ABSTRACT

A sufficient and appropriate degree of central bank independence is widely acknowledged to be necessary for the goal of achieving price stability. However, despite the levels of independence claimed to be enjoyed by several central banks, recent events indicate shifts in focus of monetary policy objectives by various prominent central banks.

The impact of political and government influences on central banks' monetary policies has been evidenced from the recent financial crisis – and in several jurisdictions. Many central banks have adjusted monetary policies having been influenced by political pressures which have built up as a result of the recent crises. However such lack of absolute independence (from political spheres) could prove symbiotic in the sense that, despite the need for a certain degree of independence from political interference, certain events which are capable of devastating consequences, namely, a drastic disruption of the system's financial stability, need to be responded to as quickly and promptly as possible. Is it possible for a central bank with absolute independence to operate effectively – particularly given the close links between many central banks and their Treasury in several countries?

It may be inferred that central banks' crucial roles in establishing a macro prudential framework provide the key to bridging the gap between macro economic policy and the regulation of individual financial institutions. This however, on its own, is insufficient – close collaboration and effective information sharing between central banks and regulatory authorities is paramount.

Key Words: central banks, stability, regulation, financial crises, macro prudential, Basel III, systemic risk, supervision, liquidity, monetary policy, inflation targeting

CENTRAL BANK INDEPENDENCE: MONETARY POLICIES IN SELECTED JURISDICTIONS (III)

Marianne Ojo[1]

Introduction

The US Federal Reserve Act of 1913, "an important example of a central bank whose law includes other objectives such as growth and employment and the stability of the financial system in addition to monetary stability,"[2] illustrates the need for the Fed Reserve to take into considerations matters relating to fiscal policy when determining monetary policy objectives and further;

Fiscal policy measures (such as taxes and government spending etc) are determined by Congress and the Government and these decisions also impact the Fed Reserve's decisions in relation to monetary policy. Hence the Fed Reserve cannot really be considered to be a central bank which is totally independent from the executive.

This is to be contrasted to the situation with Germany's pre 1999 Bundesbank whereby it is highlighted that „price stability was the primary objective. The secondary objective of the Bundesbank was to support the general economic policies of the Government (including growth and employment)."[3] Hence the central bank having not just a primary focus on price stability but also a secondary focus/secondary objective. Fiscal policy measures and objectives appear to be

1 Email : marianneojo@hotmail.com

2 See RM Lastra, *Legal Foundations of International Financial Stability Oxford University Press* (2006) at page 5

3 Ibid at page 11

the primary focus of the Fed Reserve as of recent - given the recent recovery measures which have had to be undertaken in response to the global financial crisis and given the wider scope of application in its approach to inflation targeting. Further, it is observed that “the Fed’s focus has shifted dramatically to the short-run objective of lowering unemployment and recently the willingness to (temporarily?) set aside its inflation target.”[4]

Mervyn King's reference[5] to central bank independence in the UK highlights the importance being accredited to the ever increasing and significant role of monetary policy. He adds :"How much discretion to give to the Monetary Policy Committe and how much should remain with the Chancellor is an interesting question that was raised, but not fully resolved, in 1997," he added, referring to the date when the Bank gained operational independence.“[6]

However, despite the growing importance of, and emphasis on central bank independence: as highlighted under the abstract, lack of absolute independence (from political spheres) could prove symbiotic in the sense that, despite the need for a certain degree of independence from political interference, certain events which are capable of devastating consequences, namely, a drastic disruption of the system's financial stability, need to be responded to as quickly and promptly as possible. Further, subjecting actions and decisions of the central bank to other authorities could actually incorporate greater accountability and transparency into the supervisory and regulatory framework.

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4 M Levy, Shadow Open Market Committee, “Monetary Policy, Little Economic Impact, High Risks at page 6 http://shadowfed.org/wp-content/uploads/2012/11/Levy-SOMC-Nov2012.pdf

5 See also Mervyn King's reference to the Fed's decision to state *levels which unemployment would probably need to fall to before it started to raise interest rates* - an affirmation of the impact of fiscal measures on monetary policy decisions. Reuters, „Bank of England's King Says Time to Review Inflation Targeting“ 22nd January 2013 <http://www.reuters.com/article/2013/01/22/britain-boe-king-idUSL9E8E503Q20130122> (last accessed 25th March 2013)

6 See ibid

In relation to legislative reforms which result in a reduction in central bank autonomy and with particular reference to recent amendments to the Central Bank of Nigeria Act 2007, it has been noted by several commentators generally, that a reduction in central bank autonomy by subjecting its actions and decisions to legislative procedures and approvals, could result in more serious problems which would aggravate the stability of the economy and financial system.

