8 Central banks' governance and operations

This chapter outlines the importance of central banks in ensuring price stability and thus contributing to economic development and financial stability. It provides an overview of how the central bank can be institutionalised through the constitution. It shows that central bank legal frameworks vary across countries, reflecting differences in history and legal systems, and that while in some countries the central bank's role and responsibilities are referred to in the constitution, in most countries they are set out in detail in primary legislation in the form of a specific central bank law. This chapter stresses that, irrespective of the legal framework and specific arrangements, central bank independence requires legal guarantees of operational autonomy combined with accountability and transparency requirements.

Key issues

- While there is no commonly accepted international standard dealing with the independence of central banks, there is strong agreement among scholars and policy makers on the merits of having a central bank with both *de facto* and *de jure* independence.
- Independence in monetary policy conduct ensures that the central bank sets and implements policy to achieve its mandate without interference from the government, while the objectives of monetary policy can be set by the government.
- Strong legal provisions are key to ensuring central bank independence; they may or may not be included in the constitution.
- Central bank legal frameworks vary across the benchmark countries. In most of them the roles and functions of the central bank are set in primary legislation in the form of a specific central bank law. Only in a few countries are the central bank's roles and responsibilities defined in the constitution, and even in those cases provisions are specified in a central bank law.
- The overall strength of central bank independence depends on provisions regarding mandates, functions and governance rules, and requires an appropriate level of accountability and transparency.
- All of the benchmark countries identify price stability or stability of purchasing power as the primary mandate; some central banks have additional objectives. In a number of cases, broad goals (price stability, full employment) are established in constitutions or primary legislation, but the central bank determines operational targets that it considers to be consistent with those goals.
- Strong legal provisions are needed to ensure that the central bank governor and members of the monetary policy-setting committee are protected from unilateral government appointment or dismissal, and enjoy the full legitimacy of non-elected professionals in carrying out their duties. Only a few countries have constitutional provisions about the appointment and/or dismissal of the central bank governor.
- In most benchmark countries, primary legislation prevents central banks from financing government expenditure or purchasing debt directly from the government; some of them have this provision in the constitution.
- Only a few countries have provisions that explicitly prohibit other governmental and political bodies from seeking to influence central bank officials, or prohibit the central bank from taking instructions from others.
- An independent central bank should be accountable to lawmakers and the public. There is no best-practice compromise between independence and accountability; practical solutions differ among benchmark countries. A few countries specify legal provisions for central bank accountability in the constitution or an international treaty.

Introduction

Since the 1990s, many OECD countries have made legislative changes to ensure central bank autonomy in conducting monetary policy. These changes were motivated by cross-country evidence that a lack of *de jure* or *de facto* central bank operational independence from government resulted in high inflation. That consequence in turn undermined the stability of currency and real incomes and increased the cost of credit, with negative implications for economic growth and the distribution of income and wealth.

This chapter reviews legal frameworks of central bank governance and operations in 12 benchmark countries, covering both advanced and emerging-market economies: Australia, Brazil, Costa Rica, the euro area, India, Mexico, New Zealand, Poland, Sweden, Switzerland, Turkey and the United States. All of these but Costa Rica and Switzerland have adopted an inflation-targeting regime.

Brief overview of issues

The importance of central bank independence

The objectives and status of central banks have evolved over time.[1] In recent decades, central banks have played an important role in ensuring price stability and thus contribute to economic development and financial stability. Their independence developed out of concern that governments pursuing short-term political goals could resort to forcing central banks to finance excessive government spending by issuing ("printing") money. Prolonged and excessive money creation by central banks has frequently lead to high inflation and even hyperinflation, and considerable depreciation of domestic currency. This in turn has been associated with negative economic consequences, such as falling real incomes (especially for lower-income households), high nominal and real interest rates, and heightened economic uncertainty, all of which have undermined consumer spending and business investment (Adrian and Khan, 2019[1]) (Weidmann, 2019[2]; Sargent, 1982[3]).[2]

The relationship between the independence of central banks and price stability has been subject of an intense academic research, resulting in a strong agreement among academics and policy makers on the merits of having an independent central bank (Lastra, 2015[4]). In the late 1970s, a number of studies examined the empirical relationship between central bank independence and inflation, of which the experience of the German Bundesbank and its high level of independence was considered to be instructive. This research, in particular involving the development of a central bank independence index, convinced policy makers globally on the benefit of central bank independence and this has become a standard policy recommendation made through the IMF/World Bank Financial Sector Assessment Program and OECD accession process since the 1990s.

To avoid the negative outcomes mentioned, *de jure* independence of central banks, where the operation of monetary policy is determined by professionals, should be underpinned by provisions in constitutions and/or primary legislation (Lybek, 2005[5]).[3] Acceptance of the model as an international standard has been helped by widespread adoption of flexible inflation-targeting frameworks since the early 1990s (Ciżkowicz-Pękała et al., 2019[6]; Bordo, 2007[7]).[4]

Autonomy in monetary policy conduct essentially means that the central bank sets and implements policy to achieve its mandate without interference from the government. However, it is essential to distinguish between goal independence – when a central bank is free to determine its policy objectives independently – and instrument independence – when a central bank determines its operational means independently (Debelle and Fischer, 1994[8]).

