company's non-financial products. One of the factors in achieving these figures was the launch of the Prime subscription at the end of 2020.

SberPrime is a paid subscription from Sberbank that offers a wide range of privileges and bonuses for active users of banking services. It combines subscriptions to different services of the ecosystem: films, music, increased bonuses for purchases from the company's partners. The subscription includes several levels, each of which offers different opportunities and benefits to meet the needs of different categories of clients. The subscription is especially attractive for those who actively use Sber's cards and other products, as it allows them to reduce the costs of everyday banking transactions and increase the cashback they receive.

### **Resources.**

- Federal Law of 02.12.1990 N 395-1 (as amended on 08.08.2024) "On banks and banking activities" (as amended and supplemented, entered into force on 01.09.2024), Article 2: Banking system of the Russian Federation and legal regulation of banking activities
- Termination of Activity of Financial Organisations, 2024 (Central Bank of Russian Federation)
- Financial Rating of Russian Banks, MOEX Group Financial services
- Sberbank Rebranding, 2020 (Julia Titova, Forbes)
- Ecosystem of Sber, 2021 (Company's website, TASS)
- Sber: from a bank to an ecosystem and fintech, 2024 (Gazprombank Investments)
- Our Mission, Sber (Company's website)
- Sberbank Presents a New Strategy Until 2026, 2023 (Vedomosti: Finance)
- Sber vs JP Morgan, 2022 (Dzen)
- Battle of the Issuers, 2021 (Valery Emelyanov, BKS Express)
- JPMorgan Chase Announces 2024 Dodd-Frank Act Stress Testing Results, 2024
- Comparative analysis of Sberbank's capital structure and dynamics and J.P. Morgan Chase&Co under RAS (Russian Accounting Standarts) and IFRS (International Financial Reporting Standart