However it needs to be added that the issue does not necessarily relate to a subjection of actions and decisions for approvals, but how well the authorities involved are able to communicate and coordinate information between them effectively.

B Central Bank Independence: Its Relevance in Developed and Less Developed Economies and Political Systems

Even though a sufficient and appropriate degree of central bank independence is widely acknowledged to be necessary for the goal of achieving price stability, it has also been concluded by Hayo and Hefeker that central bank independence is "neither necessary nor sufficient for monetary stability."[7] Maliszweski[8] further, concludes that „statistical significance of central bank independence at the high level of liberalisation, as well as the timing of stabilisation attempts and reforms of central bank laws, suggest that the independence is a powerful device for protecting price stability, but not for stabilising the price level."

Central bank independence – its impact and significance on the economy, financial system and the goal of achieving price stability, requires a consideration of historical, legal, jurisdictional, political and other economic factors. As regards jurisdictional factors and with respect to less

7 B Hayo and C Hefeker, "Reconsidering Central Bank Independence" European Journal of Political Economy 18 (2002) 653-674 2002 Elsevier Science B. V. All rights reserved.

8 W Maliszweski, „Central Bank Independence in Transition Economies" 2000 at page 18 of 28 <http://depot.gdnet.org/gdnshare/pdf/818_Wojciech.pdf>

developed countries (and not so well developed economies), the need for central bank independence (and in particular operational and financial independence from political institutions), it appears, assumes greater importance.

According to the Memorandum Submitted to the National Assembly in Respect of the Proposed Amendments to the Central Bank of Nigeria (CBN) Act, 2007:[9] Financial independence for a central bank has four ingredients namely:

- The right to determine its own budget;
- The application of central bank-specific accounting rules;
- Clear provisions on the distribution of profits; and
- Clearly defined financial liability for supervisoryauthorities.

Further the Memorandum states that "these are particularly relevant especially in not-well-developed political systems where central banks are most vulnerable to outside influence.„[10]

In an empirical analysis, performed by Moser,[11] a distinction is made between three groups of countries:

Those with strong checks and balances in their legislation, those with weak checks and balances, and those with no checks and balances.

Moser finds that:[12]

9 Publication date 2012 , see page 4 of 34

10 The Memorandum also states that "a situation where the CBN's independence is curtailed will inhibit its ability to achieve one of its critical roles of providing standby loans to distressed banks. The absence of this form of insurance to the banking sector will increase the industry's perceived riskiness, reduceoverall confidence in it and therefore reduce growth of the sector and economy." see ibid at page 12

11 B Hayo and C Hefeker, "Reconsidering Central Bank Independence" European Journal of Political Economy 18 (2002) at page 666 and 667

12„In a second step, he regresses group dummies for checks and balances plus these dummies interacted with Central Bank Independence (CBI) on average inflation rates. The outcome of this regression is less straightforward. In particular, the shift term of the country group with no checks and balances is smaller than that of the other groups. This implies that countries with dependent central banks do not necessarily have higher inflation rates. In

1) Countries with strong checks and balances have more independent central banks compared to those with weak or no checks and balances.

2)The countries in the last group have the most dependent central banks.

C Fiscal and Monetary Policy Objectives: The Essence of Narrowing the Scope of Inflation Targeting

The distinction between fiscal and monetary policy objectives – as well as the focus of fiscal policy objectives on growth and employment; and the focus of monetary policy objectives on price stability, is certainly not a contentious matter. Lastra highlights the dual nature of monetary stability – „in addition to the internal dimension, there is also an external dimension, which refers to the value of the currency. The stability of exchange rates (the exchange rate being the price of a currency in another currency) and the issue of which is the best exchange rate arrangement for a given country."

„Under the Keynesian policy modalities of the 1950s and 1960s fiscal policy had primacy and demand management policies (goals of growth and employment) were prevalent."