Under the inflation-targeting framework currently adopted by many central banks, the implementation of policy instruments such as changes in interest rates and unconventional policy measures – including largescale purchases of government bonds – is left to the monetary authorities, but the power to set goals is not always granted to central banks.[5] In some cases, broad goals (such as price stability and full employment) are established in constitutions or primary legislation, but the central bank determines operational targets that it considers to be consistent with those goals. Central bank governors and monetary policy committees are responsible, either explicitly or implicitly, for achieving the operational targets as well as the broad goals.

De jure independence is a necessary but not sufficient condition for independent monetary policy. Without strong institutions and well-functioning democratic political systems, clear legal provisions are not enough to prevent political attempts to influence central bank decisions (Binder, 2021[9]; Balls, E. et al., 2018[10]).[6] Ensuring that central banks have clear objectives, appropriate tools and competencies to meet these objectives, and that they are accountable for their actions, all contribute positively to their independence (King, 2006[11]).

Overview of legal frameworks in the benchmark countries

Countries with a civil law tradition sometimes have constitutional provisions for the central bank, but such provisions are generally not used in common law countries (BIS, 2009[12]).[7] Common law countries, including Australia, India, New Zealand and the United States, do not have any central bank-related provisions in their constitutions (Table 8.1), while such provisions are present in some of the other benchmark countries. In the euro area, the Treaty on the Functioning of the European Union (TFEU) sets fundamental principles of the European System of Central Banks and the European Central Bank (Amicorum and Garavelli, 2005[13]).[8]

Constitutional provisions are usually broad, leaving it to primary legislation to clarify the details. The overall strength of central bank independence depends on the provisions for mandates, functions and governance rules. All countries have primary legislation to regulate the specific roles and functions of central banks.

In most countries, governments formally own central banks, like any other public institution, without any prejudice to central bank instrument independence (Bholat and Gutierrez, 2019[14]).[9] In some countries, central banks are incorporated as companies with partial or total ownership by private sector shareholders, but they are still responsible for delivering public goods related to price and financial stability, as stated in their statutory mandates, rather than pursuing profits for shareholders. In Switzerland and Turkey, both the government and private shareholders own the central bank in roughly equal proportions, although both are established as special statute joint stock companies, with specific central bank laws dictating their operations and preventing private shareholders' involvement in policy making. In the United States, commercial banks that are members of the Federal Reserve System hold stocks in their Reserve district bank, but the Federal Reserve System is considered not to be "owned" by anyone.[10] The ECB is owned by the national central banks of EU countries,[11] according to the capital key based on population and GDP. Most of EU national central banks are fully owned by the state with the exception of those in Belgium, Greece and Italy, which are partly owned by private sector shareholders.

Table 8.1. Comparative overview of legal frameworks for central banks in benchmark countries

	Central bank	Year established	Legal tender	Related provisions in constitution or international treaty	Primary legislation	Ownership
Australia	Reserve Bank of Australia	January 1960	Australian dollar	-	Reserve Bank Act, 1959	Fully owned by the state.
Brazil	Central Bank of Brazil	December 1964	Brazilian real	Articles 52, 84 and 164 of the Constitution of the Federative Republic of Brazil	Law No. 4.595,1964	Fully owned by the state.
Costa Rica	Central Bank of Costa Rica	January 1950	Costa Rican colón	Articles 188 and 189 of the Costa Rica Constitution	Organic Law of the Central Bank of Costa Rica, 1995	Fully owned by the state.
Euro area	European Central Bank	June 1998	Euro	A number of articles in TFEU	Statute of the European System of Central Banks and of the European Central Bank, 2016	Owned by all EU central banks; ownership of these central banks varies (most are owned by the Member State).
India	Reserve Bank of India	April 1935	Indian rupee	-	Reserve Bank of India Act, 1934	Fully owned by the state.
Mexico	Bank of Mexico	September 1925	Mexican peso	Article 28 of the Political Constitution of the United Mexican States	Bank of Mexico Law, 1993	Fully owned by the state.
New Zealand	Reserve Bank of New Zealand	August 1934	New Zealand dollar	-	Reserve Bank of New Zealand Act, 1989	Fully owned by the state.
Poland	National Bank of Poland	January 1945	Polish złoty	Article 227 of the Constitution of the Republic of Poland	Act on Narodowy Bank Polski, 1997	Fully owned by the state.
Sweden	Sveriges Riksbank	September 1668	Swedish krona	Articles 13 and 14 of Chapter 9 of the constitution of Sweden	Sveriges Riksbank Act, 1988	Fully owned by the state.
Switzerland	Swiss National Bank	June 1907	Swiss franc	Article 99 of the Federal Constitution of the Swiss Confederation	Federal Act on the Swiss National Bank, 2003	Around half owned by the cantons and cantonal banks, with the remainder owned by private individuals.
Turkey	Central Bank of the Republic of Turkey	June 1930	Turkish lira	-	Law on the Central Bank of the Republic of Turkey, 1970	55% owned by the state and 45% owned privately (mainly banks).
United States	Federal Reserve System	December 1913	US dollar	-	Federal Reserve Act, 1913	Commercial banks hold stocks.

