



**Banque Centrale  
du Congo**



## **INDEPENDENCE OF CENTRAL BANKS: MYTH OR REALITY?**

**Experience of the Central Bank of Congo (BCC)**

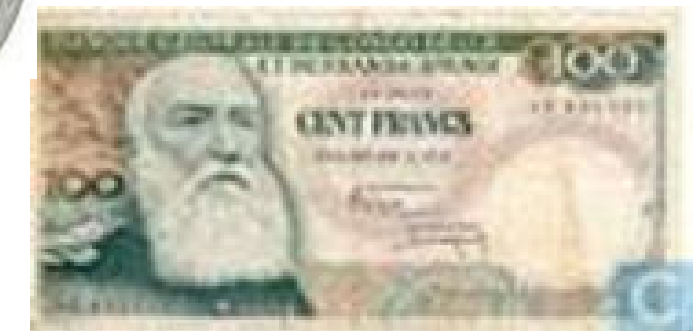
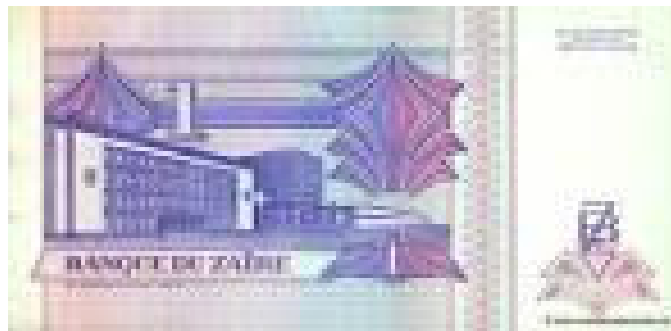
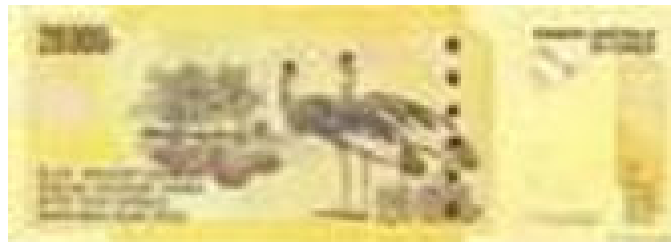


