FINANCIAL IMPROVEMENT AND THE ROLE OF THE CENTRAL BANK

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Abstract: Financial institutions are financial intermediaries in the process of transferring financial funds between participants in the financial system. The main participants in the financial system are: individuals, businesses, financial intermediaries and the government.
Money owners are interested in investing their savings to make money. As compensation for this, they derive profits in various forms, such as interest, dividends, capital gains, etc. Borrowers also need additional financial funding to finance their investment or consumer programs. They are obliged to borrow those funds from financial institutions. For borrowed funds they pay a certain price to the lenders.
With the mediation of financial institutions, it is possible to transfer financial funds from entities that have surpluses to entities that have a lack of financial funds, and at the same time need to provide them from external sources. Investment or consumption, if sufficient accumulation of the necessary financial funds was expected from own resources.
The essence of financial intermediation lies in the collection of financial funds by many individuals and businesses that hold financial savings, and their investment in various forms. With the proclamation of the financial mediation process, we notice its multidimensional aspect, on the one hand as the collection of financial funds in various forms and their concentration, and on the other hand as investments of funds collected through various forms of loans to borrowers who need financial funding.
Financial institutions do not only have the role of simple intermediation, because they also perform a whole set of analyzes and evaluations in the case of creating, providing and performing their services, both in terms of fundraising and concentration, and from aspect of potential investment of financial forms.
In terms of fundraising, the analysis aims to assess the appropriateness of financial resources in terms of interest rate and term of use, while in terms of investing financial potential, the analysis aims to ascertain and determine economic reasonableness and financial financing of investment projects, and real opportunities for return on invested funds, together with a certain interest rate.
Savings holders can also invest them directly in users who need financial support. They can also lend them to the government to finance additional budget spending programs. In the first case we are dealing with the issuance of shares and bonds by the company that need financial funds, and in the second with government bonds, through which the government provides financial funds to finance the budget deficit.
In summary, financial institutions (financial intermediaries) enable the collection of financial savings of businesses and individuals, as well as their investment in various variable forms for the financing of development programs and commissions. By performing this function, financial institutions influence the optimization of economic-financial effects and increase the efficiency of micro and macroeconomic scales.
Keywords: Financial institutions, profits, financial intermediation, financial support effects and increase.

1. ENTRY

In economic life, surplus financial transactions are always present, entities that at the given moment have more than they need and deficient translators. One of the functions of the bank is to mediate between surplus and deficit transactors in order to make the most optimal use of financial resources and to ensure the unhindered development of the reproduction process.
- Usually the process in question takes place according to a certain course and procedure during which the saved financial means are transferred from the financial surplus transactors to the deficit financial transactors.
- The development of the described process depends on many factors but primarily on the development of financial performance of economic entities. Respectively, the development of an economic enterprise can be the fruit of:
1. Self-financing or internal financing
2. Direct financing or equity investment
3. Indirect financing or through the use of loans.

Business banks are unique in the ranks of financial institutions, due to their ability to make money. Since this process has been extensively explained before, we will only dwell on this problem in brief. When banks lend, they create deposits that result in increased money supply. Business banks hold almost all the deposits of the economy and most of the savings deposits, the superiority of commercial banks in this field is unattainable.

The ability of banks to create money in this way results in a flexible credit system, which is of great importance for the normal functioning of the national economy. Without credit, economic activity would in most cases be impossible or depend on the ability of producers to accumulate capital from previous sales without making new products for future sales. The existence of such a credit mechanism enables economic activities to be financed by loans. Also, loans meet the needs of individual firms for financial means.
Due to the role of banks in creating money, the Central Bank treats such a role as an essential component for controlling the money supply in the economy as a whole. Central banks need to maintain monetary policy, which is based on stable prices, economic growth and minimal unemployment.

2. FINANCIAL AID

Internal financing for banks and financial intermediaries is not a sphere of special interest, because in these cases we are no longer dealing with the transfer of savings between transactors.
Self-financing is characteristic for enterprises that have financial performance at very high levels which is a result of structural macroeconomic conditions and microeconomic factors. In the later stages when the economic entity manages to develop and stabilize its position in the market, economic entities prefer to use the methods of self-financing and reduce the use of foreign assets and loans. We can claim that depending on the concrete conditions and the interest of economic entities, they use direct and indirect financing methods.
The method of direct financing for banks and science on financial intermediaries have a secondary importance, respectively proportional to the role and importance that the bank and the financial market play in the issuance, distribution and circulation of shares and economic entities. In cases of direct financing, observed by the prism of the business entity but also by the bank, it is about the mixed method of engaging financial resources in the development of the business entity, with 0 cases the square emerges and the financial instruments of financial instruments in the market are used. of financial capital, financial interest, interest, dividend, etc. In case we use credit instruments such as:
- *Loans borrowed directly from financial and transaction surplus transactors*
- *Issued securities, commercial papers*

