

“The impact of governance quality on central bank’s independence”


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THE IMPACT OF GOVERNANCE QUALITY ON CENTRAL BANK'S INDEPENDENCE

Abstract

The stable functioning of the public finance system requires a rational regulatory apparatus. The central bank occupies a special place in this system. Science and practice prove that the central bank's political and economic independence determines its effectiveness. Thus, it is crucial to determine the prerequisites for ensuring its independence. The study aims to assess the influence of governance quality on the central bank's independence, considering the variance of the socio-political development of countries. The analysis was conducted based on 53 countries. Panel regression modeling with random effects was chosen as a research method. The analysis approach involves calculations for the groups of countries that differ in social and political development parameters according to the following criteria: the initial level of the central bank independence; level of human development; political rights freedom; level of civil liberties; and political regime.

Socio-political factors significantly affect the central bank's independence in the following conditions: a high initial level of independence of the central bank, a high level of human development, and an average level of political and civil freedom. At the same time, the governance quality ensures the growth of the central bank's independence regardless of the countries' political regime. Three factors have the most significant influence on ensuring the independence of the central bank, namely "government efficiency," "quality of regulation," and "rule of law."

Keywords

independence, central bank, good governance, economic transformation, rule of law, effective institutions, political freedom

JEL Classification

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INTRODUCTION

A critical component of the functioning of the financial system and the national economy is a well-organized system of public finances. The rationality of its organization ensures the effectiveness of achieving the objectives of the state financial policy, such as ensuring the stability of the national currency, controlling inflation, equalizing the balance of payments, etc. In this context, specific institutions in the field of public finance are of great importance. A unique role among other regulatory institutions belongs to the country's central bank. Meanwhile, investment attractiveness depends not only on economic development but also on the regulatory norms adopted in the country and the national specificity of its public perception (Moskalenko et al., 2022). A special place in the context of national conditions is occupied by the level of corruption control achieved in the country (Nguyen et al., 2021). At the same time, one of the critical indicators of ensuring the development of the financial sector and the economic system is the stability of the banking system. Thus, numerous studies have proven that the stability and efficiency of the banking system, on the one hand, are opposite goals of its functioning in the context of risk perception, but the stability of the banking system is the key to its

efficiency (Djalilov & Hölscher, 2015). Research on the prerequisites of banking stability has once again become the focus of scientific attention under the influence of the COVID-19 pandemic consequences (Korzeb & Niedziółka, 2020; Kazeem et al., 2022).

Importantly, banking stability drives economic growth in a country (Ijaz et al., 2020). Even though the consequences of the realization of banking risks impact the bank owners' financial condition (Kuznetsova et al., 2017), prevention of the emergence and realization of systemic banking risks are the task of banking macro-regulators. Banks with a risky strategy must create threats to the stability of the banking system. Moreover, the general macroeconomic conditions affect the probability of global financial crises due to the risky activities of individual banks (Naser, 2019). Not only the effectiveness of preventing the realization of banking risks depends on the quality of banking regulation, but also the efficiency of the financial consequences of the realization of economic shocks overcoming (Bernardelli et al., 2021). Thus, implementing risks in the banking system can destabilize the financial system of the country as a whole and negatively affect public finances in particular, creating additional risks for the budget system and socio-economic development. The stability of the financial sector and the banking system depends on a well-built and objectively functioning regulatory apparatus (Brychko et al., 2021). For example, the effectiveness of the implementation of the monetary policy of the central bank is influenced not only by the chosen approach to its implementation and the reaction of economic agents but also by the objectivity of its implementation, which is determined by the level of independence of the central bank from other state authorities. This brings to the fore the need to ensure central banks' independence, which allows them to maximize their regulatory effectiveness. In this context, it is worth noting that regulatory effectiveness depends on economic processes and political conditions. Thus, in the conditions of political globalization, the influence of democracy on economic processes is growing faster (Lyulyov et al., 2021a). Efficiency becomes maximum when a balance is achieved between the political declaration of democratic principles and their actual implementation in organizing the activities of economic agents (Chee & Karhulahti, 2020). In this regard, a rationally and effectively built country's public administration system becomes one of the most critical prerequisites for economic progress (Al-Naser & Hamdan, 2021; Louis, 2017). However, the question of the influence of the quality of the public management system on the activities of banking regulators remains open. It is necessary to study the change in the level of independence of central banks in the conditions of the institutional environment transformations and changes in governance quality. This study aims to determine the influence of the quality of public administration on the level of independence of the central bank, which will determine its effectiveness in implementing the function of the leading financial regulator of the state.

