CENTRAL BANK TRANSPARENCY AND INDEPENDENCE UNDER THE INFLATION TARGETING REGIME

Assist. Irina – Raluca Badea, Ph. D
University of Craiova
Faculty of Economics and Business Administration
Craiova, Romania

Abstract: The transparency and independency of central banks have been the subject of overheated debates mostly after the Maastricht Treaty was undertaken, namely after the year 1992. Therefore, numerous studies dating from the 1990s focus on measuring central bank independency(CBI), proxied usually by the turnover rate and demonstrating that there is an inverse correlation between CBI and inflation. To put it differently, a central bank which is isolated from political pressure is able to conduct a more efficient monetary policy, and its accountability goes towards the fundamental objective, namely price stability. This paper aims at presenting transparency and independency in the context of inflation targeting, drawing the attention to the dimensions of the CBI and limitations when it is quantified. Moreover, the emphasis is put on the two standard indices, GMT and CUK, and their economic interpretation. Even though the legal measure of independency consists of political and economic autonomy, we should take into consideration the informal independency as well.

JEL classification: E58, E52, E31,

Key words: critical; central bank; independence; transparency; inflation targeting

1. INTRODUCTION

Central banks, in terms of their functions, objectives, strategies and instruments, have evolved systematically over time, being permanently connected to the economic and social reality. In a turbulent economic and financial context, as was the latest global financial crisis, the soundness of the central bank is vital, and monetary policy measures to maintain balance are often unconventional, and political pressures can shake the independence of the institution. The effectiveness of monetary policy is the result of the action of several converging elements, including the credibility of monetary policy, which is closely linked to the transparency and independence of the central bank. These two dimensions have benefited from a prolific specialty literature, which has been concerned with the empirical approach of measuring them in the form of more or less complex indices. Thus, the first section of the paper presents the strategy of inflation targeting, with particularities of the one implemented in Romania, focusing on the importance of the central bank's economic and political autonomy for streamlining monetary policy measures. The second section addresses the valences of the central bank's transparency and independence, making an insight into some of the most complex studies that quantified these two issues, namely the studies of V. Grilli, D. Masciandaro and G. Tabellini (GMT);

A. Cukierman, SB Webb and S. Neyapti (initially the CWN index, with subsequent revisions). These indices have a similar construction, based on 15 and 16 criteria divided into several categories, referring essentially to the influence of the Government on the activity of the central bank under the governor's mandate, the functioning of monetary policy and the limits of public sector lending and bank's accountability to safeguard the banking system and not only.

2. OBJECTIVES

The main objectives of this paper are related to: a critical and comparative analysis of the inflation targeting regime's effects in the economy of Romania as opposed to its estimated results; defining the concepts of transparency and independence of the central bank, with an emphasis on the independence as a statutory element of the NBR and on the transparency as a fundamental feature of a credible central bank; presenting a thorough approach of the literature regarding this subject; focusing on the most significant measures of transparency and independence of a central bank and the determinants of their levels.

3. METHODOLOGY

The research consists of a critical approach of the relationship between inflation and the independence and transparency of a central bank. The overview of the subject outlines the literature consistency on this matter and represents a consistent qualitative approach; therefore, I used comparative analysis and synthesis in order to highlight the main ideas that revolve the heated debate on the central bank independence and its link with inflation.

4. THE INFLATION TARGETING REGIME - PRECONDITIONS AND EFFECTS IN THE ECONOMY

The inflation targeting strategy, introduced for the first time by New Zealand, was an innovation among the instruments that the central bank has in order to achieve its monetary policy objectives. This strategy actually establishes the compromise path that allows the coexistence of both a rigid inflation target and a discretion that gives the central bank the ability to act within a safety margin.

The direct inflation targeting strategy involves meeting basic conditions, prior to its adoption, which would create a preamble appropriate to the conduct of a sound monetary policy. These conditions have two dimensions, namely of an institutional nature and of a technical nature.

