CENTRAL BANK OF MONTENEGRO

RESEARCH AND STATISTICS DEPARTMENT

Working paper 5

CENTRAL BANK INDEPENDENCE
- COUNTRIES OF THE WESTERN BALKANS -

Milica Vlahović, Chief of Monetary Research and Statistics Division
Svetlana Cerović, Chief of Fiscal Analysis Division

Podgorica, 2005

"Inflation is always and everywhere a monetary phenomenon." (Milton Friedman)
But…
… ***"Money is always and everywhere a fiscal phenomenon."*** (T.J. Sargent – N. Wallace)

ABSTRACT

The growing interest in central bank independence in European countries in the last few years has been due to the fact that this is one of the conditions for joining the single currency zone. In addition, economic theory confirms the connection between central bank independence and inflation, so it is not a coincidence that in the last ten years, many countries (not only European) have conducted fundamental reforms with regard to central bank regulations in order to protect their position in relation to their governments.

This paper analyses the independence of the central banks in the countries of the Western Balkans (Albania, Bosnia and Herzegovina, Bulgaria, Montenegro[1], Croatia, FYR Macedonia, Romania, and Serbia) through their legal compliance with the principles of the Maastricht Treaty (hereinafter: the Treaty), and the Statute of the European Central Bank (hereinafter: the Statute). Special emphasis is put on the independence of the Central Bank of Montenegro (hereinafter: the CBM). Finally, the paper makes concrete recommendations for bolstering the legal independence of the CBM in accordance with requests by the European Central Bank (hereinafter: the ECB). The conclusion is that, besides providing a high level of independence, the Law on the CBM needs to be revised.

Key words: central bank, independence, monetary policy, inflation

JEL classification: E52, E58, E31, K19

This Working Paper expresses the views of the authors only and does not necessarily represent those of the Central Bank of Montenegro or its policy.

[1] *The paper gives separate views of Serbia and Montenegro due to the different monetary systems, and two independent central banks whose operations are regulated by different laws.*

CONTENTS

LIST OF ABBREVIATIONS

BiH	Bosnia and Herzegovina
CB	Central bank
CBI	Central bank independence
CBM	Central Bank of Montenegro
EC	European Community
ECB	European Central Bank
ECOFIN	Council for Economic and Financial Affairs of the EU
EMI	European Monetary Institute
EMU	European Monetary Union
ESCB	European System of Central Banks
EU	European Union
GDP	Gross domestic product
HNB	Croatian National Bank
NBM	National Bank of Macedonia
NBR	National Bank of Romania
NBS	National Bank of Serbia
NCB	National Central Bank
USA	United States of America

1. INTRODUCTION

Starting from the conclusion of Milton Friedman that "inflation is always and everywhere a monetary phenomenon", most schools of economics confirm the role of monetary policy in creating and restraining inflation.

With a view to achieving its goal (of restraining inflation) it is necessary for a central bank to be as little connected to the government as possible because "governments are often controlled by political business cycles which are trying to boost economic activity (growth) through measures of economic and monetary policies immediately before elections in order for some politicians to be re-elected."[2]

How quickly and efficiently a central bank is ale to react to inflation depends on its organisational structure, and the level of legal and actual independence from state and legal authorities.

This paper is comprised of three parts. The first part gives the theoretical assumptions behind central bank independence. The second provides a comparative analysis of the legal independence of the central banks of Western Balkan countries, and the third gives special attention to the legal independence of the Central Bank of Montenegro – the assessment of its independence and recommendations for its improvement.

2. CENTRAL BANK INDEPENDENCE

2.1. Concept, division, measuring

Central bank independence implies the existence of a great freedom in decision-making in conducting monetary policy. Increasing CBI is primarily aimed at its protection from short-term and often the short-sighted political pressures associated with election cycles.

Central bank independence has two ***dimensions***: goal independence and the independence of instruments. **Goal independence** represents the liberty of a central bank to define the objectives

[2] *Babić, A. :"Ciljevi i vjerodostojnost monetarne politike, neovisnost i odgovornost centralne banke", www.ijf.hr/institucionalizam/babic*

of its monetary policy (price stability, unemployment rate, GDP, and the like). **The independence of instruments** means that a central bank can freely choose suitable policies – instruments to achieve desired effects on the economy. It is possible for a central bank to have some independence of instruments without goal independence, or vice versa (which is rarer). For example, a country that introduced inflation targeting has the independence of instruments, but this does not imply goal independence because targeted inflation is usually imposed by the government (the example of Great Britain).

There are four aspects of central bank independence:

- ***Functional***: freedom in selecting the monetary policy goal,
- ***Institutional***: freedom in selecting monetary policy instruments – definition and implementation,
- ***Personal***: the role, status, and composition of the highest CB body,
- ***Financial***: fiscal independence and the prohibition of monetary financing.

Also, CBI can be legal (prescribed by law) and actual (transparent from a central bank`s operations).

CBI is the subject of numerous research and debates. The usual arguments for central bank ***independence*** are:

- **Inflationary feature of monetary policy**: allowing political pressures on a central bank contributes to the inflationary feature to monetary policy. To wit, the main objective of politicians is to be re-elected, which means that public policies and public goods will be used as the means for achieving this goal. However, politicians cannot or will not focus on long-term objectives, such as price stability. In political business cycles, in a pre-election period, expansive policies are led with the result being lower interest rates and unemployment rate, and soon after the elections the adverse effects of such policies are felt (high inflation and high interest rates), and politicians hope that they will be forgotten by the following elections.
- **Financing fiscal deficit**: allowing a central bank to be under the control of the state president (government, i.e. the Ministry of Finance) represents a danger because the central bank can be used for financing the budgetary deficit, which leads to an increase in inflation.
- Politicians` lack of experience in conducting monetary policy: the control of monetary policy is too important to be handed over to politicians who usually lack experience in making important decisions for the entire economy.
- **”The power to spend money should in some way be separated from the power to create money”**[3]**,**

The authors of this paper support the arguments for an independent central bank, without neglecting the opinion of economists who are against overall central bank independence.

[3] *Mboweni T.: ”Central Bank Independence”, BIS Review 88/2000*

The arguments used against ***central bank independence:***

- **Non-democratic nature:** In a democracy, citizens entrust politicians with power which they then transfer to a specialized institution (central bank). In other words, delegating the right to enact decisions on monetary policy to an independent central bank means the transfer of authority from the elected government to another institution. In the case of an already independent central bank, the power to make decisions is taken away from the democratically elected representatives of the people and assigned to an institution that enacts monetary decisions that are not necessarily in accordance with the government`s will. Even Milton Friedman asked whether it was "really tolerable in a democracy to have so much power concentrated in a body free from any kind of direct, effective political control?"
- **A government is responsible for the economic situation in a country:** The public holds the President and the Government responsible for the economic welfare of a country, although they do not control the government agency (central bank) that may be the most important factor in determining the health of the economy.
- **Monetary and fiscal policies must be under the control of one institution**: With a view to promoting economic stability, monetary and fiscal policies have to be interconnected. However, in order for the coordination between these two policies to be successful, monetary policy has to be put under the control of politicians who also control fiscal policy.

Independence indices serve as ***indicators of central bank independence***, which are then used for measuring the relation between CBI and inflation, economic growth and other macroeconomic variables. The CBI measurement criteria are: the mandate duration of the central bank governor and its dependence on a change of government; the number of outside representatives on the highest body of the central bank; what happens in case of any disagreements between a central bank and a government; the central bank budget (who defines it); which instruments are at a central bank`s disposal; the central bank`s reporting method (who prepares it and how), its responsibility, degree of cooperation with a government, and so on.

Numerous papers have discussed the measuring of central bank independence. However, the independence index Cukierman, Webb and Neyapti (CWN) is used as the most comprehensive measurement of CBI.

Cukierman, Webb and Neyapti (CWN)[4] distinguish three indices of central bank independence:

- the index of legal CBI, whereby they conclude that legal independence measurement represents an important determinant of low inflation in developed countries, but not in developing countries (Annex C),
- the index of turnover rate of central bank governors, whereby they conclude that this rate is closely connected to low inflation in developing countries, and
- the index compiled on the basis of answers given to a previously defined survey (Annex A).

[4] *Jakšić, M.: "Makroekonomija", Čigoja štampa, Beograd, 2001*

In order to avoid an unfavourable estimate of CBI obtained only on the basis of the index of legal CBI, CWN monitor the turnover rate of central bank governors. To wit, it is possible (this was the case in Argentina) that the law prescribed a 4-year mandate for a Governor, but a change of governors actually happened every year because governors were relieved of their duties along with every new government or the Minister of Finance. However, the interpretation of this measurement of independence is also disputable, as: frequent change of governors points to a lesser central bank independence because it means that a government replaces the governor that does not meet its demands, or it finds someone who can achieve its goals better. In addition, a shorter mandate can harm central banks by preventing the existence of long-term policy, and making them less interested in achieving a good reputation. However, it has not proved to be always true that a lower turnover rate of CB governors implies greater CBI because if a government ”finds” a governor that meets all its demands, it will want to keep this governor in place for as long as possible, which again points to central bank dependence. CWN make a clear difference between developed and developing countries: developing countries have a much higher average turnover rate of central bank governors.

Grilli-Masciandaro-Tabellini (GMT) index consist of two sub-indices: political CBI and economic CBI. The concept of political independence comprises nine items with regard to the appointment procedure of members of the highest central bank body, the connection between this body and the government, and the formal responsibilities of a central bank. Economic CBI includes seven items relating to budget financing by a central bank, and types of monetary instruments. The total CBI index GMT represents a non-weighted index of political and economic independence.

The criteria of CBI by P. Thorarinn are presented in Annex B.

