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Book review MONETARY AND CREDIT POLICY by Kemal Kozarić and Nikola Fabris

In the environment of ever growing changes in all spheres of social life knowledge, competence and innovation are the key prerequisites for survival, development and sustainable success of organisations, regardless of their profile. It is my pleasure to introduce to you a brand new book covering a very contemporary topic and titled *MONETARY AND CREDIT POLICY* that is based on all the aforesaid – knowledge, competence and innovation.

The authors of the book are Mr. Kemal Kozarić, PhD, the Governor of the Central Bank of Bosnia and Herzegovina and a professor at the Faculty of Economics in Sarajevo, and Mr. Nikola Fabris, PhD, the Chief Economist of the Central Bank of Montenegro and a professor at the Faculty of Economics in Belgrade. This specific tandem of book authors, who are very prominent both as central bankers and professors, was decisive for the content of this book. This book has that something which other books of this type lack – the synergistic blend of theory and practice without which there is no sustainable success. Theory may put everything in nice words, but reality is much more different. As Mr. Yogi Berra once perceptively said, "In theory, there is no difference between theory and practice.

In practice there is." However, let us get back to this remarkable book that is abundant in both theory and practice.

Although numerous books and papers on this topic have already been published, here we have a topic that has continuously drawn attention and constantly open new dilemmas. The authors were able to present some chapters from specific and original angle, which gives it a special touch. The book has a total of 502 pages and it is richly illustrated with numerous graphics, tables and examples from practice.

The book consists of two sections or twelve chapters. The first part of the book deals with the history of central banking and monetary policy and covers the following issues: the concept of central banking, the objectives of central banks, monetary policy instruments, functions of central banks, monetary policy regimes, the functioning of the selected central banks in practice, the challenges for central banks, and the like. The second part of the book presents a combination of monetary policy and theory and the financial system. This section addresses the issue of lending policies of financial institutions, risk management, marketing in financial institutions, customer relationship, change management, and many other issues. This gives a special quality to the book because central bank is not viewed as an isolated island, but as a part of the financial system in its full totality and comprehensiveness.

In the Preface, the authors point out: "The public sometimes does not understand the role of monetary policy, and expectations of what can be achieved through its instruments are often unrealistic. However, one thing is certain: each central bank is a pillar of the financial system - the most responsible institution for price and financial stability." It is in this context that this book is written, explaining in full and very meticulously what really can and cannot be achieved by monetary policy, and what should and should not be the goal of the central bank given its role as the custodian of price and financial stability.

The authors point out that after the Global Financial Crisis, central banking has found itself on a kind of crossroads and they suggest a number of changes that can be expected in the coming years. The Global Financial Crisis has shown that central banks were not adapting quickly enough to changing circumstances in the financial markets or to the challenges of globalization, so central banking will inevitably change in the years to come. The key change is likely to be in redefining monetary policy goals. Financial stability will be taking a more important place in the hierarchy of goals because has proved that financial instability is more dangerous for central banks than inflation. Changes can be expected in the reasoning and nobody will be able to stop them.

When formulating their monetary policy, central banks predominantly relied on econometric models, despite their many imperfections. Such an approach worked well only in a stable environment, but expert assessments will be gaining importance in the future. The authors point out that one can expect further changes in monetary policy instruments because the traditional approach involving one instrument (short-term interest rate) - one objective (price stability) worked well only under stable conditions. In the coming years, several instruments of monetary policy will have to be combined, while in the crisis conditions it will be necessary to use unconventional monetary policy instruments. It is certain that there will be a change in the concept of banking supervision, as well as increased international coordination of central banks.

It is well known that central banks have a monopoly on the issuing of money. Given the important role that money has in the economy of each country, this consequently gives rise to the significant role of central banks. Many individuals believe that economics is actually the study of money. The Mervyn King`s paradox lies in the fact that when price stability is accepted as the main objective of central banks, there is a decrease in the absorption of central bank money. During the period of "Great Inflation", most economists ignored money even though it was the cause of inflation. The "Counterrevolution" came in the second half of the 1970s with the idea that money has a long-term impact on inflation and does not affect the volume of economic activity, thus bringing money back to the focus of studies. The logical conclusion that money is causes inflation gave rise to the conclusion that money control means the control of inflation, which has led to the popularity of monetary targeting.

