Abstract

Empirical research shows that an independent central bank is better able to keep inflation lower and more stable. Low inflation coupled with moderate economic growth was characteristic for the period of "great moderation" that lasted from the 1980s until the onset of the global financial crisis. During this period, more attention was paid to exploring central bank independence and its impact on inflation. Vast empirical research points to the existence of a negative correlation between these two variables[2]. As a result, there has been an increase in legal independence of central banks.

The transition from a moderate to an unstable economic environment and the behaviour of central banks during these two periods have reopened the issues of the central bank role in preserving monetary and financial stability and justification of its independence. It was the latest financial crisis that prompted the question whether price stability should be the primary goal of central banks.

The calculation of the most prominent legal independence indicators of central banks using the sample of eight Southeast European countries (Albania, Bosnia and Herzegovina, Bulgaria, Montenegro, Croatia, Northern Macedonia, Romania and Serbia) is not possible without necessary adjustments if the assessment is to be made in the light of the requirements of the European Union. So, in order to evaluate independence of the observed central banks a new index has been created.

Of the eight observed Southeast European countries, three are EU Members States, four are candidate countries, and one is a potential candidate for EU membership. They all have the obligation to align their national legislation with the acquis communautaire. The monograph assesses the degree of harmonization of their respective laws regulating national central bank with the EU requirements in terms of central bank independence. It goes to show that changes in inflation in these countries did not correlate with the changes in the degree of independence of the observed central banks, and that amendments to the respective laws were primarily aimed at fulfilling the EU requirements in this area. It is important

[2] This is the general case for developed/industrialised economies, as presented in the part *1.4.* of this monograph - *The impact of central bank independence on a country's macroeconomic performance.*

to point out that the observed central banks conduct monetary policy in different exchange rate regimes. Namely, the central banks of Bosnia and Herzegovina and Bulgaria run the currency board, the Central Bank of Montenegro pursues euroisation, Croatia, North Macedonia, Romania, and Serbia run fluctuating exchange rates, and Albania has the floating exchange rate. In addition to the degree of independence of the central bank, the exchange rate regime has a major impact on inflation and limits the degree of monetary policy freedom in the observed countries.

Key words: *central bank independence, European Central Bank, national central banks, price stability, financial stability*