2.2. The impact of central bank independence on a country’s macroeconomic performance

”Stability is not everything, but without stability, everything is nothing. ” (Karl Schiller)

As it has already been said, the main trends present in central banking in the last few years has been an increase in central bank independence, and specifying price stability as the main long-term goal of monetary policy. At the same time, the price stability is defined as maintaining annual inflation at a level between 0.5% and 2%, in the medium-term of 2 to 5 years.

For a central bank to achieve its goal, it is necessary to enable its independent operation, which primarily refers to the central bank independence in decision-making from authorities (primarily from the Ministry of Finance) due to the fact that fiscal expansion financed by a central bank incites a high inflation rate.

Box 1: Benefits from Price Stability [5]

The aim of price stability refers to the general level of prices in the corporate sector, and implies the avoidance of deferred inflation and deflation. There are numerous ways for price stability to contribute to achieving a high level of economic performance and employment.

1. Price stability facilitates the recognition of changes in relative prices. This enables companies and consumers to make investment and consumption-related decisions owing to being better informed which, on the other hand, enables the market to allocate resources more efficiently. By enabling the market to direct the resources there where they will be used best, price stability increases the production potential of the corporate sector.
2. If investors are convinced that prices will remain stable in the future, they will not ask for "any inflationary risk premium" as a compensation for the risk of keeping assets at nominal value for a longer term. By lowering the inflationary risk premium through a real interest rate, monetary policy can contribute to efficient allocation in the capital market, thus encouraging new investments. This improves economic welfare further on.
3. Credible sustainability of price stability also makes it easier for individuals and companies to reallocate their funds to a more productive use instead of using them to protect from inflation. To wit, in the conditions of high inflation, real assets (e.g. real estate) are hoarded because their value in such conditions is better preserved that any financial asset. However, the hoarding of real assets is not an efficient investment decision, and it hinders economic growth.
4. The tax system can completely change (distort) economic performance. In many cases, these changes are conditioned by inflation and deflation. Price stability eliminates real economic expenses generated when inflation aggravates the tax, and the social security, system.

The maintenance of price stability protects from large and unjustified redistribution of income found in both inflationary and deflationary conditions. The environment in which prices are stable helps the maintenance of social integrity and stability. Many cases in the twentieth century showed that high inflation and deflation rates lead to social and political instability.

Numerous papers on CBI have focused on the connection between CBI and inflation, whereby it has been confirmed that there is a strong negative connection between legal CBI and inflation in developed countries, and a very positive connection between the turnover rate of governors and inflation in developing countries. To wit, for developing countries, a much more important inflation indicator is the turnover rate of governors than legal CBI. The studies have also shown that a greater (legal) CBI is not associated with a lower rate of economic growth, i.e. this suggests that "central bank independence

[5] *Source: ECB (2004): "The monetary policy of the ECB"*

is in the nature of a ”free lunch”: increased central bank independence delivers lower inflation which, in the long run, is not at the expense of lower economic growth”[6]

Supporters of an independent central bank believe that macroeconomic performance can be improved by making a central bank independent, which has been confirmed by recent research: a comparative review of central banks by the degree of independence (from the least to the most independent) with the achieved inflation rate shows that inflation performance will be best in countries with the most independent central banks. However, this will not always be the rule for other economic indicators. Thus, it has been shown that countries with independent central banks will have high unemployment or higher output fluctuations than countries with less independent central banks.

3. CENTRAL BANK INDEPENDENCE IN COUNTRIES OF THE WESTERN BALKANS

Central bank independence represents an important condition on the road to joining the EMU. The principle of national central banks independence (hereinafter: NCB) is clearly specified in Article 107 of the Treaty and Article 14.2 of the Statute, whereby the former contains the prohibition of any attempt to influence the ECB, national central banks, and members of the highest bodies of national banks, and the latter ensures permanent membership. The EMI has prepared the list of CBI characteristics, distinguishing institutional, personal, and financial independence.

Taking into account the institutional independence, the rights of third parties (the government and the parliament) that are not in accordance with the Treaty and/or the Statute are: giving instructions to NCB; approving, cancelling or putting off NCB decisions; legal censoring of NCB decisions; taking part in the highest NCB bodies, with voting rights; and ex-ante consulting in making decisions by NCB.

From the aspect of personal independence, the Statutes of NCB should guarantee the minimum of a 5-year mandate of the NCB governors, that the governor cannot be relieved of duty for any reason other than those specified in Article 14.2 of the Statute, that other members of the highest NCB body participating in the functioning of the ESCB have the same insurance of permanent membership as the governors, that there is no conflict of interest between the obligations of the members of the highest NCB bodies in performing their function in NCB and other functions they may perform in the ESCB, and which may jeopardize personal independence.

The financial independence implies that NCB can freely use their funds. Statutory guidelines in this field may be accompanied with appropriate security clauses with a view to insuring the fulfilment of the ESCB duties.

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[6] *Fraser B.W.: ”Central bank Independence: What Does It Mean?”, Reserve Bank of Australia Bulletin, December 1994*

Further on we give the comparative analysis of CBI in countries of the Western Balkans prepared on the basis of positive legal solutions: the Law on the Bank of Albania (Law No. 8269, 23.12.1997 On the Bank of Albania), the Law on the Central Bank of Bosnia and Herzegovina ("Official Gazette of BiH", no. 1/97, 29/02, 13/03, 14/03), the Law on the Bulgarian National Bank, 10.06.1997, with amendments IV/98, XII/98, III/99, VI/99, XII/01, IV/02), the Law on the Central Bank of Montenegro ("Official Gazette of the Republic of Montenegro", no. 52/00, 53/00, 47/01), the Law on the Croatian National Bank ("Official Gazette of the Republic of Croatia", 5 April 2001), the Law on the National Bank the Republic of Macedonia, "Official Gazette of the Republic of Macedonia" no. 3/02, 51/03, 85/03, 40/04), the Law on National Bank of Romania (Law No. 312/28.06.2004 on the Statute of the National Bank of Romania), and the Law on National Bank of Serbia ("Official Gazette of the Republic of Serbia", no. 72/2003).

3.1. Defining the Aim of Monetary Policy – Functional Independence

In a broad sense, professional literature gives three approaches to defining the main aims of monetary policy. The first approach starts from the opinion that a central bank should have one goal – the maintenance of price stability. The second one sets out that a central bank should have interim goals (e.g. a foreign exchange rate pegged to a currency of a country with low inflation), or special goals (e.g. an increase in certain monetary aggregates), whereas the third approach is that a central bank should have numerous goals, one of which being price stability.

In literature dealing with central bank independence in the member countries of, and those who wish to join, the EU and the EMU, the general viewpoint is that independent central banks must have one, closely defined goal, focused on price stability. However, the existence of one main goal does not mean that the central bank should neglect other macroeconomic objectives. That is why most central bank laws also contain secondary goals, as a support to overall economic policy, which do not question the accomplishment of the main goal.

Pursuant to Article 105 of the Maastricht Treaty and Article 2 of the Statute, the European Monetary Institute (the forerunner of the ECB) has defined the concept of functional central bank independence stating that "the primary objective of the ESCB is to maintain price stability", and when defining secondary objectives, saying that "without prejudice to the objective of price stability, the ESCB shall support general economic policies." The main objective of all central banks members of the EMU is price stability, and the ECB reports stress that central banks of new member countries should harmonize their laws so as to make the maintenance of price stability the main objective of their monetary policies

Table 1
Legal monetary policy objectives of central banks in countries of the Western Balkans

Central bank	Main objective
Bank of Albania	”...to achieve and maintain price stability.” (Article 3.1.)
Central Bank of Bosnia and Herzegovina	”... be to achieve and maintain the stability of the domestic currency (Convertible Mark) by issuing it according to the rule known as a currency board. ” (Article 2.1.)
Bulgarian National Bank	”...maintenance of the stability of the national currency...” (Article 2.1.)
Central Bank of Montenegro	”...solely responsible for monetary policy, establishing and maintaining a sound banking system, and efficient payment system in the Republic.” (Article 1)
Croatian National Bank	”...to achieve and to maintain price stability.” (Article 3.1.) ”Without prejudice to its primary objective, the Croatian National Bank shall support the economic policy of the Republic of Croatia, thereby acting in accordance with the principles of an open market economy and free competition. ” (Article 3.2.)
National bank of the Republic of Macedonia	”...to maintain price stability.” (Article 3) ”...support the economic policy of the country and financial stability without jeopardizing the achievement of the main objective, and adhering to the principles of the market economy.” (Article 3)
National Bank of Romania	”...to ensure and maintain price stability.” (Article 2.1.) ”Without prejudice to its primary objective… the National Bank of Romania shall support the general economic policy of the State.” (Article 2.3)
National Bank of Serbia	”...achieving and maintaining price stability.” (Article 3) ”...in addition to its primary objective, the NBS shall also strive for maintaining financial stability.” (Article 3) ”Without prejudice to its primary objective, the NBS shall support the pursuance of economic policy by the Government of the Republic of Serbia, operating in accordance with the principles of a market economy.” (Article 3)

Source: Laws on the respective central banks

Article 109 of the Treaty requires that legislations of member countries of the EU should be in compliance with the Treaty and the Statute, i.e. that all incompliance have to be removed. This request does not mean that the harmonization of laws is necessary, but that country-specifics can still exist. The Statute allows the central banks to perform other functions not specified in the Statute to the extent that is not contrary to the objectives and tasks of the ESCB. To wit, the concept of discrepancies implies that the legislation of certain countries should be adjusted so as to eliminate any contradictions with the Treaty and the Statute, and to ensure appropriate integration of central banks with the ESCB.