The main institutional conditions are as follows:

- the option for price stability;
- independence of central banks;
- the harmonization of monetary policy with fiscal policy and the absence of fiscal dominance;
- sufficient development of the financial system;
- flexible exchange rate. (NBR, 2005)

Thus, inflation targeting allows juggling between monetary policy rules and taking advantage of a flexible, discretionary environment. Although this strategy has been successfully implemented in many developed and emerging countries, this is not the pivot of optimal monetary policy, in which, although inflation was considered a phenomenon of eminently monetary nature and was controlled before the outbreak of the latest global financial crisis , this is not the only target to be achieved in monetary policy.

In the process of implementing the inflation targeting strategy, the policy makers face some delicate issues such as (Bernanke et al., 2001):

- this strategy is being implemented in many countries in a flexible manner, following the inflation target within the limits of a certain corridor, but other macroeconomic outcomes are monitored as well in order to have a realistic outlook;
- the implementation of this strategy requires the establishment of a numerical target for the average time horizon and providing public information on this aspect, so that the public can compare the predicted and achieved levels of inflation, and the deviation from the target may weaken the population's confidence in the central bank, influencing the inflationary expectations. The inflation target is set either as a percentage value (2%), as a range of variation (1-3%) or as a target target with a certain acceptable margin of error (2% +/- 1%);
- the decision-making process begins with the target setting, ie the nominal anchor, this step being followed by the choice of the instrument with which the central bank enters the target. In our case, the interest rate is closely related to price destabilization, so the channel of monetary policy transmission is the interest rate channel;
- providing information on inflation targeting, as we have said, the central bank's responsibility to achieve its ambitious objective, as inflation targeting may increase inflationary pressures, diminishing the credibility of monetary authority. Also, if the central bank has as its objective and financial stability, its overburdening can lead to the objective of monetary stability being missed.

Globalization, with the liberalization of international trade and the movement of income, makes the monitoring of the exchange rate regime also important. A high level of financial transactions in other domestic currencies, such as the euro and the dollar, may generate a certain danger to inflation targets due to imminent fluctuations in the exchange rate. In the event of currency uncer- tain, the sudden depreciation of the domestic currency as well as a shrinking purchasing power of the population may lead to the accumulation of heavy debts to borrowers and even to the entire financial system. Therefore, the exchange rate objective should be "clearly subordinated to the inflation target" (Bernanke et al., 2001).

The positive impact of the monetary policy strategy conducted in our country for the past years resulted in the following directions:

- the downward target stage managed to significantly reduce the inflation rate below 10 percent after a long period of hyperinflation;
- although the central bank missed the inflation target several times, it managed to gain more credibility, due to the transparency required by the implementation of this strategy, where the provision of public information is particularly important so that the population can observe compliance with the monetary policy and the adjustment measures adopted to guide the target as close as possible to the target set;
- the new Statute of the NBR stipulated the independence of the central bank with its multiple dimensions as of 30 July 2014, signifying its freedom to claim the appropriate instruments for the chosen monetary policy strategy, without government intervention and pressure from it. With the independence of the national bank, its monetary policy responsibility also increased proportionally;

- combating fiscal dominance and restricting it, although this phenomenon is still present in many countries, even in developed ones, especially during the crisis and post-crisis, when the public deficit had to be covered by the central bank or when the liquidity crisis the banking market had to be managed by the state;
- the introduction of a controlled float regime of the exchange rate, thus diminishing its volatility and, implicitly, the vulnerability of the economy;
- strengthening the banking system and protecting it from bankruptcy in the context of the latest global financial crisis. The consolidation process is a lasting, long-lived process, especially in the post-crisis period, with the adoption of new prudential provisions that will strengthen the resilience of the banking sector to shocks. Banking intermediation, an objective still present in the NBR's mission, has also grown.

