On the Forms of Central Bank Independence: Crafting a Policy Mix

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Executive Summary

The argument for Central Bank Independence (CBI) emanates from the premise that central banks, when granted a certain degree of autonomy in policymaking, are believed to be more effective in formulating monetary policy that promotes economic stability. Many countries have made considerable strides towards implementing legislative frameworks which aim at minimizing government control over monetary policies. As such, it seems logical to conclude that explicit transmission mechanisms have been established between CBI and economic performance. Economists believe that CBI is a necessary, but not sufficient condition for price stability. In recent history, a range of economic outcomes, both positive and adverse, have been attributed to different types and levels of CBI. This article outlines the common types of CBI and interrogates their suitability in different economic and political set ups.