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Comparing Central Bank Legislation in Southeastern Europe: Selected Cases

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1. Introduction

In the past decades, the degree of central bank independence (CBI) has increased worldwide. This tendency was even more prevalent in transition economies, where ambitious central bank reforms were enacted, endowing the central banks with a high degree of legal independence.

This overall tendency towards more CBI was mainly motivated by two reasons: First, the mainstream of academic literature agrees that a relatively high degree of CBI is generally desirable. Empirical studies, such as calculations by Cukierman (1992), suggest that at least for industrial countries, there is a negative correlation between CBI and inflation performance. A brief literature survey on the economic rationale for CBI can be found, for instance, in Maliszewski (2000). Second, the main driving force for increasing the degree of CBI in Europe was the creation of Economic and Monetary Union (EMU). The preparation of Stage Three of EMU entailed numerous and far-reaching adjustments of central bank legislation for the incumbent EU Member States, as national central bank (NCB) statutes had to be adapted to the requirements set out in the Treaty[2] and the Statute[3]. The European Monetary Institute (EMI), the predecessor of the European Central Bank (ECB), identified a number of provisions in the NCB statutes that were not in line with Treaty requirements and in its first Convergence Report (EMI, 1996) called for adaptations prior to the beginning of Stage Three of EMU. With the completion of

[1] The author gratefully acknowledges comments by Paul Schmidt, European Affairs and International Financial Organizations Division, and Thomas Wagner, Legal Division (both Oesterreichische Nationalbank).

[2] Treaty establishing the European Communities (1957), as amended by the Treaty of Maastricht (1992) and the Treaty of Amsterdam (1997), referred to as "the Treaty" hereinafter.

[3] Protocol on the Statute of the European System of Central Banks and of the European Central Bank (1992), referred to as "the Statute" hereinafter.

this process and the beginning of Stage Three, the main elements of CBI have become part of the acquis communautaire (referred to as “aquis” in the following).

This paper draws heavily on an article published in late 2004, which compares central bank legislation in seven Southeastern European (SEE) countries.[4] For the purpose of this Workshop, the analysis will be confined to the three SEE countries represented on the panel, i.e. Bulgaria, Macedonia[5] and Turkey, and a comparative overview on current central bank legislation in these three countries will be presented. For the sake of comparison, reference will be made to other SEE countries for some selected issues. All the countries under consideration have declared their objective of joining the European Union and are on their way towards accession, with Bulgaria being very close to the “finishing line” and with a longer way to go for Macedonia and Turkey. Bulgaria signed the Accession Treaty with the EU on April 25, 2005, with the objective to join in January 2007.[6] Macedonia submitted a formal application for EU membership in March 2004, the European Commission’s Opinion (“avis”) on this application was published in November 2005 (European Commission 2005b and 2005c) and Macedonia was formally granted candidate country status by the EU in December 2005 (European Council, 2005, Article 24). Furthermore, a Stabilisation and Association Agreement (SAA)[7] between Macedonia and the EU entered into force on April 1, 2004. Turkey, which had submitted its application for membership as early as in 1987, was officially recognized as a candidate country at the Helsinki European Council of December 1999 (European Council, 1999, Article 12). The actual start of the accession negotiations took place on October 3, 2005.

Like most transition countries, the three countries analyzed have implemented comprehensive reforms of their central bank legislation in the past years: Bulgaria amended its central bank law in April 2005 in order to implement the required adaptations in time before joining the EU. The Macedonian central bank law was adopted in 2002 and amended several times subsequently. Currently, preparations for a new Macedonian central bank[8] law are underway and the new law is expected to be passed by the parliament in 2006 (for the main features of the new law,

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[4] See Dvorsky (2004). This article did not yet deal with the recent amendment of the Bulgarian central bank legislation, nor did it cover Turkey. Also see section 2 of this paper.

[5] The country was recognized by the EU under the name of Former Yugoslav Republic of Macedonia (FYROM), and will be referred to as “Macedonia” in the following.

[6] However, the Accession Treaty includes the possibility of postponing Bulgaria’s accession by one year, if “there is a serious risk of (Bulgaria) being manifestly unprepared to meet the requirements of membership by the date of accession of 1 January 2007 in a number of important areas” (Protocol 2005, Article 39).

[7] This was the first Stabilisation and Association Agreement to enter into force in the Western Balkans.

[8] The central banks are referred to by their English designation hereinafter.

(Stojanovski, in this volume). The Turkish law underwent a fundamental reform in 2001.

When it comes to the accession of these countries to the European Union, their legal status will be comparable to that of the so-called "new" EU Member States, i.e. those 10 countries which joined the EU on May 1, 2004. This means that they will participate in EMU from the date of their accession as "Member States with a derogation." Therefore, as Treaty requirements in the area of CBI constitute part of the acquis communautaire, they will have to bring in line their central bank legislation with Treaty requirements prior to or upon accession. The purpose of this paper is to provide a qualitative overview on central bank legislation in the three countries and to assess the degree of CBI already achieved, using the Treaty requirements as a yardstick.

The paper is organized as follows: Section 2 provides a brief literature overview on CBI in transition countries, with a particular focus on the coverage of Bulgaria, Macedonia and Turkey. Section 3 compares current central bank legislation in the three SEE countries. Section 4 concludes.

2. Brief Literature Overview

While only selected aspects of CBI in transition countries had been analyzed for a limited number of countries until 1997, an increasing number of authors published both theoretical and empirical work in the years to follow. A survey of early CBI literature on transition countries can be found in Radzyner and Riesinger (1997)[9]. More recent literature, published between 1997 and 2000, is surveyed in Dvorsky (2000).

Recent literature on CBI in transition economies seems to have focused largely on measurement issues. Based on Cukierman's pioneering work (1992), Cukierman et al. (2000) presented extensive new data, measuring the degree of legal CBI in 26 transition countries. For the sake of comparability, the authors use the index of legal CBI developed earlier and find that central bank reforms implemented by the transition countries in the 1990s were very ambitious, with levels of legal CBI even higher than those of developed economies during the 1980s. While Bulgaria and Macedonia are included in the country sample analyzed by Cukierman et al. (2000), none of the central bank laws currently in force was examined. In a similar vein, Maliszewski (2000) presents data on 20 Central and Eastern European transition countries. The author introduces two indices of legal CBI, which cover political and economic aspects, drawing heavily on the methodology developed earlier by Grilli et al. (1992). Maliszewski examines the relationship between inflation and CBI and concludes that changes in central bank

[9] The author published this earlier study jointly with Olga Radzyner under her family name Riesinger in 1997.