4.1 A CRITICAL OVERVIEW ON THE INFLATION TARGETING STRATEGY

A sinuous problem with the transmission of impulses in the economy through monetary policy channels is represented by lags. Estimating the projected inflation target is difficult to achieve due to the fact that monetary policy measures produce effects with a lag gap which makes it difficult to anticipate output values as well as forecasting capacities with a fairly high accuracy. Also, uncertainty is a feature of the market, so we may have unforeseen new circumstances that were not included in estimates because of their exceptional nature. Therefore, the final goal of political mathematics must be pursued in parallel with some intermediate objectives, with the specific operationalization tools, as detailed in the other chapter. As a rule, the central bank develops various trajectories, possible scenarios for inflation targeting and GDP deviation, to determine the objective combination that minimizes the loss function.

In Romania, the inflation target has been repeatedly missed and its evolution at present at the level of the European Union is marked by a inflationary press, about which the NBR leadership says it does not pose a threat to the financial stability. The missed inflation target by the monetary authority can be attributed to the setting of an unrealistic target artificially chosen as a result of the pressures to meet the real and nominal convergence criteria of our country's economy with the requirements of the European Union. The belief that the target of inflation was a very ambitious threshold for the real economy's ability to operate on imposed parameters was also reinforced by "increasing inflationary pressures on demand and, on the other hand, increasing volatile capital inflows, as a result of the liberalization of non-residents' access to term deposits in lei". (Balaban et al., 2012)

The adoption of this strategy was the pillar needed to go through a disinflation process, after Romania's economy was dominated by hyperinflation and galloping inflation in the first 15 years of emerging economy. Banking efforts in creating the necessary framework for the implementation of this strategy lasted for 16 months and the NBR's efforts were corroborated with those of the IMF, which provided technical assistance.

Inflation, through the inflationary expectations of economic agents, distorts the ability to make economic calculations as changes occur in economic and financial conditions. Thus, prices do not change uniformly and at the same pace, and economic agents find it virtually impossible to demarcate any ephemeral conditions without impact on the CPI level or lasting, which affects the production costs and the demand of potential consumers. Examples of distortions in the behavior of actors in the demand and supply market are found in accounting, capital markets, etc. Thus, in assets, the assets are recorded at their estimated cost, representing their initial cost. However, in a period of inflation, the replacement of the asset will generate higher costs than the original one, and the profitability of the company will be overvalued, while management would think that the investments have increased. Another example comes from the capital market where the value of the assets in the investors' portfolios will increase on the back of rising inflation, but this "added value" is artificial, illusory.

Emerging economies still support administered prices, adjusted based on the decisions of state authorities, so a price increase in a more accelerated rhythm than the eurozone is natural. The missed target of 2 percent, which was an ambitious objective, was in fact a disregard for the Romanian realities, but rather an alignment with the economic and financial conditions of the eurozone, an unlikely scenario for our country.

Consumer Price Index (CPI) includes prices of widely used products, essential for providing the population with means of subsistence, and its construction as a Laspeyres index with fixed base price developments expresses the price evolution of purchased goods and services by the population. From the embedded products in the CPI basket, NBR affects only one side, so that under the conditions of price fluctuations over which they have control, the central bank must artificially create disinflation, intervening on discretionary or administered prices. The real Gross Domestic Product (GDP) deviation contributes to the CPI by various channels that transmit the monetary impulses to the real economy and vice versa. For example, the excessive increase in demand for consumer goods or investment goods, which in the long run favors the accumulation of pressure to increase commodity sales prices. Increasing demand leads firstly to an increase in production costs, and producers have at their disposal two types of action: maintaining and reducing the sale price or profit margin reflecting increases production costurilor cufactorii final price by increasing selling prices. Such a legitimate option from the perspective of the seller ultimately generates inflation.

The effectiveness of monetary policy is the result of the action of several converging elements, which are related to the monetary policy framework, to the fundamental, intermediate and contiguous monetary policy objectives, the monetary policy strategy adopted by the central bank, and the instruments that operationalize the objectives to ensure sustainable economic growth aimed at ensuring the well-being of the population.

