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Features of Governing the Central Banks Candidate to the Eurosystem

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Abstract

The complexity of the European integration process consists of three implicative dimensions: the nominal dimension, the real dimension and the institutional dimension. Referring to the last one (the institutional dimension), the present paper aims to analyse the degree of "convergence" functioning of the National Banks from the Euro Area candidates countries, as to identify some similarities and differences between these institutions. The research methodology consists of displaying some characteristics of the central banks engaged in the process of European monetary integration, taking into account aspects concerning both the attributes of their governance, and their position related to the financial stability objective, an increasingly important parameter to consider after the global financial crisis outbreak (GFC2007). A foothold for the paper is the economic literature which has been formulated some specific criteria for evaluating the elements considered. On the other hand, the institutional convergence does not guarantee the success of the economic integration of the candidate country to the Euro Area, but it could be an important benchmark for making comparison between countries which have been preparing to adopt Euro.

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1. Introduction

The process of economic convergence is not an automatic, permanent and irreversible effect of the process of integration. Under specific conditions of the process of integration, a “convergence” may occur between the levels of the macroeconomic indicators of the different parties undergoing integration, but there may also exist a trend of divergence between them, when the initial conditions change. These remarks are validated by the practice of the European economic integration.

Unlike the economic convergence, the institutional convergence, at least from the perspective of the central banks, is an almost mechanic process, since the European integration is, first of all, a political action. Thus, before joining the European institutions, the national institutions must configure juridically, politically and economically their domestic structures of organisation and management, as well as their specific operational functions (art. 131, Treaty on the Functioning of the European Union). Thus, for the central banks from the countries candidate to the European Union (EU), there is a standard pattern of organisation of the central bank governance, which is stipulated by the Treaty on the Functioning of the European Union and in the Statue of the European System of the Central Banks: independence and responsibility combined with the enforcement of a monetary policy directed towards stability. The concerns regarding the activity of a central bank initially aimed (particularly in the 1980 and 1990 years) the problem of the central bank independence; after the 2000 years, particularly after 2007, due to the consequences of the global financial crisis, the focus was on the governance of this institution in terms of the analytical framework, on the level of autonomy, on the functions which it fulfils, on the manner of leadership and on organisational management, as well as on the credibility of the monetary policy.

Starting from the determination of the landmarks concerning the concept of central bank governance and its attributions, the paper continues with a comparative analysis of the monetary institutions candidate to the Eurosystem, i.e. the national central banks of the countries that will adopt the Euro currency, on the basis of a set of selected criteria, with the purpose of evaluating the level of nearness or resemblance between them. The central banks analysed by this paper are the National Bank of Romania (NBR), the Czech National Bank, the National Bank of Poland (NBP), National Bank of Hungary (MNB), the Bank of Lithuania (LTB) (Lithuania is to join the Euro Area on January 1st, 2015) and the Bulgarian National Bank (BNB). This analysis also takes into consideration the European Central Bank (ECB) as reference for the attributes of the central bank governance. The selection of ECB as reference for the comparative analysis can be contested, since the status of central bank of ECB has not always been acknowledged. Thus, Steiger (2004), considers that ECB is not a genuine central bank, rather a “replacer”, lacking the specific functions of such bank, such as that of currency issuing. This remark is determined by its “transnational” character. However, in our analysis, we start from the hypothesis that ECB is the central bank of the Euro Area, taking into consideration Mishkin’s observation (2013), that there is a correspondence of the organisation and leadership structure of the Eurosystem with that of the US Federal Reserves (Fed). Thus, the three entities which compose the monetary authority from Euro Area also exist at the Fed level: **ECBGoverning Council** is the correspondent of the **Federal Open Market Committee**, the national central banks from the Euro Area are similar to the banks of the Federal Reserves, while the **ECB’s Executive Board** corresponds to the Fed **Board of Governors**. The ECB Council of Governors is responsible with the development of the monetary policy for the Euro Area and it takes decisions on the use of the monetary instruments, on the change of the conditions, criteria and procedures of execution for the monetary policy operations of the Eurosystem.

2. Issues regarding the governance of a central bank

Although there is no common agreement on an exact definition of the notion of governance, there is a continuous concern to identify the essential elements which to ensure the proper governance of an institution. Within this context is the concern for the governance of a central bank, which should be, according to many authors, such as Mendzela (2009) or Ahsan, Skully and Wickramanayake (2006), close to the corporate governance.

The concept of governance describes the complex relationship between the state and the society from the economic, legal, institutional and operational points of view (Lindler and Mihailovici, 2013), and a good governance presumes the existence of an adequate infrastructure, of rules and norms and of specific instruments, all able to meet