1. LITERATURE REVIEW

The emergence of an independent democratic state in the conditions of world globalization requires the creation of a qualitatively new system of public administration, considering the realities of modern life and the prospects of socio-economic development. The main goal of the governments when developing forecasts and long-term development plans is to smooth out economic cycles, prolong the stay of the country's economy in the boom phase and shorten the recession phase. This issue is considered incredibly thoroughly in crisis conditions because the priority is to ensure the stability of the economy, public finances, the monetary

unit, equalization of the balance of payments, and containment of inflation (Oliveira & Santos, 2022; Gharaibeh & Farooq, 2022; Adama et al., 2022). All institutions are working on this, but the country's central bank is the leading player.

The institutional independence of such banks is the basis of the country's macroeconomic stability and a priority in relations with external partners, e.g., the International Monetary Fund. Today, the IMF is the main support source that ensures the Ukrainian economy's stability considering martial law. Furthermore, the proper functioning and independence of the National Bank of Ukraine is the basis for negotiations with external partners

since it is only possible to conduct a balanced monetary policy, support price stability, etc., with sufficient levers and guarantees from the state.

Military actions are a shock to the banking system and the country as a whole. The market economy is suffering in martial law as most functions can not be executed properly. Moreover, the government should significantly ensure adequate implementation of commodity-monetary relations. The war disrupts the supply of goods, causes logistical problems, and decreases energy capacities and individuals' real incomes. These are holding back the economy's recovery and worsening enterprises' expectations (Mazaraki & Zubko, 2022). Danylyshyn and Bohdan (2022) justify the model of the monetary regime during martial law. It requires modifying the target orientation of monetary policy, composing interest rates, regulating the foreign exchange market and capital movements, and enhancing the relationship between the central bank and the Ministry of Finance.

Furthermore, the central bank must resist the impact of global crises, pandemic consequences, and other external shocks (Siti et al., 2022) and identify vulnerable aspects of the economy. Danylyshyn and Bohdan (2020) summarized the principles of anti-crisis management during crises and identified vulnerable zones and penetration channels of shocks. In addition, they offered suggestions on how to resist such shocks.

The quality of corporate governance ensures the efficiency of banks, regardless of the form of their ownership (Agnihotri & Gupta, 2019), which is determined by the improvement of both quantitative and qualitative parameters of bank functioning (Al-Khonain & Al-Adeem, 2020). On the other hand, the quality of corporate governance is critical to increasing commercial banks' stability (Sudiyatno et al., 2022). Thus, differences in risk management approaches determine banks' resistance to the consequences of financial crises (Musa et al., 2020; Abou El Hassan, 2022). A long-term strategy is necessary, considering the action of all internal and external factors and the conditions of the institutional environment (Meresa, 2019).

It was determined that banking regulation minimizes the risks realized both directly in the bank-

ing sector and in the economy. The basic principles of banking regulation should be unified for the entire banking system, regardless of the form of ownership and the source of bank capital (Dudchenko et al., 2020). The maximum effect is observed in the case of a coordinated system of interaction of all the main stakeholders in the banking sector (Kuznyetsova et al., 2022). Therefore, marketing factors are becoming important (Pimonenko et al., 2017), as well as the bank's policy on protecting the rights of its customers (Alikariev & Poliakh, 2018). Precisely the perception of risks is a factor that reduces the loyalty of bank customers (Esmaeili et al., 2021; Khan et al., 2021).

The successful choice of the main operating conditions by bank management and the focus of macroprudential policy are essential (Bouchetara et al., 2020). Implementing financial assistance programs by banks does not improve their financial performance and threatens political and economic stability in the long term (Barbu et al., 2021). This indicates that ensuring banking stability should be included in the preventive direction tasks of the regulatory policy. The effectiveness of the monetary policy implemented by the central banks depends not only on the economic conditions prevailing in the country at the current moment but also on the ability of the central banks to make management decisions guided only by actual circumstances (Jiang & Wang, 2017). All this determined the prominent place of independence of central banks in the implementation of their regulatory policy. It is worth noting that modern concepts of ensuring central banks' independence distinguish its several manifestations. However, the overall context involves eliminating the possibility of political influence on decisions made by central banks. Note that political independence is important not only for the central bank but also at the level of commercial banks. Therefore, politically connected commercial banks show a significantly higher level of non-performing loans than other banks (Duong et al., 2022).