If these instruments and forms of credit / borrowing are used, as a result, debt and foreign exchange will increase.
- Indirect financing, also means a relationship between creditors and debtors. The process in question takes place within the banking system. The mechanism of indirect financing and the process of granting the loan as well as its payment within the banking system is defined and concrete. The mechanism in question is also composed of lenders and borrowers appearing more and more financial intermediaries. During this process, the banks perform the primary function, ie transfer the saved financial assets. Viewed from the microeconomic point of view, the process of lending and borrowing is described through its development in two stages, in the first stage economic entities and financial and transactional surplus depositors deposit in the bank, in fact hand over the cash to the bank and against the bank accept the savings book. On the other hand, at the moment of receiving the saved money for the same amount and value of the saved money, the bank will withdraw them in circulation, reducing them at the same time with the amount of money in circulation.
At any other time, deficient financial entities apply.
Financial markets facilitate the transfer of financial funds from those who have monetary savings to those who invest money in capital assets. Savings are distributed between investment and spending, through the trading of securities in financial markets. The functions of intermediary financial institutions are concretized through their contribution to facilitating and improving the transition and distribution of financial funds in many forms and in many aspects. The basic functions of financial intermediation are:
- *Payment mechanism*
- *Securities trading*
- *Economies of scale*
- *Harmonization of maturity and liquidity*
- *Risk distribution*
- *Portfolio management*
- *Differentiated income tax.*

3. CENTRAL BANK

Since the 19th century, Central Banks have provided a primary or central role and importance in the banking system. From this time on, their institutional and factual ability to influence and determine the course and conditions of a country's monetary and credit flows dates back. Specifically, the emergence and development of the Central Bank is

closely linked to the emergence of the first privatized banks, which were entitled to issue money at a time when one of the banks manages to secure the monopoly and the only door on the affairs of money show.
Unlike commercial banks and other financial institutions which operate and are established to realize financial profit, central banks do not function to provide any profit, except intersei and the importance of their establishment has a special macroeconomic importance.
The role and importance described of the central bank in the economic system best justifies their existence in any country, as well as the interest of economists and the state administration for work and their functioning.
A country's banking system generally consists of two-tier banks: the Central Bank and the second-tier banks. The first level is represented by the Central Bank as the monetary authority that drafts and implements monetary policy and through which it influences economic activity, and the second level by commercial banks that realize the main part of financing the economy. The Central Bank is at the top of the pyramid of the banking system of any country and with its functions, mechanisms and instruments it realizes the goals of monetary policy and macroeconomic policies.
The Central Bank can be defined as a specific banking institution, with functions and responsibilities for the regulation and monetary stability of the country, maintaining the external value of the national currency and maintaining the country's liquidity in international payments.

4. COMMERCIAL BANKS

In the context of financial intermediaries that carry out indirect financing, commercial banks occupy an important place. They carry out the bulk of indirect financing transactions. Financial funds based on deposits commercial banks invest in the form of loans and loans to businesses and individuals. Commercial banks provide businesses with short-term and long-term loans for investments, while individuals provide consumer loans and mortgages for the purchase of housing. Medium-term and long-term lending to businesses and individuals is done by commercial banks from savings deposits in the first and matured ones. In terms of accumulating financial potential, commercial banks in the new conditions of functioning of financial markets, a significant part of financial funds provide through the use of loans in markets, and the issuance of securities, shares and bonds, while in terms of of investment credit potential commercial banks are applying as an innovative method the purchase of securities, stocks and bonds of companies and government bonds.
- Joint savings banks are similar to savings and loan companies. Joint savings banks collect savings funds in the form of deposits and then give those funds to individuals and business firms seeking additional funding. Owners of joint savings banks are savings depositors, while banks are run and managed by a board of directors selected by bank owners.
In the general structure of financial institutions banks of common savings are a relatively small component of the financial system.
- (Credit unions) lend rates at lower interest rates than those offered by commercial banks. It is also easier to secure a loan from a credit union than from a bank. Credit unions base their work on the principles of self-financing and voluntary work. For this reason, the business expenses are not so high. Revenues and profits in the form of dividends of members are not guaranteed, ie they are not necessary.

