Governance and Independence in the Case of the Central Bank of Bangladesh: Insights From a Comparative Study

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ABSTRACT

The decisions made by central banks or monetary authorities impact upon national employment, price levels and economic growth. Accordingly, governments are typically considerably concerned with the performance of these institutions. Conflict arises when the government wants to have greater control and direct the monetary policy based on exclusively political considerations – which tend to be short term in nature. The central bank considers the long-term economic welfare instead of short-term economic boosts. Central bank independence (CBI) is, therefore, thought to be the solution to this strained relationship. In the case of the Central Bank of Bangladesh, critics allege that it is too susceptible to political influence from the government, and its poor governance situation is emanating from its lack of independence. This study aims to analyse the governance and organisational structures of three central bank cases – of New Zealand, Australia, and China – to ascertain whether more independence could in fact improve the governance of the Central Bank of Bangladesh and make it a better monetary policy authority. After an extensive review of extant literature on central bank governance, this study uses a comparative case study methodology with primarily qualitative data analysis. The case study analysis suggests that CBI is not the solution for poor governance situation in the Central Bank of Bangladesh. Instead, the quality of its governing board and competencies of central bankers must be enhanced to improve its governance. The study also urges using an institutional lens to view the context wherein a central bank operates and considering the difference between its actual and statutory independence. CBI is a volatile concept, and it cannot be thought of as the ultimate solution to improving governance of a central bank, especially in a developing country context.

Keywords: central bank governance; central bank independence; CBI; central bank politics; central bank organisational structure; central bank design.

DECLARATION

I confirm that this dissertation does not include without acknowledgment any content previously used for a submission for a degree in any university; and that to the best of my understanding and knowledge it does not incorporate any material written by another person except where due reference is made in the text.

Signed: (S M Shamim-Ur- Rashid)

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LIST OF ABBREVIATIONS

ANZ Bank	Australia and New Zealand Banking Group Limited
BB	Bangladesh Bank
CBBH	Central Bank of Bosnia and Herzegovina
CBI	Central Bank Independence
CEO	Chief Executive Officer
FDI	Foreign Direct Investments
IMF	International Monetary Fund
MPC	Monetary Policy Committee
NGO	Non-Governmental Organisation
NPL	Non-Performing Loan
OECD	Organisation for Economic Co-operation and Development
PBC	People’s Bank of China
RBA	Reserve Bank of Australia
RBNZ	Reserve Bank of New Zealand
The US	The United States

CHAPTER 1: INTRODUCTION

In 2019, the then United States President Donald Trump astonishingly blamed the Federal Reserve for slow economic growth in the US economy. He publicly criticised Federal Reserve Chairman Jerome Powell, saying 'He's decided to prove how tough he is, because he's not going to get pushed around? Here's a guy, nobody ever heard of him before. And now, I made him, and he wants to show how tough he is. Okay. Let him show how tough he is. He's not doing a good job' (Jolly 2019). In a Twitter post, President Trump also called Federal Reserve officials 'boneheads' and argued that they were missing 'a once-in-a-lifetime opportunity' to enhance economic growth by cutting interest rates (Bomey 2019). President Trump's name-calling indicated that Federal Reserve Chairman did not follow his instructions regarding interest rate reduction. This scenario illustrates the perpetual tension in central banking: the strained relationship between a government and its central bank. If this can happen to an independent central bank like the US Federal Reserve (Siegel, Stein & Pager 2021), it can happen in other central banks as well. Modern economies cannot run smoothly without an efficient central bank (Doyle & Weale 1994, p. 61). It is the most powerful monetary institution of an economy (Felber 2017, p. 53).

President Trump's criticism is significant because it highlights some macroeconomic terms related to central banking. Both national economic growth and interest rate depend on the central bank's decisions. On one hand, it manages inflation or 'continuous increase in general price levels' (Register & Grimes 2015, p. 359) by controlling interest rates using the monetary policy; and on the other hand, it influences economic growth, which is a long-term process (Register & Grimes 2015, p. 292). Monetary policy also influences the national employment level (Register & Grimes 2015, pp. 330-3). Therefore, a government unsurprisingly keeps tabs on the central bank, because its failure to manage inflation and unemployment may lead to political instability and unrest in the society (Register & Grimes 2015, pp. 350-1). So, the instrument called 'monetary policy' in the hands of a central bank has a major influence in determining not only macroeconomic welfare but also the political success of the ruling party. That is why, a government often intervenes in the monetary policymaking and other decisions of the central bank. Politicians are usually not interested in long-term economic growth; rather, they are biased towards short-term economic boosts and employment upsurges within political electoral cycles. These surges can result in inflationary pressure. In contrast, independent central bankers do not have such political considerations; they are instead concerned with the longer-term outlook and economic stability showing inflation aversion (Demertzis, Hallett & Viegi 2004, p. 908; Bernholz 2013, p. 207). As a result, often a conflict arises between these two parties. Hence, politicians are seen to control their central bank's governance and decision-making mechanisms either directly or indirectly. That is why many have questioned whether representatives of stakeholders affected by a central bank's decisions should be included in its decision-making setup (Felber 2017, p. 56). This is arguably a question of fundamental democratic principle.

In this context, central bank independence (CBI) is the subject of inquiry for this study and is the focus throughout. This dissertation analyses the statutory or legal independence, governance, and organisational structure of three central banks and then contrasts the findings with the case of the Central Bank of Bangladesh. The fluctuation and distinction between actual and statutory independence is a key focal point of this study. This research project is informed by my own experience of working in the Central Bank of Bangladesh for seven years. Having experienced the impact of a general lack of independence in decision-making, I was motivated to understand the relative independence in other central banks along with their implications. The desire to ensure central bank good governance in the political reality of Bangladesh is another source of motivation. Therefore, this dissertation attempts to bring together three central bank cases to analyse and compare their governance and organisational structures. This comparative analysis after an extensive literature review offers some important insights about central bank governance that could be useful for the Central Bank of Bangladesh.

The main anchor is on the case of the Central Bank of Bangladesh to see how its governance mechanism impacts upon its independence and effectiveness. The Central Bank of Bangladesh is often criticised for poor internal management and lack of good governance. Media reports regularly highlight its failure to control bad loans in the banking sector of Bangladesh (The New Nation 2019; Alo 2021c). It is also criticised for allegedly being lenient with government-owned commercial banks and issuing licences to new banks with political considerations (Dhaka Courier 2017; Hossaini 2018; The Daily Star 2019; Rashid 2019). It is controlled by the government and its performance as an effective regulatory authority is under severe criticisms due to alleged political influences (Rahman 2015; Rashid 2019). The International Monetary Fund (IMF) has regularly raised this issue and urged the Bangladesh government to reform the central bank board to give it more autonomy and operational independence (Tasreen 2019). Therefore, this study asks: *How can the Central Bank of Bangladesh improve its efficacy through reforming its level of independence within its governance structure?* The related sub-question is: *Would more independence in decision-making improve the governance of the Central Bank of Bangladesh and make it a better monetary policy authority?* Based on governance data collected from three central banks (in New Zealand, Australia, and China), the comparative analysis results in thoughtful insights.

Existing research on central bank governance mainly focus on the correlation between CBI and inflationary outcomes. Very few studies have focused on the institutional setting and its impact on the level of autonomy. Besides, cross-country analysis of central bank organisational structures is hard to find. This dissertation is an attempt to, in part, address that gap by studying committee and board formations of selected central banks to understand political influence in decision-making. It attempts to understand practical implications and potential solutions for a practical problem. Existing studies about central bank governance are divided into two main categories: one group is in favour of CBI (Wagner 1999; Crowe & Meade 2007; Cukierman 2008; Bernholz 2013; Garriga & Rodriguez 2020); and another against it (Levy 1995; de Haan & Kooi 2000; Coleman 2001; Capie & Wood 2013; Ainsley 2017;

Goodhart & Lastra 2018; Hartwell 2019; Wachtel & Blejer 2020; Binder 2021). This dissertation strongly supports Ainsley's (2017) observations that the institutional setting of a central bank, political reality, and uncertainty of the economic environment must be considered before giving more autonomy. This also supports the findings of Aklin and Kern (2020) that politicians are the main players, and a government can always intervene, even if its central bank is fully independent. This dissertation argues that, although central bank independence (CBI) has resulted in better economic outcomes in some countries, it is not the panacea for poor governance in a central bank. An institutional lens or perspective helps view the unique organisational setting wherein a central bank operates and the political reality that the 'actual' and 'statutory' independence differs and fluctuates during economic and other emergencies.

In summary, this paper is divided into five chapters. This introductory chapter (Chapter 1) has already laid out the research question, its significance and thesis statement. Chapter 2 delineates the methodology used to answer the research question and justifications for selection of cases. Chapter 3 provides a broad review of extant literature on central bank governance and displays thematic similarities among them. It also lays out the theoretical framework of this study. Chapter 4 includes observations from three cases along with the case of the Central Bank of Bangladesh, cross-case comparative analysis and insights. Finally, Chapter 5 concludes with recommendations.

CHAPTER 2: METHODOLOGY

2.1 Introduction

The research problem lends itself to a case study approach to inquiry. This is one of the most popular approaches in Public Administration (Luton 2010, p. 153). Following is a preview of the design of how this study has been conducted.

2.2 Research Methodology

This research takes a comparative case study approach using primarily qualitative data and techniques for analysis. Some quantitative data are also used. Consistent with commonly utilised methodologies in Public Administration, where a case can be an institution, a nation, a relationship, a process, or project (van Thiel 2014, p. 86), this dissertation involves studying three cases. This study uses a qualitative case study methodology because it is suitable for exploring organisational dynamics and understanding a 'complex relationship' (Luton 2010, p. 129) like the government – central bank relationship. Many researchers have used this approach to study central bank governance. For example, Nicholl (2006) uses two contrasting central bank cases of two countries, New Zealand, and Bosnia-Herzegovina, to find that the organisational design of a central bank influences its efficiency. Similarly, Ainsley (2017) uses a comparative case study of central banks in two countries, Hungary, and the United Kingdom. Thus, this is a common approach for studying institutional settings of central banks and generating valuable insights. Any other approaches such as an interview, survey, participant observation, or systematic review would not have served the purpose better because this research is focused on the organisational structure.

Out of the six commonly used data sources in Public Administration case studies, as listed by Luton (2010, p. 135), two are utilised in this study: 'organisational documents (i.e., organisational charts)' and 'media reports'. Because of the nature of the research problem, data on a central bank's organisational structure, governing laws and committee formation are required. Media reports on performance and independence are also needed, as this study aims to describe the governance characteristics of a central bank and their effects on its efficacy. These organisational reports and newspaper articles are primary data sources, whereas some secondary sources have also been considered in constructing the case on China, such as Bell and Feng (2013) and Zheng and Wang (2021). This is because the official website of the Chinese central bank does not disclose sufficient information about their governance mechanism.

The data collection begins with sources such as official websites of respective central banks and national legislation or parliamentary act. Publicly available data on organisational hierarchies or organograms, statutory appointment procedures, relevant parliamentary acts, formation and composition of boards, governing committees, and senior management teams, etc. are collected from these sources. While these data help in mapping the official rules and structures according to the laws, newspaper reports serve as the source for data on understanding political pressures, efficiency, effectiveness, and scam or corruption (if any). So, this involves an extensive review of newspaper articles on the research subject of respective central banks using a timeline between 2015 and 2021. The Factiva database and Google Search are used for locating published newspaper reports. Databases such as ProQuest and JSTOR accessed through Flinders University Library Online facilitate the literature review. Google Scholar also helps in locating relevant literature. Boolean operators such as 'AND' and 'OR' have been used in between 'central bank' and other keywords for generating relevant web search results. Keywords used after those Boolean operators are: 'governance', 'organisational structure', 'independence', 'politics', 'institutional design', and 'design'. Other search phrases are: 'Bangladesh Bank', 'Reserve Bank of Australia', 'Reserve Bank of New Zealand', 'People's Bank of China'.

The collected data on each organisation are collated and ordered so that analytical insights can be obtained. The analysis is adapted from the procedures of Comparative Case Study methodology developed by Yin (2009, p. 57). The process starts with developing a theoretical framework. Then three cases are selected, and data collection protocol is developed. After that, data are collected and summarised against themes for conducting individual analysis. Based on individual reports, a cross-case analysis is done. Finally, some implications and insights for the Central Bank of Bangladesh are generated. The whole process can be shown as below:

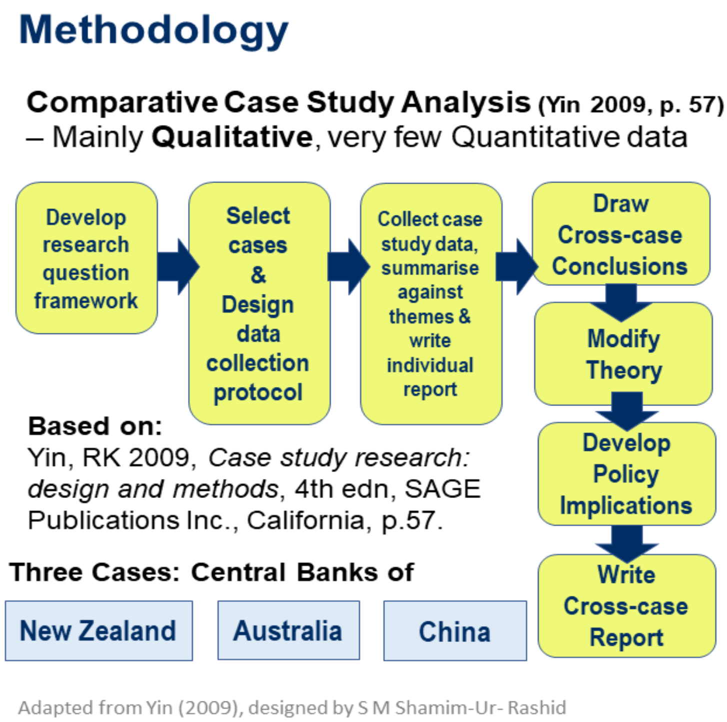

Figure 1: Research Methodology

Although case study methodology is widely used in the field of Public Administration, it has its own limitations of which this study is not devoid. This research is limited to exploring only three cases along with a central case due to time and word constraints. A higher number of cases would have resulted in better insightful conclusions. Also, data collection has been difficult in case of the Chinese central bank because their official website is not as well-organised and transparent as the other ones. No translated data have been used; only data available in English are collected. Moreover, assumptions on the extent of political influences within a central bank judged from the official organisational structure and media reports may not always be accurate enough. Insights from employees working within the organisations would have helped in this regard. Also, newspaper reports can be biased or motivated from a certain angle (Luton 2010, pp. 135-6). Despite those limitations, this study still generates fresh insights and contributes to a new understanding of the dynamics of the government-central bank relationship in a country-specific context.

2.3 Justifying Selection of Cases

This study anchors on the case of the Central Bank of Bangladesh because the main aim is to generate a practical solution to the lack of good governance problem within the organisation. In doing so, three selected cases for studying are: the Reserve Bank of Australia, the Reserve Bank of New Zealand, and the People's Bank of China. The Reserve Bank of New Zealand (RBNZ) is selected because it is renowned worldwide for being operationally independent while simultaneously maintaining accountability (Kirchner 1995, p. 173). During the 1990s, when the concept of CBI started to gain popularity, the RBNZ led the way (Capie & Wood 2013, p. 379). It is also known for its efficient internal management and good governance (Singleton et al. 2006, p. 3). So, it is worth examining what features make the RBNZ a role model in the central banking arena (Decker & McCracken 2018, p. 270).

The Reserve Bank of Australia (RBA) also falls into the category of an independent central bank, but it was not as independent as it is today. It initially did not follow the "New Zealand Model" that was popularised in the 1990s and fell behind in terms of CBI attainment. However, in 1996, it caught up and legally achieved operational independence (Decker & McCracken 2018, p. 257). Another reason for choosing the RBA is its history. Before the establishment of the RBA, there was an independent institution called the 'Note Issue Board' which was assigned the responsibility of issuing banknotes for Australia in 1920. It was created as a completely separate entity from the government and could set its own goals. However, because of its subsequent policy clashes and conflicts with bankers, businesses and primary producers, the Australian government had to nationalise it in 1924. This critical incident of giving it full independence and then taking it away four years later for making it amenable to the government, shows the fluctuating nature of independence of a monetary authority (Coleman 2001, pp. 731-2). The RBA is, therefore, an interesting case to study.