laws are highly significant in explaining inflation rates. Maliszewski's paper covers two of the three countries selected for this article, namely Bulgaria and Macedonia, but measurement is applied to legislation not in force anymore. The issue of CBI in Turkey is neither covered by Cukierman's nor by Maliszewski's work. Dvorsky (2000) measures the degree of legal and actual CBI in five Central and Eastern European transition economies, namely the Czech Republic, Hungary, Poland, Slovenia and Slovakia (CEEC-5), by applying the two most widely used indices, namely the Cukierman and the Grilli-Masciandaro-Tabellini (GMT) index. The paper compares own findings with those of other authors and earlier calculations and critically reviews the indices on legal and actual CBI themselves, in particular against the background of the Treaty requirements. Ilieva et al. (2001) take an interesting approach and construct a new CBI index, which takes into account legislative and behavioral aspects of CBI. Results from surveys of central bank officials are compared to those of independent academic institutions. Not surprisingly, the results show that CBI is higher in transition economies planning early EU accession than in others. The country sample chosen by Ilieva et al. includes Bulgaria and Macedonia. Freytag (2003) analyzes the state of legal CBI in selected transition countries by developing an index of "monetary commitment" and comparing results to earlier measurement by Cukierman et al. (2000), Maliszewski (2000) and Dvorsky (2000). The author concludes that the degree of CBI in the countries examined is quite high. Gros (2004) examines possible financial aspects of CBI and discusses the case of Turkey, measuring effects of price stability on seignorage. Dvorsky (2004) provides a qualitative overview on central bank legislation in SEE, namely Albania, Bosnia and Herzegovina, Bulgaria, Croatia, Macedonia, Romania and Serbia, and assesses the degree of CBI already achieved.

3. Comparing Central Bank Legislation

Apart from empirical literature on CBI issues, central bank legislation in the SEE countries is and will be subject to an "institutionalized assessment" to be carried out regularly by the European Commission and, at a later stage, also by the ECB. For Macedonia, the Annual Report on the Stabilisation and Association process for Southeastern Europe by the European Commission provided the first "institutionalized" assessment. This report examined the countries' readiness to move closer to the EU in a very general manner and did not touch separately upon the issue of CBI (European Commission, 2004a). The next step was the European Commission's Opinion ("avis") on Macedonia's application to join the EU. Such an "avis" typically deals with the most important aspects of CBI in the chapter on "Economic and Monetary Union" and examines the country's ability to fulfil the requirements of the acquis in the field of EMU in the medium term.[10] For countries that have gained official candidate status, the European Commission publishes so-called "Progress Reports"[11] every year. These reports, which were first published in 1998 on the 10 candidate countries at that time, provide an annual update of the Commission's assessment on the candidate countries' preparedness to fulfil the Copenhagen criteria, thus following up on the first-time judgment presented in the respective Opinion. Consequently, the structure of the Progress Reports is very similar to that of the Opinion on each country, dealing with the issue of legal CBI in the chapter on "Economic and Monetary Union".[12] In 2004 and 2005, the countries covered by the Commission's Progress Reports comprised the "acceding countries" Bulgaria and Romania as well as the "candidate countries" Croatia and Turkey. As of 2006, the European Commission will also produce a Progress Report on Macedonia every year. After EU accession, NCB statutes will be examined at least every second year in the ECB's and the European Commission's Convergence Reports[13], an important part of which analyzes in detail the current state of NCB legislation in Member States with a derogation (e.g. ECB, 2004 and European Commission 2004d and 2004e).

According to Article 109 of the Treaty, "each Member State shall ensure, at the latest at the date of the establishment of the ESCB, that its national legislation including the statutes of its national central bank is compatible with this Treaty and the Statute of the ESCB". For countries that joined or will join the EU after the establishment of the ESCB in June 1998, this implies that they had or will have to adjust their national legislation in the area of CBI by the date of EU accession (ECB 2004, p. 24 and European Commission 2004e, p. 9). Inter alia, Article 109 relates to the following two areas of legislation: first, the definition of the national central bank's objectives (Article 105 (1) of the Treaty), second, the independence of the NCB, comprising the freedom from instructions (Article 108 of the Treaty), provisions protecting the legal status of the central bank's top officials (Article 14 (2) of the Statute) and the financial independence of the central bank (EMI, 1996, p. 102–103). A third area of legislation, namely the prohibition of monetary financing and of privileged access to financial institutions (Articles 101 and 102 of the Treaty, respectively; European Commission 2004e, p. 9–12) had to be implemented by the Member States even earlier, namely at the beginning of Stage

[10] A detailed analysis of the first Progress Reports with respect to central banking issues can be found in Dvorsky et al. (1998).

[11] Regular Reports on a country's progress towards accession, also referred to as the "Progress Reports".

[12] While for previous accession countries, the issues of "economic and monetary union" were dealt with in chapter 11 of the respective "avis" and subsequent progress reports, this has moved to chapter 17 for Turkey and Macedonia.

[13] According to Article 122(2) of the Treaty, such Convergence Reports must be prepared at least once every two years, or at the request of a Member State with a derogation.

Two of EMU in January 1994 (Article 116 of the Treaty). These three areas of legislation are clearly defined as acquis and consequently have to be *enacted and to become effective* at the latest upon EU accession ("pre-accession requirements"). Therefore, this paper will examine the state of compliance of Bulgarian, Macedonian and Turkish legislation with these three areas of the Treaty.

In addition, Article 109 requires further adaptations, which relate to the full legal integration of an NCB into the Eurosystem, regulating for instance the adjustment of monetary policy instruments.[14] These adaptations, which will be referred to as „integration requirements" in the following, need only *enter into force* at the date on which the Member State adopts the single currency (European Commission 2004e, p. 14 and ECB, 2004, p. 30, respectively).[15] On the required timing of *enactment* of the integration requirements, the Treaty is not unambiguously clear: The European Commission takes the view that "new Member states are expected to adjust their national legislation as soon as possible after their accession to the EU" and "…to ensure compliance in time for the next Convergence Report" (European Commission 2004e, p. 14). The ECB uses a slightly different wording and argues that the integration requirements have to be enacted by… the date of accession as regards the NCBs of the new Member States (ECB 2004, 30). However, these two slightly diverging interpretations of the Treaty will be of marginal relevance for those countries, which adopt the euro as fast as possible after their respective EU accession.

For comparing and analyzing current central bank legislation in the three countries, the four-tier classification introduced by the EMI will be applied. In its first Convergence Report, the EMI established a list of features of CBI (EMI, 1996, pp. 100–103), which was elaborated further by the ECB[16] in the subsequent years and which still provides the analytical framework for examination of CBI in the

[14] Article 43.1 of the Statute – in analogy to Article 122 (3) of the Treaty – lists Articles which do not apply to Member States with a derogation. These Articles comprise the adjustment of monetary policy instruments, the mandatory transfer of foreign reserve assets to the ECB, the ECB's exclusive right to issue banknotes etc. (European Commission, 2004e, pp. 12–13)

[15] It is interesting to note that the Convergence Reports of the European Commission and the ECB not only review the integration requirements, but also the pre-accession requirements. The European Commission argues that the convergence assessment covers these areas of legislation, because national legislation could have been amended in the meantime (European Commission 2004e, p. 9).