Source: Constitutions/TFEU, central bank laws and websites of the benchmark countries.

Core features of constitutional and legislative provisions related to central banks

Constitutional provisions related to central bank independence are in general less susceptible to amendments compared with primary legislation, consolidating *de jure* central bank independence. However, they may make adjustments to certain aspects of central bank autonomy, which could sometimes be required due to changing, more difficult economic circumstances. In addition, the frequently abstract nature of the provisions contained in the constitution may not be enough to ensure independence.

All public entities are subject to certain governance-related requirements in the execution of their responsibilities, but unlike other public institutions central banks may have conflicts of interest with governments over the conduct of monetary policy. From this point of view, the essential issue is whether the government can unilaterally dismiss and appoint the governor (and policy board members) without parliamentary or other approval. [12]

While the mandates and responsibilities of central banks in the benchmark countries are comparable, the degree of central bank independence in terms of appointment and termination provisions varies (Table 8.2). Other aspects such as the qualification criteria required for their appointment are discussed below.

Table 8.2. Comparative overview of provisions on central bank independence

	Mandate	Responsibility	Appointed solely by executive branch	Dismissed solely by executive branch	Provisions for dismissal of governor	Governor's tenure	Accountable to
Australia	Price stability, maximum employment, economic prosperity and welfare	Monetary policy, prudential supervision	Yes	Yes	Yes	7 years	Government
Brazil	Price stability, financial stability	Monetary policy, prudential supervision	No (Senate's approval is necessary)	Yes	No	Not specified	National Monetary Council and Congress
Costa Rica	Price stability, currency stability, general economic stability, financial stability	Monetary policy, prudential supervision	No (Legislative Assembly's approval is necessary)	No	Yes	4 years	Legislative Assembly
Euro area	Price stability***, support general economic policies	Monetary policy, prudential supervision	No	No	Yes	8 years	EU Parliament and EU Council
India	Price stability, financial stability	Monetary policy, prudential supervision	Yes	Yes	Yes	5 years	Government
Mexico	Price stability***, financial stability	Monetary policy, prudential supervision	No (Senate's approval is necessary)	No (Senate's approval is necessary)	Yes	6 years	Congress
New Zealand	Price stability***, financial stability	Monetary policy, prudential supervision	Yes	No (Council's Order is necessary)	Yes	5 years	Government
Poland	Price stability, currency stability, financial stability, support economic policy	Monetary policy, macro-prudential supervision	No	No	Yes	6 years	Parliament

	Mandate	Responsibility	Appointed solely by executive branch	Dismissed solely by executive branch	Provisions for dismissal of governor	Governor's tenure	Accountable to
Sweden	Price stability, financial stability	Monetary policy, macro-prudential supervision	No	No	Yes	6 years	Parliament
Switzerland	Price stability***, development of economy	Monetary policy	Yes	Yes	Yes	6 years	Confederation
Turkey	Price stability***, currency stability, financial stability, maximum employment	Monetary policy, macro-prudential supervision	Yes	Yes	Yes	5 years	Government
United States	Price stability, maximum employment, long-term interest rate stability	Monetary policy, prudential supervision	No (Senate's approval is necessary)	Unclear	Partial	4 years	Congress

Note: The underlined items are enshrined in the constitutions or TFEU. The other items are laid down in central bank laws. Asterisked items represent the primary mandate.
Source: BIS (2009[12]); Dall'Orto Mas et al. (2020[15]); constitutions/TFEU, central bank laws and websites of the benchmark countries.

Mandate and responsibility

All of the benchmark countries identify price stability or stability of purchasing power as the primary mandate, with some central banks having additional objectives such as currency and financial stability or ensuring maximum employment.[13] To fulfil these mandates, central banks have responsibilities to conduct monetary and prudential policies.[14] In general, primary laws stipulate the specifics of the mandate and responsibilities of central banks. In Mexico, Poland, Sweden and Switzerland, these are stated explicitly in the constitution (Table 8.3). Similarly, in the euro area, these objectives are stated in TFEU.

Table 8.3. Constitutional provisions regarding central banks' mandate and responsibility

	Article of constitution	Stipulated mandate	Stipulated responsibility	Relevant provisions in the constitution or an international treaty
Euro area	Articles 3(1) and 127(1), (5) (TFEU)	Price stability, support general economic policies	Monetary policy, prudential supervision	The Union shall have exclusive competency in monetary policy for the Member States, whose currency is the euro (Article 3(1)). The primary objective of the European System of Central Banks (ESCB) shall be to maintain price stability. Without prejudice to that objective, the ESCB shall support general economic policies with a view to contributing to the achievement of the objectives of the Union. The ESCB shall contribute to the smooth conduct of policies pursued by the competent authorities relating to the prudential supervision of credit institutions and the stability of the financial system (Article 127(1) and (5)).
Mexico	Article 28	Price stability (stability of purchasing power)	-	The primary objective of the Bank of Mexico shall be to attain the stability of the purchasing power of the national currency, strengthening the guiding role of the state with regard to national development (Article 28).
Poland	Article 227(1)	Currency stability	Monetary policy	The National Bank of Poland shall have the exclusive right to issue money as well as to formulate and implement monetary policy. It shall be responsible for the value of Polish currency (Article 227(1)).
Sweden	Articles 13 and 14 of Chapter 9	-	Monetary policy	The Riksbank is responsible for monetary policy. No public authority may determine how the Riksbank shall decide in matters of monetary policy (Article 13 of Chapter 9). The Riksbank alone has the right to issue banknotes and coins (Article 14 of Chapter 9).
Switzerland	Article 99	-	Monetary policy	The Swiss National Bank, as an independent central bank, shall pursue a monetary policy that serves the overall interests of the country (Article 99).