On the other hand, the People's Bank of China (PBC) is controlled by the socialist communist party of China. The political system in China is different. The central bank does not have any legal independence, and it must get approval from the nation's top authority before making any decisions (Batson 2010). Interestingly though, studies of Bell and Feng (2013, pp. 141-2) and Zheng and Wang (2021) reveal that despite having no formal autonomy, the PBC enjoys a good degree of autonomy. These contrasting findings are compelling. Besides, China is in Asia, and it has a transitional economy that must depend on the proper functioning of its central bank. So, it is an interesting case to compare with the other two and generate insightful learnings for the Central Bank of Bangladesh, which is also in Asia, but runs under a democratic political system.

Theoretically, this dissertation adopts the 'most similar and most different' criteria from the four basic forms of comparative explanation listed by Hopkin (2010, p. 292) compiling from different scholars. If a continuum is imagined based on relative central bank independence (CBI) then the RBNZ will be on one extreme, showing a high degree of independence, while the PBC will be on the exact opposite, having none. The RBA may fall somewhere in between these two, but closer to the position of the RBNZ. This imaginary continuum of CBI of these three central banks can be shown as follows (Figure 2).

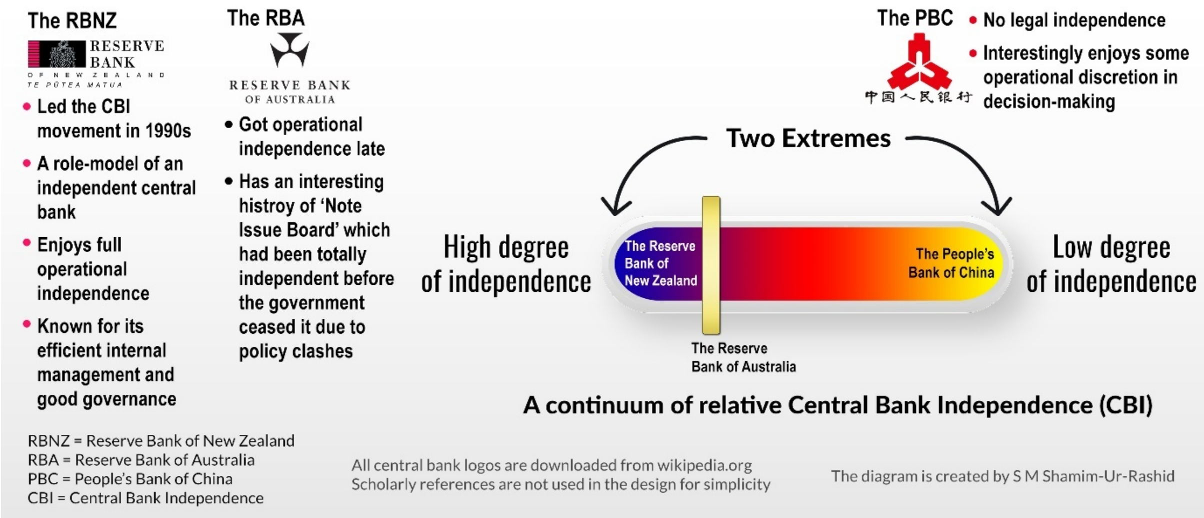

Figure 2: A continuum of relative central bank independence (CBI)

One might argue that the central banks of Australia and New Zealand cannot be compared with that of China because they are incompatible. That is understandable because of their different national political regimes, geographical locations, and economic development status. Besides, Bangladesh is in no way comparable to Australia and New Zealand in terms of economic development. But Peter Nicholl, who worked in both the central banks of New Zealand and Bosnia-Herzegovina, has closely seen two significantly different countries and their organisational settings. Nicholl (2006, p. 223) has opined that in public agencies like a central bank, the institutional design works much the same in different countries, irrespective of their significant cultural differences and development situations. That is why he has been able to successfully apply the same governance model of the RBNZ to the Central Bank of Bosnia and Herzegovina when he was in charge. This tells us that a specific central bank organisational setup may work in both a developed and developing nation. That argument leads to the conclusion that studying the organisational design and governing statutes of the central banks of New Zealand, Australia and China has the potential to generate important insights for improving the governance of the Central Bank of Bangladesh.

2.4 Ethical Considerations

This research project has not required an ethics review from the *Flinders University Social and Behavioural Research Ethics Committee* because it only uses publicly accessible information from official webpages, newspapers, books and journals without involvement of any human participants (Parkin 2021, p. 19).

2.5 Conclusion

This study uses a comparative case analysis methodology with a qualitative focus. The research scope is dependent on data availability. Although data regarding one of the cases – the central bank of China – have been difficult to locate, overall final data were satisfactory and comparable. Using the 'most similar/most different' case study approach (New Zealand-Australia v China) allows consideration of learnings from a spectrum of approaches. However, it also means that aspects of the case studies do not lend themselves to direct comparison.

CHAPTER 3: LITERATURE REVIEW

3.1 Introduction

Central banks are common to both democratic and non-democratic countries. The study of central bank governance is frequently related to its independence from the executive branch of the government. The worldwide consensus towards the idea of an 'independent' central bank reached its peak in the 1990s when many OECD countries started to give more discretionary power to their central banks. Nowadays, the concept seems to be threatened by many factors, such as global financial crises, unconventional policy tools, beyond-mandate central banking activities with far-reaching distributional effects, etc. Some recent studies have stressed the importance of using an institutional lens to see a central bank's operations. While most of the central bank independence (CBI) literature focuses only on developed economies, very few are found to examine the success of that concept in a developing or transitional economy context. The following review of literature illustrates those issues after analysing major research works which have been published on the specific topic of this dissertation: central bank governance and independence. Reviewed works are organised using a thematic pattern that involves grouping all works based on some common themes. This literature review identifies seven themes that are found in more than one source and confirms the need for rethinking the concept of CBI especially focusing on the context.

3.2 Defining the problem

A central bank is a core institution of a financial infrastructure that uses monetary policy and strives to ensure financial system stability in the country. Most central banks are government-owned (Delgado 2021, p. 102). The term 'monetary policy' refers to the use of credit and deposit facilities to achieve macroeconomic targets. A typical monetary policy will involve: (i) introducing money into the economy to reduce interest rates; and (ii) selling low-risk financial assets such as government bonds to take away money from the market and thus increase interest rates (van 't Klooster 2020, p. 588).

Monetary policy is crucial because it influences national employment and price levels. If the monetary policy is targeted to decrease interest rates, general consumption and investment levels will rise, along with employment rates; and finally, the price of goods and services. In contrast, if the central bank increases interest rates, economic output will contract, and inflation will decrease. For this reason, the government needs to find the appropriate monetary policy to achieve a balanced economy. It has far-reaching and long-lasting impacts on people's lives. Hence, it often becomes inevitable that a central bank's monetary policymaking will come under some sort of political influence (van 't Klooster 2020, pp. 588-9). This is significant, not only for the success of a central bank in maintaining price stability, but also for politicians' political careers. So, the ruling party has a temptation to manipulate the monetary policy.

For the survival of a country's citizens, long-term price stability is crucial. There was a time when mint coins would be used as money in different parts of the world. Those coins were produced by minting precious metals such as gold and silver. Because precious metals like gold and silver were scarce in the nature, money production was naturally controlled. But after the abolishment of such metal-based money standards, the initiation of paper-based fiat money has given a monopoly power to the central banks. They issue legal tenders called banknotes. Technically, a central bank can print as much currency as it wants. This mechanism has sometimes been used by politicians to their own advantage, leading to long-term inflation in the economy. Politicians are often concerned about satisfying various stakeholder groups by injecting new money into the economy. So, the very nature of paper money pairing with no metals calls for the introduction of some sort of legal power for central banks to restrict money supply if necessary. This phenomenon has basically led to the concept of 'central bank independence' (Bernholz 2013, p. 200).

A central bank does not perform the single task of monetary policymaking. It has multiple responsibilities, depending on the economic condition of the country. Although different central banks may perform different responsibilities, some key tasks are common worldwide. These are: maintaining financial stability by keeping an acceptable inflation rate for price stability; ensuring stable currency exchange rates; facilitating payment systems; supervising (directly and indirectly) all commercial banks; and contributing to economic growth (Mester & Hasan 2008, pp. 622-3). Therefore, political instructions do not come only with regard to monetary policymaking. The government may use its power to politically instruct the central bank on other areas as well.

That is when good governance becomes significant. Nicholl (2006, pp. 214-5) states that the necessity of improving corporate governance is emphasised in the private sector. But it is equally important for the public sector. Nicholl agrees that ensuring good governance in the public sector alone does not automatically enhance the economic performance of a country, because it is the private sector that defines the fate of an economy. But he argues that the reverse is also significant, and a poor governance situation in public offices will eventually lead to poor economic performance. For example, in a country where the public sector does not ensure a good business environment due to its lack of good governance, major investments and foreign direct investments (FDI) will go to other neighbouring countries where the situation is better.

3.3 Central Bank Independence (CBI)

Before defining central bank independence, the first question that needs to be asked is ‘independence from whom?’. As a central bank is a public agency, it is usually controlled by an executive branch of the government headed by a politician. So, CBI refers to a situation when the government may set targets, but the central bank has the freedom to select its own implementation strategies for achieving those goals without any direct approval from the government. Thus, a central bank can insulate itself from conflicting goals. For instance, the ruling party may want to appear to the public as though they are performing well and ask the central bank to boost short-term economic growth at the expense of inflation or long-run economic fluctuations. In that situation, CBI becomes necessary. Many researchers have also used the term ‘autonomy’ to indicate this independence (Mester & Hasan 2008, p. 624). Another definition by de Haan et al. (2018, p. 184) refers CBI as the act of delegating monetary policy related responsibilities to an unelected and non-political authority in order to restrict the government’s influence on monetary policy. Likewise, van ’t Klooster (2020, p. 587) has also defined CBI as a government’s delegation of monetary policy to a team of unelected technical experts. In fact, the concept of CBI is relatively new in the history of central banking.

In the 1980s, discussions regarding an independent central bank started to gain attention among economists and politicians. A consensus started to become stronger in favour of CBI. Some notable central banks re-thought their business methods and revisited their goals. They made significant changes to their legal and organisational frameworks. An example can be the Reserve Bank of New Zealand’s discretionary freedom for making and implementing monetary policy decisions without any government interference from 1989. Similarly, England and France took legislative initiatives to give independence to their central banks in 1994 and 1997 respectively. Again, the European Central Bank has been legally independent since its birth in 1998 (Coleman 2001, p. 729; Mester & Hasan 2008, pp. 620-1). To trace the history of CBI, Hartwell (2019, pp. 61-2) refers to the Kydland and Prescott (1977) paper ‘Rules Rather Than Discretion’, to argue that the concept of CBI was first found in that scholarly work. The idea of the independence of a monetary authority from the regular government offices had already existed for decades. Hartwell states that the Kydland and Prescott paper did not explicitly use the term CBI, but their model provided a framework for the structuring and arrangement of an independent monetary authority. In summary, the concept of an independent central bank reached a stronger consensus during the 1980s and 1990s and flourished in later decades in some countries.

There are some classifications of CBI identified by various scholars. Bernholz (2013, pp. 203-4) lists three types of independence for a central bank. These are: (i) Legal Independence by appointing the central bank governor or CEO for a long tenure; (ii) Financial Independence, in which the central bank is able to meet its financial obligations on its own;

and (iii) Instrumental Independence, in which the central bank is able to use whatever tools it deems appropriate for attaining its objectives. Goodhart and Lastra (2018, pp. 57-8) suggest two more categories: Professional Independence and Goal Independence. For Professional Independence they recommend that central bankers are appointed based on their expertise in monetary economics and central banking theory. Besides, these central bankers cannot get involved in any private-sector businesses or roles while working at the central bank. On the other hand, Goal Independence refers to a central bank's ability to set its own goals instead of a government defining what it should accomplish. This is a rare case, according to Goodhart and Lastra, because when a public agency is created, the power is not just transferred, it is delegated. That delegation implies that a certain set of targets must be achieved. Therefore, a central bank with goal independence is hard to find.

3.4 Central bank governance and organisational structure

The organisational structure of central banks varies across the globe. Different organisational attributes are found among central banks in different countries (Delgado 2021, p. 103). In most countries, the overall power of the central bank is not in the hands of a single person. Instead, a board or committee holds the power (Reis 2013, p. 26). Notable characteristics that determine variations in central bank structure are: the size of the governing board; the nature of its formation, meaning whether all members are from inside the central bank or not; influence of outside directors; their appointment process; turnover rate of the central bank chief; etc. Another important element of a central bank's governance is legislation. A central bank is governed by a collection of laws and regulations. The government usually uses statutes to mandate the specified objectives for the central bank. In some countries, there are no specially mentioned targets for their central banks, whereas some governments clearly specify special output targets through parliamentary laws, acts, mandates, or decree. Other than parliamentary laws and acts, various charters and codes of conduct also govern a central bank. These laws, acts and regulations form the legal basis of a central bank and its operations.

Peter Nicholl, the New Zealand economist who held high positions in both the central banks of New Zealand and Bosnia-Herzegovina, has stressed the importance of good laws for the basis of a legal framework of a central bank. By comparing the cases of the Reserve Bank of New Zealand (RBNZ) and Central Bank of Bosnia and Herzegovina (CBBH), Nicholl (2006, pp. 216-7) found that although both countries were in different contexts, their central bank governing laws were equally good. Having such a clearly defined legal framework in the CBBH was a crucial and determining factor for the successful reform initiatives taken by the government of Bosnia and Herzegovina. Although Nicholl found that it was very difficult to suddenly establish new organisational structure and systems in the CBBH after a long period of wars along with people's past experiences in socialist regimes, the law played an important part in implementing institutional reforms. He thinks that the need for a clearly defined statutory basis is greater in countries that are going through an economic transition phase.

3.5 Central Bank Independence (CBI) literature based on themes

The study of central bank governance and organisational structure has regularly circled around the question of whether to allow central bank independence (CBI) or not. Most CBI related scholarly works have shown some common patterns or themes. Identifying and analysing those will make it easier to see CBI from different angles. Based on those themes, existing literature can be grouped as follows (Figure 3).

Figure 3: Common themes found in reviewed literature

3.5.1 Major financial crises and unconventional policy tools used by central banks

When discussing CBI, most scholars have referred to recent financial crises that have shaken the financial infrastructures worldwide. Most researchers think that those crises have threatened the concept of an independent central bank. In contrast, a few argue that CBI is still a valid concept, despite being impacted by financial crises. After praising CBI for its ability to maintain stability in the economy for relatively longer periods since the abolishment of the old gold standard, Bernholz (2013, p. 212) states that recent major financial crises and various emergencies have evidently threatened the independence of central banks around the world. In contrast, by casting doubt on CBI, Capie and Wood (2013, p. 379-83) argues that international financial crises have changed the central banks and made the concept of CBI fragile. Central banking is not limited to inflation control anymore thanks to those crises. Their study reveals that even an independent central bank can become a controlled institution any time during a financial breakdown. Ainsley (2017, p. 1218) thinks that CBI is not a successful strategy in maintaining stable price levels due to the uncertain and uncontrollable economic environment. In the same way, Goodhart and Lastra (2018, p. 65) argue that global financial crises have shown that CBI is a challengeable concept. Furthermore, Jones and Matthijs (2019, p. 130) opine that despite CBI being championed in the past for many good reasons, in this post-crises world, the concept of CBI should be rethought. Delgado (2021, p. 104) argues that the world has observed two major financial crises in the short timeframe of 2008 to 2020, and those crises have helped the evolution of central banking.