In five of the eight countries of the Western Balkans, the maintenance of price stability is stated as the main objective of their central banks. Central banks of BiH and Bulgaria specify ”the maintenance of the stability of the national currency” as their main objective. Although the maintenance of the stability of the national currency is often equated with the maintenance of price stability, the stance of the ECB is that such a defined objective does not put the maintenance of price stability at the forefront. In their laws, the central banks of Croatia, Macedonia, Romania, and Serbia also emphasise that they will support the economic policy of their countries without prejudice to the main objective. Also, as shown in Table 1, the Law on the National Bank of Serbia specifies that "... in addition to its primary objective, the NBS shall also strive for maintaining financial stability", which, in some cases, may prejudice the accomplishment of the main objective – the achievement and the maintenance of price stability.

The conclusion is that, with regard to the main objective, the central banks of Croatia, Romania, and Macedonia adjusted their laws of the central bank to a large extent to the requirements of the Maastricht Treaty, and in other countries certain adjustments need to be made.

As shown in Table 1, the Law on the Central Bank of Montenegro does not define price stability as its main objective. However, taking into account the specificities of the monetary system in Montenegro (dollarised economy), and the fact that the CBM cannot use all the instruments of monetary policy, it cannot be expected the maintenance of price stability to be an objective of the CBM monetary policy, i.e. to be specified in the Law.

3.2. Definition and implementation of monetary policy – institutional independence

Institutional independence implies the autonomous defining of monetary policy instruments by NCB. The principle of institutional independence is stated in Article 108 of the Maastricht Treaty and Article 7 of the Statute. These two articles prohibit national central banks and members of the highest NCB bodies to seek and receive instructions from the institutions and the bodies of the Community, their governments and the authorities of a member country.

The following rights of third persons (e.g. a government or a parliament) are not compatible with the Treaty and the Statute, and therefore amendments to NCB legislation are required:

1. The rights of third persons to give instructions to NCB or their highest bodies,
2. The right to approve, suspend, cancel, or support decisions enacted by NCB,
3. The right to censor decisions on a legal basis. This restriction is not only with a view to achieving NC independence, but also to the better integration of NCB in the ESCB. The right of a governor to suspend the implementation of an ESCB, or the highest body of NCB, decision, and then submit it to a political entity for adoption/verification is the same as asking for instructions from political entities although the governor is not a third party, which is not compliant to Article 107 of the Treaty.
4. The right to take part in management boards of NCB with voting rights.
5. Ex ante consultations with regard to NCB decisions. The NCB obligation, highlighted in the Statute, to consult third parties before enacting decisions, actually accentuates the formal mechanism to influence final decisions, thus not being in compliance with the Treaty and the Statute.

However, the dialogue between NCB and third parties is compatible with ESCB legislation provided that:

- The dialogue does not result in an interference in the independence of members of the management boards of NCB,
- The special status of a governor as a member of the ECB Council is respected in full, and
- Requirements with regard to confidentiality resulting from the Statute are respected in full.

The conditions arising from NCB statutes with regard to the dismissal of members of the highest NCB bodies by third parties, for example a government, should contain appropriate provisos so that this right would not affect members of NCB bodies in decision-making regarding ESCB tasks. Therefore, the recommendation is to specify this in the NCB statutes in a separate article.

Table 2
Relationships of Western Balkan central banks with third parties - governments

Central bank	Definition of cooperation with the Government
Bank of Albania	”...shall be entirely independent from any other authority in the pursuit of its objectives and the performance of its tasks…, and no person shall seek improperly to influence any member of a decision making body of the Bank of Albania in the discharge of his duties towards the Bank of Albania or interfere in the activities of the Bank of Albania.” (Article 1.3.) ”...shall cooperate with the legislative and executive branches of the Republic of Albania in pursuing its objectives…” (Article 24.1.) -”...shall be consulted concerning any normative act… with consequences in financial, monetary, credit and foreign exchange policy.” (Article 24.2.) - Provide information and periodical analysis to the Government of the Republic of Albania and Ministries. (Articles 24.3/4/5) ”The Minister of Finance shall have the right to attend meetings of the Supervisory Council of the Bank of Albania, but shall not be entitled to vote.” (Article 49.9.)
Central Bank of Bosnia and Herzegovina	”..., the Central Bank shall be entirely independent from the Federation of Bosnia and Herzegovina, the Republika Srpska, any public agency and any other authority in the pursuit of its objective and the performance of its tasks…The independence of the Central Bank shall be respected and no person shall seek improperly to influence any member of a decision making body of the Central Bank in the discharge of his duties towards the Central Bank, or interfere in the activities of the Central Bank.” (Article 3) ”The Central Bank and the Ministry in charge of the budget of Bosnia and Herzegovina may consult, and it shall be the duty of the Central Bank to render advice to the Ministry in charge of the budget of Bosnia and Herzegovina, on all significant matters...” (Article 52.2) ”Each year, the competent authority of Bosnia and Herzegovina shall consult with the Central Bank on the plan for external public sector borrowing during the next following financial year...” (Article 53)
Bulgarian National Bank	”...the Bulgarian National Bank and the council of Ministers shall inform each other of their intentions and actions.” (Article 3) ”...shall be independent from any instructions from the Council of Ministers and from any other state body in carrying out its tasks and duties.” (Article 44)

The table continuous on the next page

Central Bank of Montenegro	"The Central Bank is an independent institutions of the Republic of Montenegro (hereinafter: the Republic) and it is solely responsible for monetary policy, establishing and maintaining a sound banking system, and efficient payment system in the Republic." (Article 1) "The Central Bank acts independently within the limits of its authorities determined by this law." (Article 2) "The Republic shall not guarantee for the Central Bank`s obligations nor shall the Central Bank guarantee for the Republic`s obligations." (Article 7), "...give recommendations to the Government in the field of economic policy." (Article 11.7)
Croatian National Bank	"... shall be independent in making decisions based on this Law and in their implementation shall neither seek nor take the instructions from the Republic of Croatia or the European Union or from any other body." (Article 2.10.) "The Croatian National Bank may co-operate with the Government of the republic of Croatia and other government bodies…" (Article 5.1.) "The Government of the Republic of Croatia shall submit to the Croatian National Bank all proposals and reports related to the objectives, operations, and tasks of the Croatian National Bank, including draft decisions and decrees of the Government of the Republic of Croatia, as well as draft laws prior to their submission to the Croatian Parliament, on which the Croatian National Bank may express its views. " (Article 5.2) "At least once in a semi-annual, the Ministry of finance shall consult with the Croatian National Bank on its plans for domestic and foreign borrowing of the Republic of Croatia…" (Article 34) "The Croatian National Bank may require from the Government of the Republic of Croatia to propose to the Croatian Parliament the enactment of legislation concerning the implementation of objectives and tasks of the Croatian National Bank, or otherwise relating to its field of activities…" (Article 35.1.)
National Bank of the Republic of Macedonia	"The National Bank is independent in performing the functions entrusted by this and other laws. When performing its functions, the National Bank and the members of the decision-making bodies shall neither require nor get instructions from the central government and the administrative bodies" (Article 4) "The Minister of Finance may participate in the National Bank Council sessions and discussions, without being entitled to vote." (Article 63)
National Bank of Romania	"...the National Bank of Romania and the members of its decision-making bodies shall not seek nor take instructions from public authorities or from any other institutions or authority." (Article 3.1) - The National Bank of Romania may give its opinion on draft legal acts issued by the central public authorities, concerning the tasks related to the National Bank of Romania. (Article 3.2) "The National Bank of Romania shall co-operate with the Ministry of Public Finance in setting the macroeconomic indicators based on which the annual draft budget shall be drawn up." (Article 3.3) "Public authorities and institutions shall provide the National Bank of Romania with the information they deem necessary or with the information required by the National Bank of Romania in order to perform effective supervision and to fulfil the primary objective and tasks of the central bank." (Article 3.17) "...The Minister of Public Finance and one of the State Secretaries in the Ministry of Public Finance may participate, without voting rights, in the meetings of the National Bank of Romania`s Board." (Article 33.10)
National Bank of Serbia	"The Republic of Serbia shall guarantee the obligations of the NBS." (Article1) "...shall be autonomous and independent in performance of the tasks laid down by this and other laws…" (Article 2) "...shall neither receive nor seek instructions from government institutions and other persons." (Article 2) "The NBS shall cooperate with the Government and other state institutions in performing its tasks and shall undertake measures within its scope of authority to promote that cooperation." (Article 10) "Minister of Finance shall participate in the meetings of the Monetary Board, without the right to vote." (Article 15) "The Governor shall attend the Government meetings where matters related to the pursuance of objectives and tasks of the NBS are discussed." (Article 72) - The NBS gives its opinion on draft laws and other regulations related to objectives and tasks of the NBS, and on the draft of the Budget, Economic and Fiscal Policy Memorandum, and similar. (Article72)

Source: Laws on the respective central banks

The laws for central banks of the selected countries presented in this paper emphasize their independence in performing their functions, but not all the methods of protection from third party influences, as specified in the Treaty and the Statute. The prohibition of influencing the central bank`s operations, as viewed by the EMI, refers to any possible source of influence: at state level (a government or a parliament); at EU level (various EU bodies), and to various forms of influence: giving instructions, approvals, suspensions, the legal censuring of decisions, the participation in management boards with the voting rights, and the like. Therefore, it is necessary for the respective laws on the central banks to be brought in line with the aforementioned requests, i.e. provide detailed explanation of institutional independence.

The Law for the Central Bank of Montenegro should be adjusted to the aforesaid requests of the Treaty. Regardless of emphasizing that the CBM does not guarantee the Republic`s obligations (and vice versa), it is not stressed that the CBM does not receive instructions from the Government and state bodies, and thus not highlighting the prohibited methods of influencing the CBM.

3.3. Personal Central Bank Independence

Personal central bank independence relates to the role, the status, and the composition of the highest CB body, i.e. the process of appointment, dismissal, mandate duration, and the possibility of re-electing its members.

