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CENTRAL BANK FINANCIAL STRENGTH AND MONETARY POLICY EFFECTIVENESS: INSTITUTIONAL AND GOVERNANCE PERSPECTIVES FROM A SYSTEMATIC LITERATURE REVIEW

Mega Fauziah, [a] Hermanto Siregar, [b] Solikin M. Juhro, [c] Tanti Novianti, [d]

[a,d] School of Business, IPB University, Indonesia, [b]Faculty of Economics and Management, IPB University, Indonesia, [c]Bank Indonesia, Indonesia
e-mail: mega_f@bi.go.id (corresponding author); hsiregar@apps.ipb.ac.id; solikin@bi.go.id; tantinovianti@apps.ipb.ac.id

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Abstract

The study offers an interpretation of how central bank financial strength is constructed through legal and governance frameworks by systematically reviewing 17 scholarly articles. Based on the findings of this systematic literature review, it is evident that central bank financial strength is influenced by various legal frameworks, such as capitalisation rules, loss-absorption rules, surplus distribution rules, and a legal framework that outlines the relationship between monetary and fiscal authorities. The findings suggest that insufficient Central Bank Financial Strength (CBFS) can lead to governance issues, such as greater fiscal dependence and reduced protection against political interference. The review identifies important institutional and legal implications. The study concludes that it is crucial to strengthen capital adequacy rules, ensure transparent reporting, establish independent oversight, and have clear procedures for recapitalisation. From this perspective, it is evident that CBFS is part of the legal framework of central banking and offers a design-based platform through which central banking authorities can build and maintain credibility.

Keywords: *central bank governance, financial strength, legal independence, monetary policy effectiveness, policy credibility*

I. INTRODUCTION

I.A. Institutional and Legal Frameworks of Central Bank Financial Strength

Central banks are legal entities that operate as public institutions, with various legal frameworks defining their objectives and responsibilities. Their objectives and responsibilities may include monetary stability, financial stability, and payment system integrity. Central banking objectives and responsibilities are not profit-maximisation-oriented but rather focus on establishing macroeconomic stability and enhancing public welfare. Therefore, Central Bank Financial

Strength (CBFS) should not be viewed from an accounting perspective but rather from an institutional perspective shaped by the law.

Comparative legal frameworks governing central banks are presented to illustrate these differences. For example, Bank Indonesia has a statutory recapitalisation clause that requires government support if the central bank's capital falls below a level set by the central bank and is subject to legislative approval. The European Central Bank (the ECB) is responsible for absorbing losses using its own capital and reserves and distributing them among national central banks using the capital key formula. The U.S. Federal Reserve (the FED) has the responsibility to recognise losses as deferred assets and temporarily suspend remittances to the U.S. Treasury until profitability is restored.

This is evidence of how CBFS is embedded in central bank governance structures. In systems with more reliable legal frameworks regarding loss-absorbing and capital-buffering capacities, there is correspondingly greater autonomy from government influence. Where there is more dependence on discretionary fiscal policy decisions regarding recapitalisation, there is more risk of political pressure being brought to bear on central banks.

This study takes a legal-institutional approach and views CBFS as an institutional constraint grounded in legal rather than accounting principles. The research question informing this current study is: How do legal and institutional frameworks regarding CBFS impact central bank autonomy, accountability, and credibility?

I.B. Central Bank Pressure on its Financial Strength

From a legal point of view, interest-rate risk arises when a change in interest rates may affect the bank's surplus or capitalisation. Credit risk measures the possibility that borrowers may default on their obligations. Valuation risk measures the possibility that asset values may vary. Both of these risks are significant since they impact the design of financial buffers, which are reserves held to guard against losses. When recapitalisation is subject to legislative or executive approval, a low level of CBFS can result in dependence on fiscal authorities and expose central banks to greater policy scrutiny. With a legal framework that provides a predictable, rules-based design for financial buffers, there is greater autonomy in day-to-day operations. When remittances (surplus distribution from the central bank to the government during periods of losses) halt, there is still greater operational independence.

There are various reasons why a central bank may seek to prioritise financial strength in monetary policy operations. The desire to avoid low or negative returns often comes from political scrutiny and concerns about credibility.[1]

[1] Igor Goncharov, "Why Do Central Banks Care about Their Profits?" *Journal of Finance* 78, no. 5 (2023): 2991–3045, https://doi.org/10.1111/jofi.13257.

Weak financial conditions can strain relationships between monetary and fiscal authorities and undermine the coordination needed for effective macroeconomic management.[2]

However, some scholars go further and contend that, to maintain their autonomy, central banks must be financially independent, with sufficient capital and income. When financial difficulties force a central bank to rely on government funding, the risk of political intervention increases, potentially threatening monetary policy's neutrality.[3] Negative outcomes from a lack of independence include reputational risks, legislative investigations, and coordination problems. Thus, central banks might seek to avoid financial deficits and maintain surplus to enhance their credibility and reduce the likelihood of political intervention. However, these relationships are interpretive and not causal, which falls outside the scope of a systematic review.

The present study is novel because it uses a systematic literature review to investigate the dimensions of central banks' financial strength, a field of study that has been limited. This study aims to contribute to the understanding of Bank Indonesia's financial strength, particularly in the face of changing and volatile domestic and global economic conditions.

I.C. Institutional Credibility and Accountability Frameworks

Central banks' credibility is defined by the public's trust in their ability to meet monetary objectives, especially in fighting inflation.[4] In Indonesia, this notion has been further corroborated by a study done by Tanuwidjaja and Choy, which found that a high level of Bank Indonesia credibility is essential for lowering inflation. They found that stronger credibility anchors inflation expectations (the public's beliefs about future inflation levels), reduces macroeconomic volatility (fluctuations in the economy's overall health), and helps a central bank achieve its inflation-targeting goals (commitment to maintaining inflation within a set range).[5] It is important, therefore, to explore how CBFS affects a central bank's institutional independence.

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[2] Peter Stella and Ulrich Klüh, "Central Bank Financial Strength and Policy Performance: An Econometric Evaluation," Working Paper No, WP/08/176 (International Monetary Fund, 2008), https://doi.org/10.5089/9781451870343.001.

[3] Guy Debelle and Stanley Fischer, "How Independent Should a Central Bank Be?" in *Goals, Guidelines, and Constraints Facing Monetary Policymakers* (Federal Reserve Bank of Boston, 1994), 195–221, https://EconPapers.repec.org/RePEc:fip:fedfap:94-05.

[4] Alan S. Blinder, "Central-Bank Credibility: Why Do We Care? How Do We Build It?" *American Economic Review* 90, no. 5 (2000): 1421–1431, DOI: 10.1257/aer.90.5.1421.

[5] Etty Tanuwidjaja and Kee-Meng Choy, "Central Bank Credibility and Monetary Policy in Indonesia," *Journal of Policy Modeling* 28, no. 9 (2006): 1011–1022, https://doi.org/10.1016/j.jpolmod.2006.05.003.

The credibility of central banks rests on a set of rules, effective communication, and institutional strength. The formulation of statutory targets, transparent reporting to the legislature, independent audit processes, and target-based accountability enhances credibility. In addition, in inflation-targeting arrangements, where central banks are tasked with maintaining inflation at a specific level, reporting and decision-making are critical.