Source: Constitutions/TFEU and central bank websites of the benchmark countries.

Appointment and dismissal of central bank governors

Processes for the appointment and dismissal of governors are specified in the legal framework in almost all countries. The appointment process is intended to ensure that non-elected members of the central bank have legitimacy in carrying out their duties, and that there is a clear process and rationale for any dismissal. The framework intends to prevent arbitrary use of power by requiring the involvement of more than one governing body in such decisions. For example, Brazil, Mexico, Poland and Sweden have constitutional provisions about an appointment and/or dismissal of a central bank governor (Table 8.4). Similar provisions are provided in TFEU for the euro area. In the euro area and Poland, the governor's tenure and qualification criteria for central bank executives are also prescribed in the treaty/constitution. Even though the number of countries with constitutional provisions is limited, several benchmark countries have central bank laws that prohibit the government from unilaterally appointing or dismissing central bank governors, to ensure their independence.

Table 8.4. Constitutional provisions regarding appointment/dismissal of central bank governors

	Article of constitution	Stipulated procedures	Stipulated qualification criteria for the appointment	Relevant provisions in the constitution or an international treaty
Brazil	Articles 52 and 84	Appointment procedures of the governor	-	The Senate has the competence to give prior consent by secret voting, after public hearing, on the selection of president and directors of the Central Bank of Brazil (Article 52). The president of the Republic shall have the exclusive power to appoint, after approval by the Senate, the president and the directors of the Central Bank of Brazil (Article 84).
Euro area	Article 283(2) (TFEU)	Appointment procedures, terms of office, and qualification criteria for the governor	Standing and professional experience in monetary or banking matters	The president, the vice-president and the other members of the executive board shall be appointed by the European Council, acting by a qualified majority, from among persons of recognised standing and professional experience in monetary or banking matters, on a recommendation from the Council, after it has consulted the European parliament and the governing council of the ECB. Their term of office shall be eight years and shall not be renewable (Article 283(2)).
Mexico	Article 28	Appointment and dismissal procedures of the governor	-	Management of the Bank of Mexico shall be entrusted to the persons appointed by the president of the Republic with the consent of the Senate or the Permanent Committee, as the case may be. They shall hold office for the terms which duration and staggered sequences are best suited to the autonomous exercise of their duties; they may only be removed for a serious cause and they cannot hold any other employment, position or assignment. The persons in charge of the Bank may be subjected to impeachment in accordance with the provisions established in the Article 110 of this constitution (Article 28).
Poland	Article 227(3), (5), (7)	Appointment procedures and terms of office of the governor; qualification for the Council for Monetary Policy members	Distinguished by their knowledge of financial matters	The Sejm, on request of the president of the Republic, shall appoint the president of the National Bank of Poland for a period of 6 years (Article 227(3)). The Council for Monetary Policy shall be composed of the president of the National Bank of Poland, who shall preside over it, as well as persons distinguished by their knowledge of financial matters (Article 227(5)). The organisation and principles of activity of the National Bank of Poland, as well as detailed principles for the appointment and dismissal of the governor shall be specified by statute (Article 227(7)).
Sweden	Article 13 of Chapter 9	Appointment and dismissal procedures of the governor	-	The Riksbank has a general council comprising eleven members, who are elected by the Riksdag. The Riksbank is under the direction of an executive board appointed by the general council. The Riksdag examines whether the members of the general council and the executive board shall be granted discharge from liability. If the Riksdag refuses a member of the general council discharge from liability, they are thus severed from their appointment. The general council may only dismiss a member of the executive board if they no longer fulfil the requirements laid down for the performance of their duties, or are guilty of gross negligence (Article 13 of Chapter 9).

Source: Constitutions/TFEU and central bank websites of the benchmark countries.

In a few benchmark countries, however, independence in relation to the appointment and dismissal of the central bank governor has been recently challenged by other governing bodies (Dall'Orto Mas et al., 2020[15]). In Turkey, a recent legislative change based on the Statutory Decree allows the government to shorten the tenure of the central bank governor (OECD, 2021[16]). This right has been already exercised, leading to negative market reactions.

In order to ensure monetary policy autonomy, not only the central bank governor but also members of monetary policy committees (MPC) must be protected from unilateral government appointment or dismissal, as – in most central banks – monetary policy decisions are taken by the MPC by majority vote.[15]

Legal frameworks and procedures for appointing members of an MPC vary across the benchmark countries (Table 8.5). In the euro area, Poland and Sweden, the MPC is explicitly mentioned in TFEU and constitutions. In Poland, qualification criteria for MPC members are also prescribed in the constitution.