Similarly, van ’t Klooster (2020, pp. 587-8) thinks that recent global financial crises have transformed central banks around the world. Central banks have been forced to use unconventional methods or tools. For instance, some central banks are investing in oil and gas companies; some are financing low-cost airlines and playing share market roles, etc. He also suggests that the existing concept of CBI is ‘pre-crises’, and it needs reform. van ’t Klooster also urges central bankers to increase their competency to meet the challenges posed by the crises. According to van ’t Klooster, the overall governance system of central banking requires an overhaul by re-adjusting to this post-crises era. Likewise, Wachtel and Blejer (2020, pp. 107-8) also find that those financial crises have questioned the validity of CBI. This is because during a crisis, central banks have had to perform some non-traditional activities. Wachtel and Blejer argue that the context that led to the rise in awareness about CBI has changed after several global financial crises. According to them, as modern central banks are expected to work towards ensuring financial stability or elasticity of the economy, there must be some rethinking of central bank governance. They also urge a rethink of the relationship between a central bank and the government. Reis (2013, p. 38) and Dietsch (2020, p. 593), in two separate studies, also refer to the use of unconventional monetary instruments by central banks during and after financial crises.

However, there are some scholars who share a different view of the impact of financial crises on CBI. An example of this is a study by de Haan et al. (2018, pp. 192-200). Their study acknowledges that major financial crises have changed central banking worldwide as central banks had to intervene in the economy in different ways during those crises in order to maintain financial stability. However, de Haan et al. do not think that the concept of CBI is threatened.

3.5.2 Distributional effects of decisions made by central banks

Another important issue mentioned in most studies is the distributional effects that a central bank's decisions have on the society. Some authors argue that such effects make the concept of an independent central bank undesirable. While some others have argued that despite such distributional effects, the government can still delegate decision-making power to an unelected authority like the central bank.

By mentioning such far overreaching ramifications of policies adopted by a central bank, Levy (1995, pp. 191-2) argues that central banks should not be allowed to make policy decisions without democratically determining them. According to Levy, elected officials should have the power to influence a central bank's monetary policy and other important decisions. Since those policies implicitly have elements which determine citizens' fates, political influence on those policies is democratic. By referring to the example of an independent judicial department, Levy argues that the responsibility of the Supreme Court is to protect the constitution, rather than entertaining the people's will through its actions. So, it is appropriately an independent authority. On the other hand, he terms a central bank as the regulator with multi-dimensional effects on the society, and its decisions need to be checked by politicians. Likewise, de Haan et al. (2018, p. 200) argue that a central bank's decisions have more redistributive impacts on the society, especially after those major financial crises. Similarly, by referring to financial crises, Jones and Matthijs (2019, pp. 130-8) argue that crises have forced central banks to make some beyond-mandate decisions that have distributive effects on the society. They think that such distributive effects involve obvious winners and losers, so politicians should get involved. Their main logic is that such major distributional decision makers should not be left out of the typical accountability mechanism. Using the same tone, Wachtel and Blejer (2020, p. 107) also state that, during those crises, central banks have made certain decisions that have long-lasting distributive impacts upon the society. For this reason, they argue that elected politicians should monitor the activities of a central bank.

Moreover, Dietsch (2020, pp. 591-3) suggests that central banks need a reformed organisational design. He argues that after those financial crises, central banking activities have involved significantly greater distributive consequences. Dietsch also expresses concern over legitimacy of an independent central bank. He thinks that when monetary policy is delegated to an independent central bank, then technically double delegation occurs; first when voters (citizens) delegate to the government; and second when the government delegates to the independent agency. According to him, such double-delegation undermines the legitimacy of CBI. So, he urges that an appropriate institutional design should be utilised to find a trade-off between the tension of independence and legitimacy related with distributional impacts. Otherwise, according to him, politicians should increase overseeing or extend the control over the central bank.

However, van ’t Klooster (2020, pp. 588-90) also talks about the ‘own kind’ of distributive decisions taken by central banks, but he does not rule out the potential use of CBI. He differs from other scholars who also discuss distributional effects as he argues that just because its decisions have distributional effects, only politicians should not be able to make those crucial policy decisions. Unelected officials can also be allowed to make such decisions, but it is the government who will decide whether it is necessary to delegate the authority or not.

3.5.3 Using an 'institutional lens' or considering the institutional context in which a central bank operates

Some studies suggest that a central bank should be seen through an institutional lens by considering the domestic and international environment in which it operates. For instance, Ainsley (2017, p. 1218) has examined central bank appointments and monetary policy voting data of Hungary and the United Kingdom. Her study reveals that the structure of a central bank mandate, the context in which it operates, and the delegation process by politicians coupled with the uncertain economic environment can have considerable implications on CBI and its perceived success. She thinks that most literature on central bank governance regards CBI as an industry standard for responsible monetary policymaking while failing to consider the unique institutional setting. She concludes with the opinion that a study of central bank governance should always consider the organisational design and uncontrollable context. Pointing to the organisational design of central banks, Mas (1995, p. 1640) makes a similar statement. He thinks that before giving independence to a central bank, especially in a developing nation, its inherent institutional characteristics should be considered, instead of merely transferring the concept of CBI from successful OECD countries.

On the other hand, Hartwell (2019, pp. 61-2) argues that the concept of CBI ignores the complex international web of financial institutions in which all financial and banking service providers are globally interconnected. This is true for a central bank itself because it cannot deny the existence of such complex inter-dependencies within the global financial networks. According to him, operating in such a globalised world and being reliant on many political institutions, a central bank cannot break free and become independent both theoretically and operationally. He also opines that most of the extant CBI literature ignores insights from 'new institutional economics' while advocating for CBI.

3.5.4 Relationship between monetary policy authority and fiscal policy authority

Some researchers have highlighted the importance of interaction and cooperation between a government's fiscal policy authority (i.e. a ministry of finance, or the treasury) and monetary policy authority (the central bank). Instead of separating the central bank from the government's control, they suggest reinforcing the relationship between these two institutions. To evaluate the validity of CBI from different perspectives, Doyle and Weale (1994, pp. 71-6) have studied the pre-nationalisation and post-nationalisation history of the Bank of England. Their study particularly focuses on the interaction between the monetary policy authority and fiscal policy authority. They argue that if a monetary policy authority is made independent, there may arise a situation in which the fiscal policy authority's preference on an issue does not align with it. Consequently, the fiscal policy authority may exhibit questionable behaviour or initiatives to undo the central bank's policy effects on some economic variables such as aggregate demand. Doyle and Weale have highlighted the cooperation mechanism between these two authorities that work together to achieve a government's economic targets. They think that most theoretical analysis and CBI literature neglect this crucial relationship. They also question whether the benefit of delegating monetary policy to an independent central bank can outweigh the loss emanating from its potential conflict with the fiscal policy authority. By doing this, Doyle and Weale are making the concept of CBI questionable.

In the same way, Mas (1995, pp. 1640-4) presents that potential policy conflicts between an independent central bank and fiscal policy authority (the government) undermine the success of CBI. He also expresses doubt over the successful implementation of CBI in less developed countries because the fiscal policy authority in those countries dominates the monetary policy authority. Indicating similarly to this significant relationship, Demertzis, Hallett and Viegi (2004, p. 918) also conclude that potential conflicts may arise if monetary policy is delegated to an independent authority. They argue that even if a central bank is given independence, fiscal policy authority is still in the hands of the government. If there are differences in policy preferences between these two authorities, conflicts may hamper the economy. That is why, Demertzis, Hallett and Viegi express doubt over the success of an independent central bank and argue that giving CBI does not guarantee monetary policy effectiveness. Instead, they emphasise the institution-to-institution relationship and cooperation between monetary policy authority and fiscal policy authority. Mabbett and Schelkle (2019) also present the significance of this relationship in their study. They have argued that an independent central bank may become lonely in time of a crisis without any cooperation from the fiscal authority.

3.5.5 Rise in populism

Some researchers think that the rise of populist politics in some countries has made CBI an attractive solution. They also point to the fact that central bankers are always criticised for anything bad occurring in the economy. Goodhart and Lastra (2018, p. 50) think that the growing interest in CBI in the recent past is due to the rise of populism in the political arenas of many countries. They define a populist as someone who is not in favour of free movements of labour, capital, and goods between nations. They have also gone further and provided a subsidiary definition of populism: an elected politician’s shift from democratic to autocratic principles in a democratic political system. They refer to a democratically elected politician’s desire to control all executive powers of a government in an autocratic manner. The rise of populist philosophical politics is also stated by Wachtel and Blejer (2020, p. 107). They think that populism has made the case for an independent central bank stronger because the populist sentiment of politicians has made a central bank an easy target for blaming for a mishap in the economy. Jones and Matthijs (2019, p. 129) also share a similar view. They think that central bankers are politicians’ favourite targets for blaming when the economy is not working well. Similarly, Mas (1995, p. 1642) thinks that even a central bank fully controlled by the government sometimes get the blame for failures that are related to fiscal actions.

3.5.6 CBI removes politicians' inflation-bias

The advocates for CBI have pointed out the positives of an independent central bank in the economy. Its main advantage is the achievement of lower inflation in the economy by keeping the politicians away from monetary policymaking. There are still doubts whether it works similarly in all economies in the world. According to Wagner (1999), empirical evidence supporting the effectiveness of CBI and the worldwide consensus on allowing CBI are all focused on developed countries. He examines whether the concept of CBI would be similarly applicable and effective in transition economies. His study presents that the first step to introduce CBI in a country with a transition economy is to introduce legal or statutory independence by doing the paperwork. Side by side, it is necessary to create a congenial institutional setting or environment so that such proxy CBI can eventually transform into actual independence. As Wagner has tried to find the answer for the applicability of CBI in transition economies, recently a group of researchers have investigated its use in developing economies. One of the most recent studies by Garriga and Rodriguez (2020, pp. 96-7) presents evidence that CBI can also reduce inflation in developing countries. They have studied 118 developing countries, including both democracies and non-democracies, and their findings support the positive relationship between CBI and lower price levels in the economy. However, their study reveals that CBI is more effective in democracies.

Some researchers have assumed that a central bank will be conservative, whereas governments take risk for political returns within election cycles. As de Haan and Kooi (2000, p. 646) state, a central bank is theoretically thought to show conservative behaviour. By 'conservative' they mean a stronger 'inflation aversive attitude' than a political government. Likewise, Bernholz (2013) argues that political leaders and governments tend to have an inflationary bias. He has spoken in favour of CBI by labelling it as a new pillar of the separation of powers to avoid politicians' inflationary biases. Even if the politicians' aim is the welfare of the nation, they also become concerned about getting themselves elected or re-elected. They need to keep many interest groups and stakeholders satisfied to win votes. Those interest groups are mainly concerned about their income and wages, valuation of their assets, employment opportunities, expenditures involved in businesses, rent, etc. In such a situation, a government may end up increasing public debt and eventually turning to the central bank to finance their deficits. So, it is tempting for a government to use the monetary policy toolkit stored in the central bank to influence money circulation by printing more banknotes, which in turn leads to the phenomenon of skyrocketing inflation. Because national employment is positively correlated with inflation, a government may also pressurise the central bank to adopt an expansionary policy. Bernholz has studied the history and found that during the time when the gold standard used to be accepted for currency production, the longest period of monetary stability was observed. However, after getting rid of those metal-based standards, only thanks to CBI have some countries been able to maintain relative inflationary stability in the last century.

Along the same lines, Cukierman's (2008) study finds empirical evidence that supports the correlation between CBI and the performance of the economy measured in some macroeconomic terms such as inflation, economic growth, investments, etc. Although the focus of this dissertation is not on the relationship between CBI and macro-economic performance, Cukierman's portrayal of CBI evolution in the 1990s gives a clear picture and better understanding of the emergence of CBI and its future challenges. Another important take-away from his analysis is the distinction made between legal independence and actual independence of central banks, especially in developing nations. This is highly relevant to the case studies of this dissertation. While Cukierman argues in favour of CBI by opining that it will be receiving more attention in coming days, he has also acknowledged that CBI will face substantial challenges in the future.

Discussing similar correlations between CBI and various economic performance indicators, Mester and Hasan (2008, p. 637) present a different argument. They claim that a correlation does not necessarily mean causation. So, it cannot be used for a definitive conclusion in favour of CBI because many other factors that are not considered may also have an influence. Their counterargument is based on their findings that, contrary to common beliefs, CBI surprisingly increases inflation in developing and transition economies. In fact, their study did not find any significant relationship between CBI and inflation fluctuations. Likewise, Crowe and Meade (2007, p. 88) have not found any dramatic effect on inflation as well. They argue that the aspect of transparency in CBI may have resulted in lower inflation rates in some countries. This is because transparency from central banks signals the economy about future directions of price movements. It results in a controlled and lower inflation rate as the central bank's legal commitment becomes clearer to various players in the market.

3.5.7 CBI is impossible or unrealistic

Many researchers have ruled out the possibility of a truly independent central bank. Some have termed CBI a fragile concept, while others have called it problematic and unrealistic. Levy (1995, pp. 189-91) argues that it is not possible for a central bank to become completely independent because the government can easily control its power gauge by using constitutional power or other control mechanisms. He also thinks that an independent central bank is detrimental to democracy. But, at the same time, he argues that if two specific features exist in an economy, an independent central bank will not hamper the democratic environment. These features are: i) actions or policy decisions made by the central bank do not influence social trade-offs of the country. This especially means that the central bank has no impact on national unemployment. According to Levy, if national unemployment, inflation, and growth are controlled by a central bank, allowing independence may be harmful; ii) the decision-making process in the central bank should be systematic and objective. Even after obtaining independence, if its decisions are subjective, independence will not enhance its performance. These two features outlined by Levy are not feasible and so is CBI. He also thinks that central bankers should not be given so much freedom that they can bypass or stay far away from elected representatives.

A study by de Haan and Kooi (2000) finds that CBI is not effective. They use central bank governor or CEO data from the International Monitory Fund's (IMF) International Financial Statistics (IFS) for 82 developing nations for the period 1980-89. They take governor turnover rates as an indicator for the level of CBI, and their analysis has not found any robust relationship between CBI and national economic growth. Like Mester and Hasan (2008, p. 637), de Haan and Kooi also argue that simply a correlation does not imply an actual causal relationship.

According to Coleman (2001, pp. 739-46), the idea of separating a central bank from the government is problematic. Since it is an organ of the government, it cannot be completely cut off from the main body, and any independence bestowed can be taken away at any time using laws. If citizens' welfare is the main objective, then making an independent central bank may not always serve that purpose. Coleman analyses the case of the Australian Notes Issue Board's 1920-24 period. He presents that it was initially created as an independent and autonomous institution overseen by a board. In 1920, the Treasury transferred responsibility of issuing paper notes to the Notes Issue Board. But its relationships with businesses, primary producers and banks started to decline on various policy issues. As a result, in 1924, the government had to cease its independence and create a new board with full control. Coleman presents this case as an illustration that an independent monetary authority can become problematic and antagonistic for the government.

In a similar tone, Capie and Wood (2013, pp. 379-80) argue that, in truth, there is no independent central bank. If a central bank is made independent like the judiciary is, there will always be certain sets of rules and regulations for it to follow. Capie and Wood describe these rules as mandate which technically remains for a so-called independent central bank as well. Similarly, Goodhart and Lastra (2018, pp. 60-5) also refer to such rules and regulations. They think that a central bank can be given some discretionary power within a boundary, not arbitrarily. By 'boundary', they mean the set of rules for the central bank, and also state that these rules can be changeable. They think that CBI is not possible. By going a bit further from typical anti-CBI scholars, Goodhart and Lastra stress that the judicial review can also be used if it is necessary to increase accountability in a central bank's actions. They think that the worldwide consensus towards CBI is because of the rise of populism in one hand and expanded mandates of central banks in the other. Goodhart and Lastra strongly support judicial involvements and monitoring by politicians to oversee a central bank. They conclude by arguing that those who are guarding national financial stability must be guarded using sufficient mechanisms. They talk about guarding the guardians.