In the context of this literature review, credibility is considered an institutional outcome, which is influenced by maintaining CBFS according to a legal framework. Credible buffers, financial and loss-sharing, which do not involve ad hoc fiscal actions, may be effective in grounding expectations and minimising governance conflicts. A weak process for maintaining CBFS and the need for regular recapitalisation may negatively affect the perception of independence and accountability. Based on the analysis of the literature, achieving operational surplus—even if modest—is thus an optimal strategy for central banks to safeguard their independence and credibility.[6]

The mandate of a central bank imposes a duty to ensure accountability in its decision-making process. Accountability requires a great deal of transparency, requiring a central bank to explain its actions and decisions to stakeholders. This disclosure involves reporting on the progress of policy objectives, outlining the monetary policy strategy, and justifying the actions being undertaken. This transparency, in turn, fosters credibility, as actions and decisions are based on achieving clear, well-defined policy objectives. Central banks operating under the Inflation Targeting Framework (ITF) are good examples, as accountability to the public is critical in the effective implementation of monetary policy. To enhance accountability and transparency, ITF-based central banks publish monthly or quarterly assessments of inflation target performance to the government and the public. The timely publication of monetary policy decisions also enhances transparency.

II. INSTITUTIONAL PERSPECTIVES ON CENTRAL BANK FINANCIAL STRENGTH AND MONETARY POLICY EFFECTIVENESS

The literature on central banking has, in recent years, framed the role and meaning of CBFS in institutional terms rather than just accounting terms. This means that while the central bank's balance sheet has important implications for risk, the rules and procedures governing the handling and absorption of risks are set by statutes, which include provisions on the remittance of surplus, transparency, and the link to fiscal policy.

[6] Goncharov et al., "Why Do Central Banks Care," 3005.

II.A. Central Bank Independence

Challenges to central bank independence frequently emerge during financial crises, when political pressures to stimulate economic growth conflict with the goal of maintaining low and stable inflation.[7] Consequently, the ability to preserve credibility, safeguard financial strength, and strengthen institutional autonomy is fundamental for effective monetary policymaking.[8]

In terms of constitutional separation of powers, it is only legitimate to vest an agency with responsibility for monetary policy if there is clarity of mandate, lawfulness of limits, and strength of accountability. From this perspective, independence is maintained within a legal framework that specifies objectives, powers, and controls—an arrangement emphasised in a public law analysis of independent agencies and central banks.[9] Furthermore, a public law analysis emphasises that central bank independence does not imply the absence of control; rather, a central bank's authority is constrained by clearly defined legal mandates and procedures.[10]

From the body of literature on central banking, there is a wide range of interpretations of what central bank independence means. However, a common denominator in the literature is that independence is neither absolute nor institutional. Essentially, the concept of "independence with interdependence" emphasises that central bank autonomy in policymaking is not absolute, but rather embedded within a broader framework of inter-institutional coordination.[11] In this debate on the nature of central bank independence, Cukierman, Webb, and Neyapti provide a fundamental distinction between goal (objective) independence—the central bank's authority to set its own policy objectives and instrumental independence—a central bank's freedom to choose the tools for achieving those objectives.[12] In contrast, Grilli separates central bank independence into two dimensions: political independence, which refers to the absence of government influence in setting monetary

7 Alex Cukierman, "Central Bank Independence and Monetary Policymaking Institutions—Past, Present and Future," *European Journal of Political Economy* 24, no. 4 (2008): 722–736, https://doi.org/10.1016/j.ejpoleco.2008.07.007.

8 Mario Arnone et al., "The Measurement of Central Bank Autonomy: Survey of Models, Indicators, and Empirical Evidence," IMF Working Paper No. WP/06/227 (International Monetary Fund, 2006), https://doi.org/10.5089/9781451864878.001.

9 Paul Tucker, *Unelected Power: The Quest for Legitimacy in Central Banking and the Regulatory State* (Princeton University Press, 2018).

10 Peter Conti-Brown and Rosa Maria Lastra, eds., *Research Handbook on Central Banking* (Cheltenham, UK: Edward Elgar Publishing, 2017).

11 Debelle and Fischer, "How Independent."

12 Alex Cukierman et al., "Measuring the Independence of Central Banks and Its Effect on Policy Outcomes," *The World Bank Economic Review*, vol. 6, no. 3 (1992), 353–398.

policy objectives, and economic independence, which denotes the freedom to employ policy instruments without external constraints.[13]

In terms of legal-institutional arrangements, these distinctions are expressed through the design of a legal framework that establishes autonomy and review: rules on risk allocation and loss absorption (i.e., where losses fall), surplus distribution and remittance rules (i.e., surplus remittance and earnings retention), transparency and reporting rules, and independent audit rules (which establish transparency as a routine obligation), and fiscal rules that establish interfaces with fiscal policy (i.e., procedures on recapitalisation of balance sheets, burden-sharing arrangements, and rules on deferred assets) that establish central bank engagement with fiscal policy.

II.B. Central Bank Financial Strength

CBFS is often seen as a significant factor affecting monetary policy effectiveness. While central banks are not profit-seeking organisations, CBFS bolsters credibility and mitigates the risk that monetary policy implementation is constrained by financial vulnerabilities. In fact, Adler, Castro, and Tovar establish the relationship between weak central bank financial positions and inflation in several Latin American and Caribbean economies, which may have significant implications for monetary stability. In policy terms, they argue that rebuilding CBFS, despite fiscal costs, supports effective implementation, a view consistent with frameworks that emphasise a loss-absorption design and remittance rules as governance constraints.[14] Other literature on the subject suggests that the justification for maintaining capital buffers and the financial health of central banks may be viewed through the lens of macroeconomic stability over the longer term, particularly for central banks that have lost money.

Looking at broader markets, Perera, Ralston, and Wickramanayake report a statistically significant and strong negative correlation between CBFS and inflation across both advanced and emerging economies, even after accounting for standard inflation drivers and alternative estimation methods. Their findings reinforce the broader interpretation that maintaining balance sheet resilience—by avoiding persistent losses and sustaining adequate capital buffers—is frequently associated with more stable outcomes.[15]

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[13] Vittorio Grilli et al., "Political and Monetary Institutions and Public Financial Policies in the Industrial Countries," *Economic Policy* 6, no. 13 (1991): 341–392, https://doi.org/10.2307/1344630.

[14] Gustavo Adler et al., "Does Central Bank Capital Matter for Monetary Policy?" *Open Economies Review* 27, no. 1 (2016): 183-205, https://doi.org/10.1007/s11079-015-9360-1.

[15] Anil Perera et al., "Central Bank Financial Strength and Inflation: Is There a Robust Link?" *Journal of Financial Stability* 9, no. 3 (2013): 399–414, https://doi.org/10.1016/j.jfs.2013.06.005.

Balance sheet deterioration can arise for multiple reasons. Buiter notes that systemic banking instability may force central banks to absorb high-cost failures of bank liquidity.[16] Similarly, Ize warns about exposure to low-yield assets.[17] Additionally, fiscal abuse occurs when governments exploit central bank balance sheets to shift fiscal burdens, thereby weakening institutional stability.[18] Goncharov, Ioannidou, and Schmalz report that better-capitalised central banks tend to have higher rates of policy implementation—suggesting that weak balance sheets may constrain policy flexibility.[19] Moreover, according to Stella and Klüh, there is a negative correlation between weaker CBFS and inflation control. This body of literature views a central bank's healthy balance sheet not only in accounting terms but also in terms of its ability to implement policies effectively.

