

REMARKS BY JAVIER GUZMÁN CALAFELL, DEPUTY GOVERNOR AT BANCO DE MÉXICO, DURING THE SESSION “CENTRAL BANK INDEPENDENCE: DESIGN AND IMPLEMENTATION,” AT THE INTERNATIONAL CONFERENCE “CENTRAL BANK INDEPENDENCE: PROGRESS AND CHALLENGES.” Mexico City, October 14 – 15, 2013.

First of all I would like to thank the four central bank governors that are participating in this panel, for having accepted Banco de México’s invitation to share their points of view on the key aspects of the design and implementation of frameworks aimed at promoting the autonomy of these institutions.

I am certain that this session will be of great interest, not only because of the outstanding careers of our speakers and the diverse characteristics of the central banks they lead, but also because it will allow us to have an analysis of the Conference’s subject from the perspective of emerging market economies.

As mentioned in previous sessions, the early nineties witnessed a generalized movement by the world’s central banks towards greater autonomy, something various authors have considered a revolution in central banking. When the factors behind this revolution are analyzed, emphasis is usually placed on the role of advanced economies and of developments of a global nature, among them the traumatic global inflationary experience of the seventies and eighties, and the emergence of a vast academic literature supporting the benefits of central bank autonomy.

Nonetheless, while the movement towards central bank autonomy began in the advanced nations, and received a major boost from the project of the European Economic and Monetary Union, we should not disregard the fact that this trend also had important protagonists in emerging market economies. The experience of recurrent economic crises in Latin America in the seventies and eighties, led the countries in the region to look for

institutional arrangements that would allow them to avoid the policies that triggered those crises; thus, central bank independence became a natural response to this need. Also, the collapse of the Soviet Union, required many economies in Eastern Europe and Asia to modernize their central bank institutional arrangements. In other cases, such as the Asia-Pacific region, despite the fact that inflation performance had been encouraging, a movement to greater formal autonomy for central banks was also observed.

The results are evident. During the nineties, more than 60 countries introduced changes to their legislations oriented towards giving their central banks greater autonomy, a trend that continued in ensuing years. Most of them are emerging market economies. In this context, some empirical studies conclude that by the beginning of this century, the central banks of several emerging economies showed levels of autonomy comparable to those of advanced countries.<sup>1</sup>

Many emerging markets have seen remarkable progress, both in the fight against inflation and in general in the management of their economies in the last decades. As an example, it is noteworthy that both in Latin America and the Caribbean, and in Central and Eastern Europe, average regional inflation dropped from three digit levels in 1990, to single-digit figures around a decade ago. While the estimation of the relationship between the path of different economic variables and central bank independence is subject to some ambiguity, the empirical evidence suggests that the latter has played a key role in these results.

Despite the achievements made since the beginning of the nineties, central bank autonomy in emerging market economies faces numerous challenges. For example, there is significant divergence in the level of progress in this regard among countries in the group. Likewise, various authors have emphasized that many of these central banks need to redouble their efforts

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<sup>1</sup> See M. Arnone et. al., "Measures of Central Bank Autonomy: Empirical Evidence for OECD, Developing and Emerging Market Economies", IMF Working Paper, WP/06/228, 2006.

to achieve greater political autonomy, especially to ensure that their governing bodies are appointed for longer periods and without external interference. In addition, it has been noted that challenges derived from differences between autonomy *de jure* and *de facto* can be deeper in emerging market economies.

The global financial crisis is leading to additional challenges for central bank autonomy. Due to their nature, the greatest difficulties are faced by advanced countries. However, the challenges for central bank independence in emerging market economies resulting from a context characterized by low world economic growth, the implementation of unconventional monetary policies in the main advanced economies, the risk of fiscal dominance in some countries and the widening of the mandate of many central banks to include financial stability, should not be underestimated. In any case, it is evident that, given the fundamental changes in the world economy derived from the crisis, it is necessary to protect those aspects of central banking that have proved to be sources of strength. Central bank autonomy is clearly one of them.

This panel will allow us to have a view on the design and implementation of institutional frameworks for central banks in emerging economies, as well as the accompanying challenges and the actions required to overcome them, from the perspective of four institutions:

- Banco Central de Chile, which was not only the first in Latin America to become independent, but is also characterized by one of the institutional arrangements with greatest autonomy in the region;
- Banco de la República de Colombia, which has as its key objective to maintain the purchasing power of the currency, on the basis of the adoption of specific inflation targets and within a framework of close cooperation with government authorities;
- Bank Negara Malaysia, an institution that exemplifies the importance of a social consensus on low and stable inflation rates, as a mechanism for

achieving a *de facto* autonomy above that established by law, a feature which is not very frequent among emerging economies;

- The National Bank of Poland, whose mandate of price stability rests on a degree of independence that is considered greater than that prevalent in many advanced countries, and on a governing council that is both representative and plural.

I have no doubt that the presentations of these outstanding central bankers will provide us with valuable elements of judgment with respect to the topics under discussion in this session.