[16] In particular, the ECB has the right to deliver Opinions on draft laws, based on Article 105(4) of the Treaty, the first indent of Article 4(a) of the Statute and the third indent of Article 2(1) of Council Decision 415/98/EC of 29 June 1998 on the consultation of the European Central Bank by national authorities regarding draft legislative provisions. In the field of CBI, the ECB has made use of this possibility on numerous occasions. See: http://www.ecb.int/ecb/legal/1341/1345/html/index.en.html, retrieved on October 14, 2004.

current Convergence Reports. Therefore, the structure of this paper will be broadly based on the EMI's classification and incorporate some considerations from an earlier article (Radzyner and Riesinger, 1997). Thus, the following four aspects of CBI are discerned: First, the definition of statutory objectives in central bank laws will be examined, which largely corresponds to the concept of functional independence according to the EMI methodology. Second, the paper deals with institutional independence in a very broad sense, covering inter alia the central banks' independence in the formulation and implementation of monetary policy. Third, the issue of personal independence will be analyzed. This aspect relates to the legal status of the central bank governor and other members of the highest decision-making body and corresponds to the EMI definition. Fourth, financial independence will be examined, comprising two aspects, namely the budgetary independence of the central bank itself and, going beyond the definition of financial independence used by the EMI, the prohibition of monetary financing. Given the importance of this issue for CBI, it will be included in the definition of financial independence in this paper.[17]

3.1 Statutory Objectives – Functional Independence

There is agreement that independent central banks must have a single, rather narrowly defined policy objective which focuses on the stability of the domestic currency. This postulate is related to the need for transparency and credibility of monetary policy.[18] However, having a single policy goal does not mean that the central bank can ignore other macroeconomic goals. Therefore, the Statute as well as numerous central bank laws contain a secondary objective, namely the support of general economic policies, provided that it does not jeopardize the achievement of the primary objective.

The EMI's concept of functional independence is based on Article 105 (1) of the Treaty and Article 2 of the Statute, according to which the "primary objective of the ESCB shall be to maintain price stability." And, further, on the secondary objective: "Without prejudice to the objective of price stability, it shall support the general economic policies in the Community."

[17] Neither the EMI nor its successor, the ECB, have analyzed the prohibition of monetary financing in their past Convergence Reports, although taking fully into account of this Treaty requirement in their monitoring function (according to Article 180d of the Treaty). The European Commission touched upon the issue several times (e.g. European Commission 2004e, p. 13). In a similar vein, the European Commission's Opinions and Regular Reports on candidate countries deal with this issue when analyzing their ability to join the EMU.

[18] On the rationale of the formulation of central bank policy objectives, see Radzyner and Riesinger (1997, p. 61).

All three central bank laws analyzed contain a clearly defined policy objective for the central bank and do explicitly refer to "price stability" as the primary objective (annex, table 1). The wording of Bulgaria's central bank law on the primary objective was amended a few months ago and now fully complies with the Maastricht requirements. Before the amendment, the law had made reference to "stability of the national currency", a wording, which did not unambiguously reflect the primacy of price stability (Dvorsky, 2004, p. 55). All three central bank laws under consideration also provide for a secondary policy objective and contain a stipulation on the support of general economic policy of the government, without prejudice to the primacy of price stability. While the wording in the Bulgarian legislation is perfectly in line with Treaty requirements in this area, the Macedonian central bank law stipulates that the central bank shall also strive for supporting economic policy and maintaining financial stability. The Turkish central bank law even provides for the central bank supporting growth and employment policies, a formulation which may carry a potential of conflicting goals for monetary policy. To sum up, the primary statutory objectives are fully in line with the Treaty, whereas some adaptations will be needed as regards the area of secondary objectives.

3.2 Formulation and Implementation of Monetary Policy – Institutional Independence

The concept of institutional independence is used differently in the literature: The EMI applied a very narrow definition of institutional independence, based on Article 108 of the Treaty and Article 7 of the Statute (EMI, 1996, p. 100). These provisions prohibit the ECB, the NCBs and the members of their decision-making bodies to take or seek instructions from Community institutions or bodies, from any government of a Member State or from any other body. Smits (1997, p. 155) presents a somewhat broader concept, which comprises freedom from instructions and the legal personality of the central bank, which must be an institution separate from other government bodies. This section will compare provisions governing the relationship between the central banks and their respective governments, thus covering inter alia institutional independence according to the EMI's narrow and Smits' somewhat broader definition. Furthermore, this paper takes an even broader approach and examines whether the central bank laws under consideration endow their central banks with the necessary competences to formulate and implement monetary policy in order to achieve the primary objective independently.

As to institutional independence as defined by the EMI, the freedom from instructions for the central bank is explicitly stipulated in the Bulgarian and Macedonian central bank laws (see annex, table 1). The Turkish legislation, on the contrary, does not only lack a legislated freedom from instructions, but also obliges the central bank to perform one of its key strategic tasks, namely the determination of the inflation target[19], jointly with the government (see annex, table 1). This provision is an equivalent of an obligation to consult ex ante a third party endowing the latter with a formal mechanism to influence the final decision and can therefore be regarded as incompatible with the Treaty and the Statute. The provision was criticized by the Progress Report (European Commission, 2005d, p. 91). Furthermore, Article 42 of the Turkish central bank law allows the prime minister to have the operations and accounts of the central bank audited. This provision carries the potential of exerting political pressure on the central bank (Yesiladali, in this volume). Another interesting area of legislation potentially jeopardizing institutional independence is the possibility of a disagreement within the central bank's highest decision-making body: The most common approach to deal with such situations, which is also found in a number of SEE central bank laws (Dvorsky, 2004, p. 66), is to assign a casting vote to the governor. However, Article 26.2 of the Turkish central bank law empowers the prime minister to act as an arbitrator in case of disagreement between the Board and the Governor. In a similar vein, Article 67 of the Macedonian central bank law deserves a comment: While the competence for establishing and implementing monetary policy lies in principle with the central bank's highest decision-making body, i.e. the National Bank Council, the parliament has a final say if the National Bank Council cannot achieve the necessary majority for decision-making. Article 67 of the Macedonian central bank law is particularly interesting, because the required majority for the most important decisions, namely those on monetary policy objectives, is set at "more than two-thirds of all members" with an additional presence quorum of six members, including the governor or vice governor. Consequently, it does not seem unlikely that the National Bank Council fails to reach agreement, so that in practice parliament may get the final say, thus de facto curbing CBI. To sum up, the Turkish and the Macedonian legislation require a number of substantial adjustments in the area of institutional independence, while Bulgaria's central bank law is largely in line with the Treaty. However, the prohibition of external influence on the central bank as understood by the EMI covers all possible sources of influence, both at the national level (governments, parliament) and at the EU level (Community institutions or bodies) and different forms of influence (the right to give instructions, the right to approve, suspend, annul, defer or censor decisions). Therefore, even the wording of the Bulgarian central bank law will have to be further adapted in order to fully comply with the Maastricht criteria in this area.[20]

[19] The Turkish central bank will begin to practice the regime of inflation targeting in 2006 (Central Bank of the Republic of Turkey, 2005, p. 3).

