

History of Banking

History of Banking – Study Notes

1. Origins of Banking (Ancient Times)

Period / Region	Key Developments	Notable Institutions / Practices
Mesopotamia (c. 2000 BC)	- Temples and palaces stored grain and precious metals. - Issued receipts that could be exchanged for goods.	Temple banks – early “deposit-withdrawal” system.
Ancient Egypt (c. 1800 BC)	- State granaries acted as safe storage. - Officials recorded deposits on papyrus.	Granary banks – early form of commodity money.
Ancient Greece (c. 600 BC)	- Private money-lenders (trapezitai) accepted deposits and made loans. - Developed “money-changing” tables.	Trapezitai – precursors of modern bankers.
Roman Empire (c. 100 BC – 5th C AD)	<i>Argentarii</i> and <i>coactores</i> performed deposit, loan, and foreign-exchange functions. - Introduction of banknotes (metallic tokens).	Roman banks – first to use written contracts and interest rates.

2. Medieval Banking (5th – 15th Century)

Region	Innovations	Representative Entities
Islamic World	<i>Qirad</i> (partnership) contracts. - Use of sakk (paper money) in Persia. - Prohibition of <i>riba</i> (interest) ? profit-sharing models.	Banu-Khalid, Hassan-Al-Mansur banks.

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Region	Innovations	Representative Entities
Italian City-States (13th-15th C)	• Development of double-entry bookkeeping (Luca Pacioli, 1494). • Bills of exchange for long-distance trade. • Early joint-stock companies.	Bardi, Peruzzi, Medici banks.
Northern Europe	• Merchant houses in the Low Countries began issuing letters of credit. • Early “clearance houses” for bill settlement.	Lombard banks, Hanseatic League merchants.

Key Takeaway: The medieval period saw the transition from temple-based storage to private, profit-seeking enterprises that facilitated international trade.

3. Early Modern Banking (16th – 18th Century)

Milestone	Description
Founding of Central Banks	• Bank of Sweden (Riksbank), 1668 – first true central bank. • Bank of England, 1694 – issued government bonds, managed public debt.
Development of Paper Money	• Dutch <i>Wisselbank</i> (1609) issued standardized banknotes. • British “bank of issue” notes spread across colonies.
Rise of Joint-Stock Banks	• <i>Bank of Amsterdam</i> (1609) introduced “bank money” as a unit of account, stabilizing trade in the Dutch Republic.
Regulatory Frameworks	• Early statutes (e.g., <i>Bank of England Act 1694</i>) defined banking privileges and limits.

4. Industrial Revolution & Expansion (19th Century)

Aspect	Impact on Banking
Rapid Urbanization	Surge in demand for credit to finance factories, railroads, and infrastructure.

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