Hartwell (2019, pp. 63-7) comes up with an interesting proposition regarding overseeing central bankers. Firstly, he thinks that both endogenous institutional characteristics and the reality of policy globalisation have made it impossible for a central bank to become independent. He points to the fact that a central bank needs to deal with not only domestic political pressures, but also some international political constraints. This is true especially for central banks in less developed and developing nations. Secondly, he also argues that even independent central bankers might end up doing politics. Just giving independence to a central bank does not make sure that political affiliation is gone. By pointing to the example of Alan Greenspan, the famous economist and former US central banker, Hartwell argues that central bankers can be politicians too; and they may try to gain popularity in the eyes of common people as much as a politician would do for votes. Bankers also love to be adored or admired like a finance minister or treasurer does. Their legal status or statutory objective may not match, but incentives shaped by the system are the same. According to Hartwell, central bankers cannot deny the truth that they belong to the same political system or context from where they emerge. Another study by Ainsley (2017, pp. 1205-6) reveals that an independent central bank may surprisingly result in an increase in the inflation level of a country, whereas the main motive behind CBI is to lower inflation. She thinks that the uncontrollable economic environment and political context in which a central bank operates make this happen. She concludes by saying that CBI is practically not effective.

By referring to the omnipresence of politics in central banks, Wachtel and Blejer (2020, pp. 107-8) remark that the US central bank has always dealt with political influences. By studying the case of the Federal Reserve, they argue that, despite having legislative freedom, the President and Congress has always attempted to influence the Federal Reserve. CBI is actually an aspiration, not reality. They think that CBI is no longer a hyped-up concept, however, the formal mentioning of independence still remains. Likewise, Binder (2021) has studied country-level reports on political pressures faced by the central banks of 118 countries between 2010 and 2018. Her study concludes that political interference in a central bank by the ruling party is a common phenomenon, irrespective of the development status of a country. She also argues that even central banks with high levels of independence or ‘de jure’ CBI face similar pressure from the government.

In another study, Aklin and Kern (2020) find that despite delegating monetary policymaking responsibility to an unelected agency, the government can still politically benefit by manipulating the economy. There are three weapons in the government’s arsenal for controlling the economy: (i) monetary policy; (ii) fiscal policy; and (iii) financial deregulations. Giving independence to its central bank will mean that the government cannot print money for its political gains anymore, so this weapon is gone. CBI will also mute the second weapon, because when a government manipulates fiscal policy by trying to boost spending, it will eventually lead to deficits known as fiscal deficit. In response, the independent central bank will then formulate a stricter monetary policy to offset the inflation generated by the fiscal deficit. So, practically this fiscal instrument becomes useless for the government to manipulate for political gains. The third weapon, financial deregulation, means the adoption of loose or relaxed financial-market policies to boost credits in the economy through riskier loans. Such a way of nudging the financial market is termed as ‘financialisation’. The authors argue that CBI will usually be followed by financial deregulations or financialisation, especially in countries where monetary policymaking and banking regulations are conducted by separate public agencies. So, the main argument is that CBI alone does not ensure that there is no political influence in the economy. It is the politicians who are the determining players in an economy.

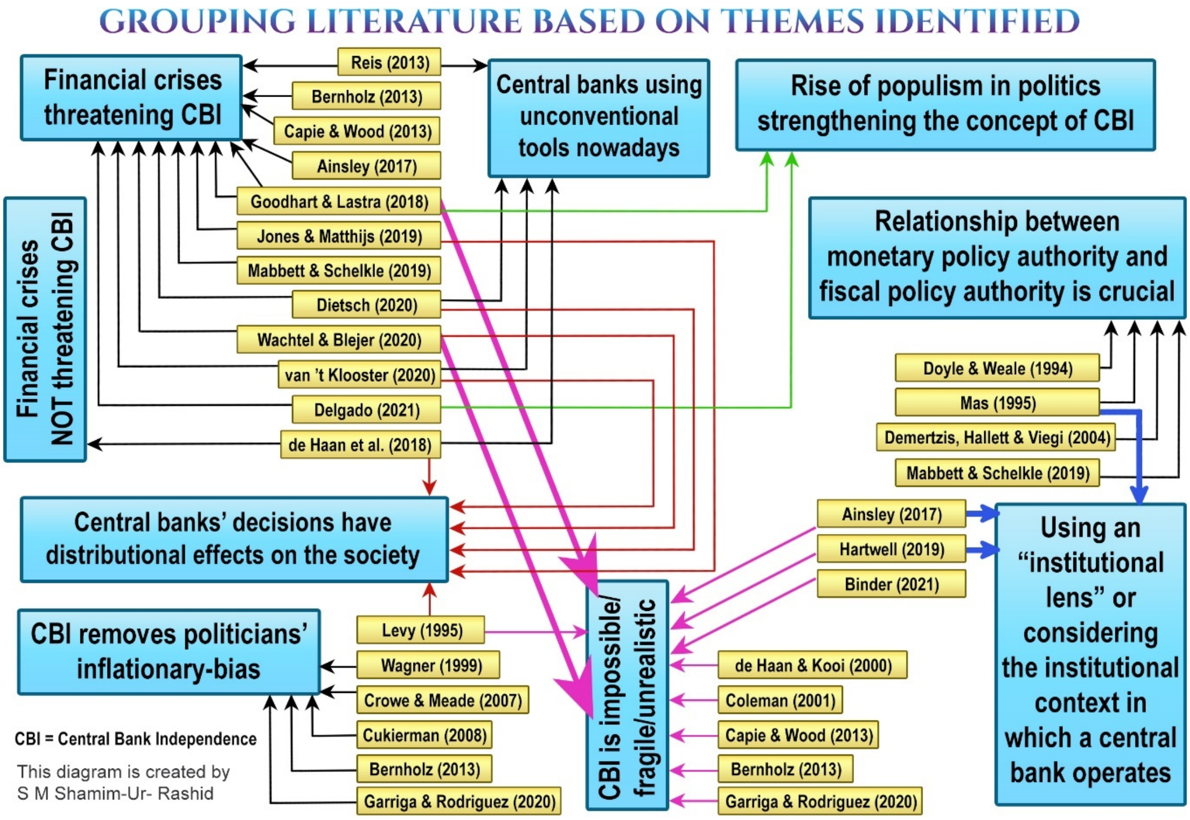

Figure 4: Grouping literature based on themes

3.6 Theoretical Framework

To derive meaningful insights and discover patterns within collected data, an analytical framework is necessary (Luton 2010, p. 140). Having identified and examined the literature on CBI and considering the range of arguments, I have identified two key studies that help to provide a framework for investigating the relative independence and efficacy of central bank structure and performance. The analytical framework of this dissertation, therefore, is based on the works of Crowe and Meade (2007), and Cukierman (2008). The case studies will be grounded in this set of scholarly works. Following is a summary of those theories and an explanation on how they form the analytical framework of this dissertation.

According to Crowe and Meade (2007, pp. 69-70), two major aspects of central bank governance are independence and transparency. They think that another aspect which is beginning to receive more attention is committee structure and decision-making. According to Crowe and Meade, a central bank's independence level can be understood by studying its statutes and evaluating some legal characteristics. Their focus for evaluating independence is on the following legal factors: secure tenure and independent appointment of central bank management; government inability to overturn the central bank's decisions; clear mandate of monetary policy objectives; and central bank's power to limit lending to the government. If all these features are found, a central bank can be called highly independent. Regarding measuring transparency, Crowe and Meade (2007, p. 79) indicate how a central bank uses its communication for signalling to various players in the economy about future policy, interest rate movements and inflation expectations. Regarding evaluating committee structure and decision-making, Crowe and Meade (2007, pp. 86-8) indicate these characteristics: the number of members in the committee, how many come from outside the central bank, who chairs the committee, decision-making procedure retrieved from code of conduct, etc. So, this dissertation has tried to analyse the cases based on these three aspects of central bank governance.

Another study by Cukierman (2008, pp. 723-4) helps in measuring CBI as it is difficult to measure the extent of independence of a central bank from the government. There is no universal unit of measuring CBI. Cukierman thinks that a central bank's level of independence can be understood from some indices. He refers to legal independence as laid out in the governing laws, which may not necessarily denote actual independence. He finds that central banks in developing and industrial countries usually experience a mismatch between legal or statutory and actual independence. Other CBI indices he states are: the turnover rate of central bank governors; and the political vulnerability of central bank governors when a new political party comes into power. This dissertation only uses legal or statutory independence, not the other indices mentioned above. Cukierman has notably acknowledged that these CBI measurement indices may not reveal the real independence of a central bank. However, these can illustrate an overview of CBI at a central bank and help make a comparative analysis of different central banks across the world.

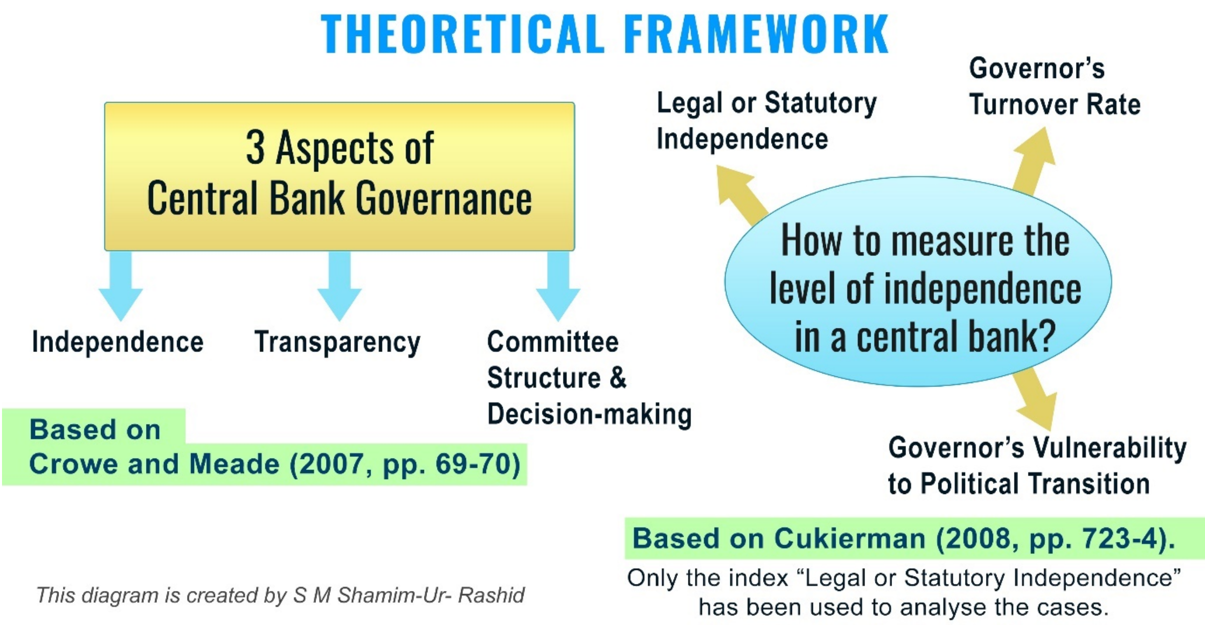

Figure 5: Theoretical Framework

As Luton (2010, p. 131) suggests that some parameters must be developed so that selected cases can be place within the parameters, this study also follows this. All cases will be studied based on the above theoretical framework (Figure 5) using these parameters: 1) functions of the central bank; 2) governance, committee structure and decision-making; 3) independence; 4) transparency; 5) critical appointments; 6) accountability mechanism; and 7) performance and efficiency.

3.7 Conclusion

The organisational settings in which a central bank operates require more attention than simply focusing on the revolutionary concept of granting independence. Recent economic collapses have reinforced the significance of the 'monetary authority / fiscal authority relationship' for ensuring national financial stability. Before transferring the concept of CBI from a developed economy to a developing one, the unique political context must be considered. That is when the need for using an institutional lens arises. This review of literature has highlighted these issues drawing on some recent scholarly works in this niche topic (Figure 4). It has also identified the gap that more studies are required to understand the effectiveness of CBI in a developing or transitional country.

CHAPTER 4: FINDINGS AND ANALYSIS

4.1 Introduction

In line with the theoretical framework developed in the literature review of this dissertation, in this chapter, I begin to examine the three central bank cases. The following case studies attempt to study the governance and organisational structure of the central banks of New Zealand, Australia, and China. The cases are analysed based on the central bank's functions, governance structure, decision-making mechanism, levels of independence and transparency, critical appointments, accountability mechanism and performance – ultimately to consider the relative efficacy of these different models and to understand what lessons might be learned and applied to the case of Bangladesh.

4.2 Case: The Reserve Bank of New Zealand

The name of the central bank in New Zealand is Reserve Bank of New Zealand (RBNZ). It was established in 1934. Prior to that, all general commercial banks were carrying out the task of issuing banknotes. By the early-twentieth century, central banks around the world started to play important roles in national economic and financial policy issues instead of merely issuing banknotes. That shift in central banking roles led the then British authority to contemplate a separate central bank for New Zealand as modelled after the Bank of England. Ironically though, the New Zealand government was not initially eager to implement that idea, but later it proceeded with it. After the establishment, former Bank of England Chief Cashier Mr Leslie Lefeaux was appointed as the first Governor of the RBNZ. However, it was not totally owned by the government in the first year. The Labour Government of New Zealand fully nationalised it in 1935 (Reserve Bank of New Zealand 2009).

4.2.1 Functions of the Central Bank

According to section 1A of the *Reserve Bank of New Zealand Act 1989 – reprint as at 11 May 2021*, the RBNZ is responsible for national monetary policy formulation and implementation, maintaining a sound financial system, issuing banknotes, ensuring medium-term price stability and sustainable national employment (New Zealand Legislation 2021, p. 16). The Act clearly defines the objectives for the central bank. The Remit issued by the Governor-General of New Zealand clearly defines monetary policy objectives specifying targeted inflation range for the RBNZ (Reserve Bank of New Zealand 2021a, p. 3); it is one of the prerequisites for legal independence as stated by Crowe and Meade (2007, p. 70).

4.2.2 Governance, Committee Structure and Decision-making

The governance of the RBNZ is led by a seven-membered Senior Leadership Team. Its members are: Governor, Deputy Governor, and five Assistant Governors. It is responsible for all legal, strategic, operational, and financial matters (Reserve Bank of New Zealand n.d.b). Very recently, the government has taken initiatives to make a change to the structure of this team. After implementing the change, this team will have eight members (Central Banking 2021a). There is also a Senior Management consisting of the heads of different departments concerned with managing core functions of the central bank (Reserve Bank of New Zealand n.d.c). Moreover, there is currently a six-membered board known as the Board of Directors (although it can consist of between five and seven non-executive directors). This Board acts as an advisor to both the RBNZ Governor and the Minister of Finance. It also carries out the performance evaluation of the Governor and influences critical appointments (Reserve Bank of New Zealand n.d.d; 2019a, p. 4). It has the power to form any committee if needed. Such committees are known as Board Committees meaning special teams within the Board itself for special purposes. For instance, it may establish an Audit Committee for auditing financial statements of the RBNZ. The Board specifies functions, purposes, members, etc. of such committees (Reserve Bank of New Zealand 2019a, p. 4).

Furthermore, there is a committee for formulating national monetary policy consisting of members from both within and outside the central bank. It is called the Monetary Policy Committee (MPC). Its internal members include the RBNZ Governor, Deputy Governor, one

Assistant Governor and the Chief Economist/Head of Economics. The external members are three veteran and highly experienced economists and scholars (Reserve Bank of New Zealand n.d.e). Before the *Reserve Bank of New Zealand Amendment Act 2018*, some external policy advisers would be recruited. But the amendment has now transferred that responsibility to the Monetary Policy Committee, so no external advisers are employed (Reserve Bank of New Zealand n.d.f). There is a charter for the MPC members, and their codes of conduct are included in a document called the Monetary Policy Framework (Reserve Bank of New Zealand n.d.e). The *Monetary Policy Charter 2021* states that the MPC Committee members will arrive at a consensus for decision-making, and contributions from diverse background expertise will enrich such decisions. If it is not possible to reach consensus on any issue, majority vote count will be used for decision-making. In such cases, the Governor (Chairperson) holds the right to cast a vote (Reserve Bank of New Zealand 2021b).