The global nature of economic processes proves that it is essential to consider the influence of direct factors and the effects arising from general macroeconomic conditions (Lyulyov et al., 2021b). Thus, in modern conditions, a significant influence of the shadow economy on any processes

taking place in society can be traced. Notably, reducing the level of the shadow economy is the primary task of state administration bodies, which increases the effectiveness of regulatory influence on ensuring financial and economic security (Shpak et al., 2020). However, the relationship between the financial and real economy is two-way, which confirms the transmission effects of the influence of monetary policy (Sova & Lukianenko, 2022). Quite interesting are the results of empirical studies that revealed different consequences of the influence of the same monetary policy instruments on banking risks depending on the macroeconomic conditions in which they are implemented (Dou et al., 2021). This indicates that the level of actual independence of the central bank depends not only on the central bank's development strategy declared in the country but also on the country's institutional environment. It has also been proven that the development of financial processes depends not only on the actions of direct financial regulators but also on the general quality of the system of state regulation of the economy (González-Gallego & Pérez-Cárceles, 2021). Hac (2022) empirically confirmed the considerable influence of such parameters of the quality of state regulation on the leveling of risks of commercial banks. This puts forward the prospects of researching the influence of the quality of management on the independence of central banks.

Studying the influence of the quality of public administration on economic processes should consider that its global principles remain stable. However, their practical implementation is accompanied by a significant level of innovation (Baldi, 2020), which requires constant adaptation of the interaction of economic and political systems. It has been confirmed that digital transformations significantly affect the level of macroeconomic stability (Tiutiunyk et al., 2021). In addition, digital innovations neutralize the risks of information and cybercrime in the financial sector (Hassan & Lee, 2021). At the current stage, the speed of implementation of banking innovations is a key factor in ensuring its effectiveness (Milosevic et al., 2021; Stark, 2021; Popova, 2021; Ibrahimov et al., 2021). In the banking sector, the intensity of digital transformations depends on the quality of strategic planning (Tran et al., 2022). In addition, the general readiness to implement banking innovations is

also determined by the achieved level of perception of the basic principles of management and administration. Implementing banking innovations leads to changes in their business models (Zarutska et al., 2020). It seems interesting that modern financial innovations cause an increase in the transparency of the financial market (Mnoghhitnei et al., 2022), which requires a change in management approaches. It has been proven that the current policy of central banks should be formed considering economic and social transformations caused by financial innovations (Taujanskaitė & Kuizinaitė, 2022). This determines the importance of the general level of national economy progressiveness in terms of the possibilities of ensuring the growth of the central bank's independence.

The financial decisions made by households must depend not only on objective economic parameters but also on the general level of social development (Didenko et al., 2020). Moreover, this process is two-way – in current conditions, corporate social responsibility is also crucial for ensuring the effectiveness of bank functioning (Djalilov & Piesse, 2014), even though these processes are still at the stage of formation (Uslu & Şengün, 2021; Djalilov & Hartwell, 2022). In this regard, the level of social development can be considered one of the determinants of central banks' actual, not declarative, independence.

Any transformations depend on the level of public awareness, information security, and freedom of access to information (Zamir & Kim, 2022). Moreover, not only the achieved level of information security is necessary, but also the direction of regulatory efforts to increase it (Petroye et al., 2020). In the conditions of globalization, information security is ensured by a successful regulatory apparatus and a focus on implementing unified global management principles, even though threats to information security are different in the national dimension (Yarovenko, 2020). The importance of public communications is also proven by the fact that, as a rule, management decisions of central banks are closely correlated with the stated strategic objectives of official documents (Szyszko & Rutkowska, 2022). In this context, the level of civil rights and freedoms acts as an additional incentive to ensure public interaction between the central bank and society, and transparency of its activities.