When viewed from the legal-institutional perspective, these results inform the institutional mechanisms for risk management, including loss recognition, loss absorption, surplus distribution, surplus remittance, transparency, reporting, and independent audit requirements, as well as harmonising with fiscal policy through recapitalisation or burden-sharing procedures.

II.C. Central Bank Credibility

Central bank credibility is closely linked to its perceived capacity to deliver on stated objectives.[20] In this sense, a central bank's credibility helps shape public perception and, in turn, allows for the execution of a central bank's objectives.[21] The literature distinguishes monetary policy credibility, defined as confidence in the consistency of central bank actions, from target credibility, which relates to confidence in the ability to attain policy objectives,[22] both of which depend on public trust, institutional transparency, and consistent execution.

Monetary policy credibility is closely linked to stabilisation in that it is considered to help to ground expectations, reduce volatility, and contribute

[16] Willem H. Buiter, "Can Central Banks Go Broke?" CEPR Policy Insight no. 24 (London: Centre for Economic Policy Research, 2008), https://ssrn.com/abstract=2489665.

[17] Alain Ize, "Capitalizing Central Banks: A Net Worth Approach," IMF Working Paper No. WP/05/15 (International Monetary Fund, 2005), https://doi.org/10.5089/9781451860344.001.

[18] Peter Stella, "Central Bank Financial Strength, Transparency, and Policy Credibility," IMF Working Paper No. WP/02/137 (International Monetary Fund, 2002), https://doi.org/10.5089/9781451855920.001.

[19] Goncharov et al., "Why Do Central Banks Care," 3005.

[20] Sylvester C. W. Eijffinger and Jakob de Haan, "The Political Economy of Central-Bank Independence," Special Papers in International Economics No. 19 (Princeton University, 1996), https://ies.princeton.edu/pdf/SP19.pdf.

[21] Finn E. Kydland and Edward C. Prescott, "Rules Rather than Discretion: The Inconsistency of Optimal Plans," *Journal of Political Economy* 85, no. 3 (1977): 473–491, https://doi.org/10.1086/260580.

[22] Perry Warjiyo and Solikin M. Juhro, *Central Bank Policy: Theory and Practice* (Emerald Publishing, 2019), https://doi.org/10.1108/9781789737516.

to the effectiveness of policies for stabilising the economy. In this context, monetary policy credibility ensures that trust in a central bank is closely linked to stable inflation expectations, policy signals, and reduced uncertainty in the broader macroeconomy. It is also closely linked to macroeconomic stability in that it helps to reduce fluctuations in inflation, output, and exchange rates, and increases investor confidence and resilience to shocks. It is also closely linked to responsiveness to interest rate changes and to the effectiveness of unconventional measures.

Credibility is frequently viewed as crucial because it enables the central bank to signal that policy actions are well-aligned with its stated objectives.[23] Greater credibility is often associated with more successful policy implementation. Often, it is seen that when the central bank is credible and people have rational expectations, its commitment towards containing inflation is likely to be associated with favourable market reactions. Various studies highlight the benefits of credibility in terms of central bank policy and its impact on economic growth. De Mendonça, de Guimarães, and e Souza found that in Brazil, high credibility reduces the effort needed to achieve inflation targets by stabilising expectations. Across several settings, credibility is associated with more efficient transmission and faster inflation stabilisation.[24] Measurements of credibility over time also suggest that higher credibility tends to be associated with fewer policy adjustments,[25] and studies suggest that credibility increases when policy actions align with the structural characteristics of the economy.[26] [27]

Thus, it can be stated that central bank independence, financial strength, and credibility work together to impact the effectiveness of monetary policy significantly. Independence and financial strength of the central bank helps sustain its credibility in the eyes of the public and markets. Moreover, strengthening institutional arrangements appears particularly important amid

23 Blinder, "Central-Bank Credibility," 1425.

24 Helder Ferreira de Mendonça and Gustavo José de Guimarães e Souza, "Inflation Targeting Credibility and Reputation: The Consequences for the Interest Rate," Economic Modelling 26, no. 6 (2009): 1228–1238, https://doi.org/10.1016/j.econmod.2009.05.010.

25 Harmanta Harmanta et al., "Inflation Targeting under Imperfect Credibility Based on ARIMBI (Aggregate Rational Inflation Targeting Model for Bank Indonesia): Lessons from Indonesian Experience," *Bulletin of Monetary Economics and Banking* 13, no. 3 (2011), https://doi.org/10.21098/bemp.v13i3.263.

26 Thitipat Chansriniyom et al., "The Monetary Policy Credibility Channel and the Amplification Effects in a Semi-Structural Model," IMF Working Paper No. WP/20/201 (International Monetary Fund, 2020), https://doi.org/10.5089/9781513557717.001.

27 Douglas Laxton et al., "Endogenous Credibility and Economic Modeling: Adapting the Forecasting and Policy Analysis System to Modern Challenges," NPG Working Paper No. WP 04/2024 (National Bank of Georgia, 2024), https://nbg.gov.ge/fm/wp/nbg-wp-2024-04.pdf?v=km8x3.

heightened global volatility, particularly in Emerging Market Economies (EMEs).[28]

From a legal-institutional perspective, credibility is enhanced when transparency and reporting, and audit and evaluation, function as legal requirements rather than discretionary communication activities. Reports to the legislature and public, statements of objectives and performance, and independent audits constitute the organisation of the expectations channel through routine accountability mechanisms. From this perspective, credibility is institutional; it is sustained through periods of suspended remittances or acknowledged losses because of its embedding in law and not merely rhetoric. The IMF's Central Bank Transparency Code provides a five-pillar template covering governance, policies, operations, outcomes, and official relations; it links transparency to accountability and policy effectiveness while balancing legitimate confidentiality.[29] EU materials likewise embed independence with reporting and oversight obligations. Article 130 of the Treaty on the Functioning of the European Union (TFEU) Prohibits seeking or taking instructions; obliges EU institutions and Member States to respect central-bank independence—relevant for linking independence with reporting and oversight obligations.[30] [31]

II.D. Conceptual Framework: Institutional Linkages

The institutional framework examined in this paper consists of four mechanisms that are interconnected and reinforce one another in translating legal design into monetary policy outcomes. The first mechanism provides for loss recognition and loss absorption, defined by the locus of financial risk. Second, there are mechanisms providing for remittance and retention of earnings, defining income streams and capital accumulation. Third, there are mechanisms for ensuring transparency, reporting, and independent audits that define the institutional credibility of financial stability assessments. Fourth, there are mechanisms that provide fiscal interfaces for central banks, including provisions for recapitalisation, burden-sharing, and deferred asset accounting, which define the central bank's interfaces with the fiscal authorities.

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[28] Solikin M. Juhro, "Future Central Banking In Emerging Market Economies," Bank Indonesia Working Paper No. WP/1/2023, 2023, 1–35, https://www.bi.go.id/en/publikasi/kajian/Documents/WP_01_2023.pdf.

