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Dr Dragan Momirović[1]
Fakultet za poslovno industrijski menadžment, Mladenovac
Dr Rajmund Mirdala
Technical University of Kosice, Faculty of Economics, Department of Economics, Slovak Republic

REAL CENTRAL BANK INDEPENDENCE IN THE POST-CRISIS PERIOD OR MYTH

Abstract

The realization of the goal of price stability, the central bank, according to the accepted consensus before the crisis, should have complete independence in decision-making. The possibility of full independence of the central bank has raised many controversies. The main argument of complete independence was to establish a central bank authorities according to law. This allows them to impose duties, responsibilities and define the mandate and thus directly or discreetly affect its operation. The latest crisis has shown that the central bank from political pressures have taken a number of non-standard measures in alleviating and limiting the crisis. Sovereign debt crisis in the EU has more impact on the independence of the central bank. Therefore, central banks have to immediately normalize its business back into the legally defined boundaries and achieving its main objectives. Long-term monetary "hospitalization" may undermine the credibility and independence of the central bank. Therefore, they should be independent from the legislative and executive branches.

Keywords: *independence, price stability, non-standard measures, monetary "hospitalization" normalization*

JEL Classification: E58, G01, G18

STVARNA NEZAVISNOST CENTRALNE BANKE U POTKRIZNOM PERIODU ILI MIT

Apstrakt

U ostvarivanju glavnog cilja stabilnosti cena, centralna banka, prema prihvaćenom konsenzusu pre krize, treba da ima potpunu nezavisnost u odlučivanju. Mogućnost potpune nezavisnosti centralne banke je izazvala mnoge polemike. Glavni argument potpune nezavisnosti je bio da centralnu banku osnivaju organi vlasti na osnovu zakona. To im omogućava da nameću obaveze, odgovornost i definišu mandat a time neposredno ili diskretno utiču na njen rad. Najnovija kriza je pokazala da su centralne banke pod političkim pritiscima preduzele niz nestandardnih mera u ublažavanju i ograničavanju krize. Posebno, kada se pojavio drugi talas suverenog duga u EU. Zbog toga, centralne banke moraju što hitnije da normalizuju svoje poslovanje vraćanjem u zakonski definisane okvire i ostvarivanju svojih glavnih ciljeva. Dugoročna monetarna „hospitalizacija" može da ugrozi kredibilitet i nezavisnost centralne banke. Zbog toga, one trebaju da budu nezavisne od zakonodavne i izvršne vlasti.

Ključne reči: *nezavisnost, stabilnost cena, nestandardne mere, monetarna „hospitalizacija", normalizacija*

[1] draganmomirovic@ymail.com

Introduction

Adopted a broad consensus of the central bank has been assigned the role that water only , taking care of the main objective of price stability . Price stability means a low and stable inflation. In order to fully achieve the main objective, price stability, the central bank should have complete independence in decision-making. However, at the start, reached, the consensus is for individuals produced a certain amount of skepticism, especially when it comes to the full independence of the central bank. The argument for skepticism complete independence of the central bank was based on the possibility of political pressure.

The sources of political pressure, regardless of the adopted independence, arising from the nature of the procedural issues concerning the formation and establishment of central banks

Central banks are institutions established outside the legal framework. They established the institutional interests of the company, pursuant to the law. The law establishing the central bank made the authorities. They impose obligations, responsibilities and sets out the mandate. Every time, when it estimates, the authorities can change the law and other regulations relating to the functioning of the central bank. Legislative and executive power can you not satisfied with the work of the central bank to influence her work. In this context, the central bank could never have or cannot achieve full independence in decision-making. In order to achieve full independence of the central bank's decisions should be exempt not only from the legislature, but also on the executive.

