

Internal and External Challenges to Central Bank Independence

Summary for the general public

Since the late 1990s central bank independence is a widely accepted standard component of the institutional framework for monetary policy. The rationale for this general acceptance is well rooted in the economic science that shows how central bank independence makes it easier for central banks to maintain price stability, without which macroeconomic stability cannot exist.

This notwithstanding we observe that politicians in many countries have not fully accepted their lack of direct control over the important part of macroeconomic policy, i.e. over monetary policy. Therefore, we can often observe politicians' attempts to influence de jure independent central banks. The most popular form of such a political pressure is to include into the process of appointing members of monetary policy committee or similar decision-making body of central bank some political criteria such as political sympathies or ideological beliefs of candidates. Monetary policy requires sophisticated analytical tools, hence the legal requirements for members of central banks' decision-making bodies usually define their desired professional experience and formal education. However, the importance of central bank and its position among other state agencies mean that its decision-making bodies are usually appointed by the highest authorities (the Crown, president of the country or parliament), working often in cooperation. The research study we plan to conduct attempts to verify the existence of these political pressures: we will look whether personal characteristics of members of the Polish monetary policy council and governors of other central banks, including various forms of their relations with government and other political institutions, determine their decisions in the area of monetary policy and interactions between monetary policy and fiscal policy.

The second important part of our research focuses on the question, whether the so called unconventional monetary policy, which has been undertaken by many central banks, including the Narodowy Bank Polski, on a large scale during the great financial crisis of 2008+ and during the Covid-19 pandemic, has been a factor undermining central bank independence. This unconventional policy has been making an unequal impact on various industry sectors and different groups of economic agents, that means that it has a quasi-fiscal nature. As the rationale for central bank independence is derived from central bank's responsibility for monetary policy only, any central banks' excursions beyond monetary policy justify, according to some politicians and economists, constraining central bank independence. Our research will attempt to study these issues by looking for the connection between the size of central bank balance sheet – as a measure of its engagement into unconventional monetary policy – and de jure indexes of central bank independence. We also intend to conduct a survey among economists to find whether – if any – they see any dangers for central bank independence, that come from unconventional monetary policy.