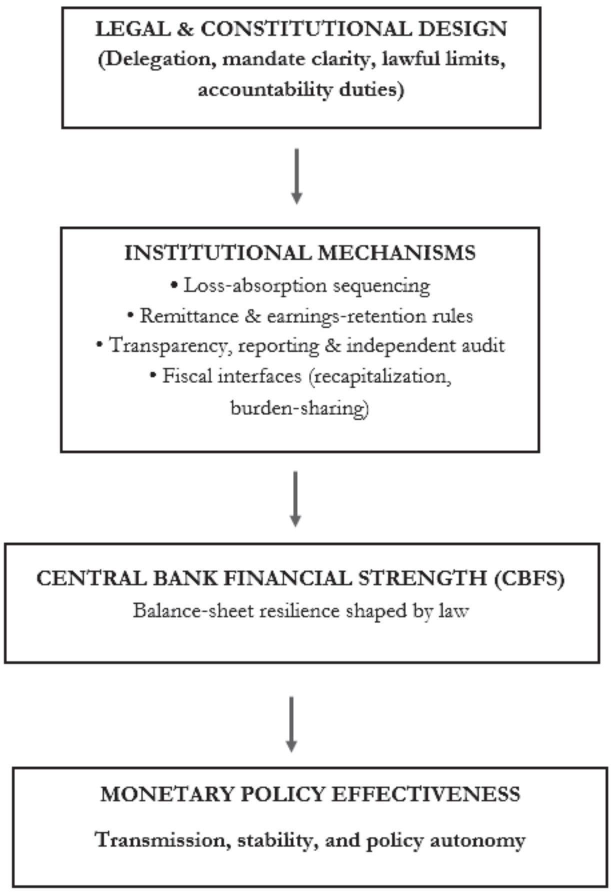
[29] Financial Stability Board. "Central Bank Transparency Code (CBT)." July 2, 2020, https://www.fsb.org/2020/07/central-bank-transparency-code-cbt/.

[30] Treaty on the Functioning of the European Union (TFEU), June 7, 2016, Art. 130 2016 O.J. (C326/104), https://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=CELEX:12012E/TXT:en:PDF.

[31] Protocol (No. 4) on the Statute of the ESCB and of the ECB, in the Consolidated Version of the TFEU, O.J. (C 202), 230–250, https://eur-lex.europa.eu/eli/treaty/tfeu_2016/pro_4/oj/eng.

The institutional view thus establishes the following relationships between mechanisms and outcomes: legal design → CBFS → credibility → policy effectiveness, which provide the conceptual background for the empirical findings.

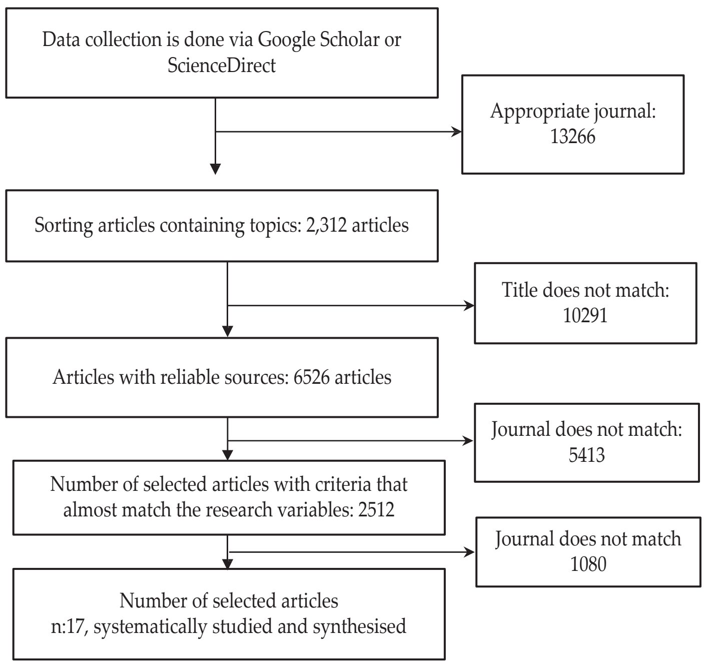
Figure 1. Institutional Linkages Framework



III. RESEARCH METHODS

The research methods employed in this study are based on the Systematic Literature Review (SLR) method, which is considered a sound methodologically reproducible and provides a framework for the systematic review of the body of academic publications. This study primarily focuses on CBFS and the factors influencing it. This method follows the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analysis) protocol. References from the selected databases were uploaded to the Mendeley reference management tool, and duplicates were removed. Two researchers independently assessed the titles and abstracts of the references for inclusion, followed by the inclusion of full-text articles of the selected references. Discrepancies in the selection process were discussed, and, if necessary, a third researcher was involved to reach consensus and avoid bias. The entire process of selecting the literature for this study is documented in the PRISMA flowchart.

Figure 2. PRISMA Diagram of the Scientific Article Screening Process



IV. RESULTS

This subsection aggregates the evidence base of individual studies that underlie this current review. The results of this meta-summary are provided in Table 1. When interpreted in a legal-institutional context, the meta-evidence reveals a pattern of four underlying mechanisms in the literature. Specifically, these are: (i) capital adequacy and loss-absorption provisions in law; (ii) legal provisions on the distribution of surplus and remittance of earnings; (iii) legal provisions on transparency, reporting, and oversight; and (iv) fiscal interface provisions that shape the environment and perceived independence of central banks.

Table 1.
Meta-Analysis

No	Name. year	Purpose	Variable	Research Method	Sample	Key Result
1	Mamoon et al., 2025[32]	Investigate the impact of central bank independence and transparency on non-performing loan and economic stability.	Central bank independence, transparency, non- performing loans	Panel data analysis	39 countries	Independent and transparent central banks reduce non-performing loans.
2	Juhro, 2023[33]	Examine future central banking in emerging market economies.	Central bank policy, financial stability	Theoretical and practical analysis	Emerging market economies	Policy innovations are essential for central banks in emerging markets to manage financial stability and growth.
3	Harmanta, Bathaluddin, and Waluyo, 2011[34]	Assess the role of credibility in the Implementation of inflation targeting In Indonesia.	Inflation targeting, credibility	Quantitative Measurement, simulation	Indonesia	Higher credibility of monetary policy accelerates the anchoring of inflation expectations.
4	Gyeke-Dako et al., 2022[35]	Examine the relationship between central bank independence, inflation, and poverty in Sub-Saharan Africa.	Central bank independence, inflation, poverty	Cross-country panel data analysis	44 Sub-Saharan African countries	Central bank independence helps control inflation, which generally reduces poverty.
5	Goncharov, Ioannidou, Schmalz, 2023[36]	Explore the reasons why central banks care about their profits.	Central bank profits, inflation, policy outcomes	Empirical analysis	More than 150 central banks, 20+ years of data	Central banks are more likely to report small positive profits, especially when facing political pressure.

[32] Abdullah Mamoon et al., "The Impact of Central Bank Independence and Transparency on Banks' Non-Performing Loans and Economic Stability," *Journal of Banking Regulation* 26 (2024): 25-40, https://doi.org/10.1057/s41261-024-00237-y.

[33] Juhro, "Future Central Banking."

[34] Harmanta et al., "Inflation Targeting."

[35] Agyapomaa Gyeke-Dako et al., "Central Bank Independence, Inflation, and Poverty in Africa," *Journal of Emerging Market Finance* 21, no. 2 (2022): 211–36, https://doi.org/10.1177/09726527221078434.

[36] Goncharov, "Why Do Central Banks Care."