Should inflation targeting be accorded a more prominent role in many jurisdictions or what factors are necessary in order for greater focus to be accorded to monetary policy objectives? What reforms will be required in order to achieve the objective of according greater priority to inflation targeting? Currently in the UK, efforts are being undertaken to recommence with bond purchasing or reduce interest rates – although it is added that more fundamental changes and reforms will be required – as opposed to a proposed „fine tuning" of the present scope of inflation targeting.

Other areas worthy of consideration include:

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our framework, this can be interpreted as evidence that some countries have found other means to achieve low inflation rates. It is worth pointing out that the proxy used by Moser to measure the legislative framework is limited in scope, and he might miss distinctive features of the legal framework of some countries." see ibid

- Merits of targeting the size of the economy in cash terms instead of inflation.

- Reviewing the arrangements for setting monetary policies

Would merely a cut in interest rates be sufficient to boost the economy – given several considerations (amongst which include the fact that banks, building societies' interests also need to be taken into account)? To what extent does unemployment need to fall before a central bank decides to raise interest rates? Why should greater pre eminence be given to monetary policy objectives than was previously the case? It has been demonstrated in several jurisdictions that inflation rates are usually higher than their targets – and this being consistently the case given the impact and influence of Government fiscal measures on monetary policy objectives. However, an absolute independence of the central bank from Government (which is certainly not logical or feasible) is not advocated for, since there should be some degree of communication between Treasury and the central bank. The consequences of lack of effective communication between the regulator of financial services (the FSA), the central bank (Bank of England) and the Treasury were evident during the Northern Rock Crisis.

Hence regulatory structural reforms are also required – in addition to the implementation of certain measures aimed at ensuring that the central bank is not overly influenced by those authorities for determining fiscal policy measures, or that the central bank is not insufficiently placed at the required level of communication with those authorities responsible for setting fiscal policy measures.

Furthermore a grant of greater or reduced powers to the central bank would also require consideration of the system of checks and balances in operation. In view of regulatory reforms, two categories merit consideration:

i) Reviewing the structure of financial regulation (which involves whether the structure of regulation is that of a unified financial services regulator or functional regulator. It also involves whether greater powers should be granted or entrusted to central banks). There are several debates revolving round whether the Fed should be granted more powers – given the degree of powers it already possesses. However, there are also several grounds for arguing that supervisory powers should be transferred back from the UK's Financial Services Authority, to the Bank of England.

ii) Reviewing the system of regulation (on site and off site system of supervision – which embraces the financial regulator's use of external auditors in exercising certain regulatory functions). The use of external auditors should also serve as a means of incorporating increased checks and accountability into the regulatory process. The transfer of supervisory powers back to the Bank of England this year, should signify an era which introduces (or rather re introduces) greater implementation of external auditors' expertise – in contrast to the reduced level of use of external auditors by its predecessor, the Financial Services Authority.

Focus on low long term interest rates appears, it seems, to be a recipe for the success attained by Canada's central bank. Should such a policy simply be adopted by other jurisdictions or should present existing institutional frameworks and historical considerations be taken into account before deciding to adopt certain measures? Certainly jurisdictional specific factors, as well as legal, political, economic and other factors which vary over time, need to be considered – even though regulatory structural reforms may still be required.

Sola et al[13] argue that the central bank in Brazil has been able to gain increasing discipline over the monetary system, partly owing to:

13 L Sola, C Garman and M Marques, "Central Banking, Democratic Governance and Political Authority: The Case of Brazil in a Comparative Perspective. Revista de Economia Politica Vol 18, no 2 (70) Abil-Junho, 1998 at page 129 http://www.rep.org.br/pdf/70-8.pdf

- The economic stabilisation plan and, **not**;
- As a result of prediction premised on conventional wisdom,

namely, not on the basis of the argument that price stability follows from an autonomous central bank. Further, they argue that economic stabilisation has less to do with "getting the institutions right" and that it is more consequential of a dynamic bargaining game between the federal executive, legislators and sub national governments." The substantial shift in the political game between legislators, the executive nad governors, during the 90s, is also highlighted.