5. SECURITIES MARKET INSTITUTIONS

- The smooth operation of financial markets involves the financial institutions of the securities market. These include securities commissioning and trading firms (brokers and dealers) investment banks and securities exchanges. They form their financial potential through the sale of their services.
- Recall once again the difference between the primary and secondary securities markets discussed. In the primary market, new issuance of securities is sold to buyers by corporate or government agencies, borrowing funds. Then in the secondary market the securities are traded which have been sold once in the primary market, so the securities are resold in the secondary market. Investment banks help in the initial sale of securities in the primary market, commission and commercial forms of securities help in the process of trading securities in secondary markets, some of which are organized in the form of stock exchanges. Starting from the way of investing their financial potentials and from their specialization for specific jobs in different fields, we can divide the securities market institutions into these types:
1. Investment banks
2. Commissioner firms and securities trading firms
3. Calculated and equalized companies
4. Securities exchanges.

The essential difference between depository institutions, institutional investors and securities market institutions is that depository institutions operate in the sphere of debtor-creditor relations, while the functioning of institutional investors and securities institutions is closely related to the functioning of financial markets.

6. CENTRAL BANK MONETARY POLICY INSTRUMENTS

The monetary policy of the Central Bank includes a set of objectives of a macroeconomic nature which can be achieved only by using certain instruments. The implementation of monetary policy is carried out through a set of actions of instruments to achieve these objectives. The macroeconomic goals that the central bank seeks to achieve are concretized in the goals of monetary policy. The goals of monetary policy are:
1. Price stability
2. High employment
3. Economic growth
4. Stability of interest rate
5. Stability of financial markets
6. Stability of foreign exchange markets.

- As for the objectives of monetary policy are:
• Active objectives
• Intermediate objectives

- The Central Bank builds the regulation of the monetary circulation and the volume of loans as well as the maintenance of the monetary stability of the country through financial instruments such as:
• Discount policy
• Open market policy
• Mandatory reserve policy
• Quantitative credit control policy
• Selective credit policy, ie credit quality.

Bankruptcy Policy - is an important instrument of the monetary policy of the Central Bank for the regulation of credit and banking potential, and contains the determination of the amount of the discount rate and other conditions on the basis of which the central bank allows you.
Open market policy - is a complex and efficient instrument of monetary policy of central banks in economically developed countries, through which the Central Bank buys and sells securities in the open market in order to increase or decrease potential creditors of other banks.
Mandatory reserve policy - is an instrument for regulating the credit potential of banks and their liquidity. In line with their monetary policy, this instrument is now used by central banks in almost all countries.
Quantitative credit control policy - is an important and efficient instrument for regulating the monetary measure and credit potential of commercial banks, the essence of this instrument of monetary policy dreams of determining by the Central Bank the maximum amount of short-term loans for purposes set in a certain period of time.
Selective credit policy - constitutes in reality the quality control of credit and is an instrument of monetary policy through which the Central Bank exercises the orientation of credit volume according to the destination defined only in certain sectors of the economy, allocation.
Monetary Policy Channels - The process of operation of monetary policy instruments until the final goal constitutes monetary policy channels, as monetary policy channels are:
• Money supply
• Interest rates
• Wealth
• Credit availability
• Liquidity.

Currency Policy - another complex and very important function of the Central Bank is to preserve the external value of the national currency and ensure liquidity in international payments.
By ensuring liquidity in international payments, through its monetary and foreign exchange policies, the Central Bank has as its main goal to influence the creation of optimal conditions for economic activity, respectively to ensure liquidity and to balance the balance of payments and foreign exchange balance.

7. CONCLUSION

In this scientific paper is presented all the work and function of intermediaries in general and their role in making and influencing the financial system and especially the benefits they bring to society in general.

Financial institutions also perform a specific form of mediation, based on the holding and management of transactional deposits of individuals, businesses and governments.

Transactional deposits represent the basis on which the circulation of all payments is performed with the use of orders for accounting.

Also, based on these deposits, banks as their carriers can allow short-term loans for businesses and individuals.

We will use the name ‘transactional deposits’ for that part of the deposits in the accounts that are usually categorized as “current account of the correspondent”.

In countries with developed economies, financial institutions have reached a high level of development and organization.

They are characterized by a high degree of refinement in the performance of financial services, rapid increase in the range of financial services, application of innovations in terms of operations and transactions, high speed of performance of services and application of modern information technologies and of telecommunications.

From the point of view of the economy as a whole, the indirect transfer of funds from owners to firms, through financial intermediaries, is more important than their direct transfer, in the form of selling new securities, or investing in partnerships.

The advantages of the financial intermediation system for borrowers, lenders (money holders), financial intermediaries and for the economy as a whole are numerous.

The financial intermediary is able to raise funds from many individuals and firms, creating significant potential financial terms, and lending to a considerable extent. For example, the bank collects the deposits of many owners by creating larger financial funds, valid to lend to them.

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