

**Abstract**

Advanced economies appear in the guise of labour-division based monetary production economies with sovereign currency systems which are within the framework of „fractional reserve banking“ providing endogenous means of exchange by the locally organized procedures of bank lending. This implies a dual hierarchy of money between the sovereign currency of the central banks and the private deposit monies of the commercial banking sector. The performance demand of deposit money which is dominating the decentralized monetary transaction system requires a security of transactions close to the level of sovereign cash currency in order to fully compensate claims and liabilities created in the economic circuit of value added processing. This points also to the empirical source of SFC-based concepts of monetary analysis following the balance sheet approach. The accessibility of circulating deposit money as a fully compensating means of exchange thus depends on the liquidity driven provision of central bank reserves accommodating the demand for payment between the commercial banks. But since all deposit monies are monetary claims against individual commercial banks which are burdened with the solvency and liquidity risks of the issuers an economic safeguarding beyond deposit guarantee schemes by methods of micro-prudential regulation and supervision of the commercial banking sector is essential. These systemic tasks and duties can best be suited by central banks as the continuous providers of reserves preferably within a separation framework of commercial and investment banking. As a matter of functional coherence commercial banking supervision authorities should be therefore part of the central bank's organization similar to the SSM of the European Banking Union in a forward looking perspective.

**Key words:** Modern Monetary Theory (MMT), SFC-based balance sheet approach, fractional reserve banking, micro-prudential regulation and supervision, Glass-Steagall legislation.

**JEL codes:** G28, E12, E42, E51, E52.