



BANK FOR INTERNATIONAL SETTLEMENTS

The relationship between the central bank and the government

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Paul Moser-Boehm
Central Banking Studies
Monetary and Economic Department
BIS

cbgovernance@bis.org

+41-61-280 8935



Central Bank Governance Forum at BIS

- Central Bank Governance Group
 - Discusses central bank governance issues and guides work by the Forum
 - Chair: Mr Ortiz (Governor of Bank of Mexico). Members: Mr Fischer (Bank of Israel), Mr King (Bank of England), Mr Kohn (Board of Governors of the Federal Reserve System), Mr Mboweni (South African Reserve Bank), Mr Papademos (European Central Bank), Mr Reddy (Reserve Bank of India), Ms Zeti Akhtar Aziz (Bank Negara Malaysia) and Mr Zhou Xiaochuan (People's Bank of China).
- Central Bank Governance Network
 - About 45 central banks and monetary authorities participate
 - Conduit for information flows
 - Informal and collegial effort
- Password-protected website: <https://e.bis.org/>

Central Banking Studies at BIS

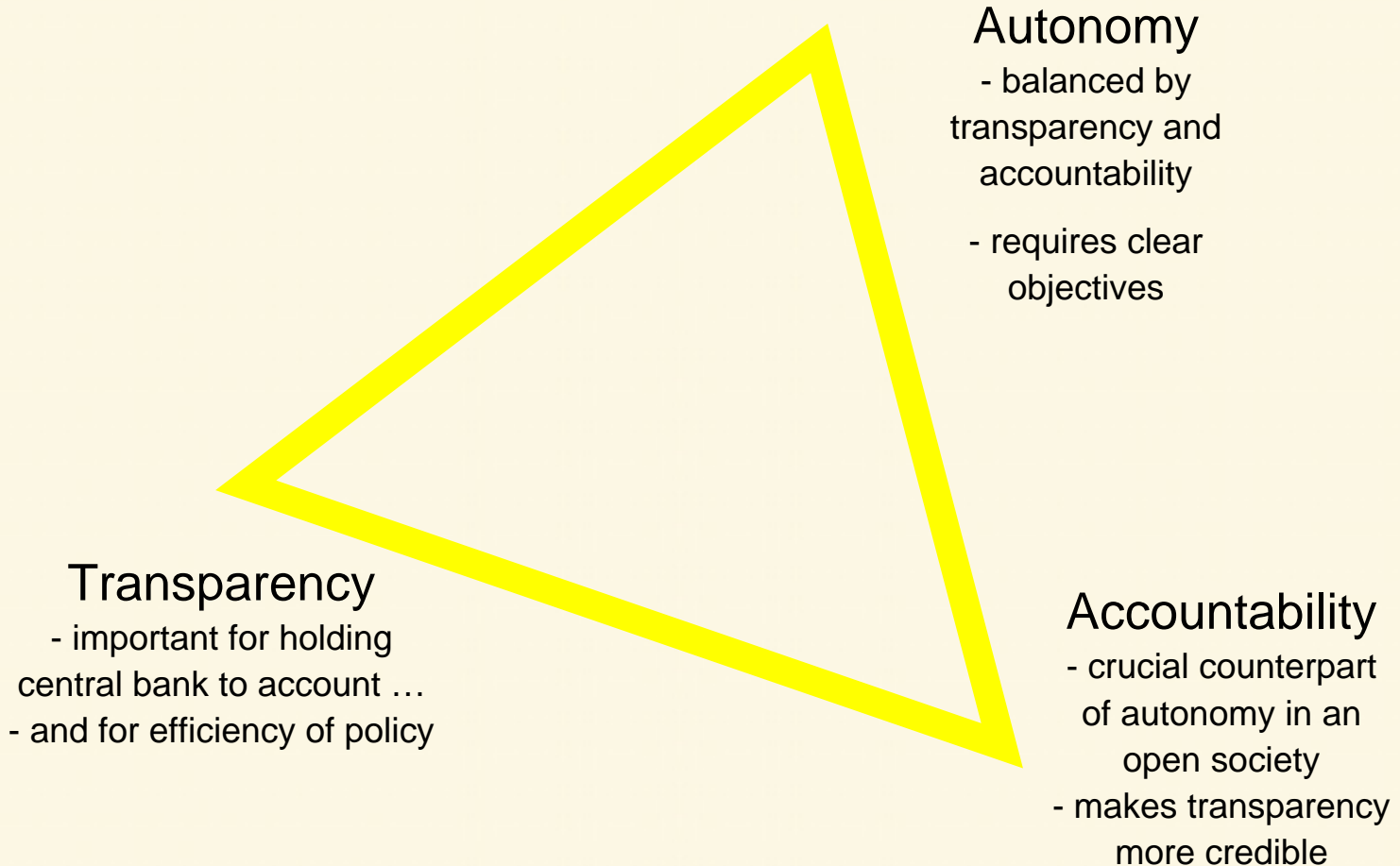


Modern paradigm: Price stability and central bank autonomy

- 1990s: Consensus emerged that
 - price stability should be primary objective of monetary policy
 - central bank should have sufficient autonomy to be able to attain this goal
- Autonomy is not an end but a means to achieve this objective