The specific appointment, dismissal and terms of office of MPC are often stipulated in primary legislation. In Brazil, India, Switzerland and Turkey, the executive branch of the government appoints the members, while in other countries other stakeholders are involved in the appointment. For example, in the United States, members of the Federal Reserve Board are nominated by the president of the United States and have to be confirmed by the Senate.[16] In Poland, the president of the Republic, the Sejm (lower house of the country's bicameral parliament) and the Senate each appoint three members of the MPC.

In most benchmark countries, the tenures of MPC members are in practice staggered. This arrangement provides stability of policy implementation, and prevents any given administration from appointing/dismissing several members and having political sway over monetary policy. In Costa Rica, Mexico and the United States, the mechanism of staggered tenures is enshrined in their constitutions.

Table 8.5. Comparative perspective of legal frameworks for monetary policy committees

	Monetary policy committee	Appointed solely by executive branch	Dismissed solely by executive branch	Board member's tenure	Decision -making style	Relevant provisions in constitution or international treaty
Australia	Reserve Bank board; governor, deputy governor, secretary to the treasury and 6 other members appointed by the Treasury.	Yes	Yes	5 years	Majority vote	No relevant provisions.
Brazil	Monetary policy committee; 9 central bankers, including governor and deputy governors.	Yes (based on *Decreto* No. 91.961)	Yes (based on *Decreto* No. 91.961)	Not specified	Majority vote	No relevant provisions.
Costa Rica	Board of directors; president, minister of finance, 6 central bankers.	No	No	90 months, staggered	Majority vote	No relevant provisions.
Euro area	Governing council; 25 central bankers, including president and vice-president.***	No	No	Not specified	Majority vote	The governing council shall comprise the members of the executive board of the ECB and the governors of the national central banks of the Member States whose currency is the euro (Article 10.1).
India	Monetary policy committee; governor, deputy governor in charge of monetary policy, 1 central banker and 3 officials appointed by the central government	Yes	Yes	4 years	Majority vote	No relevant provisions.
Mexico	Board of governors; governor and 4 deputy governors.***	Yes	No	8 years for deputy governors, staggered	Majority vote	No relevant provisions.
New Zealand	Monetary policy committee; governor, deputy governor, 1 or 2 internal members, 2 or 3 external members.	Yes	No (council's order is necessary)	5 years for internals, 4 years for externals	Majority vote	No relevant provisions.
Poland	Council for monetary policy; president of the National Bank of Poland, 9 specialists appointed by the president of the Republic, the Sejm and the Senate in equal numbers.	No	No	6 years	Majority vote	The Council for Monetary Policy shall be composed of the president of the National Bank of Poland as well as persons in equal numbers, from the president of the Republic, the Sejm and the Senate for a period of 6 years (Article 227(5)).
Sweden	Executive board; 6 members appointed by the general council.	No	No	5 or 6 years	Majority vote	The Riksbank has a general council, elected by the Riksdag. The Riksbank is

	Monetary policy committee	Appointed solely by executive branch	Dismissed solely by executive branch	Board member's tenure	Decision -making style	Relevant provisions in constitution or international treaty
	(General council members are elected by the Riksdag)					under the direction of an executive board appointed by the general council (Article 13 of Chapter 9).
Switzerland	Governing board; 3 members appointed by the Federal Council.	Yes	Yes	6 years	Not specified	No relevant provisions.
Turkey	Monetary policy committee; 6 central bankers, including governor, deputy governors, and 1 member endorsed by the governor.***	Yes	Yes	5 years	Majority Vote	No relevant provisions.
United States	Federal Open Market Committee; 7 members of the board, the president of the New York Federal Reserve Bank and 4 of the remaining eleven Reserve Bank presidents.	No (Senate's approval is necessary)	Unclear	14 years, staggered	Majority Vote	No relevant provisions.

Note: Items with asterisks indicate that there are provisions for non-voting government representatives to be present.
Source: BIS (2009[12]); Dall'Orto Mas et al. (2020[15]); (BIS, 2019[17]); constitutions/TFEU and central bank websites of the benchmark countries.

Accountability

Since an independent central bank is not an elected body yet has sweeping economic powers, in a democratic society it should be accountable to lawmakers and public. The key issue is to strike the right balance between independence and accountability. On the one hand, central banks need independence, since the best policy for the economy may not be aligned with the political goals of governments. On the other hand, in fulfilling their mandate, central banks must be accountable to society through their elected representatives. There is no best compromise between these principles. While every country aims to balance independence and accountability, solutions differ among countries (Van den Berg, 2018[18]).

In some benchmark countries, legal frameworks for central bank accountability are specified in the constitution or an international treaty (Table 8.6). For instance, in Poland the constitution stipulates that the central bank shall be accountable to the Sejm and it must present monetary policy objectives every year. The Sejm can only be informed; it cannot give instructions to the central bank. In Switzerland the central bank shall be administered with the co-operation and under the supervision of the Confederation. The ECB president is legally required to submit reports annually to both the European parliament and the European Council, and the Chair of the US Federal Reserve is required to give a semi-annual testimony to Congress.