The different level of adaptation of national economies to the impact of the global pandemic proves that flexibility and readiness for innovation in the management apparatus are of a tremendous significance (Kuzior et al., 2021). Thus, the most adaptive governments demonstrate the highest readiness to overcome the consequences of the pandemic (Minchenko & Demchuk, 2021). At the same time, the consequences of the pandemic proved that in the modern world, the system of economic regulation should be built comprehensively, considering the socio-economic and political context (Boronos et al., 2020). Notably, the principles underlying the activities of the Eurozone central banks and their monetary policy have proven to be quite effective also for the new member countries compared to their national monetary policymakers, despite transformational shocks (Sinicakova et al., 2021). This serves as additional confirmation that the effectiveness of central banks is determined by the initial conditions of their functioning and the quality of the institutional environment.

Existing scientific studies confirm that the objectivity of its formation determines the effectiveness of the regulatory policy. Minimizing the possibilities of political influence on the functioning of the central bank as a regulator is primarily determined by the general level of development of rights and freedoms in the country. This substantiates a hypothesis that the level of independence of the central bank depends on the quality of the public administration system. Therefore, the study aims to determine the specifics of the influence of governance quality on the independence of central banks. Moreover, it identifies the role of the country's institutional and political development in ensuring such influence.

2. METHODOLOGY

The integral index calculated according to the method of Cukierman et al. (1992) was chosen as a measure of the independence of central banks. In order to form the broadest possible range of research, the sample of countries included 53 countries of the world. They have significant differences both in the indicators of policy and independence of central banks, and in terms of general condi-

tions of economic, political, and social development (USA, Canada, Brazil, United Kingdom, Belarus, Azerbaijan, Sweden, Norway, Denmark, Nigeria, South Africa, Israel, China, Australia, New Zealand, Chile, Ireland, Netherlands, Belgium, France, Spain, Portugal, Germany, Poland, Austria, Hungary, Czech Republic, Slovak Republic, Italy, Slovenia, Greece, Bulgaria, Estonia, Latvia, Lithuania, Ukraine, Georgia, Finland, Turkey, Mexico, Colombia, Venezuela, Peru, Bolivia, Argentina, Switzerland, Moldova, Romania, Armenia, Iceland, Ghana, Kazakhstan, and Japan). Statistical data on the dynamics of the index of central banks' independence in selected countries were used from Garriga's (2016) research set. Accordingly, the research period covers 2000–2012.

To measure the quality of management, the Worldwide Governance Indicators calculated by the World Bank were chosen, which are considered as factor variables in the calculations:

- 1) Control of Corruption (CC);
- 2) Government Effectiveness (GE);
- 3) Political Stability and Absence of Violence/Terrorism (PS);
- 4) Regulatory Quality (RQ);
- 5) Rule of Law (RL);
- 6) Voice and Accountability (VA).

Panel regression modeling with random effects was chosen as a statistical method for evaluating the impact of governance quality on ensuring the independence of central banks.

Currently, the national environment of banks' functioning differs significantly (Djalilov & Hölscher, 2016). Considering this fact, it is proposed to calculate the differences in the initial level of independence of central banks, as well as the prerequisites of the country's socio-political development. The research methodology provides for dividing countries into groups depending on the characteristics of the selected criteria, as well as conducting calculations separately for each group.

Based on the established goal of the study, the initial level of central banks' independence was chosen as the first criterion for grouping countries. It is expected that the existence of a certain established

level of independence of the central bank creates more stable prerequisites for further improvement of the quality of the internal environment of its functioning. Therefore, according to this criterion, the studied countries are divided into two groups: 1) countries with higher than average of the sample level of central bank independence, 2) countries with central banks' independence lower than average level. The average level of central banks' independence for a sample was estimated at 2.67.

At the current stage, the connection between social and economic processes is increasing, which significantly impacts financial and economic stability (Tiutiunyk et al., 2022). That is why the next criterion is the level of state social development. The human development index calculated by the United Nations Development Program was chosen as the measure of this parameter. Based on the formed sample of countries, they were divided into three groups: countries characterized by a remarkably high level, countries characterized by a high level, and countries characterized by an average and low level of human development.