Golden triangle of central bank autonomy



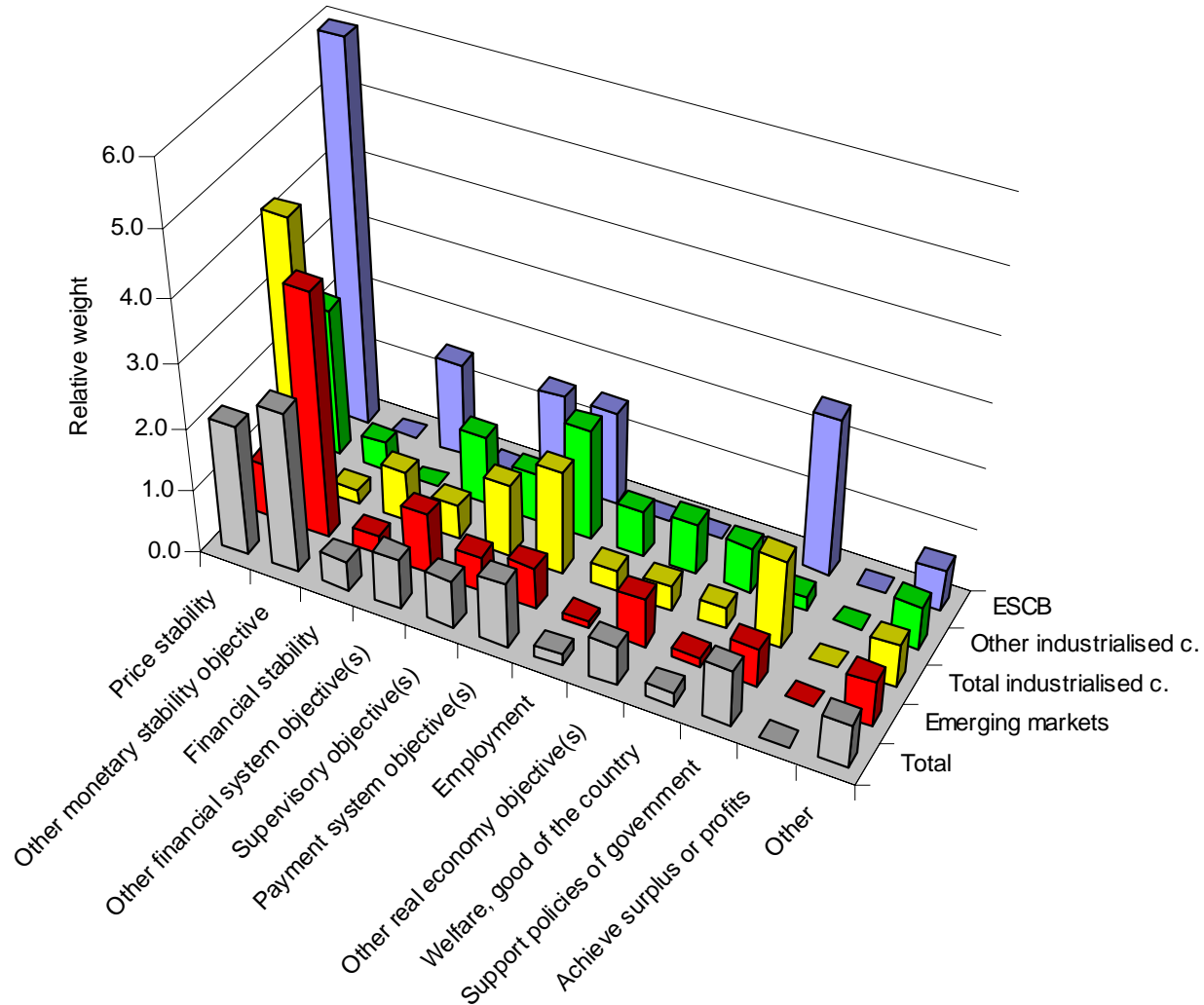


Key aspects of central bank autonomy

- Legal grounding
- Clarity and strength of mandate, clear hierarchy of objectives
- Personal autonomy of governor and members of central bank policy boards
- Decision-making powers and mechanisms
- Control over balance sheet and expenditure budget
- Public standing



Legal objectives of the central bank





Clarity and strength of mandate, clear hierarchy of objectives

- More recent central bank laws often accord priority to price stability (broadly defined)
- Tendency to focus central bank's mandate on core tasks
- A number of central banks (roughly half in a recent survey) use numerical inflation objectives, at times expressed as a formal inflation target
- Numeric objective or target can be determined by central bank (e.g. ECB), government (e.g. United Kingdom), or jointly by central bank and government (e.g. Australia)
- Inflation measure must be credible