Rogolon adds that the positive theory reveals that the degree of independence is negatively correlated with the mean inflation, the inflation variability and the inflationary uncertainty, but is positively correlated with the credibility of monetary policy. And further, that practice as regards the Brazilian experience involves discussions of the importance of the Central Bank of Brazil's independence for the efficiency of the stabilization policy, focusing on the periods of high inflation (1980/1993) and moderate inflation (1994/...).[14]

D. CONCLUSION

It was illustrated in the previous section that whilst regulatory structural reforms are required in certain jurisdictions before goals relating to price stability can be achieved, certain country and jurisdictional experiences highlight the fact that economic stabilisation has less to do with "getting the institutions right" and that it is more consequential of "a dynamic bargaining game."Certain jurisdictions have been engaged in legislational reforms not necessarily aimed at increasing central bank independence but targeted at achieving price and economic stabilisation.

14 F Rogolon „Central Bank Independence: Theory and a Brazilian Application"
http://papers.ssrn.com/sol3/papers.cfm?abstract_id=56203

Hence it is to be concluded that central bank independence, though an essential contributor to price stability – depending on jurisdictional considerations, cannot be considered to be the sole determining factor in predicting a country or economy's state of monetary stability. Theory appears to support the widely accepted view that central bank independence is a principal contributory factor to price and monetary stability. However investigations and empirical evidence relating to developed, transition and developing economies higlight distinct trends in relationships between central bank independence, price stability and levels of inflation.

As concluded by Sola et al, “in studying monetary authority and central bank institutions, the analyst should identify the relevant actors, their interests, and how economic and political conjunctures are able to shift the relevant bargaining position of those very actors.”[15] To which it is also to be added that legal, political, historical considerations, as well as various other factors (considered in this paper) also merit special focus.

15 L Sola, C Garman and M Marques, “Central Banking, Democratic Governance and Political Authority: The Case of Brazil in a Comparative Perspective. Revista de Economia Politica Vol 18, no 2 (70) Abil-Junho, 1998 at page 130

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TABLES[16]

De Jure Autonomy and Accountability of Latin American Central Banks

Criterion	Argentina	Bolivia	Brazil	Chile	Colombia
1. Objective of the central bank	Single objective is to preserve the value of the currency	Single objective of preserving price stability.	Formulate monetary and credit policy in order to achieve currency stability and economic and social progress for the country	Stability of the currency and functioning of the domestic and external payments	Preserve price stability
2. Appointment and composition of the Board	President, Vice-president, and 8 directors appointed for staggered terms by the Executive with the consent of the Senate.	President and 5 Directors appointed by the President of the Republic from tried approved by Congress (2/3 of members).	7 directors appointed by the Executive with approval of the Senate. They are under the National Monetary Council, chaired by the Minister of Finance	5 directors appointed by the Executive and confirmed by the Senate for staggered terms.	Minister of Finance (Chair), General Manager of central bank (appointed by the Board), and 5 directors appointed for staggered terms by the Executive branch.
3. Term of office of the Board	6 years no reelection. Mandates exceed the presidential term of office.	6 years for the President of the BCB (exceeds the presidential term of office). Directors last 5 years, and each year one is replaced.	The term of appointment is not specified in the legislation	The term of the President of the BCC is 5 years, and 10 years for other directors.	The 6 directors, including General Manager of the central bank serve for four years with a renewable term.
4. Dismissal of Board members	Executive at request of a Senate committee and the Chamber of Representatives, removes Board members for reasons established in central bank law.	President of the Republic removes directors based on legal grounds, including "executive responsibility" determined by the government auditor.	Removal of directors of the central bank is the prerogative of the Executive, but legislation does not establish grounds for dismissal.	Removed by the Executive with approval of Senate, for grounds specified in law, including voting against objectives of the bank and causing significant injury to the country	Executive branch may dismiss, with approval of the Senate, for legal grounds.
5. Credit to government	Prohibition on extending credit or guarantees to the government or other state entities. May purchase treasury paper, within limits, at market prices.	Can provide credit to government only to deal with liquidity shortages up to one-year maturity. Decision has to be adopted with support of 2/3 of the members of the Board.	Constitutional prohibition on direct or indirect credit to government exists. The BCB may purchase government paper through open market operations.	Prohibition on credit to government except in wartime.	May extend credit with the unanimous vote of the Board, and may purchase government paper at market prices.