Widely accepted consensus

During the last decade of the last century adopted a new architecture design of central banking formed into a widely accepted consensus of all stakeholders. The new architecture of central banking, adopted a key position that the central bank can best serve the interests of society when there is a full independent authority. This involves independent decision making in key measures and policies within the widely accepted consensus. In this framework, the central bank needs to have full control over their resources and independent financial power. Adopted by consensus, the central bank granted full independence in the selection of instruments and objectives. Assigned mandate included the possibility of an autonomous selection and use of tools of monetary policy and complete independence in the selection and definition of the goals of monetary policy. It was thought that granted independence at the same time implies responsibility. Accountability was ensured through transparency. The expected contribution of the new consensus , pre -crisis , resulted in " Disinflation effective combination of improvements in the conduct of monetary policy , greater public demand for the Price Stability " (Gerlach , S. , Giovannini , A., C. Tille , 2009) and achieving macroeconomic stability .

Rightly they are attributed to the control and stabilizing role. Assigning the role of central banks has actually had the opposite effects, with "two functions are impaired in preventing the crisis: monetary policy should be void on account of price stability, while the regulation and supervision of the care taken to financial stability." (Borio, 2011)

Adopted by consensus, analogy hikers had an impact avalanche latest economic and financial crisis. Now move the central bankers , who survived the impact of economic and financial avalanche to try to check yourself , regroup and find a safe path and move forward with providing the actual central bank independence or maintaining the myth of independence .

Independence “ - the experience of leading central banks

Fed has independence in the choice of instruments and objectives and largely free from political pressures. Members of the Board of Governors are elected at fourteen years old and cannot be pressured to leave their jobs , they to some extent be prevented from acting in the interests of the Congress or the President. Time the Fed is trying to be completely independent of Congress. Fed realized significant revenues from securities and bank loans. Income from securities, the Fed act independently while income from bank lending to a lesser extent. The main accounting office cannot monitor and supervise the Fed’s monetary policy and its activities in the foreign exchange market. Despite this, however, affect the FED Congress. Congress passes a law on the Fed to at any time, an estimate of when that does not work well, cannot modify it. Dissatisfaction with the conduct of monetary policy, Congress may sanction the taking control of his finances and force him to take the funds in the budget, similar to other government agencies. Congress passed the law, by which the Fed bears more responsibility for the actions taken and asked to explain how these plans are in line with the economic plans of the President of the United States. And the president can influence the Fed. He is a strong ally of the Congress and act together when it comes to the economic interest of the United States.

The Bank of Japan was not until recently formally independent of government. Central Power had the finance ministry. However, the year 1998 adopted a new Law on the Central Bank of Japan, which was a great turn and historic change in terms of power, now almost 55 years old. Basic module changes are related to the main goal of greater independence in the choice of instruments and objectives. Ministry of Finance, the new law, lost a good part of the right of control of many of the central bank but still maintain control over a part of the budget of the central bank’s monetary policy function. This approach partially limits the independence of the central bank of Japan.

The European Central Bank and the European System of Central Banks started in 1999 year Mastrih Agreement member states. Like their operation is similar to the Federal Reserve System. Unlike other central banks, the ECB is the most independent in the world in terms of tools and targets. It is independent of the European Union in relation to the national government and has complete control over monetary policy. Its powers cannot be changed by law. It can only be audited Mastrih agreement, which is a very complex and complicated procedural process.

Crisis period and independence

Rush of the financial and economic crisis in the second half of 2007 as they forced the central bank, in the absence of other institutions, stand on the rampart of defense against financial hardship. They have drawn for standard measures to alleviate and limit the spread of financial contagion. But the cancer crisis is spreading rapidly. A benign effects are neutralized the effect of standard measures. After the collapse of Lehman investment fund in the United States and the vulnerability of the functioning of the transmission mechanism of monetary policy, a number of central banks, including the Fed, ECB and BOJ came out of the framework of its mandate, the adoption of non-standard monetary policy measures. Responses of central banks to the crisis avalanche of non-standard measures, after more than five years have contributed to mitigate and overcome the crisis. In the history of economic crises, these were unprecedented biggest intervention by central banks to the financial markets. They acted innovative, establishing facilities and programs to supply much-needed liquidity and butter.

No doubt central banks during the crisis played a key role in contributing to its stabilization measures of financial distress. At the same time, despite the success in combating the financial crisis, the former based consensus on the independence of the central bank, is jumping out of the frame of the standard model at risk.