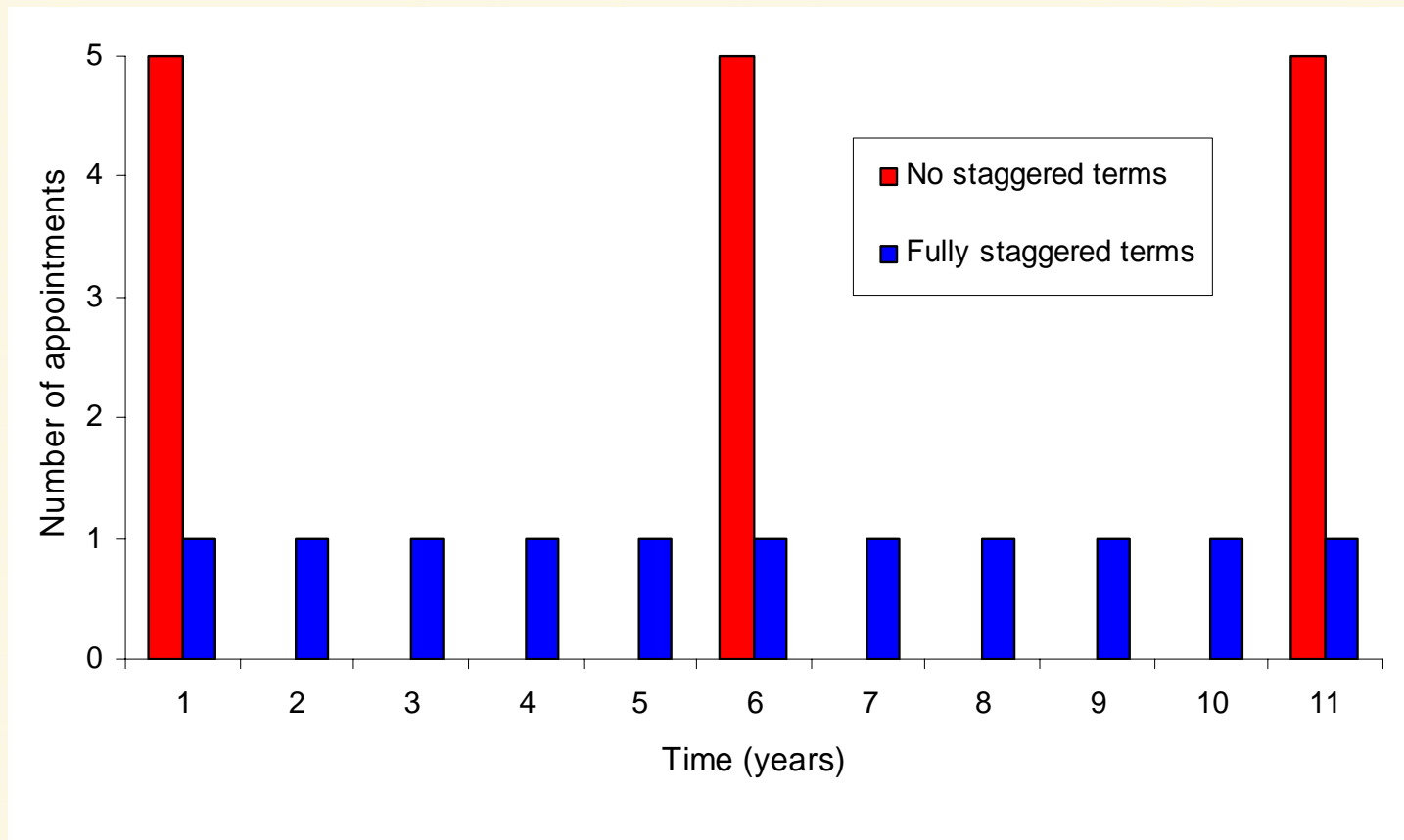


Personal autonomy of governor and members of central bank policy boards

- Selection and appointment procedure
 - Mandatory qualifications (disqualifications)
 - Multi-layered selection process
- Security of tenure
 - length and renewability of term
 - constraints on dismissal
 - detailed dismissal process
- Staggered terms



Example: Staggering of terms





Decision-making mechanisms

Collegial

- Trend towards this approach
- Range of views and experience
- Roots in community can enhance legitimacy
- Potential for continuity, may be less susceptible to external pressure
- Government representative (if any) often has voice but no vote
- Several models:
 - Consensus-oriented
 - Council - voting summarises meeting outcome
 - Competition among expert ideas

Governor

- Governor has formal responsibility but delegates powers (eg Canada); or
- Authority focused in the Governor (eg New Zealand)
- May help central bank to speak with one voice
- Accountability straightforward
- Monetary policy could become personalised



Limited government involvement, transparent override mechanism

- Limited forms of government involvement can
 - facilitate information flows
 - be in line with a country's model and conception of government
- Government veto or similar override mechanism in some countries (e.g. Australia, Canada, United Kingdom, India)
 - often subject to significant restrictions in law or custom



Control by central bank of balance sheet

- Level of central bank capital calibrated to risk exposure and funding model.
- Central banks typically do not choose exchange rate regime. But within confines of chosen regime, central bank must either control foreign exchange reserves or be able to sterilise interventions of other reserve holders.
- Constraints on or prohibition of lending to government - majority of central banks are shielded in some form.
- Compelling central bank to provide solvency support or to finance bank restructuring can compromise autonomy.



Control over own expenditures

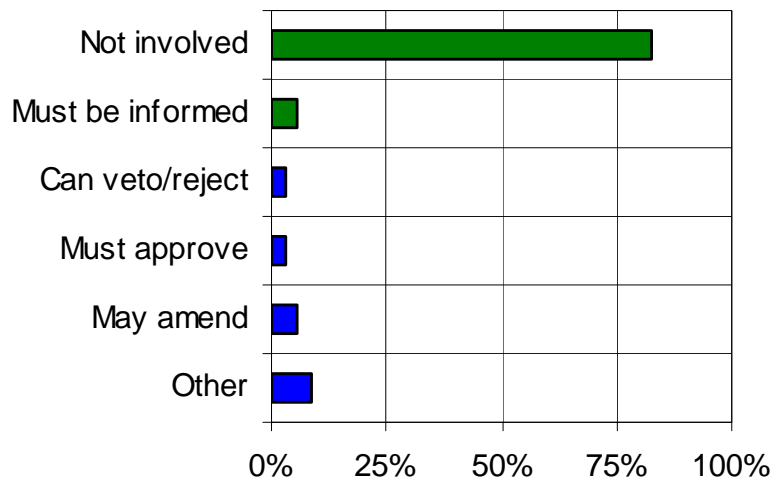
- Creating and maintaining a corps of professional central bankers is crucial
- Discretion over own expenditures avoids control via the purse strings
- Large majority of central banks is free to determine staff numbers and salaries as they see fit
- Often a prominent aspect of accountability