An important aspect of central bank accountability is transparency, which involves public press conferences, publication of minutes of meetings, and responding to inquiries beneficial to the public (Adrian and Khan, 2019[1]) (IMF, 2019[19]). As such, central bank transparency contributes to *de facto* accountability, and accountability and transparency are closely related in central bank legal frameworks. A high degree of transparency and accountability, and a well-defined and narrow mandate anchored in a strong institutional setting, help to maintain central bank independence (Mersch, 2019[20]).

Table 8.6. Constitutional provisions regarding central banks' accountability and transparency

	Article of constitution	Stipulated accountability partner	Stipulated ways to ensure transparency	Relevant provisions in the constitution or an international treaty
Euro area	Article 284(3) (TFEU)	EU Parliament and EU Council	Submit a report to the Parliament annually	The ECB shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and current year to the European Parliament, **the Council** and the Commission, and also to the European Council. The President of the ECB shall present this report to the Council and to the European Parliament, which may hold a general debate on that basis (Article 284(3)).
Poland	Article 227(6)	Parliament	Submit a report to the Parliament annually	The Council for Monetary Policy shall annually formulate the aims of monetary policy and present them to the Sejm. Within 5 months following the end of the fiscal year, the Council for Monetary Policy shall submit to the Sejm a report on the achievement of the purposes of monetary policy (Article 227(6)).
Switzerland	Article 99	Confederation	-	The Confederation is responsible for money and currency, and it has the exclusive right to issue coins and banknotes. The Swiss National Bank, as an independent central bank, shall pursue a monetary policy that serves the overall interests of the country; it shall be administered with the co-operation and under the supervision of the Confederation (Article 99).

Source: Constitutions/TFEU and central bank websites of the benchmark countriess.

Legal basis for the autonomy of monetary policy

Although the provisions concerning monetary policy autonomy are abstract and broad, they can directly or indirectly affect monetary policy implementation (Table 8.7). Brazil, the euro area, Mexico, Poland, Sweden and Switzerland have constitutional/treaty provisions that grant the central bank exclusive rights to issue currency.[17] The central bank's monopoly on currency is the basis of its ability to control the growth of the monetary base.[18] As it is fundamental to the implementation of monetary policy, central banks in all benchmark countries have the statutory authority to issue currency, even if there is no provision in the constitution/treaty.[19]

The euro area and Sweden have provisions that prohibit other bodies from seeking to influence the central bank, and prohibits the central bank from taking instructions from others.

Provisions in Costa Rica, the euro area, Mexico and Switzerland ensure central bank independence directly by including the words "autonomy" or "independence" in their constitutions. Brazil and Turkey have similar provisions in their central bank laws.

In most benchmark countries, primary legislation prevents central banks from financing government expenditure or purchasing debt directly from the government. In Brazil, the euro area, Mexico and Poland, such restrictions are stated in the constitution.[20]

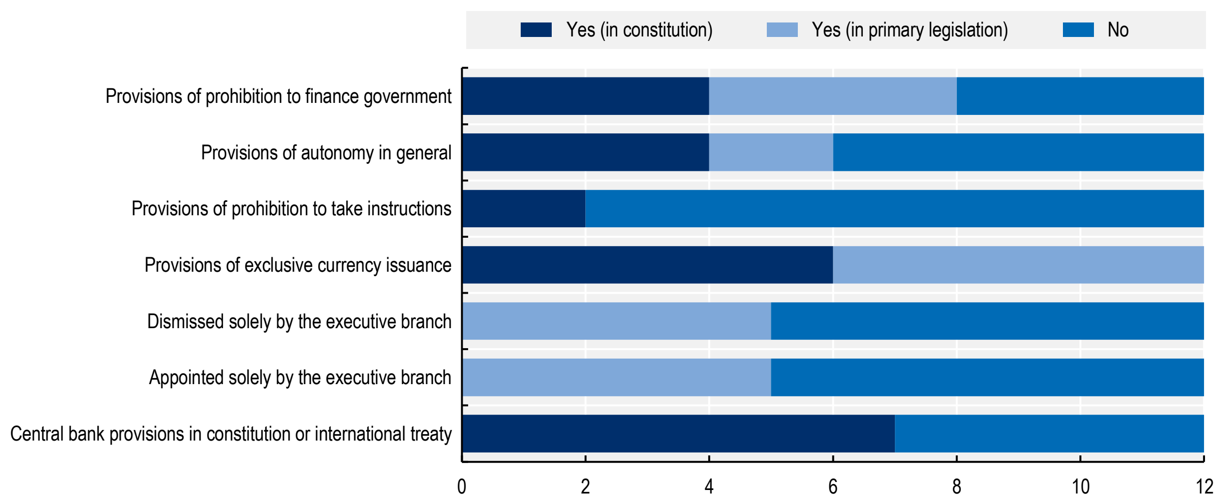
Monetary policy operations, including inflation targeting and unconventional monetary instruments, are usually not based on primary legislation or in a broad context. The policy goals are often set in accordance with agreements with or instructions from governments, but the choice of how to operate is left to the central bank. This is because central banks need to be agile and flexible in their policy implementation, in response to changes in financial and economic conditions.