The independence of the Fed after the collapse of Lehman threatened. The U.S. financial system is suffering from a huge systemic risk. Systemic risk is caused by the loss of confidence due to excessive correlation of financial institutions and excessive reliance on short-term financing. The system risk, he reacted by reducing the interest rate and penalty interest at the discount window. In addition, the Fed is using his authority as a last resort liquidity, established a number of new facilities for liquidity to limit or mitigate systemic risk. But despite the measures taken, there are many activities that are subject to criticism and scrutiny of the actions of the Fed during and after the crisis. Create and review relating to those activities that are undertaken and completed under political pressure. For example, some of the measures implemented under political pressure influenced the expansion of the balance sheet Fed chairman. Expanded balance sheet, may in the future to limit and to question the effectiveness of its policies. Then, the purchase of various securities with inadequate or insufficient collateral may lead to credit risk, which may directly jeopardize its independence. This vulnerability stems from the possibility of providing legal support from the Treasury to compensate possible losses. Such a possible outcome of events puts the Fed in a dependent position in relation to the Treasury. Then, the Dodd- frank Act requires mandatory approval of the Treasury activities Fed chairman, in the actions of creditors of last resort. The law prohibits lending the "final dungeon of a particular individual or company." The law limits the extent Feud volume of liquidity to be provided by companies that are serious and urgent circumstances (Article 13 of the Law). At the same time, he forced revision and control of the activities of creditors of last resort. This limits the Fed can impose significant burdens and may eventually threaten its independence.

ECB, according to some, the adoption and establishment of OMT program would jeopardize their independence. OMT program, the ECB has successfully helped to restore confidence in the markets buying unlimited sovereign debt securities and encourage the banking sector to continue the activities of the sovereign debt market. However, these activities ECB, individuals criticized as "financial reform " central banking. Critics refer to it, as it allows the government interventions that are a prelude to the loss of independence.

It is interesting that the Bank of Japan long suffered from political pressures due to long-term deflation. Japanese politicians have criticized the central bank for inaction in the fight against deflation. After winning the elections, Shinzo Abe , has drawn up a request to the central bank to take more drastic measures easing to fight deflation. The Central Bank adopted a 2 % inflation target in 2013 year and in April of the same year joined the quantitative and qualitative easing monetary policy. Many of these pressures the government saw as an attack on the independence of the central bank. The discussion highlighted some measures that threaten the independence of JCB and have a negative impact on the balance sheet, such as helicopter money and exchange rate targeting.

Dual mandate target in the post-crisis period and independence

Review the current way of monetary policy in the course of a debate on the new role of the central bank has not yet concretized. Goldhart, states that the coming period will period of experimentation in central banking. (Borio , 2011) Caruana, ranked challenges on the "three categories- economic, intellectual and institutional" and suggests that "implications for the role of central banks is likely to be far- reaching. " (Caruana, 2011) Orphanides (points to a new paradigm of the central bank, through three questions: a new paradigm in monetary theory and policy? The new paradigms in banking and financial markets? New paradigms of financial regulation and supervisions? (Orphanides , 2011) Asmussen suggests several roles central banks in the future and asks which of them are relevant "as the guardian of stability and its role as a crisis manager." (Asmussen , 2012)

Central bank have been forced to review their implementation frameworks and to try out policies that, only a few years back, were not on their radar screens. (Murić, 2012) Exiting the standard model "broad consensus" and non - standard measures and tools of monetary policy, after excessive escalation of the financial crisis, some see it as a "dual "target mandate of the central bank. First, the target's maximum term maintenance of price stability, employment security, and second, the target term is the use of non - standard tools and measures in the fight to break the crisis. It is certainly reasonable that the central bank in terms of total collapse of the financial system have a responsibility to respond promptly and quickly, taking all available measures and tools to prevent and limit the spread of financial contagion. From this point too much use of non - standard measures in the escalation of the crisis is justified. But the problem is what to do next with the non - standard measures in the post-crisis period? Whether and when the central bank needs to come from the use of non - standard measures and normalize business? Or that the role of non - standard measures should be post-crisis period? According , to some opinions the central bank should continue to retain its principal objective price stability by applying and controlling short - term interest rates and the non - standard measures are kept in reserves and are always prepared for preventive action in case of indication or occurrence of financial shocks . In this context, there is still room for adjustments and repairs. Caruana (Caruana, 2013) from the HIS lists four conditions:

First, the active use of measures of central bank balance blurs the line between monetary and fiscal policy. Measures of balance as a regular tool of monetary policy may be charged to the central bank if it is used outside of their box and tasks. And that may jeopardize their operational independence in Ensuring price stability and Finance.