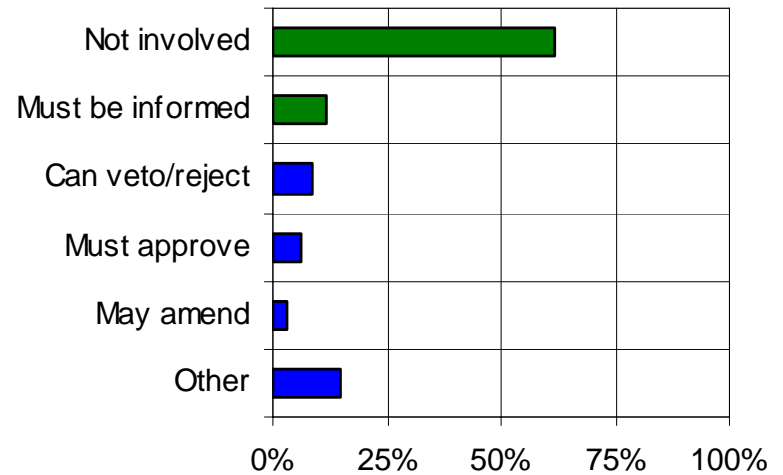
Example: Approval of central bank staff salaries

(Percent of central banks in a survey conducted in 2005)

Role of Parliament/Legislature



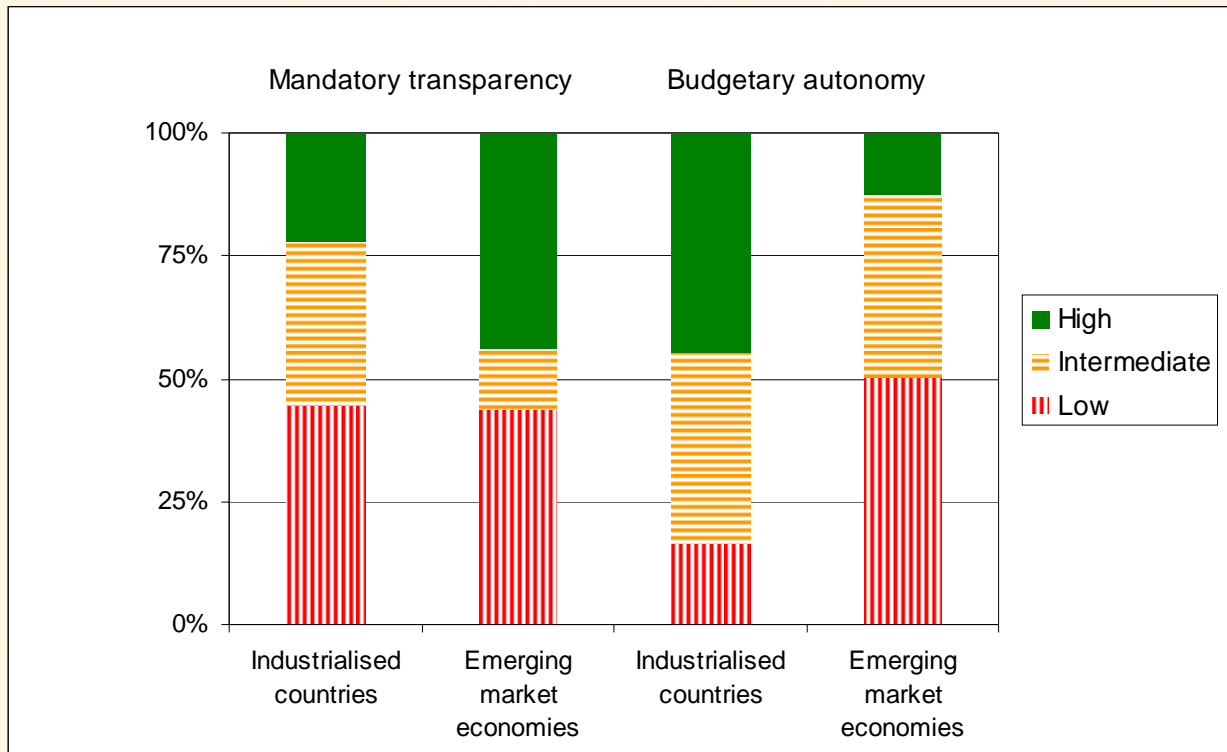
Role of Minister of Finance





Mandatory transparency and budgetary autonomy of central banks

(Qualitative findings from a survey conducted in 2005)





Public standing

- Central bank attains stated objectives over a considerable period of time
- Arguments and actions follow a steady course
- Central bank sets out and explains its analysis and views
- Central bank demonstrates good stewardship of resources
- Personal integrity



Relationship between central bank & government

Central bank function	Relationship with government	Interaction with government
Monetary policy	Autonomy	(i) CB establishes policy reaction function (ii) Accountability processes
Agency services to government	Agency	Direct interaction or service agreements
Other functions	Variety of arrangements	



General aspects of the relationship between central bank and government

- Range of functions of central banks differs widely across countries
- Meaning of individual functions (eg acting as fiscal agent) differs widely, too
- Interaction of senior central bank and government officials
- Communications