[20] As a case in point, the Commission's Convergence Report 2004 identifies a number of weaknesses and imperfections in the respective section on institutional independence for some of the new Member States (European Commission 2004e, p. 10). In a similar vein,

The postulate to provide the central bank with legal personality relates to the fact that the monetary authority is a separate body and not part and parcel of the government administration (Smits, 1997, p. 162). For the ECB, this element of institutional independence is laid down in Article 107 (2) of the Treaty. It is worth noting that the central banks of Bulgaria and Macedonia are defined as legal entities according to the respective central bank laws.[21] In this context, the issue of "statutory independence", i.e. an explicit reference to the "independent" status of the central bank in the wording of the central bank law, deserves a closer look. Although "statutory independence" is generally not seen as a necessary precondition to achieving a high degree of legal CBI, it is interesting that all central bank laws under consideration do contain such a stipulation.[22]

According to Article 105 (2) of the Treaty and Article 3.1 of the Statute, one of the basic tasks of the ESCB is the definition and implementation of the monetary policy of the Community. The Macedonian and the Turkish central bank are provided with the formal responsibility to design and implement monetary policy in their countries (see annex, table 1). The Turkish central bank, however, has to determine the inflation target in cooperation with the government (see above). In Bulgaria, the design of monetary policy is determined by the currency board arrangement, which naturally leaves no room for the central bank to independently design the monetary policy regime.

Whether the choice of the exchange rate regime should be the sole competence of the central bank or is to be jointly decided by the central bank and the government is not answered unambiguously by the literature. As a minimum requirement for effective CBI, a close involvement of the central bank in decisions on the choice of the exchange rate regime is generally seen as desirable (e.g., Swinburne and Castello-Branco, 1991, p. 40). While the central bank of Macedonia has the sole competence for determining the exchange rate regime, the Turkish central bank has to take these decisions jointly with the government. For Bulgaria, this choice is determined by the currency board arrangement (see annex, table 1).

3.3 Personal Independence

The definition of personal independence is largely undisputed and relates to arrangements on the role, status and composition of the central banks' highest decision-making bodies. This includes appointment procedures, the length of the

the ECB's Convergence Report 2004 examines institutional independence in a rather strict sense (ECB, 2004, p. 227 or 232).

[21] See Article 1.1 of the Law on the Bulgarian National Bank (1997) and Article 5 of the Law on the National Bank of the Republic of Macedonia (2002).

[22] See Article 44 of the Law on the Bulgarian National Bank (1997), Article 4 of the Law on the National Bank of the Republic of Macedonia (2002) and Article 4 III c of the Law on the Central Bank of the Republic of Turkey (1970).

term of office and the possibility of a renewal of mandate, rules for dismissal, requirements for professional competence and incompatibility clauses.

While the governments typically have a primary role in the appointment of the members of the central banks' highest decision-making bodies, it is widely agreed that certain limitations on the governments' appointment powers increase the degree of CBI. Such limitations may include, for example, a proportion of nongovernment appointments or the right to nominate candidates, e.g. by the state president or by the parliament (Swinburne et al., 1991, p. 31). These requirements are, inter alia, reflected in the construction of different models to measure CBI (Cukierman, 1992; Grilli et al., 1991). While the Treaty and the Statute contain appointment procedures for the members of the ECB executive board, these provisions are not comparable to the appointment of NCB officials and therefore, the Progress Reports and the Convergence Reports remain silent on national appointment procedures. In Bulgaria and Macedonia the central bank governor is elected by the parliament – a procedure which is very common also in other SEE countries (Dvorsky 2004, p. 58) – with the Macedonian governor being proposed by the state president (see annex, table 2). The Turkish central bank governor is appointed directly by the government. As to the appointment procedures for the other members of the highest decision-making bodies, the picture in the three countries analyzed is more diverse: while in all three countries the governor has the right to propose vice (or deputy) governors, legislated appointment procedures differ considerably (see annex, table 2). In this context it is worth noting that the Turkish central bank – unlike the other two central banks analyzed – has a three-tier structure of decision-making bodies: The highest decision-making body in the area of monetary policy is the Monetary Policy Committee, which is endowed with the task of setting the principles and the strategy of monetary policy. Moreover, the Monetary Policy Committee is in charge of determining the inflation target together with the government. The second decision-making body of the Turkish central bank is the Board, which basically is responsible for implementing the monetary policy, as well as for other areas of central banking and for the central bank's annual budget. The third body is the Executive Committee, which is not involved in monetary policy decisions, but is in charge of the internal management of the central bank.[23]

It is generally agreed that the legislated term of office of top central bank officials has to be clearly longer than the electoral cycle in order to limit political influence. This requirement is taken into account in Article 11.2 of the Statute, which sets the term of office for the members of the ECB Executive Board at eight years, which is definitely longer than any electoral cycle in Europe. Furthermore,

[23] The duties of the Monetary Policy Committee are stipulated in Article 22A of the Turkish central bank law, those of the Board in Article 22 and those of the Executive Committee in Article 30.

the minimum term of office required for governors of NCBs is established as five years (Article 14.2 of the Statute).[24] The EMI (1996, p. 102) argues that this minimum term of office also applies to the other members of the highest decision-making body. A related question is the issue of renewal of mandate: The possibility of reappointment of top officials is generally seen as decreasing the level of CBI. According to the Statute, members of the ECB Executive Board may not be reappointed, whereas it does not contain any rule on reappointment for NCB governors. Therefore, it is assumed that the possibility of renewal of mandate is compatible with the Statute (Smits, 1997, p. 165). With regard to the legislated length of tenure, the Bulgarian and Macedonian central bank laws are in line with Treaty requirements (see annex, table 2). As to the Turkish legislation, members of the Board, with the exception of the governor and the vice governor, still have a three-year term. In view of these Board members' responsibilities in the area of monetary policy decisions, their legislated term of office will have to be extended to five years in order to comply with the Treaty. Reappointment of central bank governors and also of other top officials is possible in Macedonia and Turkey, while no explicit reference can be found in the Bulgarian central bank law.

