



WP/05/183

IMF Working Paper

Governance Structures and Decision-Making Roles in Inflation Targeting Central Banks

Anita Tuladhar

IMF Working Paper

European Department

Governance Structures and Decision-Making Roles in Inflation Targeting Central Banks

Prepared by Anita Tuladhar¹

Authorized for distribution by Juan José Fernández-Ansola

September 2005

Abstract

This Working Paper should not be reported as representing the views of the IMF.

The views expressed in this Working Paper are those of the author(s) and do not necessarily represent those of the IMF or IMF policy. Working Papers describe research in progress by the author(s) and are published to elicit comments and to further debate.

This paper surveys decision-making roles of governing bodies of central banks that have formally adopted inflation targeting as a monetary framework. Governance practices seek to balance institutional independence needed for monetary policy credibility with accountability required to protect democratic values. Central bank laws usually have price stability as the primary monetary policy objective but seldom require an explicit numerical inflation target. Governments are frequently involved in setting targets, but to ensure operational autonomy, legal provisions explicitly limit government influence in internal policy decision-making processes. Internal governance practices differ considerably with regard to the roles and inter-relationships between the policy, supervisory, and management boards of a central bank.

JEL Classification Numbers: E42, E52, E58

Keywords: Inflation targeting, governance, central bank independence, price stability

Author(s) E-Mail Address: atuladhar@imf.org

¹ This paper was mainly written while the author was with the Monetary and Financial Systems Department. I would like to thank Tonny Lybek, Joanne Morris, Giovanni Ganelli, Arne B. Petersen, Franek Rozwadowski, Mark Stone, and Natalia Tamirisa for helpful comments and suggestions. All errors and omissions are my own.

Contents	Page
I. Introduction	3
II. Central Bank Objective: Price Stability	4
III. Decision-Making Role of Governing Bodies	5
A. Central Bank Independence	5
Goal Autonomy	5
Target Autonomy	7
Instrument Autonomy	9
B. Conflict Resolution	14
C. Internal Decision-Making	16
Individual versus Committee-Based Decision-Making	17
Role of the Internal Boards: Policy, Supervisory and Management	18
Monetary Policy Board	18
IV. Accountability	21
A. Oversight of Governing Bodies	21
B. Transparency and Reporting Requirements	21
V. Other Issues	23
A. Information Collection	23
VI. Conclusion	23
References	25
Tables	
1. Central Bank Objectives, end-2003	6
2. Targets and Escape Clauses, end-2003	10
3. Role of Government in Decision-Making, end-2003	12
4. Appointment and Dismissal Provisions for Governor, end-2003	13
5. Appointment Provisions for Monetary Policy Committee Members, end-2003	15
6. Credit to Government, end-2003	16
7. Conflict Resolution, end-2003	17
8. Relations between Policy, Supervisory and Management Boards, end-2003	19
9. Internal Decision-Making, end-2003	20
10. Accountability and Transparency, end-2003	22