The process of disinflation, however, was not painless and the control of monetary aggregates has proven to be extremely complicated. As central banks are becoming more and more focused on price stability, less attention is paid to the movement of monetary aggregates, and the monetary policy focus shifted to the regulation of short-term interest rates. Such a strategy implies that a central bank regulates short-term interest rates and then economic agents determine what would be the money supply for the given interest rate. This situation is perhaps best reflected in the words of a former Governor of the Bank of Canada, G. Bouey: "We did not leave the monetary aggregates, they abandoned us." However, this should not be taken as a recommendation that central banks should ignore money, but we should bear in mind what was said by Chrystal (2003): "Inflation inevitably revolves around one thing - the value of money." The concept that has been gaining in popularity in recent years is inflation targeting. This concept has opened many dilemmas and questions, such as whether the intermediate target could be the ultimate goal, whether this is the concept that is based on a rule or discretion, and many others.

Therefore, the authors of the book opened an interesting dilemma, whether or not there will be a change in the concept of inflation targeting. The book gives arguments that contrary to the theoretical assumption that this monetary policy regime is based on the floating exchange rate, most central banks which use this regime carefully consider the exchange rate and occasionally intervene. They also point out that we may expect an increase in the target inflation rate in the future because low inflation limits the effectiveness of monetary policy in a recession environment. To wit, central banks typically respond by lowering the interest rate during recession. However, if the target inflation rate was higher than the traditional framework (from 1% to 3%) then the nominal interest rate would be higher and there would be more room for the initial reduction in nominal interest rates and, consequently, for easier overcoming of recession.

The authors tackle the issue of what monetary policymakers should do in crisis conditions, a situation that is most challenging for central banks. They emphasize the three-dimensional approach: prevention, crisis management and minimizing consequences of the crisis. The book proposes a series of measures and the order in which central banks should use them. The authors believe that unconventional instruments should also be used in a crisis such as: raising deposit insurance coverage, bank nationalization, establishment of a bridge bank, takeover of bad assets by the government, drastically reduction of reserve requirements in order to improve bank liquidity, accepting lower quality collaterals and the like.

Although it may be unusual for a book like this, but according to the postulates of quality management, the last chapters indicate the position of clients as the key factors towards which all future activities should be directed. This is important primarily because the Global Financial Crisis revealed the self-centeredness of commercial banks, which had unjustifiably underestimated the role of their clients in financial intermediation. It is obvious that banks cannot exist without their clients, same as the clients cannot meet their needs without the support of financial intermediaries.

Many positive features adorn this extremely useful book. Here I would mention one that I consider particularly important. In fact, we know very well that expert books on monetary economics are often incomprehensible to many people, and even for those who are in contact with the financial system to one degree or another. Such books "swarm' with technical terms, many mathematical models which require an advanced course in econometrics in order to be followed, as well as the variety of assumptions of a substantial and widespread economic specialist knowledge. With this book the authors have shown that even the most complex issues in monetary theory and policy can be written in a clear, simple and user-friendly style that does not require you to be the economic "genius". Therefore, this book will be interesting not only to central bankers and monetary theorists, students, postgraduates and doctoral students in the field, or business people who are in daily contact with financial institutions, but also to ordinary citizens who want to know more about the functioning of central banks and financial systems in general.

Finally, it should be noted that the book was extremely well received by the public and that rightfully received a special award at the Sarajevo Book Fair. I am honored to recommend to the scientific, professional and broadest reading public this book titled Monetary and Credit Policy, written by Mr. Kemal Kozarić, PhD, Governor of the Central Bank of Bosnia and Herzegovina and a professor at the Faculty of Economics in Sarajevo, and Mr. Nikola Fabris, PhD, the Chief Economist of the Central Bank of Montenegro and a professor at the Faculty of Economics in Belgrade.