Regarding the rules for removal from office, legislated reasons have to be unrelated to central bank policy and limited to exceptional circumstances clearly defined by law. According to Article 14.2 of the Statute, a NCB governor may only be dismissed for the following reasons: if he no longer fulfills the conditions required for the performance of his duties or if he has been guilty of serious misconduct. The EMI argues that these rules for the security of tenure of office should also apply to the other members of the decision-making bodies of the NCBs (EMI, 1996, p. 102). In the three central bank laws examined, a wide variety of reasons for dismissal can be found (see annex, table 2): apart from the inability to perform functions and serious misconduct, the legislated reasons include criminal acts, false statements, a ban on practicing the profession or incompetence. As the Bulgarian central bank law was amended also in this area, the reasons for dismissal are now limited to the two reasons stipulated by Article 14.2 of the Statute. However, the amended Article 14.1 of the Bulgarian central bank law still makes reference to an incompatibility clause pertaining to membership in the Governing Council and thus indirectly introduces three additional reasons for dismissal of members in the highest decision-making body.[25] While this amendment is

[24] However, the European Commission's Convergence Report 1998 defines two exceptional cases where the term may be shorter: first, appointment of new members for the remainder of the term of the predecessor and second, a staggered initial appointment (European Commission, 1998, p. 45).

[25] Article 14.1 of the Law on the Bulgarian National Bank (1997) stipulates that a member of the Governing Council may be dismissed if "he no longer fulfils the conditions required for the performance of his duties under Article 11.4". Article 11.4 defines persons who may not become members of the Governing Council, namely persons

defended by Grozev as reducing the reasons for dismissal to a maximum extent (Grozev, in this volume), the European Commission gave a critical assessment on this amended provision in its Progress Report (European Commission, 2005a, p. 47). Another requirement, which was identified by the 2004 Progress Report on Bulgaria (European Commission, 2004b, p. 80), has been largely met by the amendment, namely the introduction of provisions for judicial review of dismissal decisions (Article 14.3 of the Law on the Bulgarian National Bank).[26] As to Macedonia's and Turkey's legislation on dismissal of central bank top officials, a lot remains to be done in order to comply with the Treaty requirements: First, the number of reasons for dismissal has to be strictly limited in the sense of Article 14.2 of the Statute and second, provisions for judicial review of dismissal decisions are not in place yet. This assessment is also reflected in the European Commission's Progress Report on Turkey (European Commission, 2004c, p. 106, with no progress found in European Commission, 2005d) and in the "avis" on Macedonia (European Commission, 2005b, p. 91).

It is generally acknowledged that requirements concerning the professional qualifications of central bank top officials represent a certain safeguard for CBI, because this rules out persons chosen mainly for political reasons. Article 112 (2) (b) of the Treaty and Article 11.2 of the Statute require as appropriate candidates for membership in the ECB's Executive Board "persons of recognized standing and professional experience in monetary or banking matters." The Treaty and the Statute are silent on requirements for NCB governors. However, all three central bank laws under consideration require personal and professional qualifications for a position in the central bank's highest decision-making body, such as personal integrity, academic degrees, professional experience in monetary and banking matters and experience in public administration.[27]

Incompatibility clauses for central bank top officials are generally recommended to prevent potential conflicts of interest. While neither the Treaty nor the Statute provide for explicit incompatibility clauses for NCB top officials, Article 11.1 of the Statute contains an exclusivity clause for members of the ECB's Executive Board, according to which the members shall perform their duties on a full-time basis, and "no member shall engage in any occupation, whether gainful or not, unless exemption is exceptionally granted by the Governing Council." The EMI (1996, p. 102) derived the general principle that membership in a decision-making body involved in the performance of ESCB-related tasks is incompatible

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"sentenced to imprisonment…", "adjudicated in bankruptcy…." and "previous members of a managing or supervisory body of a company…before its insolvency".

26 However, the Progress Report on Bulgaria 2005 still requires some minor amendments in this area (European Commission, 2005a, p. 47).

27 See Article 11.3 of the Law on the Bulgarian National Bank (1997), Article 58 of the Law on the National Bank of the Republic of Macedonia (2002) and Articles 19, 22A, 25 and 29 of the Law on the Central Bank of the Republic of Turkey (1970).

with the exercise of other functions which might create a conflict of interest. The three SEE central bank laws under consideration contain incompatibility rules, which apply to all members of the highest decision-making body (see annex, table 2). Apart from rather common provisions, such as incompatibility with positions in government, parliament, president of state or positions in commercial banks, the Macedonian central bank law contains a number of stipulations which seem to be in contradiction with the generally shared view that personal integrity is a necessary qualification: According to Article 58 of the Macedonian central bank law, persons convicted of a crime and sentenced to imprisonment may become members of the central bank's highest decision-making body, after a certain waiting time. The length of the waiting time depends on the length of preceding imprisonment.[28]

3.4 Financial Independence

Financial independence as defined by the EMI refers to the budgetary independence of the central bank itself, i.e. the question whether it has the appropriate means to fulfil its tasks properly. Budgetary independence comprises such issues as rules on the management of the central bank's budget, ownership issues, the allocation of central bank profits and the coverage of potential losses.

As mentioned earlier, this paper uses a broader definition and interprets the term "financial independence" as covering two aspects: first, budgetary independence as described above and, second, the prohibition of monetary financing. As will be shown below, these two aspects of financial independence are closely interrelated.

One of the crucial aspects of budgetary independence is the question whether the central bank is entitled to determine its expenses and revenues autonomously or whether the approval of a government body is needed. It is widely acknowledged that financial dependence of the central bank on government institutions may be detrimental to CBI. While the Treaty and the Statute do not contain explicit provisions on the NCBs' budgetary independence, the EMI (1996, p. 102–103) argues that a fully independent NCB should be able to avail itself autonomously of the appropriate economic means to fulfil its mandate. In particular, ex ante influence on an NCB's financial means by external bodies is regarded as jeopardizing the NCB's independence, while ex post reviews of an NCB's financial account may be seen as a reflection of accountability (EMI, 1996, p. 105). In the three central bank laws examined, the central bank's budget is managed by the bank's highest decision-making body independently from any government institution (see annex, table 3). In Turkey, however, the prime minister has the right to have the operations of the central bank audited (see section 3.2 of this

[28] The waiting time is set at five years for sentences of up to three years of imprisonment and at 10 years for longer imprisonment.

paper). In the Macedonian central bank law, sole state ownership is explicitly stated, the Turkish legislation provides for a minimum of 51% state ownership, no provision on ownership can be found in the Bulgarian law. All three SEE central bank laws contain detailed provisions regulating the allocation of profits, only the Bulgarian and Macedonian legislation also contain provisions on the coverage of potential losses. Typically – and this is similar to the provisions found in other SEE countries (Dvorsky, 2004, p. 61) – a proportion of the profits has to be allocated to one or more (general and/or special) reserve funds to create a cushion for potential losses and to provide for a range of other predefined purposes. The residual amount has to be transferred to the state budget (annex, table 3). While the provisions on profit allocation are largely unproblematic in terms of CBI, the stipulated mechanisms for covering central bank losses may potentially involve a form of monetary financing. As a case in point, Article 89 of the Macedonian central bank law stipulates that the government may issue securities, which may temporarily be transferred to the central bank in case of central bank losses. These securities have to be redeemed from the central bank's profit in the following years. This latter provision implies a financial flow from the central bank to the state budget, which is regarded as potentially conflicting with the prohibition of direct central bank credit. Consequently, the "avis" on Macedonia calls for an amendment of the relevant legislation in this field (European Commission, 2005b, p. 91). The Bulgarian central bank law, which had contained a similar provision and was therefore criticized by last year's Progress Report (European Commission, 2004b, p. 79), has meanwhile been amended and is now in full compliance with the Treaty requirements. This progress was acknowledged by the Progress Report 2005 (European Commission, 2005a, p. 47). Similar – potentially problematic – provisions on loss coverage can be found in a number of other SEE central bank laws (Dvorsky, 2004, p. 62).