The principle of personal independence is defined in Article 14.2 of the ECB Statute specifying that NCB statutes should define the minimum term for a governor of five years, and the situations in which the governor may be relieved of his/her duties: if the governor does not fulfil the job requirements or has been found guilty of serious offences. The circumstances for the dismissal of a governor are defined so as to protect the governor from being under the discretion of the authority included in his appointment (a government or a parliament).

Although most central banks each have one governor, very rarely is the governor the only person included in the process of enacting monetary decisions. This is usually a Board of Governors or another body whose members include, among others, a governor, a vice-governor, and other members such as the chief economist and a person in charge of market operations. There are examples where members of the highest CB body are eminent professors of economics (Australia and Great Britain).

The highest CB body usually comprises five to ten members, but there can be more, mostly in large countries or unions (the USA and the ECB). Personal independence can be jeopardized if the same rule for the governor`s position is not applied to other members of the highest central bank body.

Personal independence imposes the guarantee that there is no conflict of interest between the obligations of the members of the highest NCB bodies in performing their function in NCB and other functions they may perform in the ESCB.

Table 3
Personal central bank independence in Western Balkan countries - governors

Bank	Governor	
	Mandate term	Appointment
Bank of Albania	7 years, eligible for reappointment (Article 44.4)	By the President of the Republic of Albania on the Prime Minister`s proposal (Article 44.2)
Central Bank of Bosnia and Herzegovina	6 years, eligible for reappointment (Article 8.4)	By the IMF, after consultations with the Presidency of BiH during the first six months of CBBiH operations, and after that by the Presidency of BiH (Article 8.1 and 8.2)
Bulgarian National Bank	6 years (Article 12.4)	Parliament (Article 12.1)
Central Bank of Montenegro	6 years, eligible for one reappointment (Article 16)	Parliament, nominated by a working body of the Parliament competent for elections and appointments (Article 14)
Croatian National Bank	6 years (Article 40.6)	Parliament, on the proposal of the Elections, Appointment and Administrative Affairs Committee, taking into account the opinion of the Finances and State Budget Committee (Article 40.1)
National Bank of the Republic of Macedonia	7 years, eligible for one reappointment (Article 70)	Parliament, on the proposal of the President of the Republic of Macedonia (Article 70)
National Bank of Romania	5 years, eligible for reappointment (Article 33.4)	Parliament, on the recommendation of the competent standing committees of the two Chambers of Parliament (Article 33.3)
National Bank of Serbia	5 years, eligible for reappointment (Article 16)	National Assembly, nominated by the National Assembly`s Finance Committee (Article 16)

Source: Laws on the respective central banks

The laws on the aforementioned central banks contain provisions specifying personal independence: the shortest term of a governor is 5 years (Romania and Serbia), and, except in Croatia and Bulgaria where it is not strictly defined, there is a possibility of reappointing governors; a governor is appointed by the Parliament, on the proposal of a competent working body of the Parliament (Montenegro, Croatia, Romania, and Serbia), or a state president (Macedonia), or by a state president on the proposal of a Prime Minister (Albania). Bosnia and Herzegovina is a special case because the IMF appoints the central bank governor (in accordance with the Dayton Accord) for the first six years of the bank`s operations.

The Central Bank of Montenegro has no governor, but the highest body is the Council, i.e. the President of the Council whose appointment and term specified in the Law on the Central Bank of Montenegro are in accordance with the Statute and the Treaty. The Law prescribes the term of the members of the Council of six years (Article 16), eligible for one reappointment, which represents the fulfilment of the personal independence aspect with regard to the terms of the governor and other members of the highest CB body.

For other members of the highest decision-making body of the central bank there is a share of responsibility for the proposal and the appointment of its members (Albania, Bulgaria, Montenegro, Croatia, Macedonia).

Table 4
Personal central bank independence in Western Balkan countries – the highest CB body

Bank	The highest central bank body	
	Compositions and term	Appointment
Bank of Albania	Supervisory Council: governor, 2 deputy governors, and 6 other members (Article 44.1); 7 years, eligible for reappointment (Article 44.4)	People`s Assembly: 5 members on the People`s Assembly proposal, 3 members on the proposal of the Council of Ministers, and 1 member on the proposal of the Supervisory Council (Article 44.2)
Central Bank of Bosnia and Herzegovina	Governing Board: a governor and three vice-governors – members in the first six years of CBBiH operations, and after that, the Governing Board shall consist of a governor and 4 members (Articles 5, 8.1, and 8.2); 6 years, eligible for reappointment (Article 8.4)	Members of the Governing Board are appointed by the Presidency of BiH (Article 8.1)
Bulgarian National Bank	Governing Council: a governor and three Deputy Governors, and three other members (Article 11.1); 6 years (Article 12.4)	3 Deputy Governors are elected by the National Assembly, though a motion by the Governor (Article 12.2); other 3 members are appointed by the President of the republic of Bulgaria (Article 12.3)
Central Bank of Montenegro	CBM Council: President, General Manager and two Deputy General Managers, and three other members (Article 14).	The President of the Council, the General Manager, and his/her two deputies are appointed by the Parliament, on the proposal of the working body of the Parliament competent for appointments and elections; Three other members are appointed by the Parliament on the proposal of the Montenegrin Government (Article 14)
Croatian National Bank	Council of CNB: a governor, a Deputy Governor, Vice-governors (not more than 4), and not more than 8 external members (Articles 37, 38.1, and 40.2); 6 years (Article 40.6)	A Deputy Governor and the Vice-governors are appointed by the Parliament on the proposal of the CNB Governor (Article 40.3); the external members are appointed by the Parliament on the proposal of the Elections, Appointment and Administrative Affairs Committee, taking into account the opinion of the Finances and State Budget Committee (Article 40.4)
National Bank of the Republic of Macedonia	The NBM Council: a governor, 2 vice-governors, 6 members (Articles 56 and57); 7 years (Articles 60 and 72).	Vice-governors are appointed by the Parliament, eligible for one reappointment (Article 72); other members are appointed by the Parliament on the proposal of the President of Macedonia, not eligible for reappointment (Article 60).
National Bank of Romania	The NBR Board: a governor, a Senior Deputy Governor, 2 Deputy Governors, and 5 members outside the NBR (Article 33.2); 5 years, eligible for reappointment (Article 33.4)	Parliament, on the recommendation of the competent standing committees of the two Chambers of Parliament (Article 33.3)
National Bank of Serbia	The Monetary Board: a governor and 3 to 5 Vice Governors (Articles 12, 13 and 19); 5 years (Articles 16 and 19)	Vice Governors are appointed by the NBS on the proposal of a Governor, eligible for reappointment (Article 19)

Source: Laws on the respective central banks

As we have already said, pursuant to Article 14.2 of the Statute, a NCB governor may be relieved of duty if he/she no longer fulfils the preconditions for performing the office of a governor, or if found guilty of mismanagement. In the EMI`s opinion, the same requirements should also apply to other members of the highest NCB management body.

Table 5
Personal central bank independence in Western Balkan countries – relieving of duty members of the highest body

Bank	Removal from office
Bank of Albania	Non-fulfilment of all function requirements specified by the law[7], criminal conviction or charges; bankruptcy; personal misconduct (Article 47.1); absence from two or more successive meetings of the Supervisory Council of the Bank of Albania without good cause; inability to perform the functions because of infirmity of body or mind; serious misconduct in the office (Article 47.2)
Central Bank of Bosnia and Herzegovina	Violation of the currency board rule; Non-fulfilment of all function requirements; criminal offence; bankruptcy; personal misconduct (Article 11.1); infirmity of body or mind that has lasted for more than one year; absence from more than half of the meetings of the Governing Board held during the most recent period of twelve (Article 11.2)
Bulgarian National Bank	Practical inability to perform their function for more than six months; criminal offence; bankruptcy (Article 14.1.2-4); Non-fulfilment of all function requirements; absence from three or more sessions of the Governing Council; serious misconduct in office. (Article 14.2)
Central Bank of Montenegro	Non-fulfilment of all function requirements; a debtor in bankruptcy procedure; criminal offence; unprofessional and unconscientiously performing of his/her function; permanent loss of abilities to perform his/her function(Article 23)
Croatian National Bank	Non-fulfilment of all function requirements; criminal charges; serious misconduct in the office; permanent inability to perform to perform his/her duties owing to illness; failing to submit or submitting a false statement with regard to relevant data specified by the law. (Article 42.1)
National Bank of the Republic of Macedonia	Criminal offence/charges; long-lasting serious disease; loss of business abilities; Non-fulfilment of all function requirements; (Article 70).
National Bank of Romania	Non-fulfilment of all function requirements; if found guilty of serious misconduct (Article 33.6)
National Bank of Serbia	Criminal offence; unprofessional and unconscientiously performing of his/her function – serious misconduct; permanent inability to perform his/her duty owing to illness; failing to submit or submitting a false statement with regard to relevant data specified by the law; if they do not satisfy the requirements for appointment; (Article30)

Source: Law on the respective central banks

The laws on the aforementioned central banks specify numerous reasons for the dismissal of a governor or other members of the highest CB body. In addition to the two main reasons prescribed by the Statute and the Treaty, there are a criminal conviction or charges (Albania, BiH, Bulgaria, Montenegro, Croatia, Macedonia, and Serbia), and the absence from the meetings of the highest CB body (BiH, Bulgaria, Albania).

[7] *This implies the non-fulfillment of requirements specified by the law (e.g. in case of the Central Bank of Montenegro this means the non-fulfillment of provisions from Article 15 of the Law on the Central Bank of Montenegro).*

The provision of the Treaty with regard to the dismissal of members of the highest CB body is contained in the Law on the Central Bank of Montenegro (Article 23) specifying that a member of the Council shall be relieved of duty if ”.... he has been convicted to an unconditional prison term or convicted for an offence which makes him unworthy of the position of the Council member”, if ”he performs his function of the Council member unprofessionally or unconscientiously” or if ”he permanently loses his ability to perform the function of the Council member”.