The efficiency of monetary policy also depends on its credibility and the place it occupies among other economic policies. The aspect of policy credibility developed and adopted by competent authorities has been included in the new classical economic theory along with the development of rational expectations theory. Among the representatives of this theory, he remembers Robert Lucas, who criticized the scheme of economic policy until the 1970s, dominated by Tinbergen's model. Tinbergen has developed econometric models to analyze economic phenomena, starting from business cycle research, and revolutionized the literature on economic policy forecasting and evaluation with the help of empirical models. However, the proposed models did not take into account the component of the expectations that the economic agents have and incorporate in the decisions they take. Thus, besides the objective elements that characterize the economic and social environment, the economic agents formulate certain expectations regarding the evolution of the environment or its components in the future based on the information they have.

In our case, the expectations of economic agents refer to the evolution of inflation in the future, based on their perception of the central bank's credibility in achieving the objective of price stability.

In short, the effectiveness of monetary policy is given by the creation of a robust framework for operationalization of the adopted monetary policy strategy and direct inflation targeting. Strengthening this framework will be further: identifying the role that monetary policy has in the long term in the economy, ensuring sustainable economic growth, enhancing external competitiveness, increasing employment; identifying the priority objective of monetary policy, namely monetary stability, and price stability is pursued through the interest rate channel; the mission of anchoring inflation expectations to combat the build-up of inflationary pressures; the correlation of monetary policy with other public policies and the pursuit of several macroeconomic variables, at the same time as the nominal anchor of inflation, since the real variables are interdependent and are in many causal relationships; tracking the channels of transmission of monetary impulses in the context of globalization and liberalization of the capital account, as well as of the controlled exchange rate flotation regime; promoting financial stability as a general objective of public policies, as it is the measure of the health of the financial system.

The inability of monetary policy to increase long-term employment, the importance of inflationary expectations, the benefits of price stability, and temporal inconsistency are the reasons why a monetary regime based on a nominal anchor such as inflation rate, money supply or exchange rate is crucial to favourable results.

The inflation targeting strategy adopted by the central banks implies a strong and credible lack of commitment to stabilize long-term inflation, by the monikers or at a predetermined level, but also allows them to adopt policies that will stabilize inflation in the short term. This strategy was to be expected, above all, to serve to stabilize medium-term expectations. This would allow monetary policy to be used more aggressively to stabilize economies without sacrificing price stability, as would be required in the absence of inflationary expectations. Also, such a monetary regime implied the elimination of unanimous sources of macroeconomic instability, namely the triggering of the income-price spirals of good economic-price shocks, as happened in the 1970s. Mostly, the adoption of the inflation targeting strategy was expected to allow countries to avoid the emergence of a deflationary trap, such as the one experienced by several countries in the 1930s, when deflation expectations have become satisfactory.(Woodford, 2012)

5. Transparency and independence - building the credibility of a central bank

5.1. Inflation targeting and transparency

Inflation is closely linked to the typology of monetary policy promoted by the competent national authorities, so it should be avoided the adoption of a monetary policy that may trigger a generalized and unjustified increase in prices. Specifically, we can say that an expansionary monetary policy can generate inflationary pressures through the following chain of responses: lowering the real interest rate will reduce the cost of capital and, ultimately, stimulate aggregate demand and amplify inflationary pressures. As discussed above, the independence of the central bank is important in countering these pressures.

At the same time, independence is considered a sine qua non condition for a central bank to pursue a monetary policy permanently adapted to the economic and social conditions of a country. Mathematically, this rule has been demonstrated by Barro and

Gordon, who have approached the optimal monetary policy model, pointing out the advantages and disadvantages of the saudependent governmental regime and other superstructure.

Credibility is another key element for the central bank's intention to monitor and manage the inflation target, enhancing its chances to develop and implement an effective monetary policy. The foundation of monetary policy, its application and the credibility of the central bank are correlated, according to F.Kydland and E. Prescott, authors who assert that a discretionary policy in which the objective is established, the fact that the policy makers know the magnitude of their decisions' impact does not necessarily lead to maximizing the objective function. The paradox lies in the fact that planning is not a game against nature but rather a game against rational economic agents. (Kydland et al., 1977)

5.2 THE INDEPENDENCE OF THE CENTRAL BANK AND ITS DIMENSIONS

The independence of the central bank refers to the freedom of the central monetary authority to choose its ways of action for the development and implementation of monetary policy, whether it is expansive, discretionary.

