Issues in the Governance of Central Banks

A report from the
Central Bank Governance Group
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Project Origins and Contributors

Origins
This project and report were initiated by the Central Bank Governance Group. The report draws heavily on an extensive body of survey data and other information contributed by central banks and monetary authorities belonging to the Central Bank Governance Network (currently 47 members – see the Annex for a list).

Under the guidance of the Governance Group and an advisory panel, the report was prepared by the Secretariat of the Central Bank Governance Forum (which comprises the Group and the Network) together with consultants engaged by the Bank for International Settlements.

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26 countries in the sample that have a legal system rooted in civil law, about one half have provisions relating to the central bank in their constitutions. None of the countries with a common law tradition have constitutional provisions relating to the central bank.

Despite the importance of written codes in countries ruled by civil law, not all such countries have codified every attribute of the central bank into law. Brazil is a good example of this point: although the Central Bank of Brazil is given powers in the Brazilian constitution, it does not possess legal autonomy from the Government. However, the Presidential Decree that established inflation targeting in 1999 gave the central bank wide de facto autonomy.

In some cases, a constitution may limit the degree of legal autonomy that the central bank can possess, with respect to the discharge of certain functions. This possibility had to be considered when the Bank of Japan law was amended in 1997. The Constitution of Japan (Article 65) reserves sovereign executive power to the Cabinet, with the question being the extent to which decision-making on monetary policy was covered by that provision.\(^{57}\)

Several central banks have legal responsibility for policy in more than one country; national authority is ceded to them for this purpose. While the multistate ESCB/ECB system is the most recently created and perhaps best-known example, three other multistate central banks have been in existence for much longer. The Central Bank of West African States and the Bank of Central African States have existed since 1959 and are responsible for the two monetary unions in Africa that are known collectively as the CFA franc zone.\(^{56}\) A monetary union among countries in the eastern Caribbean was founded in 1950 and is operated by the East Caribbean Central Bank.\(^{59}\) Monetary unions are currently being considered by countries in southern Africa, western Africa and the Middle East.\(^{60}\)

A multistate central bank may possess some, but not necessarily all, of a central bank’s powers. Some powers, such as the responsibility for banking supervision, may be retained domestically by the constituent national central banks – which is the case in the Eurosystem, where the authority for monetary policy is held by the Eurosystem as a whole, including the supranational ECB. (In contrast, the central bank of the East Caribbean Currency Union regulates banks on behalf of and in collaboration with the governments of member states.) Thus, the laws that govern the central bank may be

to the government, and laying out procedures for the appointment or dismissal of officials. See Table 4 and the associated discussion for further details.

\(^{57}\) For further discussion, see Oritani (forthcoming).

\(^{58}\) The CFA franc zone was established in 1945. The West African Economic and Monetary Union (WAEMU) currently unites eight countries in western Africa (Benin, Burkina Faso, Côte d’Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo), while the Central African Economic and Monetary Community currently unites six countries in central Africa (Cameroon, Central African Republic, Chad, Republic of Congo, Gabon and Equatorial Guinea). Each union (and its respective central bank) operates separately but identically.

\(^{59}\) The East Caribbean Currency Union currently consists of Antigua and Barbuda; Dominica; Grenada; St. Kitts and Nevis; St. Lucia; St. Vincent and The Grenadines; and two British territories (Anguilla and Montserrat).

\(^{60}\) The Southern African Development Community (SADC) consists of Angola, Botswana, Democratic Republic of Congo, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Zambia, and Zimbabwe. The Economic Community of West African States (ECOWAS) combines the WAEMU countries with Cape Verde, The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone; the Gulf Cooperation Council (GCC) comprises Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and the United Arab Emirates.


Reserve Bank of New Zealand (2007a): Memorandum to Minister of Finance, and Balance Sheet Review Qs and As, 19 June.