Table 6
Personal central bank independence in Western Balkan countries – restrictions for members of the highest CB body

Bank	Restrictions for members of the highest CB body Activities that exclude the membership of the highest CB body
Bank of Albania	He/she cannot be the President of the Republic of Albania, a member of the People`s Assembly or the Council of Minister (Article 46)
Central Bank of Bosnia and Herzegovina	He/she may not be a member of the Presidency, the Parliamentary Assembly, the Constitutional Court of BiH, the Council of Minister of BiH, the Federation of BiH, or the Republika Srpska.(Article 10)
Bulgarian National Bank	The Governor and the Deputy Governors may not perform any other remunerative activity other than teaching, or be members of bodies in companies where the Bulgarian National Bank participates or in international organisations related to BNB activities. (Article 12.5) Other three members of the Governing Council cannot perform any other activity at the BNB, or work for banks or in the executive power. (Article 12.6)
Central Bank of Montenegro	He/she may not be an officer or an employee of a bank that operates in the Republic or own more than 5% of any bank (Article 15); He/she may not occupy any other office, or employment, duty or function, except upon special approval of the Council (Article 64a) He/she may not be guided by their political affiliations in the performance of their duties. (Article 65)
Croatian National Bank	He/she may not be a representative of the Croatian Parliament, or person performing a duty to which he/she has been appointed by the Parliament or the Government. He/she may not be a member of the Croatian Government, nor perform any function in the local government and self-government bodies, political parties, and trade unions. (Article 41.1) He/she may not own bank shares or shares and equity participation in other legal entities connected with banks and audit firms (Article 41.2) He/she may not be a member of bodies, an employee or an external associate of banks, audit firms or other legal entities associated with banks or in any way subject to the supervision by the Croatian National Bank (Article 41.3)
National Bank of the Republic of Macedonia	He/she may not be a member of the management bodies of a bank or a savings house; an official that manages a government body, public enterprise or local government; a member of trade union administrative bodies; a shareholder in a bank or a savings house. (Article 58)
National Bank of Romania	He/she may not be a member of the Parliament, any political party, and may not belong either to the judicial authority or the public administration. (Article 34)
National Bank of Serbia	He/she may not be a member of the National Assembly, the Government, an officer of a political organisation, a member of a local self-management, a trade union, managing or supervisory boards, an external associate of banks, other financial institutions and audit firms, or other legal entities the NBS supervises or cooperates with in the performance of its tasks. (Article 28.1) He/she may not hold equity or debt securities of banks, other financial institutions and audit firms, or other legal entities the NBS supervises or cooperates with in the performance of its tasks. (Article 28.2)

Source: Laws on the respective central banks

A law on the central bank should impose certain restrictions for members of the highest CB body in order to avoid potential conflicts of interest. Thus, in the observed countries, the laws on the central banks preclude their any connection with a Presidency, a Parliament, a Government, political parties, and persons associated with a central bank.

The Law on the Central Bank of Montenegro should set out clear restrictions for the members of the highest CBM body to avoid potential conflicting interests. The current law specifies that an officer or an employee of a bank that operates in the Republic or a person that owns more than 5% of shares of any bank may not be a member of the CBM Council (Article 15), shall not occupy any other office or employment, duty or a function except upon special approval of the Council (Article 64a), and may not be guided by their political affiliations in the performance of their duties (Article 65). However, although Article 64a may not perform other functions without the approval by the Council, it is crucial to specify that the Council members may not be members of the Parliament, Ministers, members of the Council of Ministers, local officials, and the like.

3.4. Financial Central Bank Independence

Although NCB have complete functional, institutional, and personal independence (guaranteed by NCB Statutes), their overall independence will be jeopardised if they are not able to create their own financial sources sufficient for the performing of their function. Pursuant to the ESCB Statute, member countries cannot allow their central banks to be without sufficient funds to perform their duties related to the ESCB. The concept of financial independence should be viewed as whether a third party may, directly or indirectly, influence not only NCB functions, but also their ability to create financial resources sufficient for performing their functions. Therefore, the following four aspects are important being the financial independence characteristics of external effects NCB are most sensitive to:

- **Budget definition**

  If a third party has the power to define or affect the NCB budget, it would be incompatible with financial independence unless the law contains provisos to protect the effects of such a power on the performing of the main NCB tasks in accordance with the ESCB tasks.

- **Accounting rules**

  Annual accounts should be adopted by the highest NCB bodies in cooperation with independent auditors and can be the subject to an additional approval by a third party (a shareholder or a government). The highest NCB bodies should independently and professionally decide on the bank`s profit. In cases when the functioning of NCB is controlled by a foreign auditing house or a similar body in charge of controlling public finances, the scope of control should be clearly defined by law and have no adverse effects on the activities of external independent auditors. Audits by a state body should be performed on a non-political, independent, and purely professional basis.

- **Distribution of profit and capital**

  A NCB Statute can prescribe the method of profit distribution. If there are no such decisions, the allocation of profit should be taken over by the highest NCB bodies on a professional basis and not be the subject of third party discretion, unless there is a definite proviso that the allocation shall not jeopardise financial funds necessary for performing NCB duties. NCB must be independent in making financial decisions in order to preserve the real value of their capital and funds.

- **Financial liabilities to supervision bodies**

  In some member countries the bank supervision function is a part of a NCB. When such authorities are the subject or independent decision of the NCB, then there is no problem. On the other hand, when legal decisions are enacted by a special body in charge of supervision, then it is important to ensure that such decisions do not jeopardise NCB finances as a whole. In such cases, state legislation should provide a NCB with the final authority over any decision that could affect NCB independence, especially financial independence.

Table 7
Financial central bank independence in Western Balkan countries

Central bank	Who is the owner and who manages/determines the central bank budget	Coverage of net loss
Bank of Albania	- the entire paid-up capital is state owned (Article 6.3.) - the budget is determined by the Supervisory Council (Article 43.n)	- the Minister of Finance by transferring interest-bearing negotiable government securities to the Bank of Albania (Article 7)
Central Bank of Bosnia and Herzegovina	- The budget is determined by the Governing Board (Article 7 j)	- charged to the general reserve or to capital (Article 28) - shortfalls in capital is covered by the Ministry responsible for the budget of Bosnia and Herzegovina (Article. 29.b)
Bulgarian National Bank	- The Governing Council approves the annual budget of the Bank (Article 16.13.)	- from the resources of the reserve fund and the Bank`s special reserve account (Article 9.2), and the rest by the MF (Article 9.1) - by issuing interest-bearing securities by the Council of Ministers (Article 9.1)
Central Bank of Montenegro	- the annual financial plan is adopted by the Council and furnished to the Government for information only (Article 56) - Annual financial statement, together with an independent external auditor's report and opinion is considered and adopted by the Council and delivered to the Parliament for information purposes (Article 59) - Upon the proposal of the President of the Council, the Council decided on the use of special reserve funds during the year (Article 57)	- from general reserves or at the expense of the founding capital, in that order (Article 54), - if this is not sufficient, the rest is covered by the Government (Article 53)

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Croatian National Bank	- the capital of the HNB is exclusively held by the Republic of Croatia (Article 50.2) - the Council of the HNB adopts the financial plan of the HNB (Article 38.3.b)	- from general reserves (Article 53.4) -the rest is covered by the government budget (Article 53.5) -may also be covered by debt securities issued for this purpose by the Republic of Croatia (Article 53.6)
National Bank of the Republic of Macedonia	- in the sole ownership of the state (Article 5) - The NBM Council adopts the annual financial plan (Article 64.4)	- from the general reserves; if there is shortage, the loss is covered by the state budget or by issuing government securities (Article 89)
National Bank of Romania	- Capital is fully state-owned (Article 38.1) - The annual budget is approved by the NBR Board (Article 41)	- from special revaluation account and the statutory reserves (Article 44)
National Bank of Serbia	- The NBS Council adopts the financial plan of the NBS (Article 24.1) - The Governor decides on the use of the special reserve funds (Article 78)	- from special reserves, and the rest by the state budget - may be covered by issuing securities by the Republic of Serbia and transferred to the NBS (Article 77)

Source: Laws on the respective central banks

All the observed countries emphasize in their laws on central banks that the budget of the central bank is managed by the highest CB body independent from any government institution.

The laws on the central banks of Albania, Croatia, Romania, and Macedonia specify that the founding capital of CB is the property of state. All of the laws prescribe the distribution of profit in a manner that a part of the profit is allocated to one or more reserve funds with a view to loan-loss provisioning. The rest of net income is transferred to the Ministry of Finance account. Only the Law on the National Bank of Romania prescribes that 80% of profit is directly transferred to the government budget, and the rest to the Bank`s reserve fund.

The financing of potential losses of the central banks is treated differently in the respective laws, and very critical remarks have been made in professional literature. To wit, the laws on the central banks of Bulgaria, Croatia, and Albania define that the excess of expenditure over revenues is covered by interest-bearing securities issued by a Republic, and the payment of the securities transfer is made from the surplus of revenues over expenditure that the Bank records in the forthcoming period. In Macedonia and Serbia, the covering of net losses of the central banks is made from reserves, and if those funds are not sufficient, the remaining amount is covered from the budget of the Republic, or by securities issued by the Republic for this purpose.

The Law on the Central Bank of Montenegro prescribes that the net loss the CBM covers from the general reserves or at the expense of the founding capital, in that order, and if this is insufficient, the Montenegrin Government allocates the necessary amount for deficit coverage from its available funds.

In the laws for the relevant central banks (except in Montenegro, BiH, and Romania), there is a possibility of financing losses through interest-bearing securities which governments transfer to central banks for this purpose. According to S. Dvorsky[8], this means that there is a possibility of direct financing of the state by the central bank, which is not in conformity with the requirements of the Maastricht Treaty. To wit, as these securities should be redeemed from a central bank`s profit in a future period, this implies financial flow from the central bank to the state budget (plus interest payment since these are interest-bearing securities).