The criteria for the success of the public administration system is the fulfillment of the basic principles of democracy, in particular, the transparency of public bodies (Androniceanu, 2021). The following evaluation stage is related to the study of the influence of the observance of political rights on the regularities of the formation of relationships between the level of independence of central banks and the parameters of governance quality. The Political Rights Index, which summarizes the parameters of the electoral process, political pluralism, as well as the functioning of the government, was chosen as a criterion. According to the existing international assessment methodology, all countries can be divided into three groups: free, partially free, and non-free countries.

The next consecutive stage should consider the impact of the observance of civil liberties in the country on ensuring the independence of central banks because of the increase in governance quality. The Civil Liberties Index calculated by Freedom House considers the following criteria: freedom of expression of views and beliefs, associational, organizational, and individual rights. Therefore, it was selected as the measure of this criterion. Similarly to

the previous stage, the analyzed sample of countries was divided into three groups.

The last stage becomes relevant to determine the general impact of the formation of a political regime in the country on institutional relations in the system of state regulation of the economy. Therefore, countries were grouped by type of political regime for this purpose. According to the Freedom House methodology, the identified groups represent countries with consolidated authoritarian regimes, transitional or hybrid regimes, and countries characterized by consolidated democracy.

3. RESULTS AND DISCUSSION

Table 1 shows the results of the assessment of the influence of parameters of the quality of state regulation on the level of independence of central banks for a sample of 53 countries of the world. The evaluation results prove that corruption control is not a relevant parameter of institutional influence in ensuring the central bank's independence. In contrast, increasing the overall efficiency and objectivity of state power is a significant prerequisite for ensuring the independence of central banks in the international context. Thus, with a unit increase in government efficiency in a country, the average expected result of a change in the independence of the central bank in that country would be an increase of 0.12.

There is no average statistical influence of the level of political stability and the absence of the probability of violence or terrorism in the world on ensuring central banks' integral level of independence. On the other hand, the results obtained when evaluating the influence of the parameter "regulation quality" on the level of independence of central banks in the studied sample of countries turned out to be statistically significant. The confirmed connection is direct – a unit increase in the quality of regulation leads to an increase in the level of central bank independence by 0.21.

In the international environment, compliance with the principle of the rule of law is a vital prerequisite for ensuring the independence of central banks. Therefore, it reflects the objective nature of the pro-

Table 1. The influence of governance quality on the level of independence of central banks in 53 countries

Source: Authors' results.

Parameter	Factor variable					
	CC	GE	PS	RQ	RL	VA
Coefficient	0.026	0.117**	0.013	0.205***	0.208***	0.049
Constant	2.657***	2.590***	2.669***	2.524***	2.542***	2.642***

Note: * indicates significance level at 0.10 level, ** indicates significance level at 0.05 level, *** indicates significance level at 0.01 level.

posed hypothesis about the importance of not only creating a favorable regulatory and legal environment for the functioning of the central bank but also compliance with established principles in the process of interaction between the central bank and other state authorities.

The last of the studied parameters is the level of civil rights and freedoms related to the election process and government accountability in the country. On average, the international sample is characterized by the absence of a statistically significant impact of the change in the country's perception of the freedom of expression of the civil position, the objectivity of the organization of the election process on the dynamics of the integral level of independence of central banks.

The ambiguous results testify to the need to consider the influence of national characteristics on the formation of the interrelationship of political and institutional factors in ensuring the independence of central banks. In this context, an assessment should be carried out regarding individual groups of countries with specific socio-political and institutional development.

The regularities of the influence of the governance quality on the independence of central banks

in countries with different initial levels of independence of central banks are presented in Table 2. According to the estimated relationships in the countries with a higher-than-average initial level of central bank independence, all of the studied parameters are characterized by a direct and statistically significant impact on the integral level of central bank's independence. This shows that if the prerequisites for the free and independent functioning of the central bank are already formed in the country, the improvement of the general political and institutional environment in the country has positive consequences for the further increase in the level of central bank independence. At the same time, the rule of law indicator is dominant in terms of the level of quantitative influence among the studied parameters. The lowest level of quantitative influence is demonstrated by the control of corruption, which indicates the priority of the effectiveness of channels of political and institutional influence on ensuring the independence of central banks in countries with some legally defined norms of legal regulation of the level of their independence.