One of the cornerstones of CBI is the prohibition of monetary financing. There is general consensus that direct central bank lending to the government, be it in securitized or nonsecuritized form (i.e. advances or purchases of government papers on the primary market, overdraft facilities) has to be prohibited by law. Indirect credit, however, such as the acquisition of government securities on the secondary market, is generally not regarded as infringing CBI.[29] The main explanation behind the permission of indirect central bank credit is that on the secondary market, government papers are traded at market rates, thus making public and private sources of funding close substitutes (Radzyner and Riesinger, 1997, p. 69). Article 101 (1) of the Treaty, as restated in Article 21.1 of the Statute,

[29] This is specified by the Council Regulation (EC) No 3604/93, according to which the purchase of government securities on the secondary market is permitted, unless this could be regarded as a circumvention of the prohibition of monetary financing (Council Regulation (EC) No 3604/93, December 1993).

stipulates that "overdrafts or any other type of credit facility with the ECB or with the NCBs in favour of Community institutions or bodies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, as shall the purchase directly from them by the ECB or NCBs of debt instruments." Complementary to the prohibition of direct central bank lending to the government, Article 102 (1) of the Treaty prohibits privileged access of public authorities[30] to financial institutions. The rationale of this provision is to prevent distortions of market economy principles (Häde, 2002, p. 1311). The Treaty does not contain a prohibition of indirect central bank credit.

All three central bank laws analyzed explicitly prohibit direct central bank lending (see annex, table 3). While in Bulgaria this prohibition also pertains to indirect central bank lending, the Macedonian legislation explicitly allows for purchases of government securities on the secondary market. However, Article 45.3 of the Bulgarian central bank law provides for one exception to this general prohibition of direct central bank credit, according to which the central bank may extend direct credit to the government for the purpose of purchasing Special Drawing Rights (SDRs) from the IMF under certain conditions. This provision was criticized by the Progress Report on Bulgaria in 2004[31]. Meanwhile, a special final provision was included into the amended law so that this provision will cease to exist from the date of Bulgaria's EU accession (Grozev, in this volume). The Progress Report 2005 did not mention this issue anymore. The Macedonian central bank law contains a very similar provision (see Article 51 of the Law on the National Bank of the Republic of Macedonia), which might also require an adjustment of legislation in this area. The "avis" on Macedonia, however, remained silent on this issue. Although the Turkish central bank law explicitly prohibits any direct financing to the public sector, the Progress Report on Turkey finds that certain safeguards might be needed in respect of possible "lending of last resort" operations by the central bank in order to bring the central bank law fully in line with Article 101 of the Treaty (European Commission, 2004c, p. 106 and 2005d, p. 91). This criticism refers to Article 40 I b of the Turkish central bank law, according to which the central bank may grant advance to the Savings and Deposits Insurance Fund in exceptional circumstances (Yesiladali, in this volume, who also argues for an amendment in this area). While the Turkish and the Macedonian central bank legislation require some adaptations in the field of prohibition of budgetary financing by the central bank, the Bulgarian central bank law seems to

[30] According to Article 102 (2), this prohibition pertains to Community institutions or bodies, central governments, regional, local or other public authorities other bodies governed by public law, or public undertakings of Member States.

[31] The Commission demanded a safeguard clause which limits this possibility to "obligations" vis-à-vis the IMF (European Commission, 2004b, p. 79).

be largely compatible with Treaty requirements, with a few details still to be adjusted to achieve full compatibility.

3.5 Central Bank Accountability

It is widely agreed that central banks, though endowed with a high degree of independence, have to be held accountable – in one way or another – for achieving the legislated objectives of monetary policy (e.g. Bini Smaghi, 1998). Central bank accountability, as defined by the ECB, is the legal and political obligation of an independent central bank to justify and explain its decisions to the citizens and their elected representatives (ECB, 2002, p. 45). While there is ample literature on theory and evidence of central bank accountability (as a case in point, see Eijffinger and Hoeberichts, 2000), an in-depth analysis of accountability issues in SEE would go beyond the scope of this paper and leaves room for further studies. In order to complement the picture of current central bank legislation in SEE, the paper will touch upon the most important elements of accountability, namely forms of cooperation with the government, appearances before parliament, reporting requirements and the publication of minutes.

It is generally acknowledged that an efficient conduct of monetary policy should not be done in isolation, but should be coordinated in some way with the economic policies pursued by the government. However, the forms and intensity of regulating this cooperation in the respective central bank laws widely differs (see annex, table 4). A rather loose form of cooperation is the mutual information of central bank officials and politicians. As a case in point, the Bulgarian central bank law provides for an exchange of information between the central bank and the government on the formulation of the general outlines of the monetary policy. A slightly more intense form of cooperation is the consultation on selected issues, which is for instance stipulated in the central bank law of Turkey. Article 4 III of the Law on the Central Bank of the Republic of Turkey defines the bank as the financial and economic advisor of the government. In the former function, the bank may give opinions on the financial system, both on request of the government and by its own initiative. The latter function is regulated in Article 41 I, according to which the bank may submit opinions on money and credit policy on request of the government. An even closer form of cooperation is the mutual participation of central bank officials and politicians in meetings of decision-making bodies: As a case in point, Article 113 (1) of the Treaty stipulates that the "President of the Council and a member of the Commission may participate, without having the right to vote, in meetings of the Governing Council of the ECB."[32] Conversely,

[32] In practice, it is the Ecofin Council President and the Commissioner for Economic and Monetary Affairs who participate in the ECB Governing Council's meetings from time to time.

Article 113 (2) provides for participation of the ECB president in Council meetings when the Council discusses "matters relating to the objectives and tasks of the ESCB." The central bank laws of Macedonia and Turkey provide for the participation of a representative of the finance ministry in the meetings of the highest decision-making body without a right to vote (see annex, table 4).