There is a general accord that direct financing a government, whether in the form of securities or other, should be prohibited. On the other hand, indirect crediting, such as the purchase of government securities in the secondary market, is allowed because these securities are traded at market prices, which makes public and private sources almost the same. Article 101 of the Maastricht Treaty and Article 21.1 of the ECB Statute prohibit the granting of any credit facilities to the ECB or NCB institutions, and EC bodies, central governments, regional, local or other public authorities, or the direct purchase of their securities. The main aim of such provisions is to leave the main market principles undisturbed. The Maastricht Treaty does not forbid central banks crediting indirectly.

Table 8
Financial central bank independence in Western Balkan countries – loans to the government

Central bank	Lending to the Government - direct	Lending to the Government - indirect
Bank of Albania	- grants direct loans with a maturity period of 6 months (Article 30.2) - maximum: 5% of the average ordinary budgetary revenues in the preceding three years (Article 30.4) with the possibility of granting a temporary waiver – up to 8% of the annual average of the budgetary revenues (Article 30.5)	- by purchasing government securities in the secondary market (Article 32)
Central Bank of Bosnia and Herzegovina	- prohibited (Article 67.1)	- prohibited (Article 67.1)
Bulgarian National Bank	- prohibited (Article 45.1)	- prohibited (Article 45.1)
Central Bank of Montenegro	- prohibited (Article 3)	- by purchasing government securities in the secondary market (Article 11.6.a)
Croatian National Bank	- prohibited (Article 36.1)	- by purchasing government securities in the secondary market (Article 36.3)
National Bank of the Republic of Macedonia	- prohibited o (Article 51)	- by purchasing government securities in the secondary market (Article 89)
National Bank of Romania	- prohibited (Article 6.1, 29.1)	- by purchasing government securities in the secondary market (Article 6.3)
National Bank of Serbia	- allowed, not more than 5% of the average current budget revenue in the preceding three years (Article 39)	- not defined

Source: Laws on the respective central banks

[8] *Dvorsky Sandra: "Central bank Independence in Southeastern Europe with a View to Future EU Accession", Focus 2/04, 2004, www.ceec.oenb.at*

The laws of the central banks of Bosnia and Herzegovina and Bulgaria prohibit both direct and indirect crediting of their governments. On the other hand, the central banks of Croatia, Romania, Macedonia, and Montenegro may not credit their governments directly, but they can purchase government securities on the secondary market. Although the Law on the Bank of Albania contains the article that forbids both direct and indirect financing of the Government of RA (Article 30.1), and the granting of any kind of financial assistance, it also contains numerous exceptions and restrictions to this provision. Thus, it allows the granting of loans with an agreed maturity of up to six months and the maximum amount of 5% of the average budgetary revenues in the previous three years, but there is an exception to this restriction, stating that this amount can increase to 8% of budgetary revenues. In addition, there is an article which allows the buying and selling of government securities. Similarly, the National Bank of Serbia may grant loans to the Republic of Serbia for the purpose of financing temporary illiquidity of the budget generated by imbalances in budgetary revenues and expenditure, which may not exceed 5% of average budgetary revenues in the previous three years. Therefore, the laws of the aforementioned central banks require significant amendments with regard to their financial independence in order to be in accordance with the Maastricht criteria.

With the prohibition of direct crediting of the government, and the opportunity to indirectly credit the government by buying government securities (Treasury bills) on the secondary market, the Law on the Central Bank of Montenegro fulfils the requirements concerning financial independence specified in the Treaty and the Statute. However, the provision on the purchase of securities issued in the primary market of the EU member countries or other countries designated in a regulation of the CBM is not in accordance with the Treaty and the Statute if the subject of the purchase is securities of the government of the EU member countries.

3.5. Central Bank Responsibilities

The importance of central bank responsibilities comes from the fact that the effects of monetary policy are very powerful for the entire economy of one country. The greater the central bank independence, the greater the responsibility.

To whom and for what should a central bank be responsible? Generally speaking, there has to be some kind of formal responsibility of a central bank to the institution appointing the governor (a government, a parliament, a president of the state) in the form of reporting to this institution and the public. The elements which contribute to fulfilling central bank responsibility are: the possibility to amend the law of the central bank, periodical reporting to the government, the parliament, or the public, improved transparency of the central bank, and everything that contributes to reducing the uncertainty of the results of monetary policy.

The growing importance of transparency and the responsibilities of a central bank requires from the bank that it accounts for its actions and justifies its decisions to the government and the public. Countries that have improved their central banks` independence in the last few years also recorded an increase in transparency and responsibilities of their central banks.

Article113 (1) of the Treaty specifies that a Council President, as a member of the Commission, may participate in the meetings of the ECB Board of Governors, but without voting rights. In practise, the President of the ECOFIN Council[9] and the Head for economic and monetary issues occasionally attend the meetings of the ECB Board of Governors. On the other hand, Article 113 (2) allows the presence of the ECB President at the Council`s meetings when it discusses issues related to the objectives and tasks of the ESCB.

Pursuant to Article 15.4 of the Statute, the ECB publications are offered free of charge, i.e. they are available to the public. ECB reporting is regulated in Article 113 (3) of the Treaty, and Article 15.3 of the Statute specifying that the ECB submits its annual reports on ESCB activities and monetary policy for the previous and the current year to the European Parliament, the Council, the Commission, and the Council of Europe, and the reports are presented by the President of the ECB. The Statute specifies additional reporting requirements by the ECB: pursuant to Article 15.1, the ECB should draw up a report of the activities of the ESCB at least quarterly, and publish a consolidated financial statement of the ESCB once a week. (Article 15.2)

The ECB Council of Governors has a collective responsibility: pursuant to Article 10.4 of the Statute, the discussions from the meetings of the Council are confidential, but the Council of Governors may decide to make the outcome of its deliberations public.

There are not many empirical studies on central bank responsibility, which is also partly due to the fact that an appropriate index – measurement of central bank responsibility is hard to define.

Table 9.
Responsibilities of the central banks of the Western Balkan countries – relations with the parliament

Bank	Relationship with the parliament
Bank of Albania	The Bank is accountable to the People's Assembly (Article 2.1)
Central Bank of Bosnia and Herzegovina	No such provisions.
Bulgarian National Bank	The Bank reports before the Parliament on its activities. (Article 1.2)
Central Bank of Montenegro	The Bank submits to the Parliament, at least once a year, the report of its operations (Article 8); Secretary of the CBM Council submits the minutes of the Council meetings to the Parliament after being adopted by the Council at its first next meeting. (Article 29); The annual financial statement, together with an independent external auditor's report and opinion are considered and adopted by the Council and delivered to the Parliament for information purposes. (Article 59);

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[9] *The ECOFIN Council coordinates economic policy in the EU.*

Croatian National Bank	The Governor has the right to comment on the proposed regulations before the Croatian Parliament (Article 35.2); The Bank submits the financial report and information about the monetary policy to the Parliament. (Article 58.1)
National Bank of the Republic of Macedonia	The NBM Council is responsible to the Parliament (Articles 61, 74); The competent commissions of the Parliament convene a meeting with the Governor, at least once in six months (Article 55a); Decisions on the monetary policy objectives are submitted to the Parliament. (Article 54)
National Bank of Romania	No such provisions.
National Bank of Serbia	The Bank is accountable for its operations to the National Assembly. (Article 2); The NBS submits to the Parliament a monetary policy program. (Article 71)

Source: Laws on the respective central banks

We have analysed the most important elements of central bank responsibility: regular attendance at meetings, requests for reporting and publishing of reports from meetings of the highest CB body. The laws on the central banks of Croatia, Serbia, and Albania foresee cooperation between the central bank and executive and legislative authorities (Tables 2 and 9), but in different forms and intensity. A less clear form of cooperation is mutual informing of a central bank and politicians, as foreseen by the laws of the central banks of Albania, Romania, and Bulgaria. Slightly less intensive of cooperation is mutual consulting on certain issues (the example of the CB of BiH). Another form of cooperation is mutual presence of central bank officials and politicians at meetings of decision-making bodies. The laws of the central banks of Albania, Macedonia, Romania, and Serbia allow the participation of ministers of finance in meetings of the highest CB decision-making body without any voting rights, whereas the Law on the National Bank of Serbia also allows the participation of the central bank governor in the government`s meetings. The central banks of Albania, Croatia, Romania, and Serbia give comments on draft regulations with regard to the central bank authorities. The Law of the Croatian National Bank goes further, giving the rights to the CNB to propose to the parliament legal acts within its authority.

Pursuant to the laws of the central banks of Albania, Macedonia, and Serbia, these banks have (the constitutional) responsibility to their parliaments, while the Bulgarian law states that the central bank ”reports to the Parliament.” The legal requirements for the central banks of Croatia, Macedonia, and Serbia require these banks to provide the parliaments with information on monetary policy, i.e. aims of monetary policy.

While the Bulgarian, Croatian, and Macedonian laws on the central bank contain detailed provisions on the reporting to the parliament, the Romanian and Serbian corresponding laws oblige their central banks to submitting annual reports to their parliaments.

In five of the eight laws on the central bank there are no provisions with regard to publishing the minutes from meetings of the highest CB body, whereas the laws of the central banks of Albania and BiH contain provisions similar to those in the ECB Statute.