16 Source: L Jacome, Legal Central Bank Independence and Inflation in Latin America During the1990s

IMF Working Paper WP/01/212 December 2001 pages 34 - 40

http://www.imf.org/external/pubs/ft/wp/2001/wp01212.pdf

DE JURE AUTONOMY AND ACCOUNTABILITY OF LATIN AMERICAN CENTRAL BANKS (cont'd)

Criterion	Costa Rica	Dominican Republic	Guatemala	Honduras	Mexico
1. Objective of the central bank	Maintain the domestic and external stability of the currency	Promote and maintain most favorable monetary, exchange, and credit conditions for stability and orderly performance of national economy. Regulate Nation's monetary and banking systems.	Promote the creation and maintenance of monetary, exchange and credit conditions favorable to the orderly development of the economy.	Maintain internal and external value of domestic currency and favor normal functioning of the payment system.	Ensure the stability of the currency's purchasing power.
2. Appointment and composition of the Board	President of BCCR and 5 members, appointed by Executive, plus Minister of Finance. The 5 members appointed for staggered terms and confirmed by Congress	Monetary Board composed of 10 members. Executive appoints Governor and 7 members plus Min. of Finance and Min. of Industry.	Executive appoints President/Vicepresident, 1 member by Congress, 2 by private sector and 1 by University. Also 3 government ministers.	Executive appoints 5 Directors. Minister of Finance is part of the Board without decision power.	5 members appointed by the President of the Republic with the approval of the Senate.
3. Term of office of the Board	President of the BCCR has same term than the President of the Republic, and that of the other 5 members is 90 months .	According to central bank law, Governor and 7 members appointed for 3 years (reelected). From a subsequent general law terms are undefined.	President's term is the same as the government (4 years). University representative 4 years, and other 2 for 1 year, renewable.	4 years simultaneously with government period.	Governor's term is 6 years and other members 8 years, with an staggered appointment.
4. Dismissal of Board members	President of BCCR removed by Executive branch at will. Other 5 directors removed for causes defined in BCCR law, at request of BCCR Board.	Supreme Court decides. Government's lawyer accuses based on violations defined in central bank's law.	By the Executive branch, for grounds established in law.	The Supreme Court suspends Board members as a result of "common and official" offenses against the law.	Decided by the Senate for grounds established in law at the request of a majority of the Board, and after the approval of the Executive.
5. Credit to government	May purchase government paper up to 5% of total budgetary expenditures, and conduct repo operations on secondary market	Implicit prohibition to grant direct credit. Can purchase securities up to 30% of government revenues. Can provide credit to State Banks who can finance government.	Prohibition of direct or indirect financing to government	Direct credit forbidden except under emergency, and to cover seasonal variations of government revenues or expenditures up to 10% of total. Also via secondary market.	Through open market operations, and temporary overdrafts to pay domestic debts.

Criterion	Nicaragua	Paraguay	Peru	Uruguay	Venezuela
1. Objective of the central bank	Stability of domestic currency and normal functioning of domestic and external payments.	Preserve price stability and promote effectiveness and stability of financial system.	The purpose of the BCRP is to preserve monetary stability.	Currency stability, assure functioning of domestic and external payments; ensure adequate levels of international reserves; and promote and maintain soundness, solvency, and operations of financial system.	Create and maintain monetary, credit and exchange rate conditions favorable to monetary stability, economic equilibrium and orderly economic development.
2. Appointment and composition of the Board	President appointed by President of the Republic, 4 members appointed by Executive (including 1 nominated by Congress) and Min. of Finance.	President and 4 Directors appointed by the President of the Republic in agreement with the Senate.	Executive nominates 4 directors, including the President of the BCRP. Congress ratifies this decision and appoints 3 additional directors.	Executive, with the approval of the Senate, appoints the President, Vice president and a director of the BCU.	Executive nominates the President of BCV (confirmed by Senate) and 6 directors, including a member from the Executive (not Minister of Finance).
3. Term of office of the Board	All directors have 4 years term. President and director nominated by Congress have similar term than Executive. Other 3 appointed at mid-term.	President term coincides with the constitutional period. Other members are appointed for a 5 year term each in different year.	Appointed for the term of office of the President of the Republic.	Appointed for the term of office of the President of the Republic.	The President is appointed for 5 years and the directors for 6 years, staggered (except for the Executive delegate).
4. Dismissal of Board members	President of the Republic after the approval of the rest of the members of the Board.	Board members are removed by the Senate for offenses against the law and also because of "poor performance."	For grave legal grounds with approval of two-thirds of Congress, after allowing director in question to defend himself.	Removal by government with approval of Senate, or after 60 days without it. Grounds: inaptitude, omission or offense in exercise of duties	By the Executive, for legal grounds, including failure to fulfill the obligations of his post.
5. Credit to government	CBN can discount directly government paper up to 10% of revenues. Also purchase government securities under OMOs.	Direct short-run credit up to 10% of projected revenues to cope with seasonal liquidity constraints. Limit is exceeded under emergency.	Direct financing prohibited. Purchase government paper on the secondary market, up to a limit.	The BCU may purchase and hold government paper for its own account, up to 10 percent of budgetary expenditures.	Prohibition on direct financing.

