

Formation of Banks and Their History

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Abstract: This article, with the help of scientific sources and historical literature, analyzes such issues as the factors that caused the emergence of the first banks, the importance of money in the formation of banks, and the history of the development of banks.

Keywords: money, banking, economy, crisis, finance, Greece, Amsterdam, Hamburg, Milan, Nuremberg.

Historically, the emergence of banks coincided with the introduction of money as a form of value, which was an essential phase of commodity-money relations. Precise information about the establishment of the earliest banks has not been given through various economic studies. Some economists suggest that banks emerged during the Middle Ages, while others argue that they appeared during the early periods of the new (capitalist) system.

This process, in particular, became evident during the formation and development of the capitalist banking system. With the rise and development of capitalism, money changers gradually became bankers. Traders' monetary capital began to be freely accumulated as deposits with money changers. At the same time, they started handling the financial affairs of merchants, thereby sparing them the effort of transferring funds from one place to another.

After accumulating substantial monetary capital, money changers began to lend it out. Over time, this exchange activity evolved into banking.

Another group of researchers notes that banking operations characteristic of banks emerged in the pre-Christian era. According to some sources, early bankers operated in small shops where they exchanged local currencies for foreign monetary units for a certain fee. They also stored the money and commercial bills of major wealth holders in exchange for appropriate fees. Later, banks began attracting temporarily idle funds under appropriate conditions and loaning these funds to those in need for a specified fee. The era in which banks emerged is still not fully described in the current economic literature.

According to historical sources, the earliest banks emerged in Greece and later spread to European countries as international relations developed. Additionally, the dissolution of a subsistence economy and the growth of commodity-money relations led to a significant increase in the role of transactions and credit. This, in turn, created the need for organized monetary

transactions and accounting, which had a positive impact on the establishment and growth of banks.

In some economic literature, it is noted that the earliest banks were established in temples. Temples served as reserve funds for governments and religious organizations, storing food reserves and other valuable items. Later, in addition to storing gold, silver, and other precious metals as payment means, temples also directly participated in the organization of financial transactions. For example, in July 2011, a large amount of gold and other treasures was discovered in one of the temples in India. The treasure was enormous, but it remains unknown when and by whom it was deposited.

One of the main reasons temples functioned as ancient banks and were considered stable was the high level of trust developed over centuries toward those who served in the temples, both by the state and religious devotees. This fostered trust in storing monetary funds in temples among others. Initially, this practice began in the ancient East and later spread to ancient Greece, Rome, and Europe.

In ancient Greece, the state and its officials, jewelers, traders, and other noblemen entrusted individual temples (such as Delphi, Delos, Samos, and Ephesus) with their monetary funds and the performance of related operations. They allowed these temples to store money and precious metals and to carry out transactions based on their orders. Alongside this, the development of labor division and economic relations, as well as the increase in financial exchanges, led individuals handling financial matters in these temples to emerge as financial intermediaries.

Around the 7th century BCE, major temples gradually transformed into small financial intermediary shops. As problems arose in regulating monetary circulation and the introduction of metal coins as currency, the state began to take control of the right to issue coins and regulate monetary circulation. The earliest forms of financial institutions that we now know as banks emerged in the 16th century in England. Interestingly, early bankers were major jewelers or merchants involved in the trade and production of gold ornaments. Additionally, giro banks, which originated in Florence and Venice in the 16th century, also emerged.

Later, banks began to be established in major cities like Amsterdam, Hamburg, Milan, and Nuremberg. These banks primarily dealt with storing large merchants' gold coins and conducting payment transactions. Giro banks were formed by those who constantly worked together, including merchants. They would meet periodically, for example, weekly, to settle accounts among themselves. Meetings were held around a round table, and if any participant became unable to make payments, a chain of defaults would form, often leading to the "round table" breaking, meaning bankruptcy.

The first bank similar to the modern central bank was established in Stockholm in 1650, followed by the establishment of another in England in 1694. These banks were responsible for issuing currency and regulating the activities of commercial banks in the country. In addition to conducting transactions for large merchants, jewelers, and other individuals, banks began attracting temporarily idle funds from society, which were directed as loans into various sectors of the economy. Thus, enterprises engaged in entrepreneurial activities, known as "banks," were established in capitalist society.

There are various approaches to understanding the essence of banks in economic literature. Considering the etymology of the word "bank," it is derived from the Old French word "banque" and the Italian word "bansa," meaning "exchange table." A bank is an institution that collects and stores funds, performs credit and accounting transactions, and carries out other intermediary operations. The basis for the emergence of banks lies in the development of commodity-money relations. The appearance and growth of commodity-money relations have necessitated the existence of banks in all socio-economic systems. The word "bank" comes from the Italian word "banca," which means "table," or more precisely, "money table." In the Middle Ages, wealthy

Italians would place the coins from their pouches and containers on tables to conduct transactions.

Numerous definitions have been formed to describe the essence of banks, and the perspective from which the issue is studied plays a key role in understanding it.

The initial models of banking institutions began to emerge from "money changing" activities, that is, the exchange of different currencies. This was because there were significant challenges in exchanging the currencies of different cities and countries. The main reason for this was that, during those times, there was no uniform form of coin in circulation; instead, coins had different forms and values. In such conditions, there was a need for individuals who could equalize the values of coins in circulation and provide advice on exchanging one coin for another at a certain rate.

Initially, banks were mainly money exchange offices, but they also performed other monetary operations. Gradually, the scope of money changing expanded to include granting various loans and attracting monetary funds, leading to the emergence of banks that provided credit, accepted deposits, and conducted transactions.

Money changers operated in small shops (exchange offices) in trading areas, exchanging foreign currencies brought by visitors to the city for local currencies. They kept a certain percentage of the total value of the currency as a fee for their service.

As a result, they used the accumulated funds to provide loans to subjects who needed capital, with the condition that the funds would be returned after a certain period. This situation was what led wealthy money changers to transform into bankers.

The early bankers had sufficient funds to conduct their activities. Over time, attracting deposits and guaranteeing term loans provided by wealthy clients became an important source of bank capital. This allowed them to expand their ability to lend money at interest. These loans were primarily given to merchants and landowners at an annual interest rate of 6%, while, in some cases, such as under risk conditions, interest rates could reach as high as 48% per month.

In the banking system, credit is provided to subjects to carry out economic transactions according to its functional role. In addition to executing credit agreements, creditors also began to conduct transactions and other operations for their clients. As a result, monetary circulation developed, leading to the consolidation of credit, monetary, and accounting operations under a single center.

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