Second, central banks have only a tight control over short - term interest rates and not through other securities such as such as long- term yields on government bonds. Assessing the impact of central banks on the yield of these securities, through large purchase, they can be seen only in the consolidated balance sheet. In this context, they have complete control over the political instruments. The consequences are jeopardizing independence.

Third, the non - standard monetary policy measures expose the central bank's significant market and credit risk. No matter what financial losses by themselves, do not affect the operational capability of the central bank needs the financial support of government could jeopardize their operational autonomy.

Fourth, there is room for in the evaluation of some of the technical aspects of the frame. For example, greater reliance on the payment of interest on reserves as a tool for more effective control of short - term interest rates. Or an expansion in the range of eligible collateral for monetary policy operations, as a way of balancing the many features, including the availability of high -quality collateral regulatory reforms. Then, define the appropriate role of central banks in the supply of liquidity in normal and turbulent times. However, these changes have little effect on the independence of central banks and their operating activities.

Extraordinary circumstances and "monetary hospitalization"

The positive impact of the measures of central banks in crushing financial crisis has raised a number of questions about its role further. After every crisis central banks have experienced changes. And now they are at the crossroads of change. Especially, when is to the question of independence. Nature of the challenges during the crisis has evolved in terms of central bank independence. Traditionally, the independence of central banks was aimed at the smooth conduct of monetary policy from political pressures. However, in light of new events, caused by the crisis, central bank independence should be viewed in a broader sense. Primarily, this refers to the emerging, early, terms of monetary easing.

Financial markets and parts of the high indebtedness of the private sector are extraordinary factors that impose a loose monetary policy. Intervention by central banks to crack down on early influences in these segments, individuals is seen as a serious threat to the financial dominance that identifies them as fiscal dominance. Risk of fiscal dominance is actually present if the government does not stabilize and placed under the full control of their finances. (See more, Caruana, 2013)

Unrealistic expectations of actually real possibility of central banks, based on the opinions of many who believe that the current a benign disease should be treated lengthier "Monetary hospitalization." Such views can be subsumed under the expected dominance. However, central banks should be allowed to position themselves to decide on the pace and time horizon of normalization are not limited by undue political pressure. This would be one acquired capabilities to preserve and maintain credibility in meeting its main objectives.

Mere "monetary hospitalization "are no doubt contributed to the breaking of the crisis and mitigate the impact of the recession. Success in combating the crisis has increased the expectations of the central bank, on what monetary policy can do. However, after five years, the policy of "monetary hospitalization" has spawned a number of issues related to the limits of such measures, and how long can you go without having to jeopardize the trust.

The measures accommodative monetary policy can provide timing correction and cleaning up balance sheets and the structural reforms that are necessary to restore and encourage strong and sustainable growth. But it cannot replace them. Moreover, enduring and extreme policy "monetary hospitalization "may unconsciously to move or postpone necessary repairs and structural reforms. Practice on this point. In some economies, there has been progress in reforms and repairs. Economies that have made greater progress of the private sector and reduce the debt of the banking sector are in a good path for further recovery and sustainable growth. But the increasing presence of high unemployment in many advanced and developing economies suggest many more problems in the long and winding road to resolving anomalies and structural imbalances. Then, discourages the relentless increase in total debt, which is the end of the year 2007 in the G 20 increased to 35 billion dollars.

Prolonged policy “monetary hospitalization “for the central bank is an additional burden that threatens to cause long-term risks to their reputation and credibility. The reason is all visible signs of the growing gap between what is expected of central banks and their real possibilities of what they can do. Finally, the gap between expectations and capabilities can jeopardize confidence in the ability of central banks to be able to fulfill the assigned mandate and achieve its main objective of price stability. The consequences of the entire growing gap may jeopardize their operational independence. Dissonance and excessive expectations can certainly affect the increased pressure on the central bank to the water for too long too loose monetary policy. “Too loose “in the circumstances is cause for concern about the effectiveness of monetary policy.