The evaluation conducted for countries with a lower-than-average level of central bank independence showed radically different results compared

Table 2. The influence of governance quality on the level of independence of central banks among the countries with different initial levels of independence of central banks

Source: Authors' results.

Parameter	Factor variable					
	CC	GE	PS	RQ	RL	VA
Countries with CWN > 2.67						
Coefficient	0.055*	0.100***	0.056**	0.108***	0.118***	0.080**
Constant	3.102***	3.068***	3.110***	3.050***	3.069***	3.073***
Countries with CWN < 2.67						
Coefficient	-0.001	0.050	-0.049	0.232***	0.133	-0.078
Constant	1.927***	1.881***	1.945***	1.748***	1.823***	1.972***

Note: * indicates significance level at 0.10 level, ** indicates significance level at 0.05 level, *** indicates significance level at 0.01 level.

to the previous group of countries. Thus, among the evaluated indicators, only the influence of the regulation quality on the integral level of independence of the central bank was found to be statistically significant. This indicates the need to prioritize the consistency and objectivity of the state economic policy, taking into account the interests of the private sector in states that have not yet formed a stable regulatory legal basis for ensuring the central bank's independence.

The evaluation results on the impact of governance quality on the independence of the central bank, considering the level of human development, are shown in Table 3. Therefore, the first group includes countries with a very high level of human development. This group was formed mainly by Western European countries. It is important that among the evaluated parameters, only control of corruption turned out to be statistically significant, and its connection with the integral level of independence of the central bank is inverse. This may indicate the fact that countries with a very high level of human development are characterized by an already formed significant level of the quality of the political and institutional environment, so its further changes are insignificant and do not create a relevant impact.

In contrast to the previous group of countries, the relevant influence of four of the six studied indicators was recorded for economies with a high level of human development. Comparing the quantitative level of the formed influence proves the maximum effectiveness of such a parameter as the

rule of law, while corruption control is the least effective. This determines the priority of reforms of the institutional environment in the countries belonging to this group, ensuring the political and economic freedom of the central bank.

The last of the studied groups of countries according to the level of human development are countries with an average and low level of human development. At the same time, this group is also characterized by significant specificity according to the identified assessment trends. Thus, only two parameters of governance quality turned out to be statistically significant – voting and accountability, which has a direct relationship with the integral level of independence of central banks, and government efficiency, which is characterized by an inverse relationship.

Thus, it was determined that in the conditions of low, medium, and high levels of human development, the systemic political and institutional prerequisites for ensuring the central bank's independence should be created, taking into account the priority of their influence on the target parameters. In contrast, at the transition to the stage of very high human development, these prerequisites are no longer a relevant component of the national strategy for ensuring the independence of central banks.

The evaluation results for countries with different levels of political rights and freedom are shown in Table 4. The identified relationships prove that in countries with a high level of po-

Table 3. The influence of governance quality on the level of independence of central banks among the countries with various levels of human development

Source: Authors' results.

Parameter	Factor variable					
	CC	GE	PS	RQ	RL	VA
Countries with a very high level of human development						
Coefficient	-0.181***	-0.029	-0.051	0.061	-0.118	0.017
Constant	2.914***	2.694***	2.696***	2.569***	2.817***	2.630***
Countries with a high level of human development						
Coefficient	0.261***	0.438***	0.070	0.369***	0.550***	0.032
Constant	2.884***	2.862***	2.820***	2.783***	2.989***	2.805***
Countries with a low level of human development						
Coefficient	0.172	-0.453***	0.143	0.043	-0.059	0.277**
Constant	2.471***	2.265***	2.467***	2.401***	2.363***	2.466***

Note: * indicates significance level at 0.10 level, ** indicates significance level at 0.05 level, *** indicates significance level at 0.01 level.

Table 4. The influence of governance quality on the level of independence of central banks among the countries with different levels of political rights

Source: Authors' results.