**Deogratias MUTOMBO MWANA NYEMBO**  
**Governor**

**Malabo, August 2015**



# Banque Centrale du Congo



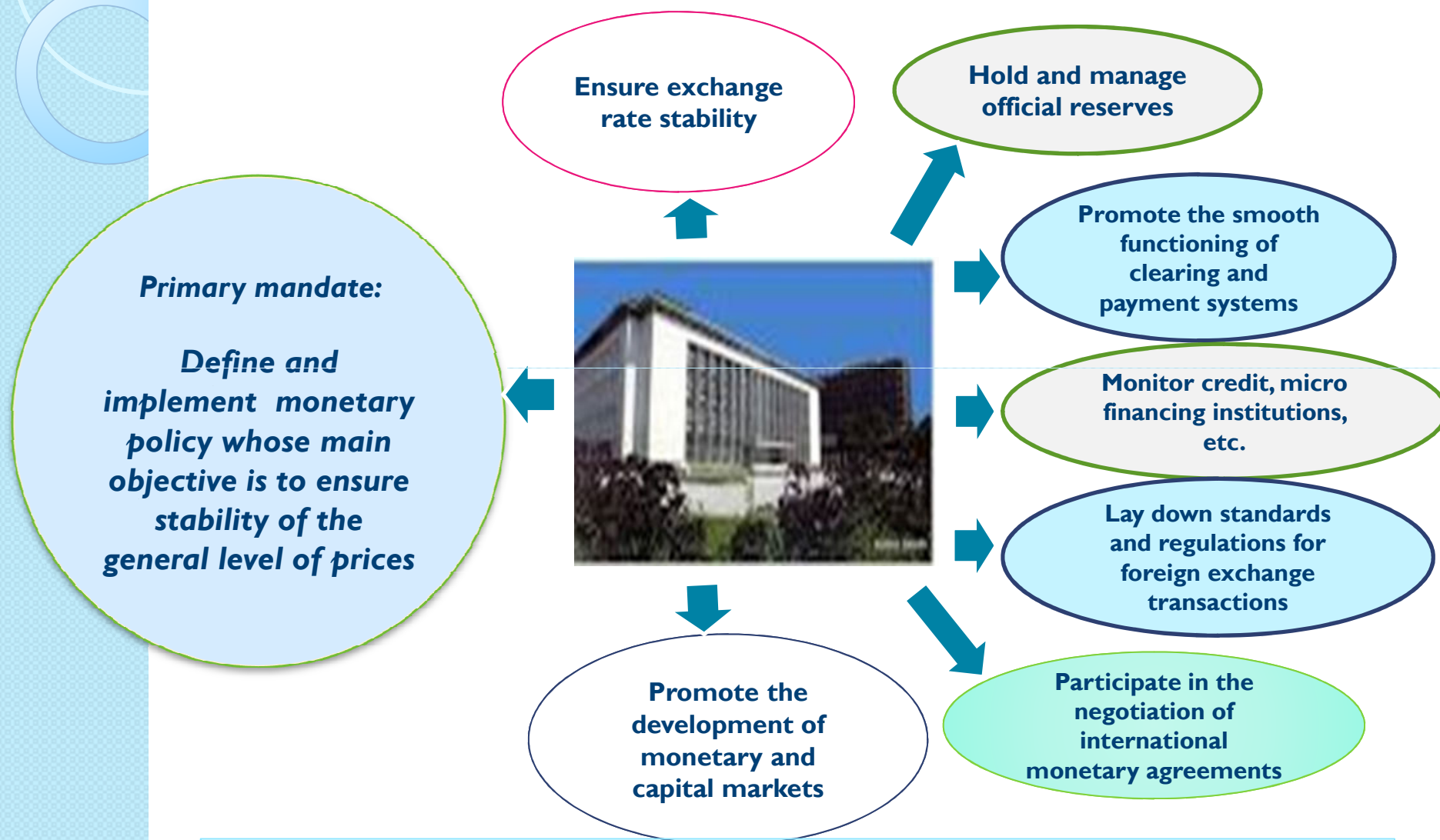


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## I. RESPONSIBILITIES OF THE CENTRAL BANK OF CONGO



The discharge of other missions should not, in any way, jeopardize price stability

## II. BCC - FROM AUTONOMY TO INDEPENDENCE: A WINDING ROAD

### □ Three major periods in BCC's institutional evolution

Period	Degree of autonomy or independence			
	Choice of institutional model	Independence of organs	Operational independence	Financial independence
Period 1: 1952 - 1960	Central Bank not independent but rather autonomous	-rather <u>low</u> , but governor's mandate irrevocable (term: 6 years)	- <u>Fairly high</u> : Free orientation of monetary policy	- <u>Low</u> : Direct funding from Treasury authorized - Financial autonomy
Period 2: 1961 - 1997	Central Bank not independent, later placed under supervision	Sub-period 1: <u>from 1961 to 1997</u> - <u>Low autonomy</u> of organs: Governor's 5 year term (revocable)	- <u>Low</u> : the government's frequent interferences in the fixing of key rates and credit orientation	- <u>Low</u> : - Treasury funding authorized - Financial autonomy
		Sub-period 2: <u>from 1997 to 2002</u> -very low : term unknown -Placed under the umbrella of the government	-Very low: - The government's decisive influence over the fixing of the key rate, exchange rates and the prices of goods and services	<u>Low</u> : - Treasury funding authorized; - dependence on State subsidies





## II. BCC - FROM AUTONOMY TO INDEPENDENCE: A WINDING ROAD

Period	Degree of autonomy or independence			
	Choice of institutional model	Independence of organs	Operational independence	Financial independence
Period 3: From 2002 to date	BCC independence established by the Constitution and the law)	<ul style="list-style-type: none"><li>- <u>Fairly high</u>,</li><li>- 5 year governor's mandate;</li><li>- Possibility of revocation in case of serious error</li></ul>	<ul style="list-style-type: none"><li>- <u>Fairly high</u> :</li><li>- Total freedom in the orientation of monetary policy.</li></ul>	<ul style="list-style-type: none"><li>- <u>Fairly high</u>:</li><li>- Direct Treasury funding prohibited;</li><li>- Negative equity capital and need for recapitalisation</li></ul>



### III. ADOPTION OF INDEPENDENCE: HISTORICAL DETERMINANTS OF THE CHOICE

- Annual average inflation rate: 2004.3 % between 1990 and 2001
- Inflation spike: 9796.9 % in 1994
- Depreciation rate: 75.1 % in terms of annual average



- National consensus on the need to break with the 1990 decade and with the vicious circle of monetary instability by doing away with the duo: hyperinflation- strong currency depreciation
- Steadfast commitment to break with the monetary financing of budget deficits, the main cause of chronic currency instability
- Improve the business climate by reducing uncertainties in order to create the best conditions for the upturn of the economic and financial activity
- Restore the functions of the Congolese franc and prepare the dedollarisation of the Congolese economy