Table 1.
Meta-Analysis (Continued)

No	Name. year	Purpose	Variable	Research Method	Sample	Key Result
6	Stella and Klüh, 2008[37]	Evaluate the relationship between central bank financial strength and policy performance.	Central bank financial strength, inflation outcomes	Econometric analysis	Cross-country sample of central banks	Strong central bank financial health is positively associated with better inflation outcomes.
7	Stella, 2002[38]	Analyse the impact of central bank financial strength on policy constraints and inflation.	Central bank financial strength, inflation	Theoretical analysis and econometrics	Cross-country comparison	Financially strong central banks face fewer policy constraints and achieve better inflation outcomes.
8	Levieuge, Lucotte, and Ringuedé, 2015[39]	Investigate the relationship between central bank credibility and monetary policy volatility.	Central bank credibility, monetary policy volatility	EGARCH estimations	Inflation-targeting emerging economies	Higher central bank credibility leads to lower volatility in monetary policy instruments.
9	Juhro and Goeltom, 2015[40]	Assess the post-GFC monetary policy regime in Indonesia.	Inflation targeting, exchange rate management	Policy analysis	Indonesia	Enhanced inflation targeting framework emphasises both price and financial stability in monetary policy.
10	Filardo, Genberg, Hofmann, 2014[41]	Examine the role of central banks in managing the global financial cycle in Asia.	Central bank mandates, financial cycle, globalisation	Theoretical analysis	Emerging Asia	Central banks in Asia must balance price stability, financial stability, and exchange rate management.

[37] Stella and Klüh, "Central Bank Financial Strength."
[38] Stella, "Central Bank Financial Strength."
[39] Gabriel Levieuge et al., "Central Bank Credibility and the Expectations Channel: Evidence Based on a New Credibility Index," *Review of World Economics* 154, no. 3 (2018): 493–535, https://doi.org/10.1007/s10290-018-0308-6.
[40] Juhro, Solikin M., and Miranda S. Goeltom, "Monetary Policy Regime in Indonesia,“ in *Macro-Financial Linkages in the Pacific Region,* ed. Akira Kohsaka. (Routledge, 2015), https://doi.org/10.4324/9781315751634.
[41] Andres Filardo et al., "Monetary Analysis and the Global Financial Cycle: An Asian Central Bank Perspective," *Journal of Asian Economics* 46 (2016): 1–16, https://doi.org/10.1016/j.asieco.2016.08.002.

Table 1.
Meta-Analysis (Continued)

No	Name. year	Purpose	Variable	Research Method	Sample	Key Result
11	Nuryati, Siregar, and Ratnawati, 2006[42]	Inflation Targeting impact in Indonesia	Inflation, output, interest rates	VAR/SVAR	Indonesia	ITF Decreasing inflation & volatility
12	Taylor, 2009[43]	Causes of the 2008 global financial crisis	Interest rates, credit	Empirical policy analysis	USA	Interest rates that are too loose trigger a crisis
13	Tanuwidjaja and Choy, 2006[44]	Credibility of BI & ITF	Inflation, output gap, exchange rate	SSMM	Indonesia	The importance of credibility
14	Romelli, 2022[45]	Global central bank reform	Central Bank Independence and politics.	Dynamic index, panel	154 countries	Reforming CBI triggering inflation & external pressures
15	Pinter, 2018[46]	CBFS–Inflation with fiscal support	CBFS and fiscal support	System- GMM	82 countries	CBFS affects inflation only without fiscal support
16	Garriga and Rodriguez, 2023[47]	CBI & inflation volatility	CBI, volatility	Panel with endogeneity	96 developing countries	Central Bank Independence reduces volatility and is stronger in democracies

Beyond their methodological differences, the individual studies reviewed in this current paper converge on a legal-institutional interpretation of key concepts in central banking. This body of research specifically converges in the following areas: (i) the exercise of independence is mediated through coordination and cooperation provisions in law; (ii) transparency and

[42] Yati Nuryati, Yati et al., "Dampak Kebijakan Inflation Targeting terhadap Beberapa Variabel Makroekonomi di Indonesia," *Bulletin of Monetary Economics and Banking* 9, no. 1 (2006): 113–34, https://doi.org/10.21098/bemp.v9i1.153.

[43] John B. Taylor, "Economic Policy and the Financial Crisis: An Empirical Analysis of What Went Wrong," *Critical Review* 21, nos. 2–3 (2009): 341–64, https://doi.org/10.1080/08913810902974865.

[44] Tanuwidjaja and Choy, "Central Bank Credibility."

[45] Davide Romelli, "The Political Economy of Reforms in Central Bank Design: Evidence from a New Dataset" *Economic Policy* 37, no. 112 (2022): 641–88, https://doi.org/10.1093/epolic/eiac011.

[46] Juraj Pinter, "Does Central Bank Financial Strength Really Matter for Inflation? The Key Role of the Fiscal Support," *Open Economies Review* 29, no. 5 (2018): 911–52, DOI: 10.1007/s11079-018-9496-x.

[47] Ana Carolina Garriga and Carlos M. Rodriguez, "Central Bank Independence and Inflation Volatility in Developing Countries.," *Economic Analysis and Policy* 78 (2023): 1320–41, https://doi.org/10.1016/j.eap.2023.05.008.

credibility are mediated through provisions on reporting and oversight; and (iii) provisions on surplus behaviour are mediated through provisions on remittance and retention of earnings in law. Collectively, the body of literature emphasises the need to view central bank performance, whether in terms of the development of credibility, the mitigation of volatility, or the ability to withstand fiscal or political pressures, as embedded in legal design choices rather than in the balance sheet. This perspective guides the analysis of the following sections.

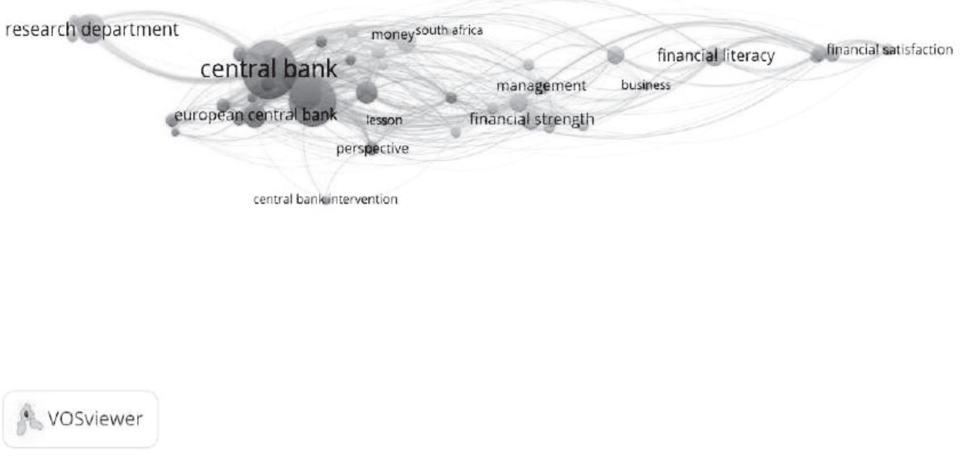
The data analysis process involved bibliometric analysis using VOSviewer and Publish or Perish software. The process involved analysing relationships among co-occurring keywords, enabling an understanding of the themes of the literature reviewed. The results of the visualisation, depicted as a network map, indicate five main interconnected themes: financial strength, central bank, central bank independence, and CBFS. The visualisation of the relationships between the themes is depicted in Figure 1.

From the legal-institutional perspective, the analysis focuses on four mechanisms for framing CBFS.