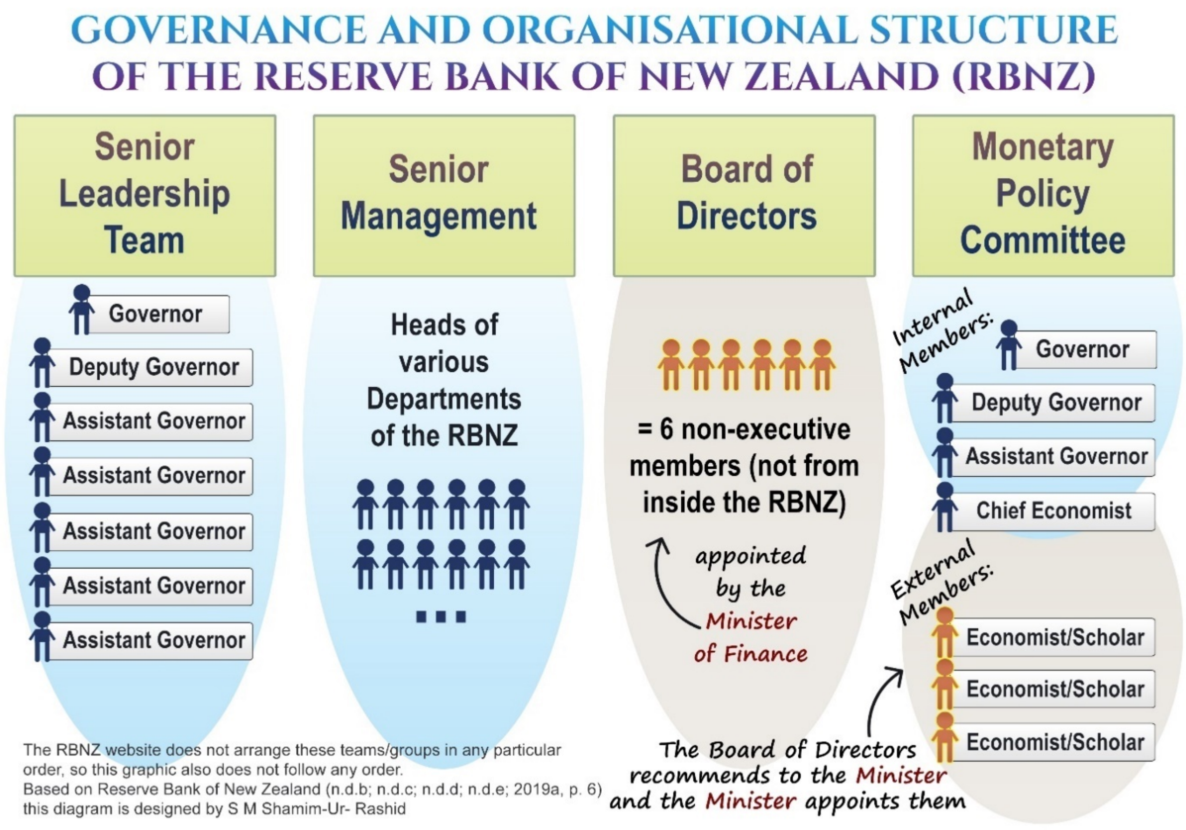

Figure 6: Organisational structure of the Reserve Bank of New Zealand (RBNZ)

The organisational structure of the RBNZ clearly portrays the powerful influence of the Board of Directors. These non-executive Directors are appointed by the Minister of Finance. This board plays an important role in selecting both internal and external members of the Monetary Policy Committee (MPC). So, in other words, this board indirectly determines the direction of the monetary policy which is the single-most important function of a central bank. One might argue that there are internal members in the MPC, and they are not selected from outside. But the reality is that the Board also recommends to the Minister regarding who should be the Governor of the RBNZ, and eventually the Governor recommends the appointment of the Deputy Governor. In fact, the MPC is also a team built based on recommendations from the Board. Within the RBNZ internal organisational sphere, this Board is the most powerful team. While the Senior Leadership Team is assigned to oversee all functional, operational, and visionary objectives of the RBNZ, and the Senior Management is concerned with core central banking functions, the Board is, above all, the supreme powerholder. It can also create any committee within the RBNZ if necessary. It liaises with the Ministry and the internal management of the RBNZ.

The Chair is always the Governor. For instance, in the Senior Leadership Team, the Chair is the Governor. The same is true for the Monetary Policy Committee. The Governor's decision making on any issues can be influenced by the Board if it deems necessary, although the Governor may accept it or not as specified in section 3.1 of the Board Charter. The Governor is expected to seek for opinions from the Board before taking any steps regarding important matters, especially that are related to significant policy issues and public interests (Reserve Bank of New Zealand 2019a, p. 3). The MPC is the final decision maker regarding monetary policy. There used to be an involvement of external advisers for monetary policy formulation before 2018, but now the committee does not take any external advisory services. This is a significant observation because the RBNZ enjoys extended freedom in monetary policymaking due to this change. The MPC arrives at a consensus to find a feasible decision. If no consensus can be arrived at, the Chairperson (the Governor) can cast a vote to create a majority. As the Governor's appointment depends on the recommendation of the Board of Directors, the Governor's decision can somehow reflect its expectations, or in other words, where the Minister wants the monetary policy to head toward. Furthermore, decisions regarding monetary policy and other issues must be consistent with the *Reserve Bank of New Zealand Act 1989* and the Minister's *Remit* (Reserve Bank of New Zealand 2019b, p. 1). The whole mechanism is created in such a way that no matter how independent the RBNZ is, there is always a scope for the elected officials to get involved if they want. Therefore, the main onus is on the politicians regarding how they want the central bank to be.

4.2.3 Independence

The RBNZ enjoys full 'operational independence' and is often seen as the standard example of an independent central bank (Kirchner 1995, p. 173; Wesselbaum 2021). However, some of the New Zealand government's recent initiatives are allegedly hampering this independence. The government has modified the *RBNZ Act 1989* by prioritising national financial stability, housing affordability and employment as objectives for the RBNZ. The addition of housing affordability in the central bank's mandate is the reason for criticisms. The government has also passed a parliamentary bill which gives the Minister of Finance more power to direct the RBNZ to maintain a minimum level of capital. Also, the government has decided to form a new governance board that will oversee all areas except monetary policymaking. But the Monetary Policy Committee will have the Governor as its Chair like before, and the Governor will decide on interest rate related matters. The Governor will remain as a general member in the new governance board, however, not as the Chair. This change is yet to be implemented as it is currently in its transitionary stage (Menon 2021a). The unstable property market in New Zealand is thought to be one of the reasons behind this. New Zealand's real-estate prices have been continuously upsurging for the last few years (Menon 2021b). The Minister of Finance has officially requested for the RBNZ Governor to emphasise the housing sector when making monetary and financial decisions (Jose 2021). The RBNZ will reportedly consider the government's request when formulating monetary policy (Menon

2020a; 2020b). This is a clear direction from the government veiled as a request. The question which should be asked here is: can the RBNZ reject this request? The answer will reveal the reality of the so-called CBI.

The same report (Menon 2021a) uses ANZ Bank Chief Economist Sharon Zollner's quote to highlight that the government's stance should not be regarded as an attempt to reduce the central bank's independence; it is just for increasing accountability in the present context. The edited objectives of the RBNZ align with the concept of distributive effects a central bank on the society. These new objectives clash with the idea of an independent central bank. When housing is a concern for a central bank, there must be a reduction of its independence as its activities will now have larger distributive effects on the society. This RBNZ scenario perfectly resembles the propositions found in the studies of de Haan et al. (2018, p. 200), Jones and Matthijs (2019, pp. 130-8), and Wachtel and Blejer (2020, p. 107) as included in the literature review chapter. Their studies refer to the distributive effects of central bank policies especially immediately after a major financial crisis or uncontrollable event, and that is why CBI is impacted. So, the New Zealand government's recent initiatives can be seen as an intervention in the RBNZ.

Another newspaper article, published in *Newsroom*, has also criticised the New Zealand government's recent activities regarding the RBNZ. It has condemned the current Labour government in New Zealand for intervening in monetary policymaking to solve the country's housing problem. According to the report, this kind of government interference is unprecedented in New Zealand, and such attempts are more suitable to countries like Turkey or President Trump's United States. The RBNZ must now prepare policies in a manner that national house prices are under control, which has risen due to a structural problem, according to that report. It also expresses fears that this could be the beginning of the end of independence of the RBNZ. It argues that the present government is not addressing the structural problem, and instead trying to use the monetary policy to solve it and will eventually blame the central bank for failure (Wesselbaum 2021). This criticism of blaming central bankers can be found in the literature review chapter where studies of Wachtel and Blejer (2020, p. 107), Jones and Matthijs (2019, p. 129) and Mas (1995, p. 1642) present similar arguments that central bankers always get the blame. This scenario also shows that a government can assign extra responsibilities to its central bank if necessary. Those new responsibilities may generate from a financial breakdown or uncontrolled situation and have distributive effects.

Another recent incident reveals the vulnerability of CBI. In December 2020, the RBNZ was attacked by cyber criminals who got access to its sensitive information. New Zealand's *Privacy Act 2020* gave the Office of the Privacy Commissioner the power to inquire about the RBNZ's failure to protect sensitive information. So, the Office of the Privacy Commissioner obliged the RBNZ to report to the Commissioner by confirming security improvements in data systems and policies. The RBNZ has also acknowledged its security failure after its own investigation report and taken improvement procedures (Spencer 2021). This incident involves two important observations. Firstly, as the RBNZ's internal review report is consistent with that Office's report, the RBNZ has not tried to conceal its shortcoming in providing a strong data security. There is the kind of transparency consistent with good governance within the RBNZ. Secondly, the *Privacy Act 2020* has forced the RBNZ to oblige the Office of the Privacy Commissioner. So, one can argue here that the New Zealand government has undermined the RBNZ's independence by enacting that Act. Despite making the RBNZ independent, the government can still impact its independence using another statute. This incident also illustrates the significance of an uncontrollable or emergency event impacting CBI as stated in the studies of Bernholz (2013, p. 212) and Ainsley (2017, p. 1218).

Although many people criticise the New Zealand government's expansion of powers to control the RBNZ by making changes to its governing Act, as well as holding other financial institution directors more accountable, the present Governor, Adrian Orr, argues differently. He argued that these government initiatives perfectly balance the RBNZ's independence with its accountability and transparency. In addition, the recent Royal Commission finding in neighbouring country, Australia – that many New Zealand-owned banks are found to be guilty of wrongdoing in Australia – has forced the New Zealand government to step forward in this manner (Menon 2019). When there is a crisis moment or involvement of international institutions, a government may increase oversight of its central bank. When the government wants to hold more control, the central bank must accept it. The RBNZ's submissive statement visualises this. If this is the phenomenon in the RBNZ, the same can occur with stronger force in other central banks, especially in developing countries.

4.2.4 Transparency

The RBNZ is very transparent in terms of communicating with the public about its upcoming policy initiatives (Reuters 2018). It disseminates important information to the public for signalling about future interest rate movements and inflation expectations. To maintain its transparency, it regularly publishes various reports, statements, discussion papers, information releases, speeches, videos, and live streams. Some major publications that are publicly available are Reserve Bank Bulletins, Monetary Policy Statements, Financial Stability Reports, Annual Reports, Statements of Intent, Governor's Speeches, etc (Reserve Bank of New Zealand n.d.j). Its transparency is hardly questioned in the media. It has even won an award called 'Central Banking Transparency Award' in 2020 for its sound and transparent publication of the Monetary Policy Handbook (Reserve Bank of New Zealand n.d.k). Therefore, the RBNZ is very transparent, and it has international reputation for its clear and unbiased dissemination of information.

4.2.5 Critical Appointments

- According to Section 5.1 and 5.2 of the Board Charter, the board members or Directors are appointed by the Minister of Finance. They do not come from within the RBNZ. Rather, they are experts in a wide range of subject matters and reputable in the country (Reserve Bank of New Zealand 2019a, p. 4).

- Regarding the appointment of the RBNZ Governor, the Board recommends to the Minister who should oversee the RBNZ. Furthermore, the board also discusses with the Governor for selecting the Deputy Governor, as laid out in Section 14.1 and 14.2 of the Board Charter (Reserve Bank of New Zealand 2019a, p. 5).

- Regarding appointing Monetary Policy Committee (MPC) members, both internal and external, the Board gives recommendations to the Minister as laid out in Section 15.1 of the Board Charter (Reserve Bank of New Zealand 2019a, p. 6).

Therefore, the Board plays the key role in appointments of the RBNZ Governor and MPC members. The Governor only has the power to recommend the selection of the Deputy Governor. Elected politicians decide who will be leading the RBNZ and setting its monetary policy. The RBNZ governing parliamentary Act gives power to the Minister of Finance for appointing board members. Thus, the ‘legally independent’ status remains within a certain boundary as drawn on from studies of Capie and Wood (2013, p. 380) and Goodhart and Lastra (2018, p. 60) in the review of literature of this dissertation. They refer to a boundary consisting of rules and mandates, within which a central bank technically remains independent, not arbitrarily. So, a similar argument can be made in the case of the RBNZ.

4.2.6 Accountability Mechanism

The main governing legislation of the RBNZ is the *Reserve Bank of New Zealand Act 1989* (Reserve Bank of New Zealand n.d.i). This 1989 Act is one of the public sector reform initiatives taken by the New Zealand Government. The main objective of this Act was to give more autonomous power to the central bank in order to increase accountability. But the government remains the ultimate powerholder for making any potential changes to the statutory objectives of the RBNZ. This Act has pulled the rein in public fund expenditure by the RBNZ as it now has to make a five-year long formal agreement with the government for its expenditures. Previously, there was no such restriction on public fund expenditure by the RBNZ (Dawe 1990, p. 29). There were some amendments to the 1989 Act in 2018. The amended version is known as the *Reserve Bank of New Zealand (Monetary Policy) Amendment Act 2018*. Section 12 of the 1989 Act has been replaced by Section 8 in the 2018 Amendment Act, and states that the Minister of Finance will advise in a manner that the RBNZ Governor will direct the Monetary Policy Committee towards fulfilling a specific monetary policy objective (New Zealand Legislation 2021, p. 27; New Zealand Legislation 2018, p. 6). This is an important observation of this dissertation as the elected politician's power to direct the monetary policy has been increased with that amendment. Section 15C of the Act also states that the RBNZ Governor must regularly (at least four times a year) send a progress report to the Minister of Finance regarding how much of the monetary policy targets have been achieved. The Governor will have to get the report approved by the MPC before sending to the Minister (New Zealand Legislation 2021, pp. 28-9).

Although decisions related to monetary policy are taken by a committee that includes practitioners and scholars, and chaired by the RBNZ Governor, the Ministry of Finance still holds the key for the final direction on the monetary policy. That does not mean that the Minister will always get involved in monetary policymaking, but it clearly indicates that the rein is in the hands of an elected politician. Besides, regular reporting requirements for the RBNZ Governor regarding fulfilment of its monetary targets also indicates that there are some mandated objectives, and that the RBNZ is accountable to the government for attaining those. When independence is mentioned in the case of the RBNZ, it does not mean an absence of politicians' questioning, rather it gives freedom to pursue its objectives within a defined set of rules.

4.2.7 Performance and Efficiency

Some critics have called the recent forecasting performance of the RBNZ dismal. Its involvement in the *Large Scale Asset Purchase (LSAP) Program* has been heavily criticised because that is a very unconventional activity for a central bank. Furthermore, the RBNZ's failure to control housing prices and unemployment is also under scrutiny. Questions have been asked regarding the RBNZ's institutional credibility as well (Wilson 2020). However, the RBNZ Governor has denied that the central bank is failing to manage unemployment. The Governor has claimed that most of the media reports regarding New Zealand's housing price are exaggerated. He also criticised those newspapers for never highlighting the RBNZ's success in enhancing national employment (Coughlan 2020). Very recently, after the outbreak of the Covid-19 pandemic, the RBNZ has used monetary stimulus (Menon 2021c), which is another illustration of uncontrollable external events forcing a central bank to adopt a distributive role.

4.3 Case: The Reserve Bank of Australia

The name of the Australian central bank is Reserve Bank of Australia (RBA) (Reserve Bank of Australia n.d.a).

4.3.1 Functions of the Central Bank

According to section 10.2 of the *Reserve Bank Act 1959,* the RBA has three mandated objectives: making the Australian currency stable; keeping full national employment; and ensuring economic prosperity and welfare of Australian citizens (Federal Register of Legislation 2021). It mentions the following five functions on its official website: (i) ensuring price stability and maintaining full employment for the welfare of the people of Australia; (ii) maintaining overall financial stability; (iii) ensuring a secure, stable, and efficient payments system; (iv) providing banking services to the Australian Government; and (v) issuing banknotes (Reserve Bank of Australia n.d.e). The RBA is no different from other central banks in terms of core functions. It has a clearly specified inflation target of achieving 2-3 per cent, on average, over time (Reserve Bank of Australia n.d.m); therefore, it has legal independence as stated by Crowe and Meade (2007, p. 70).