Criterion	Argentina	Bolivia	Brazil	Chile	Colombia
6. Lender of last resort	Only to the extent of foreign currency availability in excess of Convertibility Law. Requirements at below market conditions.	Liquidity loans at conditions defined by the Board of the BCB under absolute majority. Other operations (e.g., buy/discount assets) aimed at preserving stability of financial system.	In addition to providing credit via a discount window (up to 90 days) and repo lines, the law gives leeway to CMN to regulate assistance to cope with banking crises.	Liquidity loans up to 90 days, renewable with approval of a Board majority. Financing for payment of obligations to help bank resolution.	Liquidity loans under conditions approved by the Board. No limitations on the amount to be granted
7. Independence in use of monetary instruments	The BCRA is specifically exempt from interference in the design and execution of monetary policy.	Full independence for the conduct of monetary and exchange rate policies.	BCB has authority to implement resolutions from CMN for policy objectives. Lower rank legislation expands this authority.	Full independence in the conduct of monetary and exchange rate policy.	Independence in the conduct of monetary policy.
8. Financial independence	Profits transfer to government after reserves, losses offset from capital and reserves. Government not assure capital integrity.	Government can increase BCB's capital but is not compelled to maintain capital integrity. BCB profits feed public debt service after increasing legal reserves and capital, if required.	BCB transfer profits to the Treasury, but government not compelled to maintain BCB's capital.	Board may request the government to capitalize the Bank, and the Bank must return profits in excess of capital and reserve requirements.	Government capitalizes in case of shortfall. Profits are transferred to government after covering legal reserves.
9. Accountability	President of BCRA appears before Congress to report on the conduct of monetary, exchange rate and financial policy. Also annual report.	BCB reports periodically to the President of the Republic on policies adopted and projected. Annual report presented to Executive and Legislative branches.	Presentation of quarterly and annual reports on monetary policy to Executive and Legislative branches and, recently, on fulfillment of inflation target	The President of the BCC reports to the Executive and the Senate once a year on general rules and policies adopted by the BCC.	Regular information to the Executive and Congress.
10. Publication of financial statements	Semi-annual financial statements under international standards, certified by external auditor appointed by Executive.	Financial statements presented to Executive and Legislative branches and to government's audit office. Summary report disclosed in a newspaper.	The BCB publishes financial statements in accordance with international standards, audited by a government institution.	Income statements are published, including explanatory notes, once a year. This information is externally audited.	Financial statements approved by Banking Superintendency. External auditor to central bank appointed by President of the Republic.