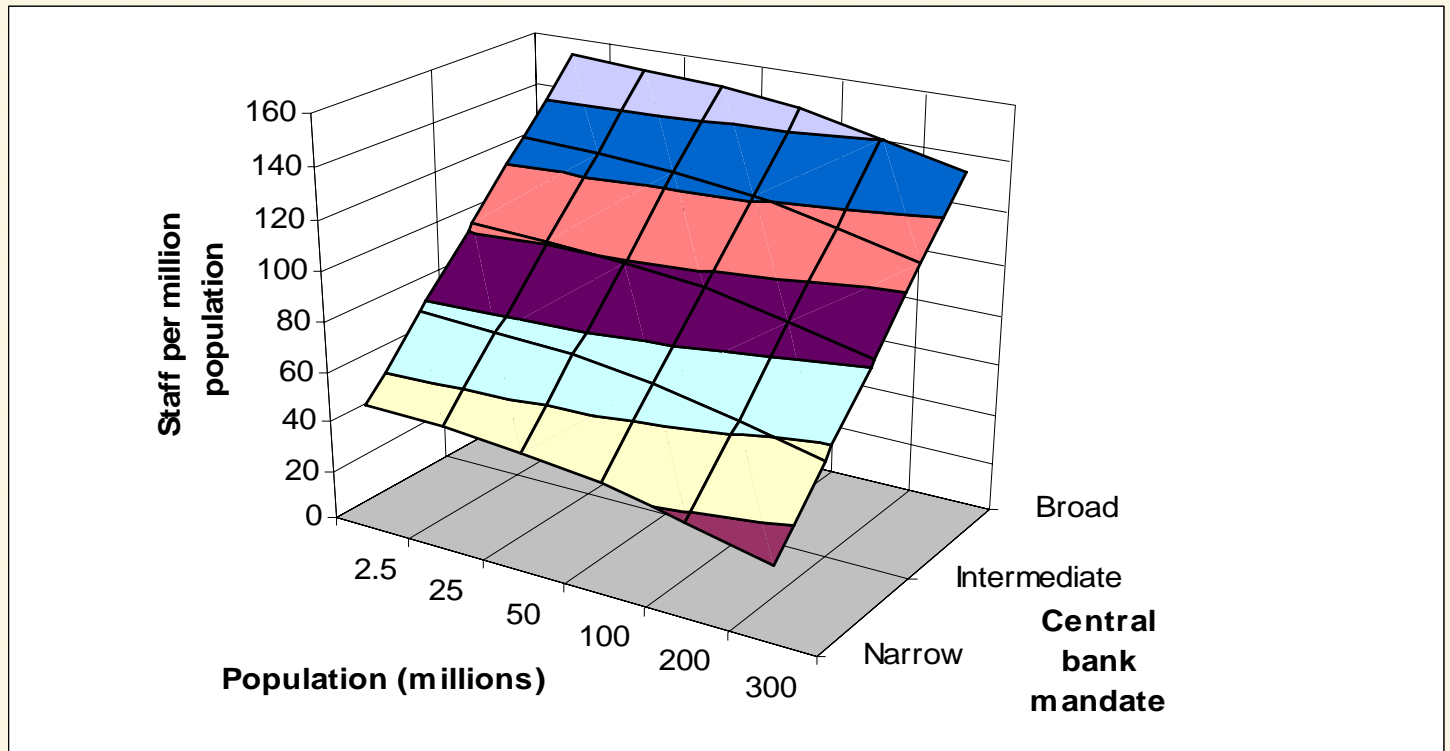


Central bank mandates vary widely

	AR	AU	BR	BG	CA	CN	E/S	ECB	FR	DE	HK	HU	IN	IL	JP	MY	MX	NZ	NO	PL	RU	SG	ZA	SE	CH	TC	GB	US
Formulation and implementation of monetary policy (CB-currency board, EM-participant in the Euro area)	CB	●	●	CB	●	●	●	-			CB	●	●	●	●	●	●	●	●	●	● ¹	●	●	●	●	●	●	●
Exchange rate policy (within the exchange-rate regime that is in place)	●	● ²	● ³	●	● ³	● ⁴	●				● ⁵	● ⁶	● ⁷	● ⁸	○ ⁹	●	● ¹⁰	● ¹¹	●	● ¹²	● ¹³	● ¹⁴	● ¹⁵	●	●	●	● ¹⁶	● ¹⁷
Reserves management	●	●	●	●	● ¹⁸	-	●		○	○	●	●	●	●	●	●	● ²⁰	● ²¹	●	●	●	●	● ²²	●	●	●	○	○
Bank notes (printing and circulation)	○	●	○	●	○	●	●		○	○	○ ²³	● ²⁴	● ²⁵	○	○	○ ²⁷	●	○	●	○	○	○	-	●	● ²⁸	○	●	○
Coins (minting and circulation)	○	-	○	●	-	●	○		○	○	○	● ²⁷	○	○	○	● ²⁸	○	○	●	○	○	-	●	● ²⁹	○	●	-	○
Banking services to banks	●	●	●	●	●	●	●		●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●	●
Fiscal agency services	-	●	○	○	○	●	●		●	●	-	●	●	●	●	●	●	○	-	●	○	●	○	○	●	●	●	●
Management of government debt/assets	○ ³⁰	-	○ ³¹	●	○	○			●	●	● ³²	● ³³	● ³⁴	●	● ³⁵	●	●	○ ³⁶	● ³⁷	○ ³⁸	○ ³⁹	● ⁴⁰	○	-	○ ⁴¹	●	-	○ ⁴²
Advisory services for government	○			●		-	● ⁴²			●	●	○ ⁴⁴	○ ⁴⁵	●	-	●	●		●	-					●		-	
Explicit mandate for financial stability		●		●	-		○ ⁴⁶				●			-	○		●		○	47				●		●	●	
Banking supervision	● ⁴⁸	-	●	●	-	● ⁴⁹	○		● ⁵⁰	○ ⁵¹	●	-	●	●	○ ⁵²	●	○	●	-	● ⁵³	●	●	●	-	-	○ ⁵⁴	-	●
Supervision of non-bank financial institutions	● ⁵⁵	-	●	○ ⁵⁶	-	● ⁵⁷	○ ⁵⁸		○	○	○	-	●	-	○	●	-		-	-		●		-	-	○ ⁵⁹	-	○ ⁶⁰
Oversight/regulation of payment and securities settlement systems	●	●	●	●	○	●	●	○			○	●	●	●	●	●	●	●	○	●	●	●	●	○	○	○	○	●
Operation of payment systems	○	○	○	○	○	●	○	○	○	●	○	●	●	○	○	●	○	●	●	○	○	○	○	○	○	○	○	○
Operation of securities settlement systems	○	○	●	●	○	○ [?]	○ [?]	○ [?]	○ [?]	○ [?]	○	○	○	○	○	○	○	○	○	○	○	○ [?]	○	○ [?]	○	○	○	○
Exchange controls	-	-	○		-	●		-	-	-	-	● ⁶¹	●	● ⁶²	-	●	-		-	●	○ ⁶³		●	-	-		-	
Consumer protection (financial sector)					-			-	○					○ ⁶⁴						○							○	
Financial and economic statistics ⁶⁵	○	○	●	○	○	●	● ⁶⁶		●	●	○	●	○	○	●	●	●	●	●	●	●	●	○ [?]	●	●	●	○	○
Summary: Range of activities (B-broad; I-intermediate; N-narrow)	I	N	B	B	N	B			B	I	I	I	B	B	I	B	I	I	N	B	I	I	B	N	N	I	N	I



