

## CENTRAL BANKS: FUNCTIONS, DECISION-MAKING AND ACCOUNTABILITY

### Introduction

The main task of central banks is to conduct monetary policy. However, not all central banks have the same monetary policy mandate. In addition to implementing monetary policy, central banks fulfill a number of other functions (e.g. the supervision of banks), which differ from country to country. Central banks also differ with regard to decision-making responsibilities and accountability obligations. This article gives an overview of the functions of central banks and presents their decision-making and governance structures, as well as the accountability and transparency regulations of central banks.

### Monetary policy mandate

All central banks are responsible for conducting monetary policy. The monetary policy objective, however, is not the same for all central banks. While the maintenance of price stability is an important objective across the board, some central banks are also supposed to pursue additional goals, which have the same priority as the maintenance of price stability. The monetary policy mandate of the European Central Bank (ECB), for example, consists primarily of maintaining price stability: “Without prejudice to the objective of price stability, the ECB shall support the general economic policies in the Union with a view to contributing to the achievement of the objectives of the Union...” (European Central Bank 2015b). The Bank of England (Bank of England 2015) and the Bank of Japan (Bank of Japan 2015), for example, have similar monetary policy mandates. The Federal Reserve in the United States, by contrast, is an example of a central bank that shall pursue several goals that are equally weighted. According to the Federal Reserve

Act (Federal Reserve 2015), it shall “promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates”.

### Functions of central banks

In addition to the conduct of monetary policy, some other responsibilities have been assigned to most central banks. Table 1 gives an overview of the functions of central banks.<sup>1</sup> All central banks listed in Table 1 have at least partial responsibility for acting as a lender of last resort, which means that they lend to banks that do not have market access. Many central banks even have full responsibility for this task. Most central banks are also at least partially involved in conducting prudential policy to promote financial stability. As far as responsibility for bank supervision is concerned, there are major differences across countries. While the Central Bank of Brazil and the Reserve Bank of New Zealand are fully responsible for supervising banks, a substantial number of central banks (like the Norges Bank, the Swiss National Bank and the Bank of Canada, for instance) are not involved in this task. The ECB has been partially responsible for banking supervision since November 2014 (European Central Bank 2015a); the Bank of England and the Federal Reserve, for example, also have a shared responsibility for supervising banks.

<sup>1</sup> For a more detailed version of the Tables included in this article see [DICE Database \(2015\)](#).

**Table 1**

Functions of central banks				
	Monetary policy	Lender of last resort	Prudential policy	Supervision of banks
Euro Area	Full responsibility	Full responsibility	Shared or partial responsibility	Shared or partial responsibility
Sweden	Full responsibility	Full responsibility	Shared or partial responsibility	No or minor involvement
United Kingdom	Full responsibility	Full responsibility	Shared or partial responsibility	Shared or partial responsibility
Norway	Full responsibility	Full responsibility	Shared or partial responsibility	No or minor involvement
Switzerland	Full responsibility	Full responsibility	Shared or partial responsibility	No or minor involvement
Australia	Full responsibility	Full responsibility	Shared or partial responsibility	No or minor involvement
Brazil	Full responsibility	Full responsibility	Full responsibility	Full responsibility
Canada	Full responsibility	Full responsibility	Shared or partial responsibility	No or minor involvement
Japan	Full responsibility	Full responsibility	Shared or partial responsibility	Shared or partial responsibility
Korea	Full responsibility	Full responsibility	Shared or partial responsibility	No or minor involvement
Mexico	Full responsibility	Full responsibility	Shared or partial responsibility	No or minor involvement
New Zealand	Full responsibility	Full responsibility	Full responsibility	Full responsibility
United States	Full responsibility	Full responsibility	Shared or partial responsibility	Shared or partial responsibility
Key:	No or minor involvement Shared or partial responsibility Full responsibility			

Source: DICE Database (2015).