The central bank's autonomy in the choice of monetary policy instruments does not, however, include the fact that the monetary policy regime is the one that is "liberally supervised" because the success of monetary policy is also based on rigorousness that is implemented and adjusted. Considering the importance of the central bank's credentials in anchoring the population's inflation expectations, it presents before the inflation target disclosure clauses that address events that are independent of the monetary authorities and which may disrupt monetary policy from reaching the set target. These clauses refer to "substantial increases in the external prices of raw materials, energy sources and other commodities; natural disasters or other similar extraordinary events, with inflationary impacts through costs and losses, including unpredictable changes in the agricultural product market; fluctuations of the exchange rate of the leu due to causes outside the domestic economic fundamentals and the implementation of the NBR monetary policy". (NBR, http://www.bnr.ro/Clauze-de-exonerare-3372.aspx)

Also, the harmonization of monetary policy with other public policies implies a shift towards the monetary one if the latter deviate from the government program.

The central bank is independent of the Government, so it has full, unilateral decision-making capacity without any outside influence. Also, the national bank intervenes in the banking system through the political instruments, operating structural changes in its liquidity, in order to ensure financial stability. It holds the monopoly over the fiduciary demo show and is the ultimate lender of the other credit institutions.

The dimensions set out in the ECB Convergence Reports are of a functional, institutional, personal, and financial nature and largely target the relationship between the Government and the central bank. The independence of the central bank is viewed as multidimensional: political, financial and personal.(ECB, 2016) The role of this independence, while ultimately looking at the effectiveness of monetary policy, implies the objectivity of decisions with the responsibility to orient them to the central bank's priority objective, namely the stability of prices.

The independence of the central bank may take various forms, related to the above-mentioned dimensions:

- independence in the choice of objectives reveals the institutional independence of the national bank and implies that the government, institutions and bodies of the

European Union, the State concerned or other EU Member States should not be involved in setting the monetary policy objectives;

- independence in the choice of instruments corresponds to functional independence and reveals the autonomy of the central bank in choosing the operational objectives and instruments used to fulfill its mission;
- personal independence addresses the behavior of the governor of the central bank, as well as the relations he / she establishes with the government, being the autonomy of the national bank's governing members in the decision-making process regarding monetary policy. Thus, pressures on the part of the government, whether formally or informally, must be diverted. Also, the independence of the media protects the governor of his arbitrary dismissal if he fulfills the conditions for taking up this position of leadership.

5.3. MEASURING THE TRANSPARENCY AND INDEPENDENCE OF CENTRAL BANKS - A LITERATURE SURVEY

Independence and transparency are important attributes attributed to a central bank with a solid policy, especially in the context of the need to reach the inflation target, in order to maintain its credibility as a monetary authority, with a significant impact on the good functioning of the economy.

Independence stems from the practice of a democratic consensual political regime, which gives it autonomy and does not subordinate it to the executive power.

In the literature, the issue of quantitative measurement of the degree of independence of a central bank enjoys various approaches by many authors concerned with the question: *Is there any connection between central bank independence and inflation variability ?, What are the most significant determinants of a central bank's transparency and independence?* and *What are the most comprehensive ways to measure CBI?*

The CBI highlights the relationship between the central bank and the Government in terms of its financial, political and procedural autonomy, such as governor appointment procedures, monetary policy and government borrowing. It should also be mentioned that legal or de jure independence was the central point of the quantum approach, while the informal or de facto independence and the central bank's relations with the Government were put on stand by because of the difficulty of measuring the informal criteria.

Answers to the above-mentioned questions are fully found in the literature, which enjoys a consistent "database" that attempts to dismantle the myth that there is a statistical correlation between a high level of independence of the central bank and a low level of inflation. As the latest global financial crisis has highlighted the fact that stable and moderate inflation is not a guarantor of financial stability, so no depoliticated central bank does not lead axiomatically to price stability, as these considerations were actually conventional rules.