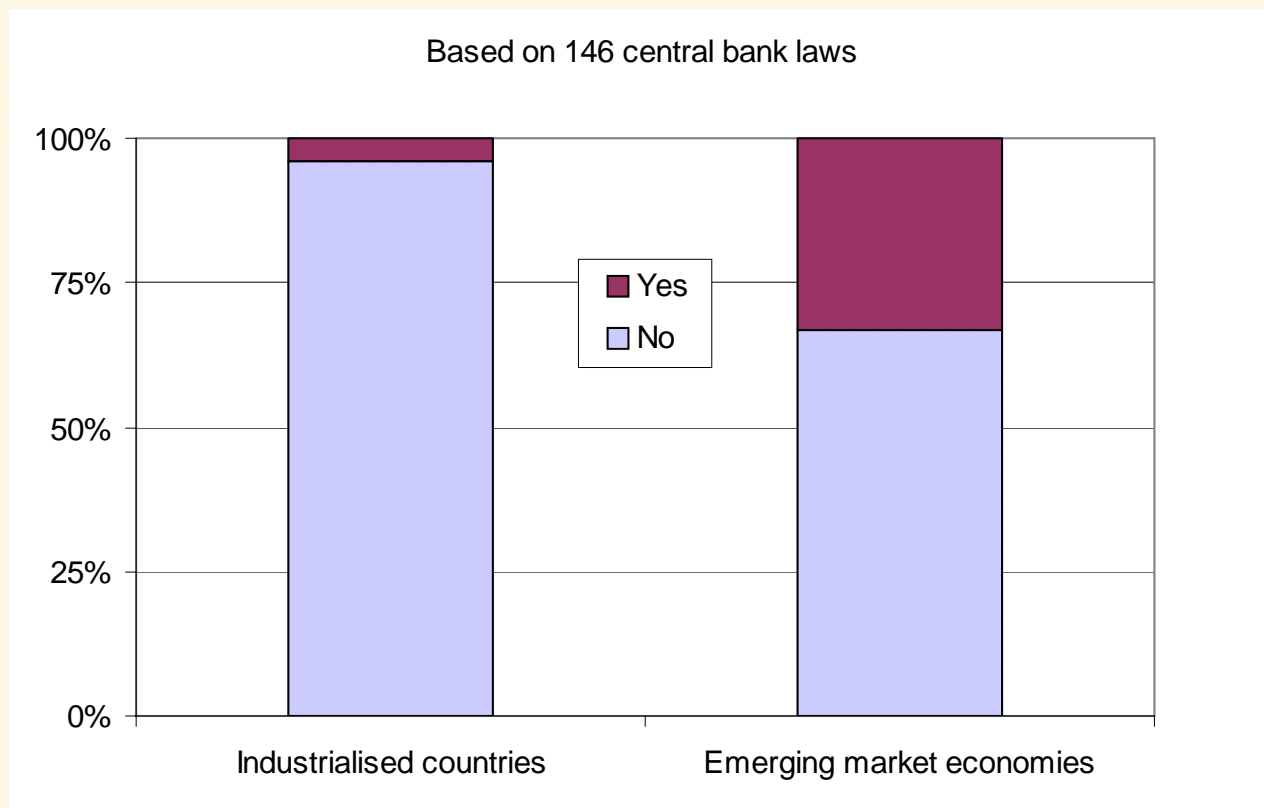
... and so do staff numbers





Considerable room to make relationship work

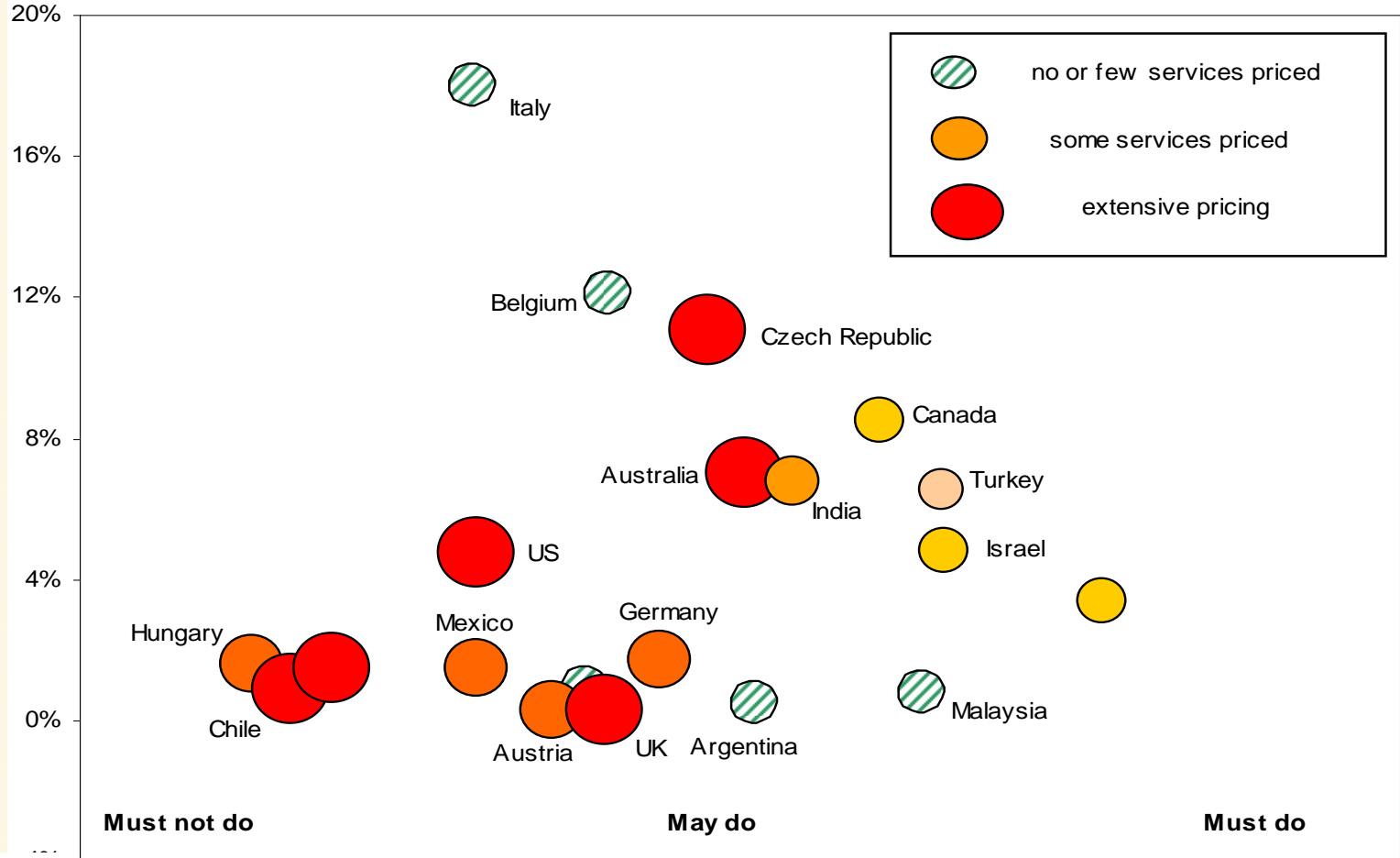
Relationship between central bank and government covered explicitly in a dedicated section of the central bank law