Key options and questions to consider

Constitutional provisions on central bank independence vary across countries (Figure 8.1). A constitutional provision would ensure stronger legal protection in general, but some central banks, such as the Federal Reserve System in the United States, do not have constitutional provisions yet enjoy sufficient independence under primary law. Thus, the need for a constitutional provision should be considered in the context of the country's history and legal system.

Figure 8.1. Legal provisions regarding central bank independence vary across the benchmark countries

Number of central banks in benchmark countries



Note: "No" accounts also for cases with unclear provisions.
Source: OECD compilation based on central banks' legal documents.

Key legal provisions governing the independence of the central bank should include a well-defined mandate to attain and maintain price stability; the process for appointing and dismissing senior officials and protecting them from unilateral government action; the role and operation of the monetary policy committee and the autonomy of its decisions; and a high degree of accountability and transparency to the government and the public.

Table 8.7. Comparative overview of monetary policy autonomy provisions

	Article of constitution or central bank law				Key relevant provisions in the constitution, an international treaty, or central bank law
	Exclusive currency issuance	Prohibition from taking instructions	Autonomy in general	Prohibition from financing government	
Australia	Section 34(2)	-	-	-	Australian notes shall be printed by, or under the authority of, the Reserve Bank of Australia (Section 34(2)).
Brazil	Article 164	-	Article 8	Article 164	The competency of the Union to issue currency shall be exercised exclusively by the Central Bank of Brazil. It is forbidden for the Bank to grant, either directly or indirectly, loans to the National Treasury or to any body (Article 164).
Costa Rica	Article 43	-	Articles 188 and 189	Article 59(a)	The autonomous institutions of the state enjoy administrative independence and are subject to the law in matters of government (Article 188). Those established by this constitution are autonomous institutions (Article 189).

	Article of constitution or central bank law				Key relevant provisions in the constitution, an international treaty, or central bank law
	Exclusive currency issuance	Prohibition from taking instructions	Autonomy in general	Prohibition from financing government	
Euro area	Article 282(3) (TFEU)	Article 130 (TFEU)	Article 282(3) (TFEU)	Article 123(1) (TFEU)	Overdraft facilities or any other type of credit facility shall be prohibited (Article 123(1)). Neither the ECB nor a national central bank shall seek or take instructions from Union institutions, bodies, offices or agencies, from any government of a Member State or from any other body (Article 130). The ECB shall have legal personality. It alone may authorise the issue of the euro. It shall be independent in the exercise of its powers and in the management of its finances. Union institutions, bodies, offices and agencies and the governments of the Member States shall respect that independence (Article 282(3)).
India	Article 22(1)	-	-	-	The Reserve Bank of India shall have the sole right to issue bank notes in India (Article 22(1)).
Mexico	Article 28	-	Article 28	Article 28	The Bank of Mexico shall be autonomous in the exercise of its functions and its administration. No authority can order the Bank to provide financing. Those functions shall be carried out exclusively by the state through the Bank in the strategic areas of coining and note printing (Article 28).
New Zealand	Article 25(1)	-	-	-	The Reserve Bank of New Zealand shall have the sole right to issue bank notes and coins in New Zealand (Article 25(1)).
Poland	Article 227(1)	-	-	Article 220(2)	The budget shall not provide for covering a budget deficit by way of contracting credit obligations to the National Bank of Poland (Article 220(2)). The National Bank of Poland shall have the exclusive right to issue money as well as to formulate and implement monetary policy. The Bank shall be responsible for the value of Polish currency (Article 227(1)).
Sweden	Article 14 of ch. 9	Article 13 of ch. 9	-	-	No public authority may determine how the Riksbank shall decide in matters of monetary policy (Article 13 of Chapter 9). The Riksbank alone has the right to issue banknotes and coins (Article 14 of Chapter 9).
Switzerland	Article 99	-	Article 99	Article 11(2)	The Confederation is responsible for money and currency, and it has the exclusive right to issue coins and banknotes. The Swiss National Bank, as an independent central bank, shall pursue a monetary policy that serves the overall interests of the country; it shall be administered with the co-operation and under the supervision of the Confederation (Article 99).
Turkey	Article 4 II	-	Article 4 III	Article 56	The privilege of issuing banknotes in Turkey shall rest exclusively with the Central Bank of the Republic of Turkey. The Bank shall enjoy absolute autonomy in exercising the powers and carrying out the duties granted by this law under its own responsibility (Article 4). The Central Bank of the Republic of Turkey may not grant, advance or extend credit to the treasury or to public establishments or institutions, and may not purchase debt instruments issued by the treasury or public establishments or institutions in the primary market (Article 56).
United States	Section 16(1)	-	-	Section 14(2)	Any bonds, notes, or other obligations that are direct obligations of the United States or that are fully guaranteed by the United States as to the principal and interest may be bought and sold without regard to maturities but only in the open market (Section 14(2)). Federal Reserve notes, to be issued at the discretion of the board of governors of the Federal Reserve System for the purpose of issuing advances to Federal Reserve banks through the Federal Reserve agents as hereinafter set forth and for no other purpose, are hereby authorised (Section 16(1)).