IV.A. Capital Adequacy and Legal Loss-Absorption Frameworks

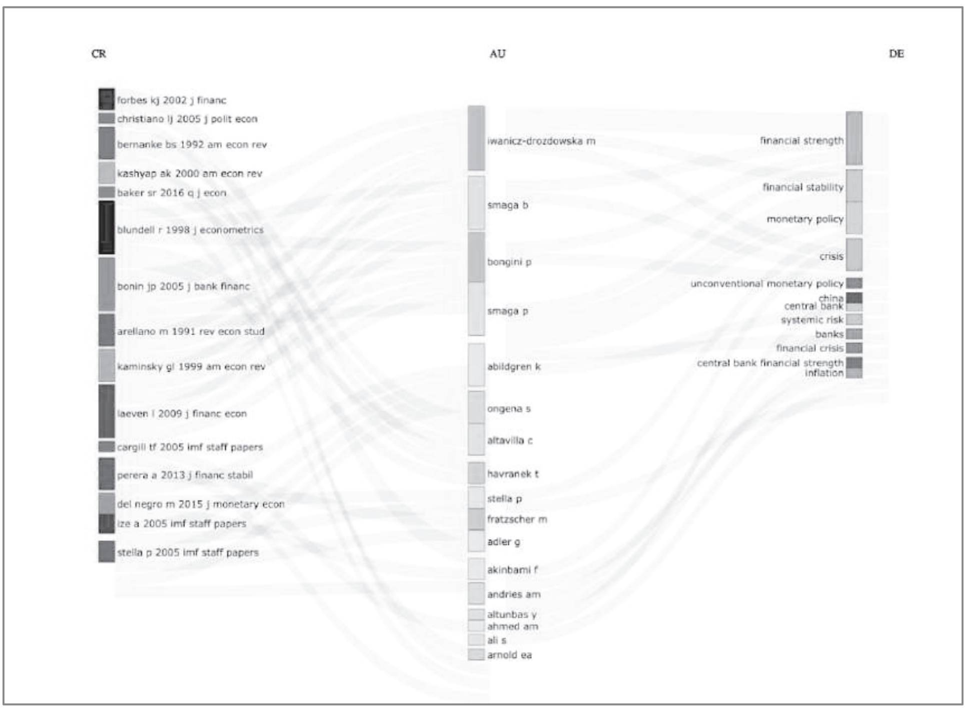
The visualisation in Figure 3 shows how often terms cluster around the "central bank" node. For example, terms in red cluster around "European Central Bank", "central bank intervention", and so on. Green clusters centre around "financial strength/management", and purple clusters centre around terms related to research. Overall, the visualisation shows terms in the literature that cluster around roles and balance sheet issues for central banks.

Figure 3. Keyword Mapping



The salience of the terms "capital", "loss", and "fiscal support" in relation to CBFS supports an interpretation of CBFS as a legal allocation of capital and not merely an accounting state. From a comparative perspective, these terms map to statutory provisions for recapitalisation, capital key burden sharing between national central banks, and deferred remittance provisions. These provisions predefine where losses are absorbed and in what order, and, in so doing, precondition autonomy and accountability without fiscal appropriations. Therefore, it is more likely that the visualisation of key terms is more relevant to demonstrating how CBFS is situated in legal structures that impact perceptions of independence and governance, and less relevant to demonstrating technical linkages between balance sheets.

Figure 4. Co Author Mapping

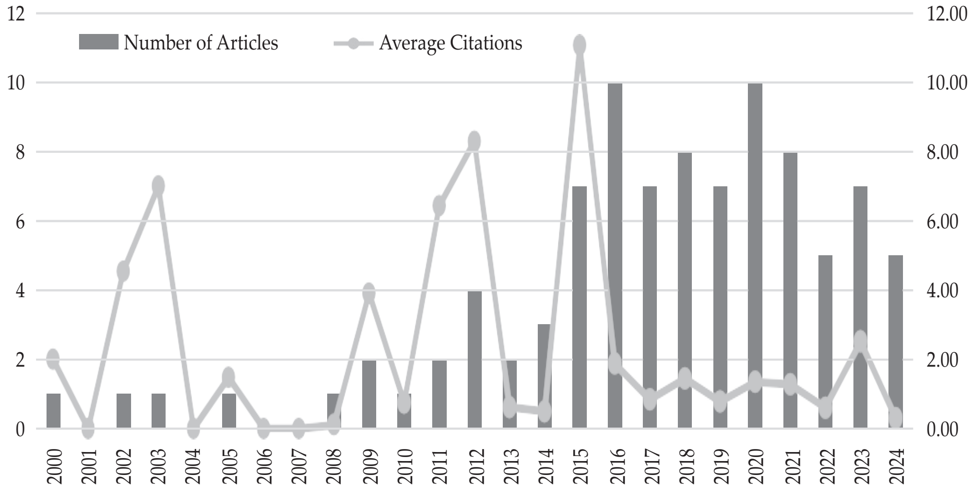


Co-authorship visualisation shows clusters of articles and authors that are frequently cited together. The edges represent collaboration intensity among authors. Node colours tend to represent thematic areas (e.g., financial strength/management, crisis, monetary policy) and institutional affiliations. Thick edges represent more frequent collaboration among contributing authors.

When considered alongside the keyword topology in Figure 2, the consolidation of co-author clusters in Figure 4 appears to indicate a research agenda increasingly focused on ex ante legal design of loss-allocation provisions, such as statutory recapitalisation clauses, burden-sharing of losses among national central banks, and deferred remittance provisions. Such provisions define in where and how losses are to be absorbed and thus condition operational autonomy and accountability without reliance on ad hoc appropriations. Accordingly, such collaboration patterns are not merely indicative of scholarly networking; they also corroborate the legal-institutional construction of CBFS as a governance construct governed by statute and by-law rather than a technical balance-sheet construct.

IV.B. Surplus Distribution, Income Structure, and Remittance Statutes

Figure 5. Article Distribution



From a broader perspective, it is possible to observe that there is a strong correlation in the graph in Figure 4 between the number of articles and citations, although there are a few instances when a corresponding increase does not immediately follow the number of articles in citations. This may suggest that, although there is a growing number of publications, the relevance of those works to a particular field of study is a significant factor in determining how frequently they are cited.

This series plots the progress of publications and citations over time and shows surges in output and periods where citation activity appears to lag behind publication levels. From a legal-institutional perspective, however, it appears to chart the progress of a research agenda that considers surplus behaviour and remittance activity through the lens of law and institutions; surges in output appear to coincide with discourse over earnings treatment, remittance suspension/deferral, and loss absorption sequencing, and thus CBFS outcomes appear to be better understood through the lens of statutory remittance rules and disclosure requirements and recapitalisation procedures rather than technical considerations. Against this backdrop, Table 2 plots where these debates currently lie across journals and identifies the broader movement of the literature towards legal-institutional approaches to CBFS.