Also, the independence of the central banks increased after 1990 due to the Maastricht Treaty, so that in chronological order, among the authors who were concerned about the quantification of the central bank's independence, they recall: V. Grilli, D. Masciandaro and G. Tabellini (1991), A. Cukierman (1992, 1994), G. Debelle and S. Fischer (1994), S. Eijffinger (1993, 1996) and J. de Haan (1996), G. Mangano Posen (1994), L. Svensson (1995) and their results to be confirmed or denied by numerous subsequent studies, adapted to the new global economic and financial conditions, but also national.

Among the mentioned authors, the group formed by V. Grilli, D. Masciandaro and G. Tabellini (GMT) and the group formed by A. Cukierman, S. B. Webb and S. Neyapti (CWN) constitute milestones in addressing this issue.

On the one hand, the GMT group determines the independence of a central bank by aggregating two categories of scores: the political autonomy calculated as the sum of eight criteria labeled 1 if the following are met: "(i) the governor is appointed without government involvement; (ii) the governor is appointed for more than five years; (iii) the board of directors is appointed without government involvement; and (iv) it is appointed for more than five years; (v) there is no mandatory participation of government representatives in the board; (vi) no government approval is required in formulating monetary policy; (vii) there are requirements in the charter forcing the central bank to pursue monetary stability amongst its primary objectives; and (viii) there are legal protections that strengthen the central bank's position in the event of a conflict with the government". (Arnone et al., 2006)

Economic independence is similarly determined, being determined by aggregating the results obtained by 7 criteria (1 if the criterion is met, 0 otherwise): "(i) there is no automatic procedure for the government to obtain direct credit facilities from the central bank; (ii) direct credit facilities to the government are extended at market interest rates; (iii) the credit is extended on a temporary basis; (iv) and for a limited amount; (v) the central bank does not participate in the primary market for public debt; (vi) the central bank is responsible for setting the discount rate; and (vii) the central bank has no responsibility for overseeing the banking sector (two points) or shares this responsibility with other institutional entities (one point)". (Arnone et al., 2006)

The result of the index is obtained by simply adding the score for each criterion, taking into account their binary marking. The closer the score is to the upper limit, more likely it is that the central bank has a higher level of independence. The GMT index defines "political independence in terms of central bank responsibilities, the procedures for appointing the central bank government bodies, and the degree of government control over monetary instruments." (Jácome et al., 2005)

Nevertheless, scoring the CBI in the manner proposed may seem an easy task, but it is prone to subjectivism and errors when applied to a heterogenous sample of countries, with different levels of development. This limitation is acknowledged in literature as well: Grilli et al. (GMT) (1991) admit that there is a margin of "arbitrariness of their aggregation method"(Mangano, 1998), but not large enough to alter long term results"; Cukierman (1992) considers as well that ‘’his weighting scheme is simply designed to minimise data availability problems". (Mangano, 1998).

The CUK group proposed to measure central bank de jure independence with a similar index to GMT, highlighting political and economic autonomy with 16 variables converging to the Legal Variables - Unweighted (LVAU) and LVAW (Legal Variables - Weighted). The scoring scale belongs to the interval [0,1], the difference from the GMT index being the continuity of the scores on this scale, so each criterion holds a certain weight, depending on the socio-economic reality. Obviously, the closer the index's value is to 1, the higher CBI is, accentuating the "longevity" of the governor's mandate and the freedom to choose monetary instruments. It should also be pointed out that the independence of the central bank protects it from the expansion of government borrowing and the urge to finance the budget deficit when needed.

The CWN index has ‘’four components, relating to, respectively, appointment procedures for the head of the central bank, the resolution of conflict between the central bank and the executive branch of government, the use of an explicit policy target, and rules limiting lending to government’’. (Crowe et al., 2008)

According to Cukierman, setting price stability as a fundamental monetary policy objective ‘’invests’’ the bank with a high degree of independence. Moreover, the tightening of public sector credit ceilings contributes to achieving the objective of monetary stability.