Parameter	Factor variable					
	CC	GE	PS	RQ	RL	VA
Free countries						
Coefficient	-0.105**	0.037	0.009	0.108**	0.057	0.103
Constant	2.822***	2.673***	2.707***	2.596***	2.655***	2.605***
Partially free countries						
Coefficient	0.198***	0.128*	-0.056	0.171***	0.275***	0.192**
Constant	2.861***	2.803***	2.706***	2.786***	2.929***	2.803***
Non-free countries						
Coefficient	0.358	0.459**	0.158	0.734***	1.071***	-0.515
Constant	2.392***	2.368***	2.126***	2.572***	3.025***	1.399***

Note: * indicates significance level at 0.10 level, ** indicates significance level at 0.05 level, *** indicates significance level at 0.01 level.

litical freedom, only the quality of regulation is a practical prerequisite for ensuring the independence of central banks. The following group of countries shows other trends. The evaluation results show that in partially free countries, the level of central bank's independence is determined by almost all parameters of the governance quality (except for political stability and absence of violence). At the same time, the analysis of the quantitative level of influence of the evaluated indicators proves that the most significant attention should be focused on ensuring the principle of the rule of law, and the lowest priority is characteristic of the parameter of government efficiency.

The last of the studied groups of countries ("non-free countries") is also described by a relatively high degree of closeness of the relationship be-

tween the parameters of the governance quality and the independence of the central bank. For this group, three parameters have been identified as influential determinants of ensuring the independence of central banks – government efficiency, quality of regulation, and the rule of law. At the same time, the last of these parameters is traditionally characterized by the highest priority. Thus, it can be determined that the greatest influence of the political and institutional environment on ensuring the independence of central banks is realized precisely at the stage of formation in the country of the prerequisites for the observance of political freedoms.

The influence of the observance of civil liberties in the country on ensuring the independence of central banks due to the increase in governance quality is demonstrated in Table 5.

Table 5. The influence of governance quality on the level of independence of central banks among the countries with different levels of civil liberties

Source: Authors' results.

Parameter	Factor variable					
	CC	GE	PS	RQ	RL	VA
Free countries						
Coefficient	-0.104*	0.047	-0.034	0.113*	0.144*	0.036
Constant	2.841***	2.647***	2.737***	2.567***	2.529***	2.665***
Partially free countries						
Coefficient	0.142*	0.270***	0.105*	0.274***	0.289***	0.035
Constant	2.698***	2.700***	2.694***	2.671***	2.768***	2.644***
Non-free countries						
Coefficient	0.588	0.067	-0.234*	0.136	0.255	0.111
Constant	2.361***	2.066***	2.008***	2.144***	2.246***	2.209***

Note: * indicates significance level at 0.10 level, ** indicates significance level at 0.05 level, *** indicates significance level at 0.01 level.

A high level of civil freedom characterizes the first group of evaluated countries. The results indicate the statistical significance of three out of six investigated parameters. Thus, the quality of regulation and the rule of law directly connect with the productive feature, and the control over corruption shows an inverse connection.

The next group has an average level of civil liberties, for which all the studied parameters are relevant, except for voting and accountability. At the same time, the comparison of the power of influence, expressed by its quantitative level, proved that the most effective is the component of ensuring the rule of law. However, such parameters as government efficiency and quality of regulation also demonstrate only a slight lag in effects. Thus, in countries with a transitive path to ensuring civil liberties, regulatory regulation and effective implementation of state economic policy are of the greatest importance in ensuring the central bank's independence.

An insignificant level of civil rights and freedoms characterizes the last group of countries. It is important that the obtained results for all studied parameters were statistically insignificant. All this confirms that the most effective quality of state regulation of the economy in ensuring the central bank's independence was recorded at the stage of institutional and political transformations in the country.

The results of the assessment of the role of the political regime in ensuring the transitive influence of the governance quality on the independence of

central banks are presented in Table 6. The first group is countries with an authoritarian political regime. For this group, most of the evaluated parameters are influential determinants of ensuring the independence of central banks. At the same time, the rule of law indicator remains the most significant, like the previously obtained results. In addition, the lowest quantitative level of increasing the central bank's independence demonstrates the growth of the indicator of control over corruption.

Attention should be paid to the fact that the next group of countries (with a transitive political regime) also demonstrates a high level of influence on the parameters of the quality of state regulation of the economy on ensuring the independence of central banks. However, specific differences regarding those parameters mediate the channels of influence of improving the quality of the political institutional environment to ensure the central bank's independence. However, the rule of law remains the most influential parameter. The last of the studied groups demonstrates the effects of interrelationships of the political and institutional environment of ensuring central bank independence in economies with consolidated democracy. The revealed results indicate that in the countries with this political regime, a slightly lower scale of influence of the parameters of the governance quality on ensuring the independence of the central bank is observed. Thus, three out of six studied parameters were statistically significant. At the same time, the quantitative effects of the influence of such parameters as the rule of law and the quality of regulation

Table 6. The influence of governance quality on the level of independence of central banks among the countries with different political regimes

Source: Authors' results.