Table 2.
Journal Source Mapping

Sources	Articles
Journal of Banking & Finance	13
Journal of International Money and Finance	13
Review of Political Economy	11
International Journal of Finance & Economics	10
Journal of Post Keynesian Economics	9
Journal of Financial Economic Policy	8
Journal of Monetary Economics	8
Journal of Money, Credit and Banking	8
Review of Keynesian Economics	8
Cogent Economics & Finance	7
Economic Modelling	7
Journal of Economic Issues	7
Cambridge Journal of Economics	6
Journal of Financial Stability	6
Economic Policy	5
Finance Research Letters	5
Journal of Economic Dynamics & Control	5
Journal of Economic Studies	5
The Manchester School	5
Open Economies Review	5
Applied Economics Letters	4
European Economic Review	4
International Journal of Central Banking	4
International Journal of Islamic and Middle Eastern Finance and Management	4
International Journal of Political Economy	4
International Review of Financial Analysis	4
Journal of Comparative Economics	4
Journal of Macroeconomics	4
Journal of Policy Modeling	4
Metroeconomica	4
Quarterly Review of Economics and Finance	4
Sustainability	4
Acta Oeconomica	3
Central Bank Review	3
China Economic Review	3
Economic Systems	3

Table 2.
Journal Source Mapping (Continued)

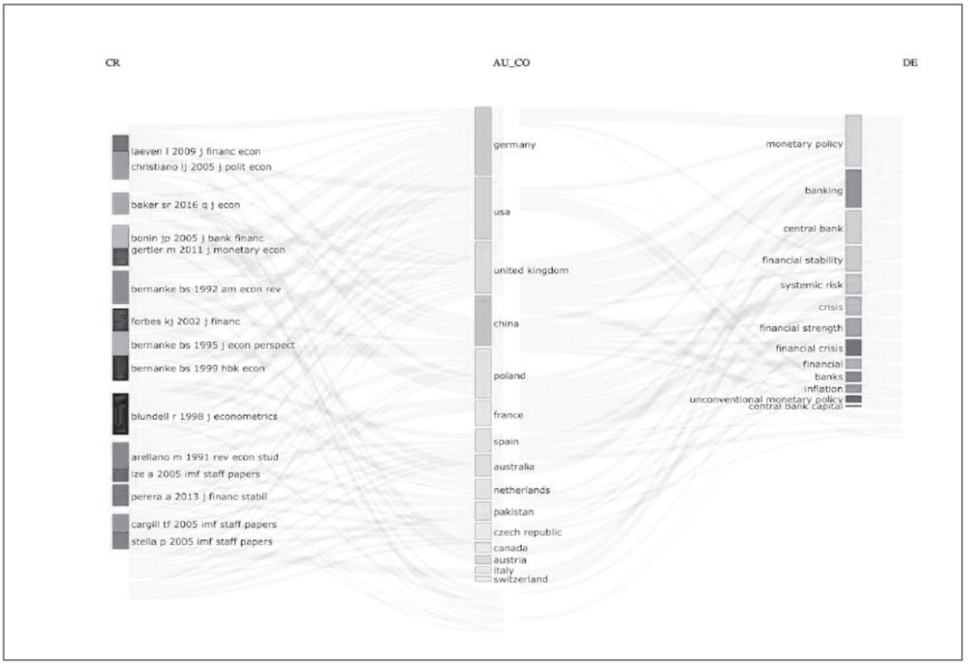
Sources	Articles
Economics Letters	3
Economy And Society	3
Emerging Markets Finance and Trade	3
European Journal of Economics and Economic Policies: Intervention	3
Federal Reserve Bank of St. Louis Review	3
Journal of Central Banking Theory and Practice	3
Journal of Economic Behavior & Organization	3
Journal of Economic Surveys	3
Journal of Financial Economics	3
Journal of International Economics	3
Others	258

This list shows a high concentration of research in finance, economics, and political economy, with contributions to a wide range of journals. The significant number of articles under “Others”, which comprises 258 articles, shows that there is considerable research on CBFS, but it is spread over a wide range of publication outlets.

This distribution of articles across journals indicates a gradual shift in the literature from macroeconomic and policy performance issues to legal-institutional issues related to central banking. The presence of CBFS-related articles in diverse outlets, including finance, political economy, and institutional economics journals, shows increased recognition that CBFS is influenced by legal and institutional factors rather than just balance-sheet conditions. The presence of articles on recapitalisation laws, remittance laws, loss-absorption mechanisms, and accountability frameworks indicates increased recognition of CBFS as a legal-institutional issue rather than merely an operational one. The presence of articles on CBFS across diverse outlets provides empirical evidence that CBFS is central to the central bank’s legal architecture and not merely related to monetary policy or technical issues.

IV.C. Transparency, Reporting Obligations, and Oversight

Figure 6. Keyword Mapping



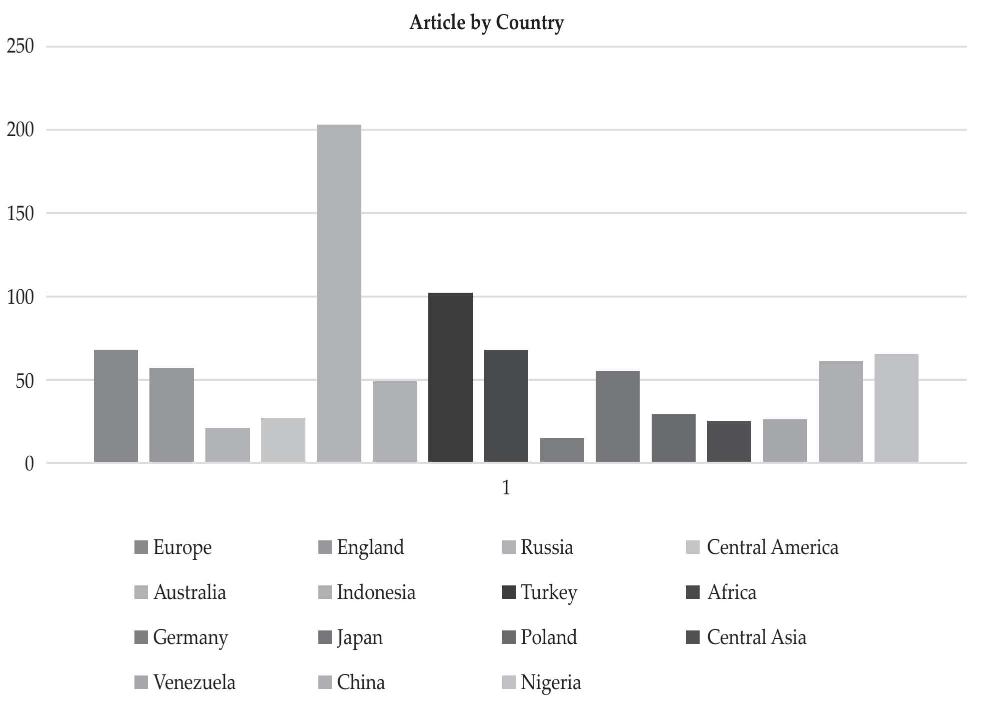
The map in Figure 6 illustrates the flow of ideas and knowledge among countries, institutions, and research areas such as "financial stability", "inflation", and "central banking". Overall, the visualisation identifies how dominant ideas and authors connect and how attention shifts between sub-areas.

From a legal-institutional perspective, the use of keywords including "credibility", "targets", and "ITF" suggests that transparency in central banking is not discretionary communication but is mandated by legislation. In effect, periodic reporting to the government and public, mandates for independent audits, and articulation of objectives and performance define expectations and accountability relationships. When such mandates are timely, specific, and publicly available, it appears that expectations may be more firmly grounded and that governance frictions are less likely, even during periods of CBFS pressure (for example, during loss absorption and suspended remittances). The knowledge flow in Figure 6 is more relevant to demonstrating that credibility is institutionally constructed through disclosure and oversight arrangements, rather than through more discretionary messaging or technical conditions related to balance sheets.

