

CENTRAL BANK AUTONOMY

Attempts to measure the degree of autonomy a central bank has date back at least to the work of Grilli, Masciandaro and Tabellini (1991). A recent IMF Working Paper by Arnone, Laurens and Segalotto (2006) presents an update of earlier measurements, allows comparisons across countries and over time and extends the country coverage to developing and emerging market economies. This short article concentrates, however, on the authors' results for OECD countries.

The update of the Grilli et al. measurement follows, of course, the methodology originally employed. The (old and new) index consists of two parts, political autonomy and economic autonomy, which are sub-divided into 8 and 7 sub-indexes, respectively (Table 1).

If the conditions formulated in the 8 plus 7 variables are met, they get 1 point, otherwise 0. It is only vari-

able 7 of economic autonomy that can have the states 0, 1 or 2. The total maximum score is then 16.

Table 2 shows the results of the update provided by Arnone et al. The column numbers correspond to the numbering in Table 1. First we consider the overall scores (political plus economic autonomy, last two columns). With the exception of Canada (loss of one point) and the US (no change), all countries have improved the degree of overall autonomy of their central banks. The most significant increases occurred in former low-autonomy countries that joined the European Monetary Union (euro area), such as Greece, Italy, Portugal or Spain. It is interesting to note that also some non-EMU countries, like Denmark, New Zealand, Switzerland and the UK, were able to markedly improve their scores for central bank autonomy during the period considered. The European Central Bank (ECB) stands out with the highest (and highest possible) score of 16 points.

The mean values (last line) of the scores have improved for both political and economic autonomy.

But the increase in political autonomy was somewhat stronger. Looking at individual countries, the total scores for political autonomy have also increased in most cases. The central banks of Australia and Canada, however, lost some autonomy. In both cases it was the "conflict-with-government-clause", which changed to the detriment of the central bank. The total scores for economic autonomy also improved in most cases. Notably, in terms of economic autonomy the German Bundesbank lost one point. This is due to the loss of responsibility for the discount rate, which now is in the hands of the ECB. Of course, all members of the EMU lost this responsibility, and thus, one point, but most countries compensated for this by a gain in other areas of economic (and political) autonomy. (The Spanish central bank, before joining the EMU, was not able to set the discount rate autonomously.)

Table 1
Variables entering the measurement of central bank autonomy
(Grilli, Masciandaro and Tabellini)

Political autonomy	Economic autonomy
1. The governor is appointed without government involvement.	1. There is no automatic procedure for the government to obtain direct credit facilities from the central bank.
2. The governor is appointed for more than five years.	2. Direct credit facilities to the government are extended at market interest rates.
3. The board of directors is appointed without government involvement.	3. The credit is extended at a temporary basis.
4. The board of directors is appointed for more than five years.	4. The credit is extended for a limited amount.
5. There is no mandatory participation of government representatives in the board.	5. The central bank does not participate in the primary market for public debt.
6. No government approval is required in formulating monetary policy.	6. The central bank is responsible for setting the discount rate.
7. There are requirements in the charter forcing the central bank to pursue monetary stability amongst its primary objectives.	7. The central bank has no responsibility for overseeing the banking sector (2 points) or shares this responsibility with other institutional entities (1 point).
8. There are legal protections that strengthen the central banks' position in the event of a conflict with the government.	
Maximum possible points: 8	Maximum possible points: 8

Source: Arnone et al., 2006.

Table 2
Measurements for central bank autonomy, 2006, compared with 1991

	Political autonomy								Economic autonomy								Overall 1991	Overall 2006			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	Sum 1991	Sum 2006	(1)	(2)	(3)	(4)	(5)	(6)			(7)	Sum 1991	Sum 2006
Australia	0	1	0	0	0	0	1	0	3	2	1	1	1	1	1	1	2	6	8	9	10
Austria	1	1	1	1	1	1	1	1	3	8	1	1	1	1	1	1	2	6	7	9	15
Belgium	1	1	1	1	1	1	1	1	1	8	1	1	1	1	1	1	2	6	7	7	15
Canada	1	1	0	0	0	0	1	0	4	3	1	0	1	1	1	1	2	7	7	10	10
Denmark	0	1	0	0	0	1	1	1	3	4	1	1	1	1	1	1	2	5	8	8	12
EMU	1	1	1	1	1	1	1	1	-	8	1	1	1	1	1	1	2	5	8	8	16
France	1	1	1	1	1	1	1	1	2	8	1	1	1	1	1	1	2	5	7	7	15
Germany	1	1	1	1	1	1	1	1	6	8	1	1	1	1	1	1	1	7	6	6	13
Greece	1	1	1	1	1	1	1	1	2	8	1	1	1	1	1	1	1	2	7	5	13
Ireland	1	1	1	1	1	1	1	1	3	8	1	1	1	1	1	1	0	4	5	5	7
Italy	1	1	1	1	1	1	1	1	4	8	1	1	1	1	1	1	1	4	5	5	13
Japan	0	0	0	0	0	0	0	0	1	1	1	0	1	1	0	1	2	1	6	6	6
Netherlands	1	1	1	1	1	1	1	1	6	8	1	1	1	1	1	1	1	4	6	6	10
New Zealand	1	0	0	0	1	0	1	1	0	2	0	0	1	1	1	0	0	3	5	5	3
Portugal	1	1	1	1	1	1	1	1	1	8	1	1	1	1	1	1	1	2	3	6	5
Spain	1	1	1	1	1	1	1	1	2	8	1	1	1	1	1	0	0	3	5	6	5
Switzerland	0	1	1	1	1	1	1	1	5	7	1	1	1	1	1	1	2	7	8	12	14
United Kingdom	0	0	0	0	1	0	1	1	5	3	1	1	1	1	1	1	2	5	8	6	15
United States	0	0	0	1	1	1	1	1	5	5	1	1	1	1	1	1	1	7	7	12	11
Mean									2.9	6.1								4.7	6.5	7.7	12.6

Note: The figures show the situation in 2006. **Changes** are indicated in **bold figures**. A **bold 0 (bold 1)** means that in 1991 the score was 1 (0).

Source: Table compiled from Arnone et al. 2006.

Not only the central banks of OECD countries, also those of developing and emerging market countries have improved their autonomy score significantly in the period considered (not shown here). Seen worldwide, the progress in autonomy is mainly due to three factors: price stability as the primary objective of many central banks, greater independence of the central banks from political interference and the prohibition for central banks to provide direct credit to the government.

R.O.

References

Arnone, M., B. J. Laurens and J.-Fr. Segalotto (2006), "Measures of Central Bank Autonomy: Empirical Evidence for OECD, Developing and Emerging Market Economies", *IMF Working Paper* 06/228.

Grilli, V., D. Masciandaro and G. Tabellini (1991), "Political and Monetary Institutions and Public Financial Policies in the Industrial Countries", *Economic Policy*, 13, 341–92.