Criterion	Costa Rica	Dominican Republic	Guatemala	Honduras	Mexico
6. Lender of last resort	Emergency loans for up to 6 months (to be renewed at another 6 months) without limits as to amount. Rediscount facilities for up to two months.	Full discretion to provide credit to confront liquidity problems, and during emergency periods that threaten monetary and banking stability.	Credits for coping with liquidity and solvency problems, as well as for bank resolution under financial conditions set by Monetary Board.	To confront temporary liquidity shortages under conditions defined by the Board up to 1 year maturity. Quantity limited by the amount of good quality assets.	No emergency loans but central bank allows overdrafts. LOLR via short-term monetary operations. Limitations in the amount are implicit by nature of the operations
7. Independence in use of monetary instruments	Independence in the conduct of monetary policy.	By Constitution mandate, Monetary Board enjoys autonomy to conduct monetary, exchange and credit policies.	Autonomy in the use of monetary instruments and interest rate management.	Full independence to formulate and conduct monetary, exchange and credit policies.	Autonomy in the use of monetary instruments, but government allowed to participate in exchange rate management.
8. Financial independence	Profits feed reserves and pay down BCCR debts. Losses not compensated by government.	BCRD does not transfer profits to government. It Increases own reserves and losses compensated by such reserves. Government not committed to maintain capital integrity. Allowed to conduct quasi-fiscal operations.	The law does not require government to maintain capital of the Bank of Guatemala, nor are its profits transferred to the government. Policy-related losses recorded as an asset account.	After increasing own reserves, CBH's profits are transfer to the government. Government is not committed to maintain CBH's capital integrity. Congress approves CBH's budget	Bank of Mexico preserves real value of its capital and reserves. Beyond this, transfers profits to government after reserves are funded, but government not assures capital integrity.
9. Accountability	Publication of economic report twice a year. Also a formal annual report, including an analysis of monetary policy performance.	Monetary Board compelled to inform Executive when money supply increases more than 15% in a year. Pu-blishes annual report and disclose a summary in newspaper.	Annual report published at May 31 each year. The report is submitted to the Executive but not to Congress.	The Board reports annually to the Congress and twice a year to the Executive about the CBH activities.	Semi-annual reports to the Executive and Legislative branches on the conduct of monetary policy, and at the beginning of the year on policy planning.
10. Publication of financial statements	Monthly publication of financial statements, signed by BCCR's internal auditor. Losses recorded in "monetary stabilization account"	Balance sheets published monthly and annually as part of the annual report.	A condensed balance sheet is published each month. Financial statements are not published.	Financial statements published within 30 days following end of fiscal year. Balance sheets also published monthly. Superint. of Banks supervise. Weak accounting practices.	Monthly publication of financial statements. Independent auditor reports to Executive and Congress on of financial statements.

Criterion	Nicaragua	Paraguay	Peru	Uruguay	Venezuela
6. Lender of last resort	Liquidity support against collateral up to 30 days period. These loans are not permitted if bank has capital deficiencies.	Liquidity support up to 90 days maturity under financial conditions determined by Board. Can be renewed if approved by qualified majority. Larger credit support under crises situations.	Liquidity support against collateral for term of 30 days renewable up to 90 days, to a maximum amount. The interest rate is set by the BCRP.	Purchase and discount of paper up to 365 days, under terms set by the Board, but with limitations on the amounts. Advances up to 90 days against guarantee.	Credits up to 60 days, with no limits set on amount or interest rate. In exceptional cases, credits may be extended to 180 days. Provide resources to FOGADE
7. Independence in use of monetary instruments	CBN is legally entitled to determine and conduct monetary and exchange policy.	The CBP shares with the Government the formulation of monetary, credit and exchange policy, and is responsible for its execution and development.	Autonomy in the use of monetary instruments and interest rate management.	Autonomy in the use of monetary instruments and interest rate management.	Autonomy in the use of monetary instruments and explicit powers to conduct interest rate policy. Co-management with government of exchange rate policy.
8. Financial independence	After feeding own reserves and provisioning, profits are transferred to the government. Government assures CBN capital integrity	Profits increase own reserves, which compensate capital in case of losses. Although government is authorized to increase BCP capital, is not committed to maintain capital integrity.	Profits are transferred to government after provisioning legal reserves. Losses are charged to reserves, and any remainder is offset by the government.	The capital of the BCU is defined by law. Profits fund reserves up to twice the real value of capital. Government does not offset losses if reserves are exhausted.	Government replenishes capital as necessary and profits are transferred according to rules established by the Board of Directors.
9. Accountability	Annual report presented to President of the Republic and published.	BCP informs Executive and Legislative on main economic issues without periodicity. Publishes annual report.	Publication of an annual report and monthly reports on the principal macroeconomic variables.	Reports sent to government once a year about monetary program and economic performance. Reports submitted to Congress.	A report on BCV operations is presented to the Executive, the Congress and the public.
10. Publication of financial statements	Monthly disclosure of financial statements. Annually as part of annual report with opinion of external auditors under generally accepted accounting norms.	Accounting procedures under generally accepted principles. Financial statements endorsed by government's auditor. BCP reports on income statements to Executive and Congress.	Financial statements published annually certified by internal auditor, reported to Superintend. of Banks and Comptroller General. Summary versions published monthly.	Financial statements are published annually, after submission to the Executive and the Accountability Tribunal.	BCV financial statements published twice a year, under regulations issued by the Banking Superintendency.