4.3.2 Governance, Committee Structure and Decision-making

The Governor is the manager of the RBA (Reserve Bank of Australia n.d.c). The overall organisational structure is apparent at two levels: the top-level governance and operational level governance. The top-level governance includes a Reserve Bank Board, Payments System Board, and Executive Committee. Under the Reserve Bank Board, there are an Audit Committee, a Remuneration Committee and the Note Printing Australia Limited. The Deputy Governor chairs a Risk Management Committee which is also a part of this top-level governance. The operational level governance, on the other hand, is led by the Governor and then the Deputy Governor with all Assistant Governors under them (Reserve Bank of Australia n.d.j; n.d.k).

Of the two boards, the Reserve Bank Board is responsible for overseeing the activities related to monetary policy and financial stability; and the Payments System Board is concerned with overseeing the Australian Payment System. The Audit Committee is concerned with various financial reporting related to the RBA, and the Remuneration Committee is responsible for recommending remuneration of the Governor, Deputy Governor, and other RBA staff. The Governor chairs an Executive Committee, and the Deputy Governor chairs a Risk Management Committee (Reserve Bank of Australia n.d.c). The RBA does not have any separate committee for monetary policy formulation. Some central banks have a separate committee called Monetary Policy Committee. In the case of the RBA, monetary policy is overseen by the Reserve Bank Board instead.

The Reserve Bank Board is a nine-membered team consisting of the RBA Governor, Deputy Governor, Secretary to the Treasury, and six other non-executive members appointed by the Treasurer. Out of those six members, only one can be from the RBA as mentioned in section 14.3 of the *Reserve Bank Act 1959*. The remaining five non-executive, outside members cannot be a director or employee of a deposit-taking financial institution. Decisions are made based on majority of the members' votes, with the Governor having a casting vote when needed (Reserve Bank of Australia n.d.f; Federal Register of Legislation 2021).

The Payments System Board can have maximum eight members: the RBA Governor, one RBA representative chosen by the Governor, one representative from the Australian Prudential Regulation Authority, and up to five other members appointed by the Treasurer. At the time of writing, it has seven members. In decision-making, there are hardly any differing views between this Payments System Board and the Reserve Bank Board. But if a conflicting situation arises, the Governor will give the final decision who chairs both boards (Reserve Bank of Australia n.d.g).

In addition, the RBA uses advisory services from external experts, unlike the RBNZ. These advisors are grouped into two panels: (i) a small business finance advisory panel; and (ii) an educators advisory panel. The first panel consists of businesspersons from different states and territories of Australia. These panellists provide important insights and valuable information on the business conditions faced by Australian small businesses. The second panel is a group of experts who provide advice on matters related to education so as to inform the RBA's educational initiatives. This panel is chaired by the Head of the RBA's Information Department. Other members are education experts (Reserve Bank of Australia n.d.h; n.d.i). Moreover, there is a subsidiary under the RBA for printing secure and high-quality banknotes called Note Printing Australia Limited. It is entirely owned by the RBA. Its governing body is a board whose members are appointed by the RBA (Reserve Bank of Australia n.d.k).

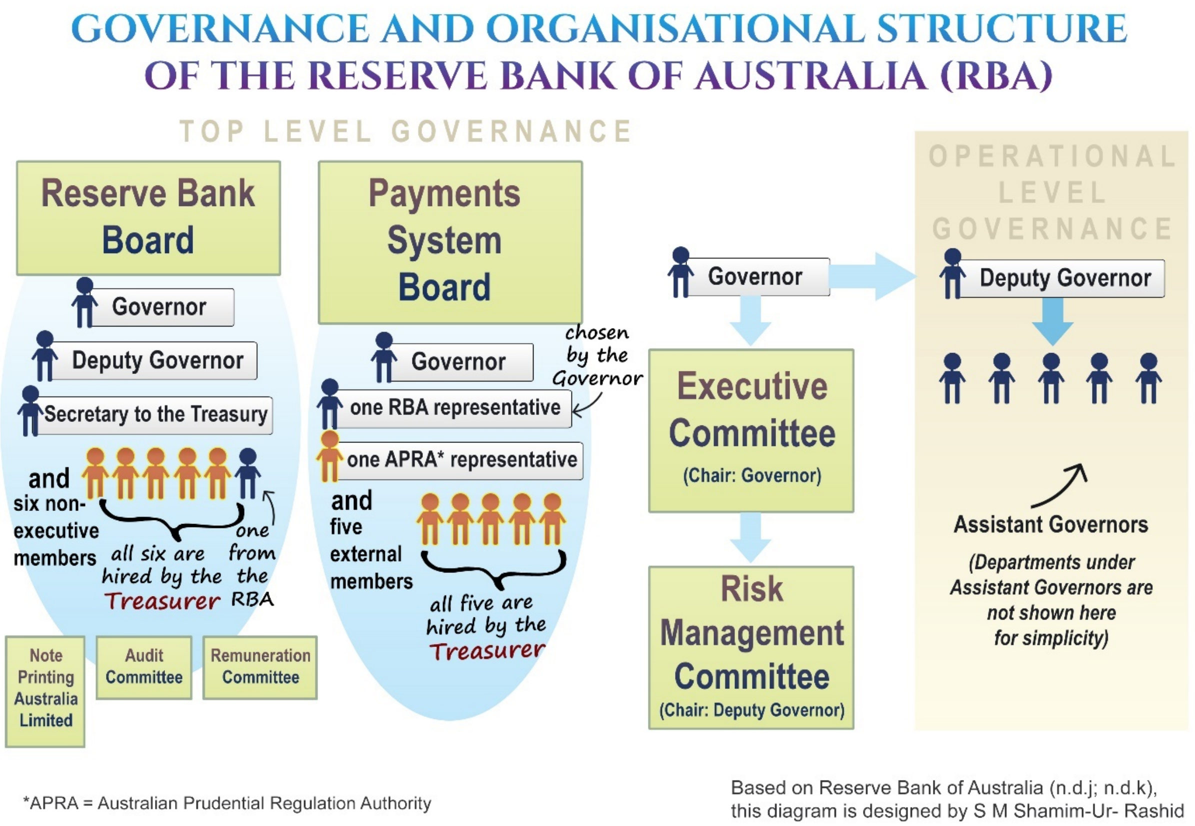

Figure 7: Organisational structure of the Reserve Bank of Australia (RBA)

After analysing the governance and organisational structure of the RBA, some significant observations are notable. It does not have a Monetary Policy Committee. A Board performs the task of monetary policymaking chaired by the RBA Governor, in which the Secretary to the Treasury is included. One member from within the RBA, along with the Deputy Governor, is also included. Other members are chosen from outside by the Treasurer. As this board determines national monetary policy, and only the Governor, Deputy Governor and a member come from within the RBA, there must be some government influences on monetary policymaking. This argument becomes stronger when the Secretary to the Treasury is a member of this team and the Treasurer has the power to select external members. One may easily question the lower number of RBA internal staff in that board as the majority come from outside. Another notable feature is that the RBA's use of external advisory services creates scope for further outside influences.

4.3.3 Independence

The RBA has statutory independence as it claims itself as an independent authority on its official website (Reserve Bank of Australia n.d.c), and media reports also state that it has independence in monetary policymaking (Spartacus 2021). Another newspaper report describes the RBA as an independent central bank, arguing that once the Treasurer appoints the Board members, there are no further government involvements within the RBA (Wright 2021a). The RBA's independence resonates with Cukierman's (2008, p. 723) reference to legal independence as laid out in the governing law, which may not necessarily show actual independence.

Although the RBA has always functioned independently, according to some critics, recent government activities have hampered its independent status. McKibbin and Preston (2019) point to the 2019 incident when the Treasurer Josh Frydenberg decided to change the *Monetary Policy Statement;* a formal agreement between the government and RBA which specifies monetary policy targets and accountability requirements for the RBA. Usually, it is altered when there is a change in the government, or a new Governor is appointed. But it was initiated without clear justifications leading to questions. McKibbin and Preston argue that such an initiative can be seen as the government's attempt to keep the door open for blaming the RBA in future for its own fiscal failures. They also question the way in which the Statement was changed, without any public discussion or deliberation and behind closed doors. Therefore, the question remains whether the amendment of the RBA's policy strategy is the reflection of the RBA Governor's preference or the government's will. This is because such politically motivated amendments may have elements that compromise the independence of the RBA.

Similarly, John Hewson, the former Liberal opposition leader questioned the independence of the RBA in a newspaper article. Hewson (2019) questioned what happened when the Prime Minister Scott Morrison and Treasurer Josh Frydenberg met with the RBA

Governor during their pre-election campaign. The question arose because after that meeting the RBA Governor Philip Lowe softened his tone regarding his previously mentioned 'more spending' for supporting economic growth. Another incident later that year inspired similar criticisms when the Treasurer Josh Frydenberg invited the RBA Governor to his Melbourne office for a two-hour meeting. After that meeting, the pair presented themselves with smiling faces before the media and celebrated the Australian economy and its prospects. The RBA Governor stated that the meeting was fruitful, and the Treasurer was in 'one hundred per cent agreement' that the Australian economy was doing great. Such an unprecedented incident generated questions regarding the independence of the RBA. Many argued that this was a worrying sign that the RBA's autonomy was being compromised by such closeness with the government (Sydney Morning Herald 2019). However, in response to these criticisms, the Treasurer Josh Frydenberg argued that the meeting was only for exchanging notes on economic matters and the RBA was fully independent in its decision-making. On the other hand, former Labour Treasurer Wayne Swan expressed his surprise to that publicised meeting by arguing that he had never seen anything like it before (Gredley 2019).

All these scenes, connected together, result in an illustration that the RBA does have statutory independence, but its actual independence may vary depending on the government's behaviour. This is how Cukierman (2008, p. 723) has drawn a line between 'legal' and 'actual' CBI.

4.3.4 Transparency

The RBA maintains its transparency by publishing Annual Reports: Reserve Bank report and Payment Systems Board report, Assessments of Financial Market Infrastructures, Bulletin, Financial Stability Review, Statement on Monetary Policy, Minutes of the monetary policy meetings, etc. It also releases regular media updates. Furthermore, the RBA makes its old files and documents available for the public in archives (Reserve Bank of Australia n.d.d; n.d.l). People can get important information about economic matters and signals about future policy movements from these RBA publications. However, some recent media reports have questioned the transparency of the RBA. A report by the ABC News alleges that the RBA instructed private property firms not to disclose slumping real estate prices to the Australian people immediately after the pandemic started in 2020. This was allegedly done to indicate as if the housing market was well-functioning. The ABC News' allegation is based on some 'highly restricted' RBA internal documents. Although the RBA has not responded to this report, critics have argued that if this rumour is true than there is a lack of transparency. They have alleged that the RBA kept the public unaware of actual information about an important market like housing (Ziffer 2020a; 2020b). Despite having those criticisms, the RBA is a transparent central bank considering the publication and information it makes available for the public. It is not renowned for being a highly transparent central bank like the RBNZ though.

4.3.5 Critical Appointments

- According to section 14 of the *Reserve Bank Act 1959*, for forming the Reserve Bank Board, the Treasurer holds the power to appoint the six non-executive members, one of whom can come from within the RBA. The other five members come from outside (Federal Register of Legislation 2021).

- According to section 25B of the *Reserve Bank Act 1959*, for forming the Payments System Board, the RBA Governor has the power to select one RBA staff as a member, and the Treasurer holds the power to appoint five other members (Federal Register of Legislation 2021).

Like the RBNZ, in case of the RBA, the Treasurer holds the key (Minister of Finance in case of the RBNZ). The Governor can select only one internal staff for including in the Payments System Board. The inclusion of the Treasurer's Secretary in the Reserve Bank Board also emphasises the Treasurer's control.

4.3.6 Accountability Mechanism

The accountability mechanism of the RBA has two components. Firstly, the RBA has an accountability to the Australian Parliament. The RBA Governor along with senior staff appears before the House of Representatives Standing Committee on Economics to present the performance of the RBA. The Governor also has an accountability to present an annual report of the RBA to the Treasurer (Reserve Bank of Australia n.d.d; Parliament of Australia n.d.). Secondly, the Governor has a requirement to consult with the government. The Governor needs to maintain regular formal and informal communications with the Treasurer to inform policy initiatives and other activities of the RBA. The *Reserve Bank Act 1959* clearly specifies this in Section 11. It also mentions what to do if in any case there is a disagreement between the RBA Governor and Treasurer. Firstly, the Reserve Bank Board will formally inform the Treasurer about the disagreement using a statement. Then, the Treasurer will inform the matter to the Governor-General of the Commonwealth of Australia (the Queen's representative acting as the Head of State and the Commander-in-Chief of the Australian Defence Force). Then, the Governor-General will give the final verdict on this matter with the advice from the Federal Executive Council. That final decision must be adopted by the RBA, and the government will take all responsibility in this matter. The full responsibility regarding that decision is on the government. The RBA has never needed to follow such a procedure in its decision-making so far (Reserve Bank of Australia n.d.d; The Governor-General of the Commonwealth of Australia n.d; Federal Register of Legislation 2021).

The accountability mechanism of the RBA demonstrates the influence of the Australian government in its activities. The RBA regularly needs to present itself with performance reports before the Australian Parliament. The elected officials are the ones who ultimately determine whether the RBA's performance is satisfactory or not. The Treasurer plays a key role by acting as a go-between. The RBA Governor is bound to maintain regular communication with the Treasurer. This means that the government is overseeing the activities of the RBA via the Treasurer, and a parliamentary Act is giving the power. Although the RBA is independent in making its monetary policy decisions, if in any case, there is a disagreement between the RBA Governor and the Treasurer, the government still holds the control. Because in that case, the issue will be elevated to the Queen's representative in Australia who is the Head of this Commonwealth nation. Therefore, the RBA does not find it easy if it disagrees with the government in any matter.

4.3.7 Performance and Efficiency

The RBA has been failing to meet its inflation targets for the last few years and its performance is under questions especially after the coronavirus pandemic (Wright 2021a). Critics argue that the RBA has failed in many areas. Its failure to achieve inflation targets has resulted in a continued failure to achieve full national employment, which is a questionable goal, because there is a positive relationship between inflation upsurge and employment growth. Many critics put much of the blame for the weakened Australian economy since the global financial crisis on the RBA. In a *Canberra Times* article, Triggs (2021) opines that the RBA could have used some unconventional policy tools for helping the Australian economy. The article also calls for a closer fiscal-monetary coordination which echoes the literature drawn on in this dissertation (Doyle & Weale 1994; Mas 1995; Demertzis, Hallett & Viegi 2004; Mabbett & Schelkle 2019). It also shows that the RBA's failure has made some people argue for rethinking its course and reviewing its mandate, governance structure and processes. This is, in other words, a subliminal attack on its 'independent' status.

Recently, the Organisation for Economic Co-operation and Development (OECD) has advised conducting an independent review of both Australia's federal budget and the RBA. Prior to that, the RBA Governor Philip Lowe had always denied the need for commissioning an independent review after being asked by economists, scholars, and former RBA officials (Kehoe 2021). This OECD call includes reviewing the RBA's governance structure along with inflation targets (McKibbin 2021), board formation and transparency approaches (Mizen & Kehoe 2021). In fact, the RBA is going to face its first independent review in the last forty years. The OECD's recommendation mainly focuses on the RBA's monetary policy framework and policy tools, mandate, charter, and other institutional practices (Wright 2021b). Such an effort by the OECD has been backed by the International Monetary Fund (IMF) as well because many governments have regularly conducted independent reviews of their central banks (Wright 2021c). Some have also called for a stronger fiscal-monetary authority relationship (Wright 2021b). In this crisis time, the need for bridging the gap between fiscal and monetary authority has been stressed (Djurdjevic 2021). This situation sums up the fact that a central bank is involved with many domestic and international institutions. The RBA is not doing well, and its organisational and governance structure needs a revamp. Another takeaway from this is that a central bank operates in a unique institutional context that requires special treatments. It is connected with both domestic and international political environments.