Note: The underlined items are enshrined in the constitutions or TFEU. The other items are set forth in central bank laws.
Source: Constitutions/TFEU, central bank laws and websites of the benchmark countries.

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Notes

[1] The Swedish Riksbank was established in 1668 as a joint stock bank to lend the government funds and to act as a clearing house for commerce. In 1694, the Bank of England was founded also as a joint stock company to purchase government debt. Other central banks in Europe were set up later for similar purposes, though some were established to deal with monetary disarray. The Federal Reserve System was created by the US Congress in 1913 as the nation's central bank in which commercial banks hold stock with the aim to provide a safer, more flexible and more stable monetary and financial system.

[2] For example, Sargent (1982[3]) describes the historical experiences of hyperinflation in Austria, Hungary, Germany and Poland in the 1920s, stressing that the creation of an independent central bank – that was legally prohibited from extending unsecured credit to government – would have been one of the essential measures to prevent such hyperinflation. In the past decade, Zimbabwe has experienced hyperinflation fuelled by the central bank printing money.

[3] Some prefer the term "autonomy" to the frequently used term "independence" because autonomy entails operational freedom, while independence indicates a lack of institutional constraints (Lybek, 2005). This chapter uses these two terms interchangeably except where it might be misleading.

[4] Bordo (2007[7]) provides a brief history of central banks, including the transition to independence.

[5] In some countries (e.g. Australia, India, New Zealand and Turkey) the government is involved in determining policy objectives, including the target inflation rate.

[6] Based on a sample of 118 central banks between 2010 and 2018, Binder (2021[9]) illustrated that on average about 10% of these banks reportedly face political pressure every year.

[7] The civil law system is based on the codification of the core principles of laws, whereas the common law system derives from uncodified judge-made case law, which gives precedential authority to prior court decisions.

[8] With the establishment of the ECB, national central banks in the euro area countries no longer set monetary policy but they continue to maintain many important functions. Such changes were brought about by the ratification of TFEU. For further details on the legal framework of the European System of Central Banks and the ECB, see Amicorum and Garavelli (2005[13]).

[9] The owners of central banks are responsible for making executive appointments, and receive a share of central banks' profits, while the banks' senior management and policy committees are responsible for controlling daily operations and the conduct of monetary policy.

[10] For details see the FAQ prepared by the Federal Reserve: www.federalreserve.gov/faqs/about_14986.htm.

[11] Central banks from EU countries that are not members of the monetary union do not participate in the ECB policy-making body (governing council).

[12] The principle of independence of the central bank from the government has much in common with the principle of the independence of the judiciary. See the commentary on the constitutional court in Chapter 5.

[13] Central banks in the euro area, Mexico, New Zealand, Switzerland and Turkey have price stability as their most important mandate. In the other economies, each mandate is regarded as being of equal importance.

[14] Prudential policies consist of micro- and macro-prudential policies. Micro-prudential policies aim at protecting individual financial institutions from idiosyncratic risks and encouraging sound management. The objective of macro-prudential policies is to ensure the stability of the financial system as a whole, by taking into account interactions among financial institutions as well as the feedback loops of the financial sector with the real economy. Examples of prudential regulation include minimum required liquidity and capital ratios, and caps on loans in relation to the value of purchased property or to income. In almost all countries the central bank is responsible for macro-prudential policies, and in some countries also for micro-prudential policies, in co-ordination with the financial supervisory authority.

[15] On most monetary policy boards, the chairperson has a casting vote when votes for and against are in equal numbers.

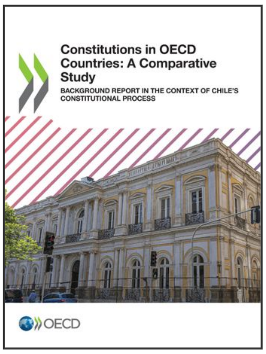
[16] In the Unites States, the policy-making Federal Open Market Committee (FOMC) consists of seven governors of the Federal Reserve System; the president of the Federal Reserve Bank of New York; and four of the remaining 11 Reserve District Bank presidents. The US president's nomination and Senate's confirmation processes are required only for the seven governors of the Federal Reserve Board.

[17] According to the constitution of Costa Rica, the Legislative Assembly has sole powers to establish the law on the unit of currency and enact laws on currency, credit, weights and measures (Article 121). However, there are no relevant provisions on the central bank's right to issue currency.

[18] Central banks have an ability to manipulate the monetary base during the conduct of monetary policy. The monetary base is the total amount of currency in circulation plus commercial bank deposits held as the central bank's reserves.

[19] Future possible implementation of central bank digital currencies, which are under considerations in several countries, would require new legal provisions on currency issuance (BIS, 2020[21]).

[20] The United States guarantees monetary policy autonomy by permitting the Federal Reserve to purchase government debt only in the secondary market. The other countries, such as Costa Rica, Switzerland and Turkey, have similar provisions in their primary legislation.



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