IV.D. Independence, Fiscal Linkages, and Governance Risk

Figure 7 identifies the country distribution of publications on CBFS, extending this inquiry by locating the literature in a spatial context. Rather than a strictly descriptive pattern, this distribution is most easily interpreted in a legal-institutional context, as cross-jurisdictional differences in recapitalisation laws, capital adequacy laws, remittance and earnings retention provisions, and reporting/oversight provisions help to explain why and where debates about CBFS governance are most active. In this context, these provisions specify who bears losses and in what priority, when and to what extent earnings are to be remitted or retained, and how to provide disclosure to legislatures and to the public—all of which shape perceptions of independence and the locus of governance risks when CBFS is under stress (e.g., when losses are recognised or when remittances are suspended). In this legal-institutional context, this distribution of country contributions in Figure 7 reinforces that CBFS is a component of country-level legal and governance structures; thus, cross-jurisdictional differences help to explain where governance frictions most commonly appear.

Figure 7. Country Distribution



Authors from continental Europe contributed the most articles, followed closely by the UK. Russia and Central America also had a significant number of articles, although not to the same extent as continental Europe and the UK. Australia and Indonesia made a small number of contributions, and Germany, Japan, China, Venezuela, Poland, and Nigeria did as well. Africa and Central Asia made the fewest contributions, indicating limited activity in this area of study compared to other regions of the world.

IV.E. Cross-Study Synthesis

From all of this evidence, several institutional patterns are apparent. First, there are the capital and loss-absorption patterns that appear to mirror how different jurisdictions manage financial risk in their respective legal frameworks. In this regard, capital is not simply a technical construct but an institutional construct managed in accordance with established procedures. Second, there are patterns related to surplus distribution and remittance, including earnings retention, deferred remittance, and loss-carry-forward practices, that appear to function as governance constructs influencing how central banks respond to income flows and communicate financial strain. Third, there are transparency and reporting patterns that appear to reinforce credibility by institutionalising disclosure in accordance with established practices, rather than reliance on discretionary forms of communication. Finally, there are fiscal interface patterns that influence how central banks engage with the broader public sector and help to explain when governance conflicts are most likely to emerge in the context of losses and suspended remittance. Accordingly, it is possible to infer that CBFS is managed in accordance with a series of institutional patterns that are procedural, financial, and governance related.

V. DISCUSSION – INSTITUTIONAL INTERPRETATION AND LEGAL IMPLICATIONS

This section interprets the empirical findings presented in Section IV and their implications for CBFS. Rather than re-presenting the findings, the discussion section engages with the legal and governance mechanisms identified by analysing their implications for our understanding of central bank autonomy, accountability, and credibility. Specifically, it seeks to articulate the role of these mechanisms in shaping the institutional environment for central banks, while acknowledging that the synthesised insights are non-causal and context dependent.

V.A. Institutional Interpretation: Autonomy, Transparency, and Credibility

When reinterpreted through the lens of institutional mechanisms, the empirical mappings show a significant shift in the literature from "balance sheet size and surplus" to the legal architecture that conditions these outcomes. In so doing, there is an institutional interpretation of CBFS as a constraint rather than a parameter, and its construction through the lens of the statutory architecture governing loss absorption, recapitalisation, remittances, and transparency. The BI/ECB/Fed comparisons serve as cross-reference mechanisms to understand the different legal architectures governing financial risk, recapitalisation, and earnings remittance and reporting.

V.B. Governance Architecture: Surplus Behaviour, Remittance Rules, and Fiscal Interfaces

Studies of central bank surplus behaviour, such as small and stable surplus in a politically scrutinised environment, may be interpreted as a form of governance-conformity behaviour informed by remittance, earnings retention, and loss carry-forward rules. Recent legal-and governance work underscores that expanded stability mandates require clear board oversight, decision rights, and accountability arrangements when balance sheet tools and macroprudential policies are deployed.[48] Such structures inform how surplus and losses are reported and communicated, thus reducing the salience of discretionary fiscal involvement. Geographical patterns in Figure 7 also point to differences in legal capacity and design. Jurisdictions that are more developed in areas such as recapitalisation, capital adequacy, remittance, and oversight appear to have clearer institutional pathways to address CBFS stress. All of these factors contribute to a governance architecture in which policy autonomy, expectations, and accountability are interpreted.

V.C Normative Implications for Statutory Design

A legal–institutional approach to this topic highlights several design factors that jurisdictions can adopt to support CBFS and sustain policy autonomy. Such factors include capital buffers and phased loss-absorption rules; remittance and retention rules that provide clear conditions for suspension or deferral of remittance; clear reporting structures, independent audits, and performance statements that imbue credibility in a jurisdiction's practices; and clear fiscal interfaces, such as recapitalisation or burden-sharing, that reduce political salience in times of stress and clarify institutional roles and responsibilities.

[48] Wouter Bossu and Arthur Rossi, "The Role of Board Oversight in Central Bank Governance: Key Legal Design Issues," IMF Working Paper No. WP/19/293 (International Monetary Fund, 2019), https://doi.org/10.5089/9781513524054.001.

V.D. Implications for Emerging Market Economies

In emerging markets, ex ante legal buffers and triggers may mitigate governance frictions in the event of losses. If laws provide a framework of rules to govern the order of loss absorption, whether it is through internal reserves, deferral of assets, or discretion to suspend remittances, then a rule-based disclosure mechanism would help manage expectations in the absence of remittance flows. In a broader sense, it is possible that extraordinary operations and coordination provisions would help to increase resilience without normalising discretionary fiscal support.

V.E Limitations and Scope

Although this discussion is not intended to be causal, it is important to acknowledge that it is limited by selection criteria, keyword definitions, and cross-jurisdictional differences in legal language and institutional structures. Moreover, it is also important to acknowledge that the bibliometric and mapping methods utilised are limited in their ability to capture legal interpretation, legislative history, and governance practices that may impact CBFS in a particular jurisdiction.

These limitations also present a number of opportunities for future research. One possible area of research would be to explore how differences in capital, loss-absorption, and remittance provisions affect CBFS in practice. Another possible area of research is to explore how fiscal interfaces operate in practice in a cross-jurisdictional setting with sustained losses or suspended remittance flows. Another area of research would be to explore how political economy factors and constitutional structures impact CBFS frameworks in a particular jurisdiction.

VI. CONCLUDING REMARKS

This literature review seeks to offer an interpretive, non-causal synthesis of how CBFS is conceived in central banking law and institutional governance. The synthesis of all of the evidence reviewed above supports a conception of CBFS as an institutional constraint, conceived in terms of four mechanisms analysed above: rules for risk allocation and loss absorption (with sequencing of internal buffers and any recourse to the budget in law); surplus distribution/remittance schemes (earnings remittance, deferred remittance, and loss carry forward schemes) governing income flow and communication in stress situations; transparency, reporting, and independent audit mandates conceiving credibility as a duty-based institutional practice; and fiscal interfaces (recapitalisation schemes, burden-sharing schemes, and deferred asset schemes) governing engagement with fiscal policy and governance friction. Stated explicitly, the legal-institutional contribution of this paper is to re-specify central bank financial strength in legal terms, clarifying how law and governance design inform the interpretation of autonomy, accountability, and credibility in central banking law.

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