Hence, the RBA also gets its fair share of criticisms, as other central banks do. For instance, former Prime Minister Paul Keating criticised the RBA for not using unconventional policy instruments to combat pandemic-created economic crisis (Hutchens 2020). This just shows that a central bank is a favourite target for criticism when the economy is not doing well, as presented in studies by Wachtel and Blejer (2020, p. 107), Jones and Matthijs (2019, p. 129) and Mas (1995, p. 1642). The RBA is arguably not as independent as the legal independence would imply due to political interferences. This is good thing in a sense that the government's intervention is arguably democratic. The government tries to have it both ways: directing the central bank, but claiming it is independent so it can blame it later.

4.4 Case: The People's Bank of China

The Chinese central bank is called the People's Bank of China (PBC). In 1948, it was created by merging three banks, and later in 1983, the State Council of China legally made it a central bank by adopting the *Law of the People's Republic of China on the People's Bank of China* (People's Bank of China 2018). Before that, it did not have the legal basis to be regarded as the central bank. In 1995, the National People's Congress promulgated the Law, and the modern Chinese central bank started to develop (Bell & Feng 2013, p. 141).

4.4.1 Functions of the Central Bank

On its official website, the People's Bank of China (PBC) has stressed its importance in China's macroeconomic management of the socialist market economic system. The PBC has fourteen functions: (i) enforcing laws; (ii) formulating and implementing monetary policy in accordance with the law; (iii) issuing and circulating the renminbi (China's official currency); (iv) regulating financial markets; (v) ensuring national financial stability by reducing systemic financial risks; (vi) ensuring adaptive renminbi exchange rates; (vii) managing the national treasury as a fiscal agent; (viii) maintaining payments system; (ix) managing anti-money laundering activities; (x) developing financial data system and providing forecast; (xi) managing the Credit Information System; (xii) taking part in international financial activities within the capacity of the PBC; (xiii) engaging in financial business operations; and (xiv) performing other tasks as asked by the State Council (People's Bank of China 2018). However, its monetary policy objective does not clearly state the inflation target like in the cases of the RBNZ and RBA. It does not have legal independence as specified by Crowe and Meade (2007, p. 70) because its monetary objective is not clearly stated. It is not usual to see such a long list of functions of a central bank. When it has so many targets to accomplish, its decisions will have far more effects on the society, and the government will surely be trying to control its decisions.

4.4.2 Governance, Committee Structure and Decision-making

There is no organogram or organisational hierarchy of the PBC on its official website. However, a Management Team has been found that displays the Governor, Deputy Governors (at present it has six), and a Chief Inspector as its members. Also, Chapter 2 of the English version of the *Law of the People's Republic of China on the People's Bank of China* gives some ideas about its organisational structure and accountability mechanism. Article 10 of that

Law states that there can be 'a number of' Deputy Governors in the PBC. According to Article 12 of the Law, there is a Monetary Policy Committee, but information on its members is not available. The State Council specifies the responsibilities of that committee (People's Bank of China n.d.a; n.d.b; n.d.c). Although these members are not shown in any particular hierarchical order, a hierarchy of this Management Team can still be illustrated as below, assuming the Governor is at the top spot and then the Deputy Governors.

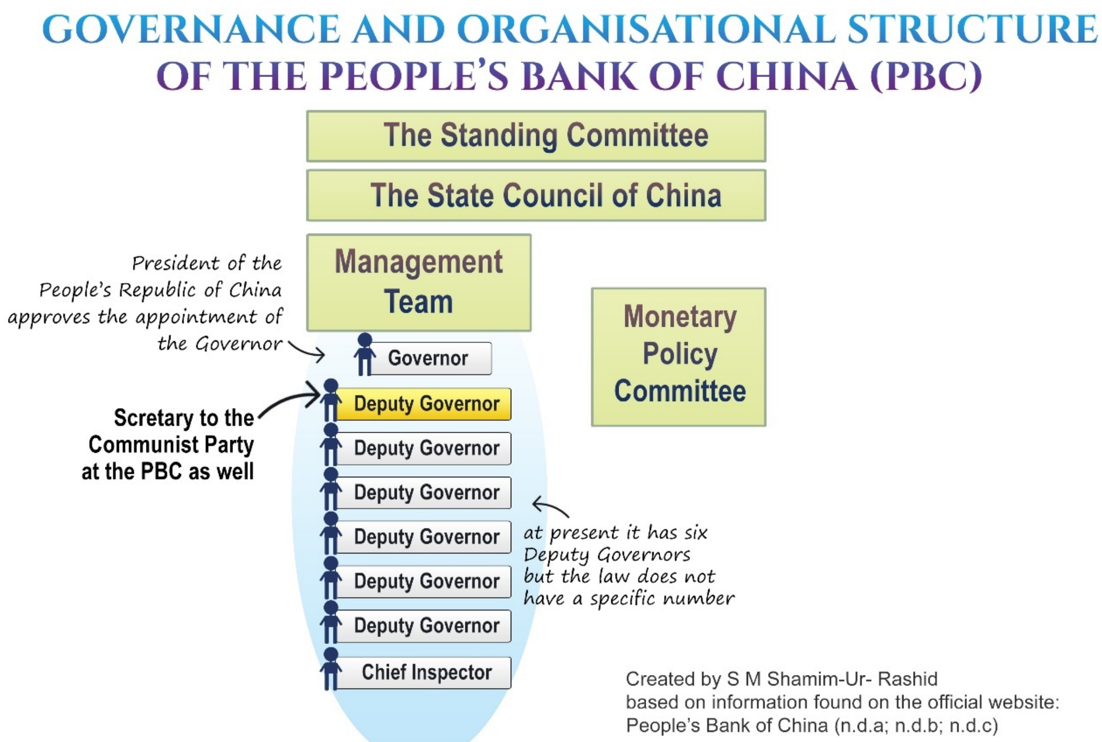

Figure 8: Organisational structure of the People's Bank of China (PBC)

A newspaper report suggests that this Monetary Policy Committee is only an advisory committee as it has no power to affect the monetary policy. But the Chinese government has been seen to take a bold initiative to reform this committee in 2010. It hired three prominent Chinese Economists for this committee to include as outside members which was a bold move by a central bank like the PBC (Batson 2010). This shows that despite the political control over the PBC, the government still tries to recruit the best advisers for the monetary policy.

Regarding decision-making, the PBC Governor is not the key person. The Governor's job is to manage the PBC, but the final decision-maker is the Communist Party's Secretary at the central bank. It may not always be the case that the PBC Governor and the Secretary to the Communist Party at the central bank are the same person. For example, the PBC's present Governor is Yi Gang, but he is not the Secretary. His predecessor Zhou Xiaochuan, who held the PBC Governor position for sixteen years, was both the Governor and Party Secretary. The PBC's current Governor Yi Gang is responsible for running the PBC while Deputy Governor Guo Shuqing (who has strong political connections) acts as the Party Secretary (Bradsher 2018). This is a unique organisational setting in which someone below the rank of the Governor acts as the agent of the national political power. Such a situation can be attributed to the unique political context of China. Besides, the agent of the party or the government is not any different than the appointments of Treasurer-backed experts in the boards or committees of the RBNZ and RBA. As China's political regime is different, its means to control the central bank is also unique. But whether a country is democratic or not, its government will always hold the reins of the central bank; the degree and means of control may vary.

4.4.3 Independence

The PBC is not an independent institution because it cannot make any major decisions without the approval of the nation's top leadership (Batson 2010). In contrast, according to Bell and Feng (2013, pp. 141-2), the PBC has a certain degree of autonomy from the control of the State Council. They state that the PBC enjoys full independence in setting monetary policy except for some other key issues. Article 7 of the English version of the *Law of the People's Republic of China on the People's Bank of China* states that the PBC will 'independently' formulate national monetary policy by remaining 'under the leadership of the State Council' (People's Bank of China n.d.c). Interestingly, a recent study by Zheng and Wang (2021) has presented that despite having no or very limited independence, the PBC enjoys a very good amount of discretionary power in its decision-making, which they call central bank discretion (CBD) instead of CBI. This is a very relevant finding because they argue that existing studies heavily focus on formal independence of a central bank without considering its actual operations. Their findings resonate with the distinction drawn by Cukierman (2008, p. 723) between formal and actual independence.

4.4.4 Transparency

The PBC appears to be transparent in terms of issuing various publications for their citizens. Some of its notable publications found on the website are: press releases, Governor's and Deputy Governor's speeches, videos on various events, Financial Market Reports, Monetary Policy Reports, etc (People's Bank of China n.d.d; n.d.e). However, Article 15 of the English version of the governing law tells the PBC to maintain 'secrecy'. It is bound to keep 'State secrets according to law'. It cannot disclose 'secret' information related to national financial institutions (People's Bank of China n.d.c). But what is meant by the term 'secret' is not clear from this law.

4.4.5 Critical Appointments

According to Article 10 of the English version of the Law, the potential Governor candidate is recommended by the Premier of the State Council upon the National People's Congress. If this National People's Congress is not in session, the Standing Committee will decide. The appointment of the Governor will be finally approved by the President of the People's Republic of China. On the other hand, the appointment of Deputy Governors is approved by the State Council (People's Bank of China n.d.c).

4.4.6 Accountability Mechanism

According to Article 6 of the English version of the Law, the PBC is bound to submit its work reports to the Standing Committee of the National People's Congress (People's Bank of China n.d.c). Other than this, no accountability mechanism information could be located.

4.4.7 Performance and Efficiency

As Chinese political leaders are sensitive to inflation in the economy, the PBC strives to achieve a stable price level. It has been successful in maintaining a desirable inflation (Back & Davis 2011). Chinese foreign exchange reserve is also seeing an upsurge in a regular manner, although according to some, its monetary policy needs to match with this increase (Pettis 2007). The macroeconomic performance of China has been regularly praised, but like elsewhere in the world, the coronavirus pandemic has hit it hard. The PBC is cautiously using targeted strategies for supporting economic growth. Despite being severely impacted by the pandemic, Chinese economy has come back stronger, and in 2020, it expanded very well, an outcome not seen in any other major economies in the world (Reuters 2021a; 2021b; 2021c). Although the Chinese job market and property prices are unstable, its economic indicators are very good, especially in the second quarter of 2021 (Xie 2021). Such recent economic performance is considered ‘stable’ as the PBC Governor has recently stressed that monetary policy will continue as it is now. The government also thinks that price levels are under control (MarketWatch 2021). The PBC is praised highly for the sustainable growth in the Chinese economy (Zheng & Wang 2021).

4.5a Case Study Analysis

The cases of the RBNZ and RBA are somewhat similar and easily comparable. It is fairly straightforward to identify similarities and differences by comparing these two neighbouring nations’ central banks. Availability and clarity of relevant data along with plenty of newspaper reports have made examining and contrasting them an interesting and fruitful inquiry. On the other hand, the case of the Chinese central bank is quite different because of the unique political environment in China. The organisational structure of the PBC is unique. The New Zealand and Australian central banks are in the same boat, whereas the Chinese central bank is in the other. Comparing these central banks has generated some notable observations that can be analysed as follows.

Although the governing Act of the RBNZ gives it full autonomy, the central bank is not entirely a separate entity. The government can change the mandated objectives and impact its degree of autonomy at any time. A similar argument applies to the RBA too. Both the RBNZ and RBA have recently been criticised for being submissive to their respective governments by sacrificing independence, especially during the pandemic. In the case of the PBC, although no legal independence is bestowed, it arguably enjoys a good degree of discretionary power in its decision-making. Therefore, a central bank's statutes may not always show the actual independence. While a central bank's actual independence differs from its statutory independence, its level of independence also fluctuates over the time, especially during emergencies.

In case of the RBNZ, the Minister of Finance gives a remit advice to the Monetary Policy Committee (MPC). This is a clear direction from the government veiled as a remit advice because no instances were found for a RBNZ Governor to disobey the remit as it works like a contract between the RBNZ and Ministry of Finance. If ever the Governor disagrees, he/she needs to inform the MPC, and that committee will act like a layer between the Ministry and RBNZ. External members of that committee are appointed by the Government of the day. So, the government is in full control. In the case of the RBA, the Treasurer plays a similar role. If ever the Governor disagrees with the Treasurer on any matters, the issue will be elevated to the Head of State. So, there is no easy way to substantially disagree with the order of the government. The government holds the rein in the case of the RBA too. On the other hand, in the case of the PBC, such a conflict between the Governor and State Council is unthinkable because the Governor is obliged to act within the laws of the Communist Party Government. The PBC is under the full control of the government but with a different mechanism. The role played by the Minister of Finance in the case of the RBNZ is similar to that of the Treasurer in the case of the RBA. So, the central bank is mainly an agent of the Treasury or Ministry of Finance. In the case of China, there is no such Ministry, but the PBC is controlled by the State Council. In all three cases, the government always has an office to oversee it. Within a specified goal boundary, a central bank can be granted legal independence, but goal independence is not possible. The government always specifies a its central bank's goal.

The organisational structure of a central bank and the national political environment in which it operates will impact upon its discretionary power. If a country's national political environment is not democratic, its central bank is also expected to have a similar institutional setting. The actual level of autonomy may differ though. Merely transferring the concept of CBI from a country with a different political context will not result necessarily in positives for another economy. An institutional lens considering the organisational reality and political context must be used to determine the level of autonomy required for a country's central bank. The most important thing is good governance for achieving citizens' welfare, and it can arguably be achieved even if there are some political influences in the central bank.

If the performance and relative efficacy of these central banks are considered, the level of independence may not have an impact – or at least there is no clear positive relationship between relative independence and relative effectiveness necessarily. That is, CBI may enhance transparency, but it does not necessarily lead to an efficient central bank. The case of the Chinese central bank shows that their national economic recovery during the pandemic is owing in some part to the good performance of the PBC. However, that model is unique to its political and economic environment – market socialism; and it is politically unacceptable in a democratic country. The RBNZ and RBA models, on the other hand, have strived for CBI, but often their performances have not been good enough. The OECD call for an independent review of the Australian central bank after its continued failure to meet inflation targets illustrate this. The RBNZ is also criticised for failing to control national unemployment and housing prices. It does not matter how independent a central bank is, or who controls it when it comes to efficacy. It is easy to evaluate the central banks based on their relative adherence to norms such as independence and transparency, but they are judged based on economic outcomes for the public good / domestic constituency the verdict might be different. China ironically has a system that is far more accountable to the government, and in some ways has the potential to be more democratic. However, their government is not accountable to the people – not in a democratic sense anyway.

4.5b Case: The Bangladesh Bank

The Bangladesh Bank (BB) is the central bank of Bangladesh. According to section 5(1) of the *Bangladesh Bank Order 1972*, it was established by converting the then State Bank of Pakistan after gaining national independence from that country on 16 December 1971 through the liberation war (Laws of Bangladesh 2019).

4.5.1 Functions of the Central Bank

Section 7A of the *Bangladesh Bank Order 1972* specifies the following functions as its main objectives: monetary policymaking, controlling the forex market, foreign reserve management, payment system management, issuing banknotes, and supervising banks and other financial institutions (Laws of Bangladesh 2019). Other than these mandated objectives, the BB also performs many non-mandated tasks from time to time based on the government's instructions. For example, it oversees agricultural loan disbursements of commercial banks and NGOs (The Daily Star 2021). It also performs the task of recruiting fresh employees for some public commercial banks (The Daily Star 2017) which is not a common central banking responsibility. For supporting the development of the nation, it performs many non-mandated functions assigned by the government. Such responsibilities often involve distributive effects on the society as highlighted by Levy (1995), de Haan et al. (2018), Jones and Matthijs (2019), and Wachtel and Blejer (2020) in their studies. The BB has legal independence as defined by Crowe and Meade (2007, p. 70) because it gets a clearly defined inflation target for a financial year from the government (Bangladesh Bank n.d.g). However, critics argue that those targets are often not realistic (Haroon 2021; The New Age Bangladesh 2021).