Provisions on the appearance of the central bank governor before parliament are considered very important, because these open the possibility of a dialogue between the central bank and elected representatives of the people. Article 113 (3) of the Treaty stipulates that the ECB president and other ECB executive board members can be heard by the European Parliament, at the request of the parliament, or on the initiative of the relevant parliamentary committees. Looking at the three SEE central bank laws examined, provisions on the relationship between the central bank and parliament largely differ (see annex, table 4). The Bulgarian law mentions that the central bank "reports its activities" to parliament. Similarly, the Macedonian law contains a general statement that the central bank has a "statutory accountability" to parliament, but – taking a closer look – Macedonian legislation assigns a very powerful role to the parliament, which in part goes beyond the generally acknowledged necessity of holding the central bank accountable. The Macedonian legislation requires the central bank governor to appear before parliament at least twice a year. Furthermore, the central bank has to submit the monetary policy objectives to parliament annually for the subsequent year. The latter provision potentially implies a very strong ex ante coordination of monetary policy with the parliament, which may jeopardize CBI and will have to be removed in order to comply with the Treaty. As already mentioned in section 3.2 of this paper, the Macedonian parliament even has a final say if the National Bank Council fails to reach the necessary majority for decision-making, a provision, which also will have to be removed to achieve compliance with the Maastricht requirements. Both the Bulgarian and the Turkish legislation provide for regularly informing the parliament on the central bank's budget. As this is in both cases a mere ex-ante information, with the decisions being taken by the central bank's decision-making bodies, these provisions do not seem to jeopardize the budgetary independence of the respective central banks.

The publication of regular reports enables the central bank to explain its policies and objectives and to review past performance. The fact that these reports are typically made available to interested parties free of charge[33] makes them easily accessible to the public (Smits, 1997, p. 175). The reporting requirements of the ECB are regulated by Article 113 (3) of the Treaty and Article 15.3 of the Statute, according to which "the ECB shall address an annual report on the activities of the ESCB and on the monetary policy of both the previous and the current year to the

[33] According to Article 15.4 of the Statute, the ECB's publications have to be offered free of charge.

European Parliament, the Council and the Commission and also to the European Council." This report has to be presented by the ECB President. Furthermore, the Statute contains additional reporting requirements, obliging the ECB to report at least quarterly on its activities (Article 15.1) and to publish a consolidated financial statement every week (Article 15.2). In the three SEE central bank laws, a broad variety of legislated reporting requirements can be found: While the Bulgarian and Macedonian legislation contain very detailed provisions in this area, the wording of the Turkish law is somewhat less precise on the timing and frequency of required reporting (see annex, table 4). In practice, all three central banks issue a lot more publications than required by law. The Bulgarian National Bank publishes – in addition to fulfilling its legislated reporting obligations – a Monthly Bulletin, three different quarterlies (Economic Review, Government Securities Market and Commercial Banks in Bulgaria) and an Annual Report.[34] The publications of the National Bank of the Republic of Macedonia comprise the legally required semiannual and annual reports as well as Monthly Informations and Quarterly Reports.[35] The Central Bank of the Republic of Turkey issues a broad range of periodic publications, including inter alia Annual Reports, quarterly Monetary Policy Reports and Quarterly Bulletins as well as a number of monthly publications.[36]

The question whether just the outcome or the detailed minutes of the meetings of the highest decision-making body are published is related to the issue of individual versus collective accountability (Bini Smaghi, 1998). In the case of the ECB, the ECB Governing Council is held accountable collectively: According to Article 10.4 of the Statute, the proceedings of the ECB Governing Council meetings are confidential. The Governing Council, however, may decide to make the outcome of the deliberations public. None of the laws examined contains a provision on a possible publication of the minutes of the highest decision-making body.[37]

4. Conclusions

Reviewing central bank legislation in Bulgaria, Macedonia and Turkey, considerable progress has been achieved by all three countries. Analyzing the different aspects of CBI in detail, the picture that emerges is quite mixed and clearly corresponds to the state of integration of the respective country with the European Union.

[34] See http://www.bnb.bg, retrieved on September 23, 2005.
[35] See http://www.nbrm.gov.mk, retrieved on September 23, 2005.
[36] See http://www.tcmb.gov.tr, retrieved on September 23, 2005.
[37] Interestingly, the laws of Albania and Bosnia and Herzegovina largely resemble the stipulation of the Statute in this area (Dvorsky, 2004, p. 65).

In the field of functional independence, legislated primary objectives are fully in line with Treaty requirements in Bulgaria, while some adaptations will be needed in the Macedonian and Turkish legislation in the area of secondary objectives. As regards institutional independence, Bulgaria's law largely complies with the Treaty requirements, whereas substantial adjustments will be necessary in the cases of Macedonia and Turkey. The main area of legislation potentially jeopardizing the central banks' independence to design and implement monetary policy is the possibility of a disagreement within the central banks' highest decision-making body, where casting votes are assigned to the prime minister (in the case of Turkey) or to the parliament (in the case of Macedonia). Furthermore, the Turkish legislation stipulates that the inflation target is determined jointly by the central bank and the government. In the area of personal independence, the main weakness can be found in the provisions on the reasons for dismissal of central bank top officials. As to financial independence, all three central bank laws provide that the central bank's budget is managed by the bank independently from any government institution. Furthermore, direct central bank credit is prohibited in all countries examined. Adaptations will be required for provisions on loss coverage – an issue which is closely linked to the prohibition of direct central bank credit – in the case of Macedonia. For the Turkish law, safeguards might be needed in respect of possible "lending of last resort" operations of the central bank.

As to central bank accountability, the main elements are in place in all three central bank laws examined, comprising different forms of cooperation between central banks and the respective governments, legislated appearances before the parliament and regular reporting requirements. However, parts of the Macedonian and Turkish legislation go beyond the generally acknowledged necessity of holding the central bank accountable and can be regarded as potentially infringing CBI.

To sum up, the Bulgarian central bank legislation seems largely ready for EU accession, while a number of substantial adaptations will be necessary for Macedonia and Turkey to fulfill the requirements of the Treaty.

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Annex

Table 1: Statutory Objectives and Formulation and Implementation of Monetary Policy

Central Bank	Statutory Objectives – Functional Independence	Formulation and Implementation of Monetary Policy – Institutional Independence
Bulgarian National Bank	*"…to maintain price stability…" (Article 2.1) *without prejudice to the primary objective, the Bank shall support general economic policies in the EU, upon Bulgaria's EU accession (Article 2.2)	*freedom from instructions (Article 44) *detailed definition of currency board regime (Article 28) *fixed exchange rate (Article 29)
National Bank of the Republic of Macedonia	*"…to maintain price stability" (Article 3) *the Bank shall support economic policy and financial stability without jeopardizing main objective (Article 3)	*freedom from instructions (Article 4) *the bank shall "establish and conduct the monetary policy" (Article 10) *in case of lack of consent by the National Bank Council, final decision is taken by parliament (Article 67) *the Bank shall "establish and conduct exchange rate policy" (Articles 10 and 20)
Central Bank of the Republic of Turkey	*"…to achieve and maintain price stability" (Article 4) *the Bank shall support growth and employment policies if this is not in conflict with primary objective (Article 4)	*"…determine and implement monetary policy" (Article 4) *"the Bank shall determine the inflation target together with the Government…" (Article 4 II b) *monetary Policy Committee establishes exchange rate policy jointly with the Government (Article 22A d) *in case of disagreement between governor and Board, the Prime Minister shall act as an arbitrator (Article 26.3)

Source: Law on the Bulgarian National Bank. 1997. June 10. Amended in 2005.
Law on the Central Bank of the Republic of Turkey. No. 1211. 1970. January 14. Amended in 2001.
Law on the National Bank of the Republic of Macedonia. 2002.