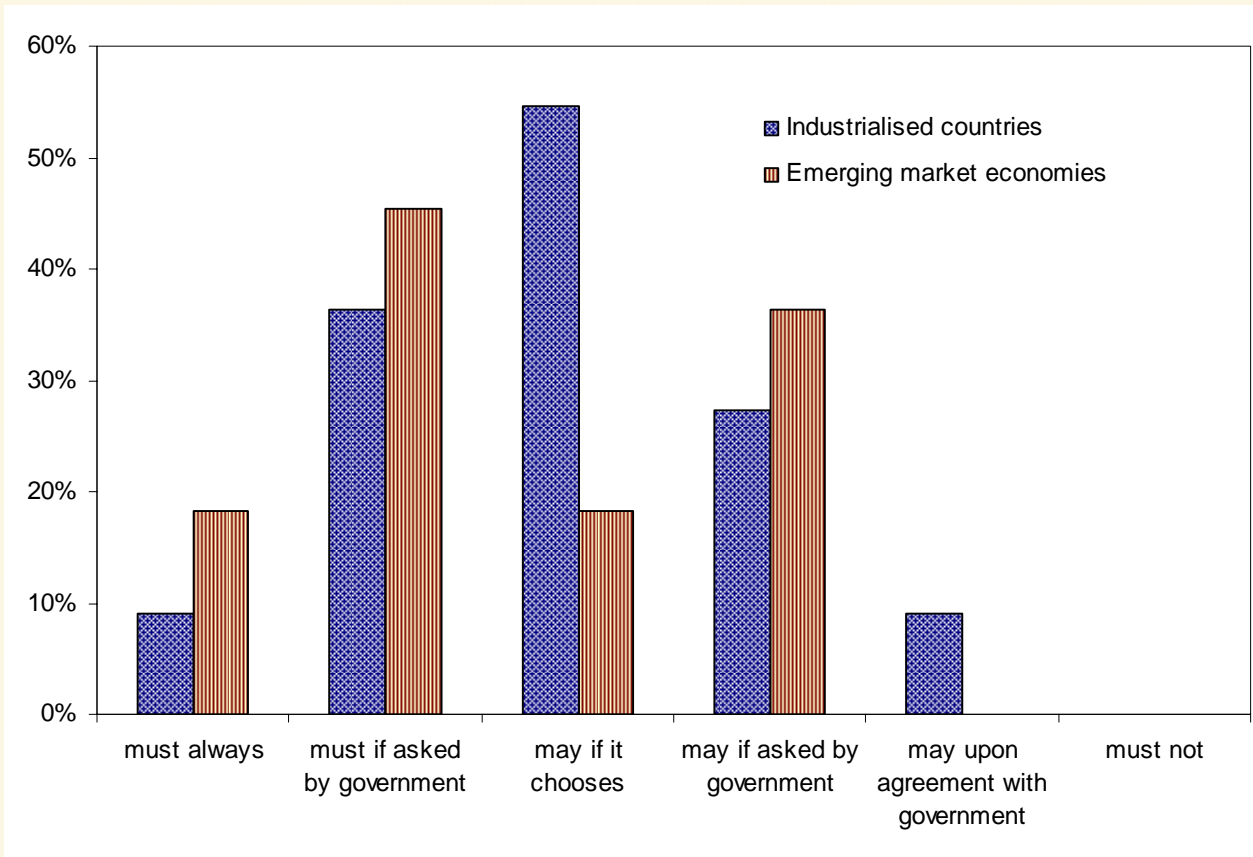
Central bank services to government

% of staff providing services to government





Central bank advice to government on economic policy



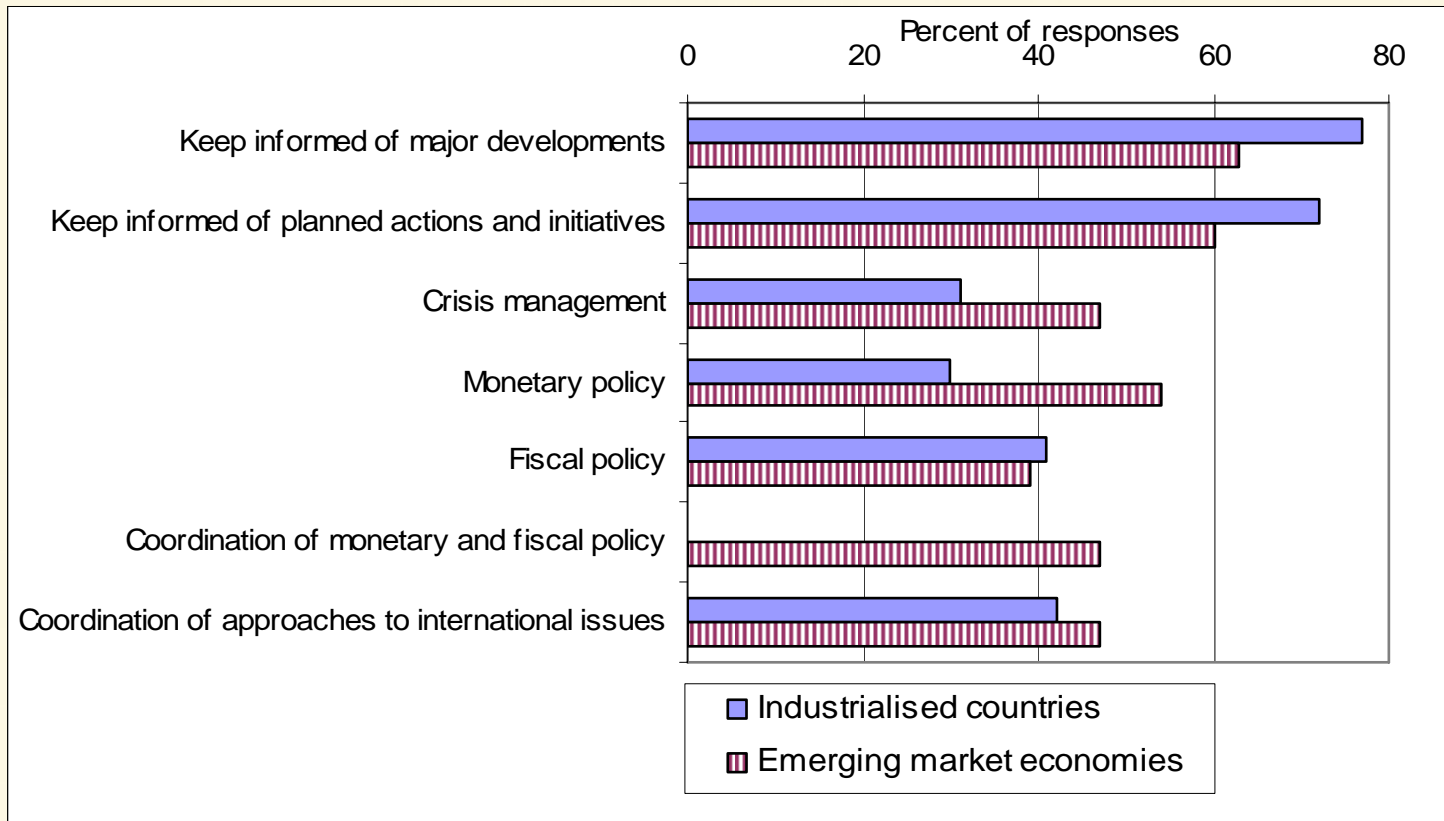


Meetings of senior central bank and government officials

Type of meeting	Percent of central banks having this type of meeting		Average number of meetings per year	
	IC	EME	IC	EME
Governor and Minister of Finance	73	31	8	9
Governor and other high level government officials	91	62	5	21
Deputy Governor and high level government officials	27	15	9	32
Senior officials and department heads	36	15	7	12
Government representative on central bank's board	18	62	17	17
Governor at (economic) cabinet meeting	9	54	10	29
Financial stability or supervisory committee	18	38	9	14
Other	36	23	4	3
Number of meeting types and total number meetings	Percentage of respondents using ...		Total average number of meetings per year	
Single type of meeting used	-	-	23	47
Two meeting types used	9	31		
Three meeting types used	36	31		
Four meeting types used	55	38		



Purpose of high-level meetings between the central bank and the government





Communications policies

<i>Frequency of cases</i>		Central bank talks about government:		
		Rarely	At times	Often
Government talks about central bank:	Rarely	L	M	M (tradition)
	At times	M	H	M
Government talks about central bank:	Often	-	L	L (conflict)



Differences between corporate and central bank governance

Corporate governance

- Profit motive plays key role
- Empower shareholders to dismiss management
- Staggered terms not seen as desirable
- No inherent limitation on instruments and objectives
- Identifying strategic objectives is key challenge for management

Central bank governance

- Profit motive must not play key role
- Limit power of shareholders to dismiss management
- Staggered terms seen as desirable
- One instrument – one objective
- Concrete objective of price stability is clear and immutable

- But much common ground as well



For more information

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- Get further information: call the BIS at +41-61 280 8935 or send an email to cbgovernance@bis.org