The first component of the CUK index reflects issues related to: CEO’s (Chief of executive) term of office, CEO’s appointment, who is entitled to dismiss the CEO and whether the “CEO may hold or not other offices in government”. (Cukierman et al., 1992)

The second paragraph is related to monetary policy and concerns the following criteria: “the entity responsible for formulating monetary policy; (vi) the rules concerning the resolution of conflicts between the central bank and the government; and (vii) the degree of the bank’s participation in formulating the government budget”. (Arnone, 2006) Obviously, the maximum score reflecting decisional autonomy is achieved if the formulation, substantiation and implementation of monetary policy falls entirely on the bank.

The next paragraph reveals the central bank's option to set price stability as the primary objective, which makes the application of other criteria adequately reduce the normalized value of the score. Thus, the central bank's responsibility to ensure the stability of the banking system or to promote employment growth diminishes its score, as the objective of price stability may become incompatible with other economic objectives.

The last component captures the restrictions set for lending to the public sector, with a value or percentage ceiling of the Government's revenues, but also the maturity of the loans granted, the maximum score being obtained by the bank granting short-term loans that do not block the bank's financial resources . Interest rates must also be above the minimum interest rate.

These two forms of evidence have been milestones for further studies, but they have undergone revisions and adaptations to enhance the robustness of correlations and the accuracy of the results obtained.

In Romania, the independence of the National Bank of Romania (NBR) has increased considerably over the recent years, following the international trend.

According to N. Dincer and B. Eichengreen (2013) (Dincer et al., 2014), in a paper with a very large sample of central banks, whose degree of transparency and independence was determined for the period 1998-2010, our country was on a remarkable upward slope, as presented in Table 1. From the authors’ point of view, transparency is reflected in the openness of policy objectives, openness on access to information, outcomes and outlook, procedural and operational opening, on how to implement and supervise policies. This paper also encompasses an analysis of the determinants of transparency with an emphasis on past inflation, openness defined as ‘’ share of the sum of exports and imports to GDP”(Dincer et al., 2014), financial depth, GDP per capita stability, political regime.

Table no. 1

Transparency and Independency in Romania, in the Eastern Europe region and in the Euro Area (indices from 0 to 15)

Central Bank Transparency Index													
	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Eastern Europe	3.5	4.0	4.4.	4.7	5.6	5.7	6.3	6.6	7.1	7.2	7.3	7.3	7.6
Romania	1.5	1.5	1.5	1.5	4.5	4.5	7	7	7.5	7.5	7.5	7.5	7.5
Euro Area	8.5	8.5	8.5	10	10.5	10.5	11	11	11	11	11	11	11
Central Bank Independence Index (Cukierman index – CBIW – weighted)													
Eastern Europe	0.57	0.57	0.58	0.57	0.56	0.56	0.59	0.58	0.58	0.58	0.58	0.58	0.58
Romania	0.60	0.60	0.60	0.60	0.60	0.60	0.79	0.79	0.79	0.79	0.79	0.79	0.79
Euro Area	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81	0.81

Source: Dincer, N., Eichengreen, B., Central Bank Transparency and Independence: Updates and New Measures, available at http://media.hotnews.ro/media_server1/document-2013-09-16-15587972-0-bok-13-21-1.pdf

Romania's transparency index reflects a positive trend, even though its deviation from the Euro Area index has been significant over the entire analyzed period, but it is clear that our country has improved especially in the crisis and postcrisis period. The increase of the index in 2006 is caused by the fact that NBR published the first Financial Stability Report; moreover, in 2016, NBR's Council of Administration decided a biannual publication.

The independence index has not been fluctuating as the transparency one, given the fact that the criteria encompassed in this composite index do not usually undergo significant changes from one year to another, unlike transparency, which can be easily altered by not publishing financial statements at a given horizon.