4.5.2 Governance, Committee Structure and Decision-making

According to section 9(2) of the *Bangladesh Bank Order 1972*, there is a Board of Directors that holds all governing power in the Bangladesh Bank, and the BB Governor acts on behalf of that Board (Laws of Bangladesh 2019). This governing board currently has eight Directors, although it can have a maximum of nine members. Current members are: the BB Governor, one Deputy Governor (the most senior), three top-level government officials, and three external members who are experts (maximum four members in this category). These external experts are appointed by the government. In fact, the entire panel is selected by the government as it appoints both the BB Governor and Deputy Governor and places the three public officials usually from the Ministry of Finance and National Board of Revenue (Bangladesh Bank n.d.a; Laws of Bangladesh 2019).

In addition, there is a Co-ordination Council which is responsible for co-ordinating monetary and fiscal policies. According to section 9A(1) of the Order, the council members are: the Minister of Finance (Chair), Minister of Commerce, BB Governor, Secretary of Finance Division, Secretary of Internal Resources Division, and a member from the Planning Commission. Also, there is an Executive Committee based on section 12(1) of the Order. This committee includes: the BB Governor, one Deputy Governor (the one who is also a Director in the Board), one Director from the 'external experts' category and another Director from the 'government officials' category within the Board (Laws of Bangladesh 2019).

At the operational level, the BB is governed by the Governor who sits at the top of the tier, and then four Deputy Governors. Under the Deputy Governors, there are Executive Directors, and then General Managers who oversee individual departments of the Bangladesh Bank (Bangladesh Bank n.d.e; n.d.f). The decision-making mechanism is controlled by the government in the BB. The Minister of Finance or, in other words, the government is the final decision-maker regarding any issues as laid out in section 20(3) of the Order (Laws of Bangladesh 2019).

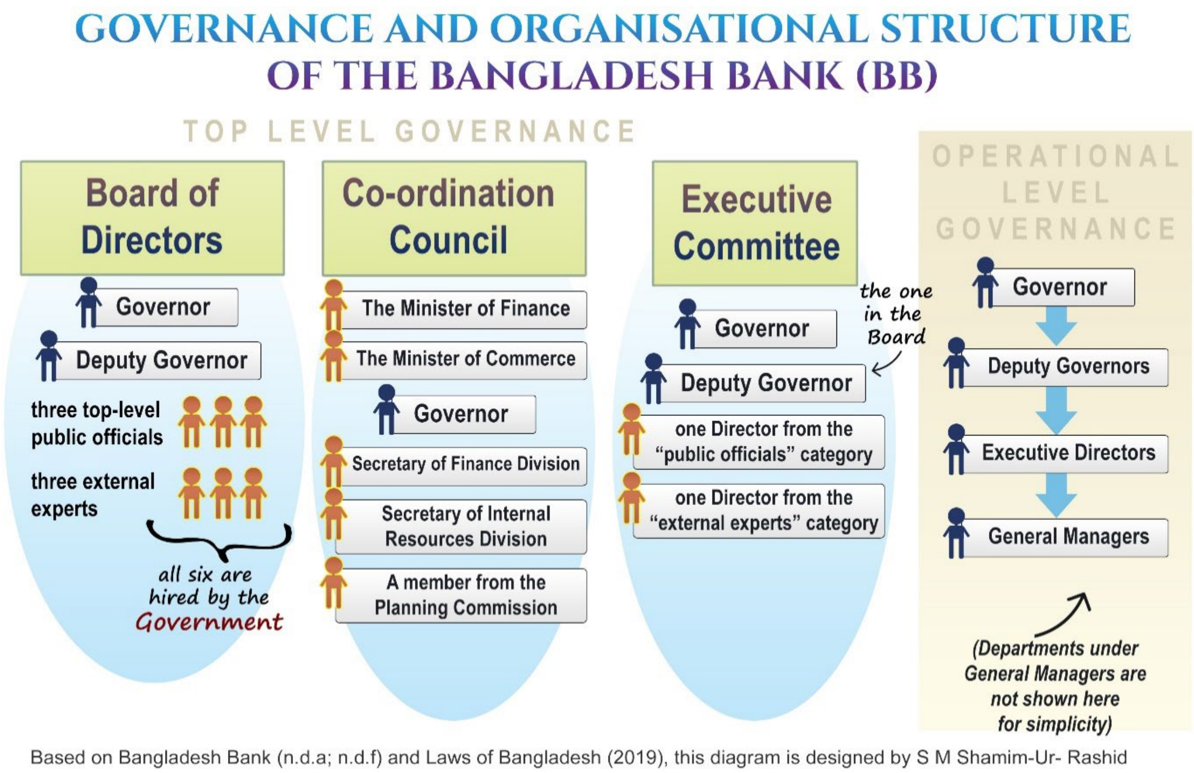

Figure 9: Organisational structure of the Bangladesh Bank (BB)

4.5.3 Independence

Although the BB is legally independent, it has limited operational independence as the government gives the final verdict on everything (Rashid 2019). Many have stressed the importance of giving more operational independence after instances of multiple banking scams and the BB's inability to act as an effective regulatory authority due to political biases (Rahman 2015). The International Monetary Fund (IMF) has regularly recommended that the BB is given full operational independence (Tasreen 2019). Specifically, the IMF has argued that the inclusion of three high-ranked government officials into the Board of Directors has hindered the BB's independence. Their recommendation is that the government reviews its central bank governing law and restructures the Board to allow more autonomy. According to that international lending organisation, majority voting power held by 'outsiders' – three public officials and four (currently three) external experts – to the Board may hamper the BB's autonomy. Such a formation of the governing board of a central bank is a sign of fiscal domination in monetary policymaking. Such fiscal dominance is stated by Mas (1995, p. 1640) in his study. The IMF call also visualises the argument of Hartwell (2019, pp. 63-7) that a central bank in a developing country must deal with both domestic and international institutions. However, former BB Governor Dr Salehuddin Ahmed has a different opinion as he thinks that it would not be realistic to exclude government officials from the Board in the political context of Bangladesh. He argues that it is necessary to have good coordination among the Ministry of Finance, BB and National Board of Revenue for the smooth functioning of the economy. If the BB is made completely isolated by excluding those members from the Board, the central bank will find it difficult to achieve its objectives. He also stresses that politicians' will is necessary to appoint qualified members for the central bank board (Alo 2021a; 2021b). Like the former BB Governor, many have emphasised the coordination between monetary and fiscal authorities for the greater benefit of the economy and argued that the BB should be accommodating if needed (Hye 2016).

Likewise, some critics have acknowledged that the BB lacks in operational independence, but they argue that it would not be realistic to make the BB fully independent at the current development stage of Bangladesh. For instance, Rashid (2019) argues that Bangladesh does not have a well-functioning bond market yet. Without an effective bond market, the BB cannot directly control national short-term interest rates. So, a better coordination between the government and BB is required. By referring to the example of South Korea, Rashid also opines that the South Korean government gave very little independence to its central bank for the sake of achieving national credit growth by targeting preferred sectors. Similarly, at this development stage for Bangladesh, the government and the BB should work closely to achieve development objectives by sacrificing CBI.

4.5.4 Transparency

The BB is apparently transparent as it regularly publishes important economic indicators statistics and media releases for the public. Its major publications are: Annual

Report, Monetary Policy Statement, Monthly Economic Trends, Financial Stability Report, etc (Bangladesh Bank n.d.b).

4.5.5 Critical Appointments

- The BB Governor is appointed by the Government according to section 10(3) of the *Bangladesh Bank Order 1972*. The current Governor was a civil servant and Secretary of the Ministry of Finance (Bangladesh Bank n.d.d; Laws of Bangladesh 2019).
- According to section 10(4) of the Order, the Deputy Governors are also appointed by the government (Laws of Bangladesh 2019).
- All members of the Board of Directors are selected by the government based on section 9(3) of the Order (Laws of Bangladesh 2019).

4.5.6 Performance and Efficiency

Although the BB tries to highlight its positives, critics often claim that its performance as a monetary authority is poor. They describe its lack of control over monetary policy and weak management. They also argue that the Minister of Finance directly controls monetary policymaking, which is not expected. Another allegation is the lack of good governance in the central bank (Alo 2018). The three most cited performance failures of the BB are: (i) over-proliferation of commercial banks; (ii) high Non-Performing Loans (NPLs) in the banking sector; and (iii) lack of good governance. Over-proliferation of commercial banks in the banking sector of Bangladesh is caused by the BB giving licences to too many banks in a small market. In the 1980s, private commercial banking started to flourish in Bangladesh. Since then, many banks have started their businesses. Critics argue that no new banks are needed in this saturated market. But when government-affiliated businessmen want to open a new bank, the BB cannot say ‘no’ to them. This is because there is no opportunity for the central bank to give its own opinion in the decision-making. All such decisions come from the Ministry of Finance. In 2013, when the then government made the BB give licences to four new commercial banks to start business, critics blamed the central bank for being vulnerable to political considerations. According to them, those politically established banks should not have been given the licence to operate. Moreover, it has been alleged that the BB has failed to control the state-owned commercial banks as those banks contribute more to the ongoing high bad loan or NPL problem. As those banks are owned by the government, the BB cannot always take stricter actions against them. On one side, the BB shows political bias while giving licences to new banks; and on the other side, it fails to regulate the granting of loans by state-owned banks with political considerations due to its lack of operational independence (Dhaka Courier 2017; Hossaini 2018; The Daily Star 2019; Rashid 2019).

Non-Performing Loans (NPLs), or default loans, in the banking sector of Bangladesh are one of the biggest problems that the BB has not been able to supervise. Some argue that the high number of banks in Bangladesh is responsible for this. High NPLs in the banking sector are dangerous for financial stability, so the BB is not doing a good job of managing them. The government is also blamed for instructing the BB to use loose or lax policies to classify loans. Because by using a loose loan classification system, the BB artificially shows reduced NPL. The Centre for Policy Dialogue (CPD) – a policy institute in Bangladesh – has recently commented that when the loan classification system returns to 'normal', total bad loans in the country will increase as the actual NPL level is currently hidden (Palma 2018; Rashid 2019; The New Nation 2019; Alo 2021c).

Another performance issue is the lack of good governance within the BB. According to many, it has been failing to properly control the banking sector due to its own governance issues (Islam 2017; Ahmed 2019; The Daily Star 2020). Its internal governance failure came under the spotlight in 2016 when alleged North Korean hackers notoriously attacked its foreign exchange reserve account and stole money. The hackers were able to steal US$101 million, and the incident was highlighted worldwide. The BB has its own forex account maintained at the US Federal Reserve in US dollars. Hackers targeted that account by breaking the security system of the BB's Dhaka office and transferring US$101 million to Philippine casinos and a

Sri Lankan charity. More scary news is that those hackers initially tried to steal a total of US$951 million using thirty-five transfer requests, but only four transfer requests were successful, totalling US$101 million. The rest of the requests were rejected by the US Federal Reserve because, luckily for the BB, the hackers made a spelling mistake in the address of those transfer requests (BBC 2021). Although one may argue that this incident indicates that the BB has a poor network security system, its handling of the situation also exposes its poor governance. This heist incident shook the whole nation, and the BB was under severe criticism. Its poor management came under the spotlight. The BB Governor had to resign after the heist. The-then opposition political party asked the ruling party to step aside too. The Minister of Finance fumed at the BB because it kept him uninformed about such a big incident for a few days until the news broke out in international media. The Minister said there would be 'reforms' in the central bank. It was a real disaster for the BB (Ahmed 2016; Byron 2016; Rahman 2016; The Daily Star 2016a; 2016b; 2016c; 2016d).

In summary, the BB case shows that its major performance issues – over-proliferation of banks, excessive bad loans, and weak internal management – are not entirely caused by its alleged lack of autonomy. These problems are signs of its poor governance. Besides, the overall political and economic context of the country must be considered. Achieving good governance does not mean the absence of political affiliation within the central bank. Its governance mechanism is influenced by politicians and external experts in a similar manner to that of the New Zealand and Australian central banks. The case of the China has shown that good governance and increased accountability can be achieved even if the government has a stronger grip on its central bank. The recruitment of prominent economists for their Monetary Policy Committee in 2010 is an illustration that the Chinese government tries to recruit the best advisers for the monetary policy despite giving no legal independence.

4.6 Lessons for the Bangladesh Bank

The Bangladesh government should strive to improve its central bank board and committees by appointing quality members. Its central bankers must improve their technical knowledge and competency for attaining 'Professional Independence'. The government should make sure that central bankers are appointed based on their expertise in the subject matter. The government should also increase accountability by ensuring that the central bankers cannot get involved in private sector businesses or roles that could lead to potential conflicts of interests while working at the central bank. Moreover, in the context of Bangladesh, the smooth relationship between the central bank and Ministry of Finance is more important than simply making an isolated central bank with full independence. It is the politicians' willingness that matters to achieve good governance and ensure a stronger internal management within the Bangladesh Bank, not the insulation from the politics.

4.7 Conclusion

This comparative case study has resulted in the understanding that a central bank operates in a setting where politicians will always get involved. Being a central bank of a developing country in South Asia, Bangladesh Bank also deserves to be evaluated based on the political and institutional setting it is in. A central bank is a public agency that works within a boundary set up by the government.

CHAPTER 5: CONCLUSION

This research has aimed to provide a solution to the poor governance situation in the Central Bank of Bangladesh by analysing the organisational structures of three other central banks. The study has focused on the governance and independence of the central banks of New Zealand, Australia, and China to consider whether delegating more independence would improve the Bangladesh Bank's efficiency as a monetary authority. Based on the case study analysis, it can be concluded that more operational independence will not necessarily ensure good governance in the Central Bank of Bangladesh. The findings indicate that the unique operational context of the central bank is an important factor to consider when reforming its governance and organisational structure. A central bank's performance is not solely dependent on its level of autonomy. It can achieve efficacy even if it is controlled by the politicians. The politicians or, in other words, the government should enable the Central Bank of Bangladesh with an appropriate setting for good governance by appointing quality board members and emphasising on professional development of central bankers.

This research has used a comparative case study methodology not only because of its appropriateness in the field of Public Administration, but also for its ability to help understand complex relationships and institutional dynamics. It has effectively helped find the answer to the research question of this study by examining the complex central bank – government relationship and contrasting different central bank governance mechanisms. It has generated an interesting finding in the case of the Chinese central bank that despite its lack of legal independence, it has operational independence and efficiency as a national monetary authority. The research findings show the fluctuating difference between a central bank's actual independence and statutory independence especially during emergency situations. It is also found that irrespective of national political regimes, a central bank, as a public agency, is always controlled either directly or indirectly by the government. Using an institutional lens helps better understand the fact that a central bank with very little or no independence can perform very well if good governance and accountability can be ensured.

Based on these conclusions, to improve the governance of the Bangladesh Bank, the government should improve the quality of its governing board by not removing the public officials but appointing experts in that board. The quality of that board will influence the governance and accountability mechanisms of the Central Bank of Bangladesh. Furthermore, it should prioritise the development of skills and competencies of the central bankers. For the sake of economic development of the nation, more emphasis should be placed on the coordination between the Ministry of Finance and the Bangladesh Bank. Instead of asking for central bank independence (CBI), critics should use a different perspective to understand the significance of this fiscal – monetary relationship, especially in the context of Bangladesh.

The observations and analysis from this research have generated some useful insights and contributed to the debate regarding the relationship between central bank independence and central bank performance – based on economic indicators of success. It has attempted to come up with practical insights to better understand a central bank's governance problem instead of focusing on theoretical advantages of CBI in different contexts. This study has also conducted an extensive review of existing literature on central bank governance and independence. While most of the existing literature focus on the correlation between CBI and inflation, this study has approached differently by studying central bank committee and board formations.

Lastly, the positive economic outcome correlated to CBI in some OECD countries cannot be assumed to be similarly appropriate for a country with different political context and economic stage. The judgement should be made using an institutional perspective and considering the political context of the country before giving independence to its central bank. Different financial crises and uncontrollable external incidents will impact a central bank's actual independence despite having legal independence. Depending on the outside environment, a central bank's actual behaviour will differ from its statutory specifications. Its mandated objectives can be changed any time by the government for the greater benefit of the citizens. Therefore, independence is a volatile and inconsistent attribute of a central bank. CBI cannot be the ultimate solution for improving the efficiency of a monetary authority.

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