Table 2

## Monetary policy formal decision-making frameworks

	Decision-making responsibility	Composition of decision-making body		Length of term
		No.	Positions	
Euro Area	Governing Council	25	President, Vice-President, 4 other Executive Board Members, 19 National Central Bank (NCB) Governors	Executive Board = 8 years NCB Governors = minimum 5 years
Sweden	Executive Board	6	Governor (as Chair), 5 Deputy Governors (fulltime, but non-executive)	5 years (rolling schedule)
United Kingdom	Monetary Policy Committee	9	Governor (as Chair), 2 Deputy Governors, Executive Director for monetary analysis (Chief Economist), Executive Director for markets, 4 non-executive external members	Governor/Deputy = 5 years Chief Economist, Executive Director and external members = 3 years
Norway	Executive Board	7	Governor (as Chair), Deputy Governor, 5 external members	Governor/Deputy = 6 years External members = 4 years
Switzerland	Governing Board	3	Chair, Vice-Chair, 1 other member	6 years
Australia	Board	9	Governor (as Chair), Deputy Governor, Secretary to Treasury, 6 external members	Governor/Deputy Governor: up to 7 years External members: up to 5 years
Brazil	Monetary Policy Committee	8	Board of Directors (Governor and Deputy Governors)	No fixed term
Canada	Governor	1	Governor	7 years
Japan	Policy Board	9	Governor, 2 Deputy Governors, 6 full-time members drawn from outside the Bank of Japan	5 years (staggered terms)
Korea	Monetary Policy Committee	7	Governor (as Chair), Senior Deputy, Governor, 5 external members	Governor = 4 years Senior Deputy Governor = 3 years External members = 4 years
Mexico	Board of Governors	5	Governor, 4 Deputies	Governor = 6 years Other members = 8 years
New Zealand	Governor	1	Governor	5 years
United States	Federal Open Market Committee	12	7 members of the Board of Governors, President of the Federal Reserve Bank of New York, 4 of 11 remaining Federal Reserve Bank Presidents in rotations	Board members = 14 years, or (if replacing previous Board member) unexpired term plus 14 years President of the Federal Reserve Bank of New York = continuous basis Federal Reserve Board Presidents = one year rotations as a voting member

Source: DICE Database (2015).

### Decision-making and governance

Table 2 gives an overview of the decision-making bodies for monetary policy. The size of the bodies varies significantly across countries. In Canada and New Zealand, it is the governor of the central bank who is responsible for monetary policy decisions. In other central banks, decisions are taken by a committee that comprises a different number of members. Usually, the committee (in some countries also called council or board) consists of the governor (or president), deputy governors and other members. The number of additional members differs between central banks; the governing board of the Swiss National

Bank, for example, has one other member, whereas the board of the Reserve Bank of Australia has six external members. The Federal Open Market Committee in the United States consists of 12 members and includes four of eleven Federal Reserve Bank presidents on a rotating basis. The central bank with the largest decision-making body is the ECB. The governing council has 25 members, among which are the 19 governors of the National Central Banks of the Eurozone. The length of term of members varies between countries. It ranges between three years (in the United Kingdom and in Korea) and 14 years (in the United States). Not all members can be reappointed in all countries, and sometimes this is only

possible once. Members of decision-making bodies are usually appointed by members of the government. (For more detailed information on the appointment of board members see [DICE Database \(2015\)](#).)

For tasks other than monetary policy decisions, a governance body is responsible, which is referred to as a board in the following. In some central banks (e.g. the ECB and the Bank of Japan), the board is the same committee as the decision-making body for monetary policy issues. Other central banks have different bodies for monetary policy decisions and other tasks. The role of the boards also differs between central banks. The Reserve Bank of New Zealand, for example, in which it is only the governor who is responsible for monetary policy, has a board of directors comprising five to seven non-executives in addition to the governor. The board has an oversight function with regard to monetary poli-

cy. Other central bank boards (in Norway and Canada, for instance) have no oversight function regarding monetary policy issues, but are only responsible for the operation and administration of the central bank. (For more information on the boards of central banks see [DICE Database \(2015\)](#) and Aldridge and Wood (2014).)

