

Erratum to:
„ Institutional Reforms of Monetary Policy in Azerbaijan“

Correction p. 25:

Wrong - The Cukierman index consists of 16 variables that are grouped into the following four sets of items

- 1) variables on the status of the chief executive officer (CEO), which are term of office, appointment and dismissal procedures and incompatibility clauses;
- 2) the policy formulation variables, namely, regulations on the competence to frame monetary policy, the central bank's potential participation in the budget process and regulations on potential conflicts between the central bank and the government;
- 3) central bank objectives set by legislation;
- 4) regulations on limitation of lending in the form of advances or purchases of government securities as well as terms of lending, circle of potential borrowers, limits on direct credit to the government and its maximum maturity, level of interest rates and lending in the primary market.

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Wrong - First, the turnover rate of the central bank governors is used as a proxy of actual independence. The turnover rate (TOR) is defined as the average annual number of turnovers of the central bank governors. In particular, a higher turnover rate means that an average term in office of the governor is lower than that of the government, which prevents the central bank from taking a long-term view of monetary policy. The weakness of this indicator lies in the possibility that a low turnover of governors can be mistakenly perceived as a sign of independence in the case of a central bank that is relatively subordinate to the executive branch. Nevertheless, according to the literature, TOR is a useful indicator of actual central bank independence in developed economies based on the assumption that, at least above a certain threshold, a more rapid turnover rate indicates a lower level of central bank independence.

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Wrong - According to the research provided by Cukierman et al. (2002) the LVAW index based on the Law on the CBAR of 1992 scored 0.22 whereas the one based on the Law of 1996 scored 0.24, which ranked the lowest among the 26 former socialist countries under the scope of his study.

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Correction p. 28:

Wrong - Source: Elkin Nurmammadov, 2015, p. 100

Right - Source: Elkin Nurmammadov, 2015, p. 66

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Wrong - Interestingly, Cukierman et al’s (2002) calculations based on the previous two laws indicate that legal independence of the Central Bank was rather limited and there had not been a noteworthy improvement if we compare the National Bank Laws of 1992 and 1996. This is despite their observation that the latecomers to the circle of central bank reformers generally tend to enact laws with higher levels of independence.

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reformers generally tend to enact laws with higher levels of independence.”
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Correction p. 29:

Wrong - A reason for this decrease could be the political regime changes in Azerbaijan in 1993. The changes in the legal status of the Bank were made after the political changes took place in Azerbaijan, in contrast to the other transition countries, where central bank reforms changes were undertaken within the existing political regime. The changes in the political arena transformed Azerbaijan into a country with much more centralized ruling power. Had not Azerbaijan at the time been in the strong need of external assistance from the International Monetary Fund (IMF), the Central Bank could have ended with even less independence.

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Wrong - With the new law passed, the weighted central bank lending sub-index improved from 0.07 in 1996 to 0.31 in 2004. Direct loans to the government are now strictly prohibited. Only in a case of a short-run liquidity gap in the state budget may the National Bank purchase government securities in the secondary market. Article 16 of the Law clearly defines the maximum amount and the repayment conditions for the loan.

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Correction p. 30:

Wrong - The sub-index score on the central bank objectives equals the unweight value of 0.60, as back in 1992. The 1996 Law does not recognize the price stability as a principal goal of the monetary policy; hence the sub-index value decreases to 0.40 between years 1992 and 1996. The current 2004 Law makes a distinction between the principal and other goals of the central bank. Although price stability is not explicitly stipulated as the principal goal, the principal goal of currency stability can be interpreted as a commitment to stable prices. In fact, on the website of the CBAR price stability is mentioned as its primary objective.

Right - Nurmammadov states (2015, p.57): The sub-index score on the central bank objectives equals the unweight value of 0.60, as back in 1992. The 1996 Law does not recognize the price stability as a principal goal of the monetary policy; hence the sub-index value decreases to 0.40 between years 1992 and 1996. The current 2004 Law makes a distinction between the principal and other goals of the central bank. Although price stability is not explicitly stipulated as the principal goal, the principal goal of currency stability can be interpreted as a commitment to stable prices. In fact, on the website of the CBAR price stability is mentioned as its primary objective.

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Wrong - Central Bank is independent instrument, and formally no state organ has the right to interfere with its activities and policy decisions. But in a case of potential conflicts concerning the goals of the policies to be implemented by the Central Bank, the executive branch in the person of the President has an advantage over the Central Bank, as it can dissolve the Board and appoint new candidates. Thus this measurement would not be very high anyway. In the Azerbaijani legislation it is not stipulated that the CBAR has to follow the exchange policy established by the government. In legal terms it can mean that the CBAR is free to carry out the exchange rate policy that it considers relevant but must report to the President about it.

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Wrong - Source: Elkin Nurmammadov, 2015, p. 101

Right - Source: Elkin Nurmammadov, 2015, p. 72

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Wrong - In fact, given the short span of the CBAR’s history, the list of all governors, their respective terms and the rates of turnover can be summarized in Table 4. One may note a steady decline in the TOR value, which equals 0.8 in 1997, 0.4 in 2002 and 0.25 in 2009. As to what the numbers mean, the TOR value of 0.8 in 1997 implies that for the corresponding reference period the average term of office of the governor is 15 months, while in 2009 it rises to the whole 4 years. As you see, Azerbaijan has improved its TOR value a lot since

1995. In fact, there has been no new governor since 1994 as Elman Rustamov has been re-appointed five times. If we compare these results with those obtained for Central European countries from 1992 to 2000 in Dvorsky (2000), we see that the governor turnover rates in these countries are lower, albeit not much when compared to the current value for the CBAR, e.g. 0.13 for Czech Republic, 0.23 for Hungary, 0.35 for Poland, 0.26 for Slovakia and 0.11 for Slovenia.

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Wrong - It has to provide the President with general directions of the monetary policy for the forthcoming year not later than August 1st. This report includes analysis of the macroeconomic and financial situation, and reflects basic guidelines of the monetary policy and banking sector development as well as the determination of aims and tasks of the monetary policy for the forthcoming year and means to accomplish those. However, it does not imply that the President necessarily should accept this document.

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Wrong - Nurmammadov states that the fact that the institutional separation of banking supervision from monetary policy in the GMT index is counted as conducive to the higher central bank independence. It can be argued that a combination of these functions might make the central bank more powerful and weighty, and thus contribute to its higher independence. However, this issue is too sophisticated to be applied in general to any country without consideration of peculiarities of each country together with its political system and “political culture”.

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Wrong - ELKIN NURMAMMADOV. *Central Bank Independence in Natural Resource Abundant Transition Economies: The Case of Azerbaijan* [online]. International Review of Business and Economic Studies, 2015 [cit. 2016-03-21]. ISSN 2377-0465. Retrieved from: <http://www.irbes.org/index.php/irbes/article/view/10>

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I apologize for all my mistakes

Farid Guliyev

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