Parameter	Factor variable					
	CC	GE	PS	RQ	RL	VA
Consolidated Democracy						
Coefficient	1.165**	1.347***	0.059	1.308***	1.739***	-0.452
Constant	3.480***	3.327***	2.470***	3.161***	3.939***	1.962***
Transitional or Hybrid Regime						
Coefficient	0.044	0.083*	0.125**	0.109**	0.139**	0.057
Constant	3.108***	3.105***	3.106***	3.084***	3.123*	3.088***
Consolidated Authoritarian Regime						
Coefficient	0.057	0.197*	0.099	0.279**	0.283**	-0.158
Constant	3.091***	2.997***	3.044***	2.865***	2.953***	3.246***

Note: * indicates significance level at 0.10 level, ** indicates significance level at 0.05 level, *** indicates significance level at 0.01 level.

are almost equal, while the effectiveness of the government shows slightly lower quantitative effects of influence. Summarizing the obtained results, compared to other research stages, this stage is characterized by the maintenance of the effectiveness of the influence of the political and institutional environment on ensuring the independence of central banks for countries with different political regimes. The revealed trends testify to the differentiation of the revealed trends for various prerequisites of socio-political development.

The investigation confirms that most of the parameters of the quality of public administration have a statistically significant and direct connection with the growth of the level of independence of the central bank. This corresponds to the results obtained by Agur (2019). At the same time, the differentiation of the influence of parameters of the quality of public administration on the independence of central banks depending on the initial level of social, economic, and political development of the countries was assessed for the first time. Previous research

has focused on studying the relationship between a country's political orientation and the level of central bank independence (Farvaque, 2002). However, this study made it possible to confirm that social and economic prerequisites significantly influence the progress in achieving the independence of central banks.

At the same time, the study has certain limitations. In particular, the identified effects are averaged for a sample of countries and for separate groups of countries with similar prerequisites for social and economic development. In this regard, the specificity of the progress of ensuring the independence of central banks in specific countries is related to their other national characteristics. In addition, the study did not take into account the combination of macroeconomic, social, and political preconditions in terms of their impact on ensuring the independence of central banks. This determines the prospects for further research in determining the priority of the most significant prerequisites that determine the effectiveness of progress in ensuring the independence of central banks.

CONCLUSION

The identified interrelationships prove that the rule of law remains the most effective channel of the governance quality influence on ensuring the central bank's independence. Government efficiency and regulatory quality were other factors with a significant impact regardless of the selected evaluation stage. Along with this, voting and accountability, corruption control, political stability, and absence of violence should be considered as fewer priority channels for ensuring the independence of central banks by improving the quality of the political and institutional environment.

The conducted study revealed the following patterns of relationships between the quality of state regulation and the level of central bank independence, depending on social and political conditions:

- 1) in countries with a high reached level of central bank independence, there is a positive synergy of all parameters of the governance quality and the independence of the central bank; while at the stage of the central bank's independence emerging, its only determinant is quality of regulation;
- 2) the most significant level of positive relationships between the governance quality and the independence of the central bank is recorded in countries with a high level of human development;
- 3) the maximum scale of the positive influence of the governance quality on the central bank's independence is ensured precisely for the so-called "partially free countries" with transformational changes in the direction of the growth of political and civil freedom;
- 4) the influence of the governance quality on the independence of the central bank is positive and significant under different political regimes, with minor differences regarding the channels of implementing such an impact.

These results have a significant practical value given the development and implementation of a comprehensive strategy for the central bank's functioning on other state authorities under their independence and objective distribution of regulatory powers. The study proves that the system of public administration and the system of financial regulation should relate to each other by observing the single principles of construction. Simultaneously, it is vital to ensure the independent functioning of institutions, avoid political pressure and observe transparency. This creates prerequisites for effective regulation of the banking system and ensuring the stability of public finances.

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