### Accountability and transparency

All central banks are accountable to legislators for the conduct of monetary policy. Usually, decision-makers of central banks present monetary policy reports to a parliamentary committee. The frequency of the presentation of such accounts varies between central banks. The minimum frequency is once a year (in Norway, for example), but most central banks give account two or four times a year. Some central banks (like the Bank of

**Table 3**

Publication of monetary policy meeting "minutes" (narrowly defined)				
	Publish	Delay	Identify votes	Comprehensiveness
Euro Area	Yes	4 weeks	No	Overview of financial market, economic and monetary developments and summary of discussion on economic and monetary analyses and on monetary policy stance.
Sweden	Yes	2 weeks	Yes (dissenters' views are explained in the decision section of the minutes)	Short overview of briefings followed by very detailed coverage of proceedings including attributing comments, views, questions and answers to Board members.
United Kingdom	Yes	2 weeks	Yes	Summary of briefings with coverage of discussion points. Outline of decision and reasoning, including areas where there were differences of opinion (without identification).
Norway	No			Minutes are only released after 12 years.
Switzerland	No			Minutes available from archive after 30 years on request.
Australia	Yes	2 weeks	No	Short summary of briefings, discussion and considerations for monetary policy.
Brazil	Yes	Up to 6 working days	Yes	Comprehensive economic overview and summary of briefings.
Canada	No			
Japan	Yes	4 weeks	Yes	Comprehensive summary of briefings on economic developments and the outlook and discussion among members. The attendees of the meeting are identified.
Korea	Yes	2 weeks	No	Summary of briefings and discussion. Outline of decision and reasoning. The attendees of the meeting are identified.
Mexico	Yes	2 weeks	No	Comprehensive summary of briefings. Detailed outline of considerations and summary of decision and unanimity.
New Zealand	No			
United States	Yes	3 weeks	Yes	Detailed summary of proceedings and briefings. Full transcripts available after 5 years.

Source: DICE Database (2015).

England, for example) present reports six times a year. (For more details on the accountability of central banks see [DICE Database \(2015\)](#).)

Table 3 gives an overview of the publication of the minutes of monetary policy decision-making meetings. Over half of the central banks publish minutes; the purpose of this policy is to increase the transparency and strengthen the accountability of central banks. In general, the practice of publishing minutes has become more common over the last decade. The Bank of England, the Bank of Japan and the Federal Reserve, for example, publish monetary policy meeting minutes, whereas the Swiss National Bank and the Reserve Bank of New Zealand, for example, do not publish minutes. The ECB started this practice in January 2015 (European Central Bank 2014). It publishes accounts of monetary policy discussions containing an overview of financial market, economic and monetary developments, which are followed by a summary of the discussion on the economic and monetary analyses and on the monetary policy stance. In general, there has also been a trend towards shortening the time lag between monetary policy meetings and the release of their minutes. With the exception of the Central Bank of Brazil (up to six working days), the minimum delay is two weeks. The ECB and the Bank of Japan have the largest time lags of four weeks. Some central banks (like the Swedish Riksbank, the Bank of Japan and the Federal Reserve) include the votes of the members of the monetary policy decision-making body in the minutes, while other central banks (such as the ECB and the Bank of Korea) do not include any information about the voting behaviour of their members. The minutes vary significantly between central banks with respect to their comprehensiveness. The Bank of Japan and the Federal Reserve, for example, provide more detailed information than the ECB. In Sweden, the minutes even include comments, views and questions to board members.

## Conclusion

This article revealed significant differences with regard to the functions, decision-making structures and accountability obligations of central banks across countries. However, none of those remains constant over time. The ECB, for example, has recently implemented changes to both its functions and its transparency.

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