Table 10.
Responsibilities of central banks in the Western Balkan countries – reporting and publishing

Bank	Reporting	Publishing of minutes from meetings of the highest CB body
Bank of Albania	Report on monetary policy is submitted to the Government and the People's Assembly every six months (Article 2.2); the Bank prepares and publishes periodical analyses on economic and monetary matters (Article 24.3).	The proceedings of the Supervisory Council meeting are confidential, and the Council may decide to make the outcome of its deliberations public. (Article 50.1)
Central Bank of Bosnia and Herzegovina	Within three months after the close of each financial year, the Bank submits to the Parliamentary Assembly of BiH: financial statements, reports on its operations, and reports on the state of the economy. (Article 64.1) The Bank submits quarterly financial statements to the Presidency of BiH.(Article 64.2)	The proceedings of the Governing Board are confidential, and the Board may decide to make the outcome of its deliberations public. (Article 15.1)
Bulgarian National Bank	Publish weekly balance sheets. (Article 49.1); Monthly publishing of the balance sheet. (Article 49.2); The Bank submits to the National Assembly two reports a year. (Article 50); The Bank submits to the National Assembly its annual report on activity and the annual financial statement. (Article 51)	No provisions
Central Bank of Montenegro	The Bank submits to the Parliament the reports on its operations at least once a year. (Article 8); The annual financial statements, together with the report and the opinion of an independent external auditor the Bank submits to the Parliament for information purposes. (Article 59);	The Secretary of the CBM Council makes the minutes from the Council meeting available to the Parliament for review after being adopted by the Council at its first next session. (Article 29);
Croatian National Bank	The Bank submits to the Ministry of Finance its summary balance sheet on a monthly basis. (Article 58.2); Publishes the annual report on monetary policy (Article 59.1); regularly informs the public. (Article 59.2)	No provisions
National Bank of the Republic of Macedonia	The Bank submits to the Parliament semi-annual and annual reports on its operations, bank supervision, and FX management. (Article 55)	No provisions
National Bank of Romania	The Annual Report is submitted to the Parliament. (Article 35.4)	No provisions
National Bank of Serbia	The Bank submits to the National Assembly annual reports on its activities and operations, monetary policy, the state of the banking sector and the overall financial system of the country. (Article 71)	No provisions

Source: Laws on the respective central banks

Although the Law of the Central Bank of Montenegro does not contain an explicit provision on the Central Bank`s responsibility to inform the public on its activities, the Bank does so on a regular basis, informing the public of the macroeconomic situation in the Republic, and significant issues discussed in CBM Council meetings. [10]

3.6. Turnover rate of central bank governors

The turnover rate of central bank governors is used as the indicator of actual central bank independence, and it is defined as the average term of office of a central bank governor (calculated as the relation between in the observed period and the duration of the observed period). For example, if in one country, 4 central bank governors were replaced in the period of 12 years and 9 months, the turnover rate of central bank governors would be 0.31 (4/12,75). Cukierman has defined the upper limit of turnover rate of governors between 0.2 and 0.24, the situation when governors change every 4 to 5 years, which again corresponds to the appointment cycle in many countries. In addition, Cukierman believes that an extremely low turnover rate of governors does not reflect a high level of central bank independence, but may point to the fact that a governor is willing to do whatever the government asks of him.

Pursuant to the Maastricht Treaty, the maximum term of members of the ECB Executive Board is eight years without the opportunity of reappointment, which corresponds to the minimum turnover rate of central bank governors of 0.125 (one governor every eight years). The minimum term of office of central bank governors is five years, which may correspond to the lower threshold of the turnover rate of governors of 0.2, but the legal time limit may be longer.

Table 11
Turnover rate of central bank governors in Western Balkan countries

Bank	Governor	Observed period	Turnover rate of governors
Bank of Albania	*Ilir Hoti, V 1992 - IX 1993 *Dylber Vrioni, IX 1993 - XII 1994 *Kristaq Luniku, XII 1994 - IV 1997 *Qamil Tusha, IV 1997 - VIII 1997 *Shkelqim Cani, VIII 1997 - IX 2004 *Ardian Fullani, X 2004 -	V 1992 - VI 2005	0.46

The table continuous on the next page

[10] *The Law of the Central Bank of Montenegro (Article 11.7) prescribes that the CBM „performs regular macroeconomic analyses, including monetary, fiscal, financial, and the balance of payments` analyses of the economy of the Republic...", as well as that „the General Manager....shall report to the Council on business operations and activities of the Central Bank, on managing monetary policy, on soundness of the financial system, on money supply, capital, and foreign exchange market..." (Article 19), and that the Chief Economist of the CBM "... shall submit to the Council monthly reports on the condition of the economy of the Republic" (Article 22), but it does not prescribe the obligation to inform the public.*

Central Bank of Bosnia and Herzegovina	*Peter Nicholl, VIII 1997 – I 2005 *Kemal Kozarić, I 2005 -	VIII 1997 - VI 2005	0.25
Bulgarian National Bank	*Todor Valchev, I 1991 - I 1996 *Lyubomir Filipov, I 1996 - VI 1997 *Svetoslav Gavriiski, VI 1997 - X 2003 *Ivan Iskrov, X 2003 -	I 1991 - VI 2005	0.28
Central Bank of Montenegro	* Ljubiša Krgović, III 2001 -	III 2001 - VI 2005	0.24
Croatian National Bank	*Ante Čičin-Šain, VIII 1990 - V 1992 *Pero Jurković, VI 1992 - II 1996 *Marko Škreb, III 1996 - VII 2000 *Željko Rohatinski, VII 2000 -	VIII 1990 - VI 2005	0.27
National Bank of the Republic of Macedonia	*Borko Stanoevski, XII 1993 - V 1997 *Ljube Trpeski, V 1997 - V 2004 *Petar Gosev, V 2004 -	XII 1993 - VI 2005	0.26
National Bank of Romania	*Mugur Isarescu, postavljen XII 1990 *ponovo postavljen IX 1998 *ponovo postavljen IX 2004	XII 1990 - VI 2005	0.07
National Bank of Serbia	*Mladjan Dinkić, XI 2000 - VII 2003 *Kori Udovički, VII 2003 - II 2004 *Radovan Jelašić, II 2004 -	XI 2000 - VI 2005	0.66

Source: observed central banks and the framework of the table Dvorsky S. "Central Bank Independence in Southeastern Europe with a View to Future EU Accession"

As explained in Chapter 2.1 of this paper, a frequent turnover of governors points to lower central bank independence since it means that a government replaces a governor that does not fulfil its requests, or if it finds a better governor who can meet its requirements and aims. Also, a shorter term of office may harm central banks by preventing the existence of a longer policy strategy, making them less interested in achieving a good reputation. However, it has not always proved to be correct that a lower turnover rate of governors implies greater central bank independence because if a government finds a governor that fulfils all its requests, it will want to keep him/her in this position as long as possible, which points to central bank dependence.

In the case of Montenegro, according to Cukierman`s definition and the Treaty, this indicator of actual independence of the Central Bank of Montenegro is satisfactory, regardless of the relatively short period of its operations.

4. MEASURING CENTRAL BANK OF MONTENEGRO INDEPENDENCE USING THE CRITERIA PRESENTED IN THE PAPER

4.1. CBM independence according to T. Petursson`s criteria for central bank independence (Annex B)

Table 12
Central Bank of Montenegro independence

Criterion	Weight	Scores	Total
The extent to which statutory objectives provide the central bank with a clear focus on price stability	1	0	0
The extent to which the central bank determines the setting of policy targets	1	10	10
The extent to which the central bank determines the adjustment of monetary policy instruments	2	10	20
The extent to which treasury funding through he central bank is prohibited	2	10	20
The length of the governor's term of office	0.5	7.1	3.55
TOTAL			53.55

According to the aforementioned criteria, central bank independence is rated on a scale from 0.7 to 65, so the Central Bank of Montenegro independence of 53.55 can be rated as very high.

According to these criteria, as defined by Law, the Central Bank of Montenegro cannot be assigned the maximum points, except for the first and the last criterion. To wit, the Law of the Central Bank of Montenegro does not explicitly state that price stability is the major goal of the Bank, i.e. it is not even mentioned as one of the goals, which is understandable taking into account the specificities of the Montenegrin economy and the role of the central bank. Then, although the Law determines the term of office of the governor (in the case of the CBM – the President of the CBM Council) to be longer than the election cycle (4 years), the CBM is not rated with the highest score (which is assigned in a case of the governor`s term of office lasting 8 years or longer).

4.2. CBM independence based on responses to the questionnaire on independence

The questionnaire in Annex A contains the desired answers to obtaining the maximum score for central bank independence.

According to this criterion, the answer to the first question in the case of the CBM would not be positive because price stability is not stated as the major goal. Therefore, the overall assessment of independence would not be 1, i.e. the CBM would not be rated as completely independent central bank. The Law of the Central Bank of Montenegro does not contain a clearly defined provision that would protect the position of the central bank in case of any conflict with the government, but it should be taken into account that these two institutions do not have the same jurisdictions, and this reduces the possibility of any conflicts. All the other desired criteria are fulfilled.

4.3. CBM independence according to Cukierman

According to Cukierman`s coding of CB independence (Annex C), the Central Bank of Montenegro`s independence is high, amounting to 0.935 (on the scale from 0 to 1).

5. CONCLUSION

In the last few years, the modification of the institutional relationship between the central bank and the government has been recorded, primarily due to the emphasis on the importance of central bank independence. The institutional separation of responsibilities between central banks and governments is not a new concept, but it represents something which the political and economic conditions have again made important for every country. It is generally accepted that the separation of responsibilities for conducting monetary policy from the government (politicians) creates favourable conditions for achieving price stability.

The importance of central bank independence has arisen from the results of empirical research which have shown a negative correlation between central bank independence and inflation, which is also clearly defined in the Statute and the Treaty.

The comparative analysis of central bank independence in Western Balkan countries has shown that all of the countries have paid great attention to harmonizing their laws of central banks with the requirements in the Maastricht Treaty and the ECB Statute.