Then, we should not lose sight of the impact of policy “monetary hospitalization “ advanced economies to other economies. This policy of advanced economies has affected the difficult decisions of central banks in emerging market economies as well as in other segments of the financial markets. Policy of low interest rates in developed economies , both before and after the crisis , putting further pressure on the growth markets in emerging economies , their courses and return on securities and stimulate borrowing in dollars . A partial response to an emerging economy was based on a policy of reducing interest rates and intervention in the currency markets. However, in the middle of this year, the process is moving in the opposite direction. Discussions about future Fed chairman narrowing mandate led to the selling off securities in the global market. Securities in emerging markets are right at the start saw a significant decline while the exchange rate depreciated. This trend has forced some emerging economies to tighten monetary policy despite the fact that such moves led to threats to macroeconomic conditions. In such an environment, a healthier economy in developed countries is a better deal. This emphasizes the importance of healthy policies and the importance of normalizing monetary policy and avoids new problems. In this context, central banks have to come up with policies that will ensure a balance between the risk and the risk of premature normalization of acting too slowly and too late. Central Bank to reach the normalization of monetary policy must be timely and gradually isolate the extraordinary, above the influence.

In any case, the challenge and the responsibilities of maintaining the independence of central banks should not be required in the solid arguments for and against, but through own hustle and efforts for transparency and full accountability. The main assumptions are strengthening the decision-making process and economic analysis, as well as establishing clear boundaries between monetary and fiscal policy. (Momirović 2010)

Instead of finding reliant independence and normalization of business

Strong fluctuations in the markets, further threatening the danger of debt and cross-border spillovers are disturbing factors that will make the process of normalization of the functioning of the central banks slow down a path of saving probably do thorny. Provided exceptional support of central banks continued to market adjustment is widely accepted. Support and customization allow the smooth functioning of markets. In such circumstances, central banks are seen as a marginal buyer of long-term debt or bonds as a key mediator in the interbank market. Thus, the financial markets have become too dependent on central banks. Therefore, it is necessary to quickly withdraw the central bank with financial markets. But it is not so simple. The withdrawal will require adjustments to the financial intermediary channels.

High public and private debt in the case of increasing the key policy rates to make the economy vulnerable, despite the fact that a large portion of debt with very low interest rates. At the same time, it will affect the general public, which will react sharply, as in previous cycles, when the attempted use of a little tighter monetary policy. (See the more Caruana, 2013)

The normalization of the central bank can achieve further guidance and a clear market communication. But it will not be a universal method for all central banks. Certain things will create considerable difficulties. For example, the risk premium will have to be normalized, because they will greatly affect market conditions, regardless of the degree of efficiency of communication. This will result in different implications for all participants in the financial markets.

In the process of normalizing its policy of central banks will have to face the forces of financial and fiscal dominance. They will have to fight for their operational independence of the limiting factors of nervous markets and highly indebted companies. It is obvious that in such circumstances the uncertainties are growing in this framework, and future decisions will be very difficult. In particular, the decisions will be made before and then there is evidence of their full justification. In conditions of pronounced tension "syndrome " of sovereign debt , the governments of countries with fiscal deficits are all prone to political pressure on the central bank. Increased political attention is not without risk, because it can lead to changes in the central bank law and undermine the principle of independence. (Thomas, 2012)

There are indications that many governments are asking the central bank to leave its main objective, price stability and inflation increase to sovereign and private debts are devalued. In addition to these, there are other channels of political pressure exerted on the central bank by the government. For example, central banks lend to insolvent or unsuccessful firms or printing money. Before the political pressures the central bank should act in accordance with its main aim, the preservation of price stability by applying his strategy defined in the legal framework (Momirović, 2012)

In addition, the central bank, together with the policy of the government should take appropriate measures to strengthen the defense mechanisms of cross-border spillovers of external shocks and financial distress. Therefore, they will be obligated to the government to take necessary measures macroprudential and financial policy. At the same time, and other market players have to understand that normalization is necessary and important, especially bearing in mind that the market will not be able to function normally for a long time under constant stress pressures.

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