Table 2: Personal Independence of Central Banks

	Governor		Highest Decision-Making Body		Dismissal	Incompatibility Clauses
	Term	Appointment	Composition; Term	Appointment		
Bulgarian National Bank	*6 years (Article 12.4)	*elected by parliament (Article 12.1)	*Governing Council: Governor, 3 Deputy Governors, 3 other members (Article 11.1) *term: 6 years (Article 12.4)	*3 Deputy Governors elected by parliament, on Governor's proposal (Article 12.2) *other 3 members appointed by president of state (Article 12.3)	*inability to perform functions for more than six months *serious misconduct *non-fulfilment of incompatibility clauses of Article 11.4 (Article 14.1)	*Governor and Deputy Governor shall not perform any other remunerated activity (Article 12.5) *other 3 members: no other activity at the BNB or other financial institutions, no activity in the executive branch (Article 12.6)
National Bank of the Republic of Macedonia	*7 years, one reappointment possible (Article 70)	*appointed by parliament, on proposal of state president (Article 70)	*National Bank Council: Governor, 2 Vice Governors, 6 members (Article 57) *term: 7 years (Article 60, Article 72)	*Vice Governors appointed by parliament on proposal of Governor, one reappointment possible (Article 72) *other members appointed by parliament on proposal of state president, no reappointment (Article 60)	*criminal act *ban on practicing profession *illness *inability *performing functions dishonestly, unprofessionally, etc. (Article 70)	NBC membership incompatible with, i.a. (Article 58): *position in commercial banks *trade union membership *net debtor of a bank status *criminal sentence (waiting time) *party membership
Central Bank of the Republic of Turkey	*5years, reappointment possible (Article 25)	*appointed by a decree of the Council of Ministers (Article 25)	*Monetary Policy Committee: Governor, 4 Vice Governors, 1 Board member, 1 other member (Article 22A) *term: 5 years Vice Governors (Article 29); 5 years other member (Article 22A), 3 years Board member (Article 20)	*Vice Governors appointed by joint decree on recommendation of Governor, reappointment possible (Article 29) *Board member: elected by Board members (Article 22A) *other member: appointed by joint cedree on recommendation of Governor (Article 22 A)	*in cases of violation of incompatibility clauses (Article 28) *inability to perform duties (Article 28)	*Governor shall not perform any other duty outside the Bank of a legislative, official or private nature (Article 27) *Board member and other member: similar provisions in Article 19

Source: Law on the Bulgarian National Bank. 1997. June 10. Amended in 2005.
Law on the Central Bank of the Republic of Turkey. No. 1211. 1970. January 14. Amended in 2001.
Law on the National Bank of the Republic of Macedonia. 2002.

Table 3: Financial Independence of Central Banks

	Limits to Government Lending		**Budgetary Independence**		
	Direct Credit	**Indirect Credit**	**Ownership, Management of Budget**	**Allocation of Profit**	**Coverage of Potential Losses**
Bulgarian National Bank	prohibited (Article 45.1)		* approval of annual budget by Governing Council (Article 16.13) * the bank addresses the approved annual budget to parliament (Article 50)	* 25% of profits allocated to reserve fund (Article 8.2) * necessary amounts to be allocated to special funds (Article 8.3) * residual to state budget (Article 8.4)	*losses covered by reserve fund, special fund (Article 9.2) *residual covered by Ministry of Finance (Article 9.1)
National Bank of the Republic of Macedonia	prohibited (Article 51)	purchases of government securities in the secondary market permitted (Article 89)	* sole state ownership (Article 5) * National Bank Council adopts financial plan (Article 64.4)	* 20% of net income allocated to general reserves (Article 86) * residual to state budget (Article 89)	* losses covered by general reserves * residual covered by state budget (Article 89)
Central Bank of the Republic of Turkey	prohibited (Article 56)		*joint stock company (Article 1), minimum of 51% owned by Treasury (Article 8) *budget prepared by the Board (Article 22i) *Prime minister may have operations audited (Article 42)	*20% to reserve fund *6% first dividend *max. of 5% to personnel * 10% to extraordinary reserve fund * max. of 6% second dividend (Article 60a-d)	no provisions

Source: Law on the Bulgarian National Bank. 1997. June 10. Amended in 2005.
Law on the Central Bank of the Republic of Turkey. No. 1211. 1970. January 14. Amended in 2001.
Law on the National Bank of the Republic of Macedonia. 2002.

Table 4: Central Bank Accountability

	Forms of Cooperation with Government	**Relationship with Parliament**	**Reporting Requirements**
Bulgarian National Bank	*mutual information (Article 3)	*the Bank shall "report its activities" before parliament (Article 1.2) *the Bank addresses approved annual budget to parliament (Article 50)	*weekly publication of balance sheet (Article 49.1) *monthly publication of balance sheet (Article 49.2) *the bank submits two reports per year on the Bank's activities to parliament (Articles 50 and 51)
National Bank of the Republic of Macedonia	*Minister of Finance may attend meetings of National Bank Council, but has no right to vote (Article 63)	*the National Bank Council is responsible to parliament (Articles 61, 74) *parliamentary committees meet with Governor at least once every 6 months (Article 55a) *decision on monetary policy objectives has to be submitted to parliament (Article 54)	*semiannual and annual reports to parliament on operations, supervision and foreign reserve management (Article 55.1–55.3)
Central Bank of the Republic of Turkey	*the bank may give opinion on money and credit policy, on request of government (Article 41 I) *the bank may give opinion on financial system, own initiative or on request of government (Article 4 III a-c) *Undersecretary of Treasury of Deputy may participate in Monetary Policy Committee, without voting right (Article 22A) *Governor submits two reports per year on operations and monetary policy to the Council of Ministers (Article 42) *the bank submits written information to the government and to the public on the reasons of incapability to achieve targets (Article 42)	*the bank submits information on operations to the Planning and Budget Commission of parliament twice a year (Article 42)	*the bank prepares periodical reports on monetary policy targets and implementations to public (Article 42) *the bank issues a weekly bulletin on statement of accounts (Article 63)

Source: Law on the Bulgarian National Bank. 1997. June 10. Amended in 2005.
Law on the Central Bank of the Republic of Turkey. No. 1211. 1970. January 14. Amended in 2001.
Law on the National Bank of the Republic of Macedonia. 2002.