Although the analysis of the Law of the CBM has shown that the conditions for great independence of the CBM have been created, the road to the accession to the EU and the EMU requires the adjustment of certain segments of the Law on the CBM with the requirements of the Treaty and the Statute.[11] Pursuant to the Law on the CBM, the central bank does not guarantee the Republic`s obligations (nor vice versa), but it is not explicitly stated that the CBM and its management does not receive

[11] *The defining of the major goal of the CBM in the existing conditions cannot be adjusted to the Treaty and the Statute because the achieving and maintaining of price stability cannot be stated as the goal of the CBM because Montenegro is a dollarised economy, and the central bank cannot use monetary policy instruments for maintaining price stability.*

instructions from the Government and its authorities. Therefore, it is necessary to draw up a special section in the Law on CBM that would specify detailed methods of cooperation between the central bank and the government and its authorities, as is the case in most of the corresponding laws in the observed countries. In addition, it is necessary to clearly indicate the restrictions for the members of the highest CB body in order to avoid any conflict of interests. The existing Law states that a member of the CBM Council may not be an officer or an employee of a bank that operates in the Republic or own more than 5% of any bank (Article 15). However, there are no clear restrictions with regard to the possibility of the Council members to be members of the Parliament, the Council of Ministers, local officials and similar, although Article 64a defines that they may not occupy any other office, or employment, duty or function, except upon special approval of the Council and that they may not be guided by their political affiliations in the performance of their duties. (Article 65)

The Central Bank "may buy and sell securities either in the primary or secondary market that are issued by a member state of the European Union or other state designated in a regulation of the Central Bank." (Article33a). In order for the Law on the CBM to be in accordance with the requirements of the Treaty and the Statute, and until joining the EU, it is necessary to include a provision in the Law on the prohibition of buying securities in the primary market that are issued by member countries of the EU. In addition, the Law should more precisely define the issue with regard to the CM responsibilities, i.e. the obligation of reporting to the public. The Law prescribes the obligation of the CBM to inform the Parliament on its activities, and submit Annual financial statement, together with an independent external auditor's report and opinion for information purposes only. Although it publishes and makes its monthly (quarterly/annual) reports available to the public, this should be legally defined with a view to being fully in accordance with the Treaty and the Statute, as prescribed by Article 15.4 of the Statute whereby the ECB offers its publications free of charge (available on the ECB website).

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Annex A Central Bank Independence Index and Coding Technique[12]

A)		**OBJECTIVES AND POLICY FORMULATION**	
	a.	Is the price stability the major and/ or only objective of the Central Bank?	X
	b.	Has there been any Government interference in formulation of the monetary policy within the last 5 years?	
	c.	Is there any Government or political control of the Central Bank`s budget?	
B)		**APPOINTMENTS**	
	a.	Is the Central Bank Governor appointed by the Government?	
	b.	Is there legislative provision for dismissal of the Governor?	
	c.	Can the Central Bank Governor hold governmental or political office?	
	d.	Does the Central Bank Governor`s term of office exceed the maximum term of the Government?	X
	e.	Does the Central Bank`s Board office exceed the maximum term of the Government?	X
	f.	Are there any appointments to the Central Bank Board made by the Government?	
	g.	Are there any Government representatives attending Central Bank Board meetings with/without voting/veto rights?	
	h.	Does the Government consult (e.g. nominate candidates) the bodies appointing the Governor and the Central Bank Board?	
	i.	Have there been any non-completions of the Central Bank Governor(s) term of office within the last ten years?	
C)		**LEGISLATION AND TRADITION**	
	a.	Has the Central Bank legislation been changed within the last 5 years (if yes, which year)	
	b.	Has the Central Bank legislation been breached within the last 5 years?	
	c.	Are there any `other laws` (in the country) that conflict with the Central Bank Constitution (evidence of breaching the Central Bank Charter within the last 5 years)	
	d.	Are there traditions that interfere with the Central Bank Charter (e.g. Central Bank Governor or/ and Board Members resigning with change of Government)?	
	e.	Are there provisions, which strengthen the Central Bank`s position in case of conflict with the Government?	X
D)		**THE BANKING SECTOR**	
	a.	Is the banking supervision entrusted to the Central Bank?	
	b.	Is the banking supervision entrusted to the Central Bank alone?	
	c.	Has there been Government or political interference in fulfilling /not fulfilling the `Lender-of-last-resort` function of the Central Bank for the last 5 years?	
E)		**FINANCIANG THE GOVERNMENT**	
	a.	Are advances permitted when financing the Government?	
	b.	Are terms of lending controlled by the Central Bank or Bank charter when financing the Government?	X
	c.	Does the Central Bank participate on the primary market for public debt?	
Overall Central Bank Independence			**1.00**

[12] ***Preferable** answers are marked for obtaining the maximum score of central bank independence (overall CB independence = 1).*

Annex B Criteria for central bank independence according to Peturson G. Thorarinn

Criterion (weight in total score)	Scores	
The extent to which statutory objectives provide the central bank with a clear focus on price stability (1)	10,0	Only goal is price stability
	7,5	Sole goal together with financial stability and non-conflicting monetary stability objectives
	5,0	Price stability and incompatible goals
	2,5	No formal goals
	0,0	Other goals than price stability
The extent to which the central bank determines the setting of policy targets (1)	10,0	Central bank decides alone or monetary policy has no explicit goals
	5,0	Joint decisions of central bank and government
	0,0	Central bank has no role in decisions
The extent to which the central bank determines the adjustment of monetary policy instruments (2)	10,0	Central bank decides alone
	6,7	Central bank decides alone but a government representative attends decision meetings as an observer
	3,3	Central bank and government have a role in decisions
	0,0	Central bank role in decisions is limited
The extent to which treasury funding through the central bank is prohibited (2)	10,0	Prohibited, never used or negligible sums involved
	7,5	Narrow, well enforced limits exist
	5,0	Limits exist that are usually enforced
	2,5	Wide limits exist
	0,0	No limits or little enforcement
The length of the governor's term of office (0,5)	10,0	8 years or above
	8,6	7 years
	7,1	6 years
	5,7	5 years
	4,3	4 years
	2,9	3 years
	1,4	Term of office beyond 3 years not guaranteed

Annex C Central Bank Independence according to Cukierman

Definition of variable	Weight	Numerical codings
1. CEO	0.20	
a) Term of office of CEO in years		
over 8 years		1
6 - 8 years		0.75
5 years		0.50
4 years		0.25
Less than 4 years		0
b) Appointment		
By CB Board		1
By CB Council		0.75
By executive branch (council of ministers)		
By legislative branch (Congress, king)		0.25
Through decision of one or two members of executive branch (e.g. prime minister or minister of finance)		0
c) Dismissal		
No provisions		1
Possible only for non-policy reasons		0.83
Possible and at discretion of CB Board		0.67
For policy reasons at executive branch`s discretion		0.17
Unconditional dismissal possible at legislative branch`s discretion		0.33
d) Is CEO allowed to hold another office?		
Prohibited by law		1
Prohibited unless authorized by the executive branch		0.50
Not prohibited		0
2. POLICY FORMULATIONS	0.15	
a) Who formulates monetary policy?		
Central Bank alone		1
Central Bank participates together with government		0.66
Central Bank participates in an advisory capacity		0.33
Government alone		0.00
b) Who has the final authority in resolution of conflicts?		
Central Bank, over issues clearly defined in the law as CB goals		1

The table continuous on the next page

Government, only over policy issues not clearly defined as CB goals or in case of conflict within the Central Bank		0.80
CB Council whose members are from CB, legislative branch, and executive branch		0.60
Legislative branch on policy issues		0.40
Executive branch on policy issues, but subject to due process and possible protest by CB		0.20
Executive branch has an unconditional authority		0
c) Is CB given an active role in the formulation of government's budget?		
Yes		1
No		0
3. OBJECTIVES	**0.15**	
Price stability is the only/major goal and the CB has the final authority in case of conflict with government		1
Price stability is the only goal		0.80
Price stability mentioned along with other objectives that do not seem to conflict with price stability		0.60
Price stability mentioned with a number of potentially conflicting goals		0.40
CB charter does not contain any objectives from CB		0.20
Some goals appear in the charter, but price stability is not one of them		0
4. LIMITATIONS ON LENDING		
a) Advances	**0.15**	
Prohibited		1
Permitted, but subject to strict limits (e.g. 15% of government revenues)		0.66
Permitted, subject to relatively accommodative limits (over 15% of government revenues)		0.33
No legal limits on advances		0
b) Securitized lending	**0.10**	
Prohibited		1
Permitted, but subject to strict limits (e.g. 15% of government revenues)		0.66
Permitted, subject to relatively accommodative limits (over 15% of government revenues)		0.33
No legal limits on lending		0
c) Terms of lending (interest, maturity)	**0.10**	
CB controls the terms		1.00
Specified in CB charter		0.66
Agreement between CB and government		0.33
Government controls the terms		0

The table continuous on the next page

d) Potential borrowers from CB	**0.05**	
Only central government		1
Central and state governments and all political subdivisions		0.66
All the above and to public enterprises		0.33
All the above and to the private sector		0
e) Type of limits of CB lending specified as	**0.025**	
An absolute cash amount		1
As a percentage of CB capital or other liabilities		0.66
As a percentage of government revenues		0.33
As a percentage of government expenditures		0
f) Maturity of loans	**0.025**	
Maximum of 6 months		1
Maximum of one year		0.66
Maximum of more than one year		0.33
No legal upper bounds on the maturity		0.00
g) Restrictions on interest rates on CB loans	**0.025**	
At market rate		1.00
To government – cannot be lower than a certain floor		0.75
Cannot exceed a certain ceiling		0.50
No explicit legal provisions		0.25
No interest charged on government`s borrowing		0
h) Prohibition on lending in primary market	**0.025**	
CB prohibited from buying government securities in primary market		1
CB not prohibited from buying government securities in primary market		0