6. Conclusions

The paper aimed at bringing into discussion a relevant topic for the dynamics of our economic and social environment, highlighting the polemics formed around the causal relationship between inflation and the independence of the central bank. The independence of the central bank may have as a proxy the restrictions on public sector lending or the tenure of the governor's mandate, and its highest level indicates lower inflation variability and, implicitly, the achievement of the objective of price stability. However, this idea is not an axiom, but it has been contradicted in numerous studies, especially when it comes to the development degree of the country under consideration, resulting in different outcomes for industrialized and developing countries. On the one hand, independence isolates central banks from political pressure, leaving them almost complete margin of maneuver, while transparency provides the channel and means of communicating the important results, forecasts and information to the public concerned, which can verify the extent to which the bank central government has fallen from the proposed targets.

After the 1990s, the general belief that there is an inverse correlation between a high degree of independence and inflation, meaning the higher the independence, the lower the inflation target. This is combated in many studies, which show statistically and econometrically that a significant correlation between the two is not sine qua non.. Nevertheless, reaching the inflation target increases the credibility of the central bank; in our country, although the inflation target has been missed most of the times, the NBR is the most credible public institution, along with the Governor, being regarded as one of the most credible personalities.

Also, the chosen subject needs to be deepened, so I will continue the research with an econometric analysis of the correlation between inflation and the independence of the NBR, using several measurement indices, to find out which of the criteria used so far in the literature suits with great accuracy our economic national context.

REFERENCES

1. Arnone, M., Laurens, B., Segalotto, J.F. Measures of Central Bank Autonomy: Empirical Evidence for OECD, Developing, and Emerging Market Economies, IMF Working Paper, WP/06/228, 2006
2. Balaban, G., Ailenei, D. Țintirea inflației în hățișul bancar românesc, Economie teoretică și aplicată, 19(15), 2012
3. Barro, R., Gordon, D. Rules, Discretion and Reputation in a Model of Monetary Policy, Working Paper nr. 1079, Cambridge, 1983
4. Bernanke, B., Laubach, Th., Mishkin, F., Posen, A. Inflation Targeting. Lessons from the International Experience, Princeton University Press, Princeton, 2001
5. Crowe, C., Meade, E. Central Bank Independence and Transparency: Evolution and Effectiveness, IMF Working Paper WP/08/119, 2008
6. Cukierman, A. Central Bank Strategy, Credibility and Independence, MIT Press, Cambridge 1992
7. Cukierman, A., Webb, S.B., Neyapti, B. Measuring the Independence of Central Banks and its Effect on Policy Outcomes, The World Bank Economic Review, 6(3), 1992
8. Dincer, N., Eichengreen, B. Central Bank Transparency and Independence: Updates and New Measures, International Journal of Central Banking, 2014
9. European Central Bank Convergence Report, June 2016, https://www.ecb.europa.eu/pub/pdf/conrep/cr201606.en.pdf?a91977931874a7c6c63d80305b651394 , last accessed 2017/09/05
10. Grilli, V., D. Masciandaro, G. Tabellini Political and Monetary Institutions, and Public Finance Policies in the Industrial Countries, Economic Policy, Issue 13, 1991
11. Jácome L.I., Vázquez, F. Any Link Between Legal Central Bank Independence and Inflation? Evidence from Latin America and the Caribbean, IMF Working Paper, WP/05/75, 2005
12. Kydland, F.E., Prescott, E. Rules Rather Than Discretion: The Inconsistency of Optimal Plans, The Journal of Political Economy, 85(3), 1977
13. Mangano, G. Measuring Central Bank Independence: a Tale of Subjectivity and of its Consequences, Oxford Economic Papers, 50(3), 1998
14. National Bank of Romania Preparations and Prerequisites for the Introduction of Inflation Targeting in Romania, Bucharest, 2005
15. National Bank of Romania Exemption clauses, http://www.bnr.ro/Clauze-de-exonerare-3372.aspx, last accessed 2017/08/11
16. Woodford, M. Inflation Targeting and Financial Stability, NBER Working Paper, WP 17967, 2012