## IV. REVIEW OF FOURTEEN YEARS OF BCC INDEPENDENCE

### 4.1 With regard to the key aspects of independence

	Situation
Organic independence	Significant progress: The BCC governing bodies do not receive instructions from the government, despite occasional pressure from the latter.
Operational independence	<ul style="list-style-type: none"><li>• The BCC freely defines the operational framework and the orientation of monetary policy, without government interference.<ul style="list-style-type: none"><li>➤ <i>Existence of a framework for consultations with the Ministry of Finance to facilitate the coordination of the policy mix, while maintaining the independence of monetary policy</i></li></ul></li></ul>
Financial independence	<ul style="list-style-type: none"><li>• Observe the prohibition of advances to the Treasury</li></ul> <p><u>The problem:</u></p> <ul style="list-style-type: none"><li>• Difficult financial situation of BCC (under capitalization): a recapitalization process is under way.</li></ul>

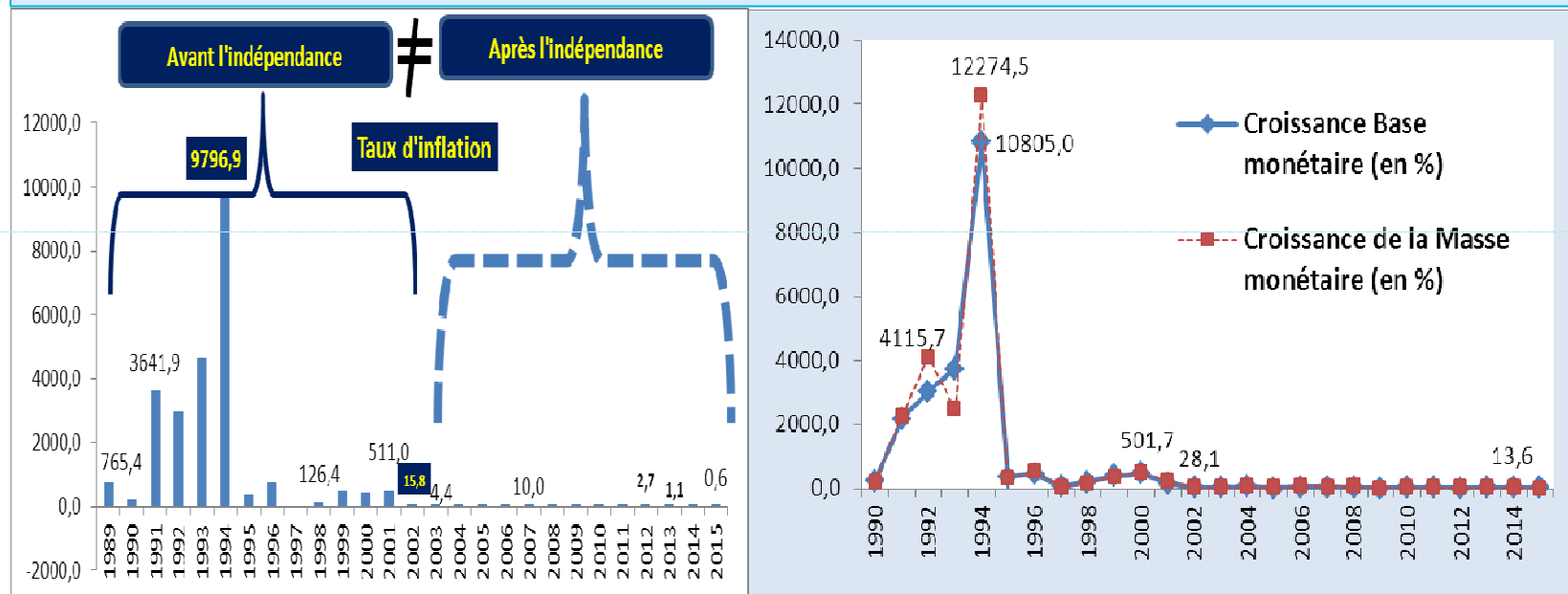




## IV. REVIEW OF FOURTEEN YEARS OF BCC INDEPENDENCE

### 4.2 With regard to the ultimate (price stability) and intermediate (money aggregates) objectives

Before BCC independence is not the same as after independence



Note: This does not necessarily reflect a causal relationship since other factors and reforms, all of which are as vital, have also contributed to achieving these results, notably an enhanced coordination of the policy mix, the relative improvement of public finance management, the adoption of floating exchange rate and the liberalization of the foreign exchange market and prices.



#### **IV. STRATEGIC INTERACTION BETWEEN THE INDEPENDENCE OF THE CENTRAL BANK AND THE MACROECONOMIC RESULTS OF RDC**

##### **4.2 With regard to the ultimate (price stability) and intermediate (money aggregates) objectives**

###### **Summarized situation of ultimate and intermediate objectives**

Moyenne annuelle (en %)	Avant octroi de l'indépendance à la BCC	Après l'octroi de l'indépendance à la BCC
	Période 1990-2001	Période 2002-2015
Taux d'inflation	2004,3	13,6
Taux de croissance de la Base Monétaire	1840,5	25,9
Taux de croissance de la Masse Monétaire	1953,4	30,7



#### **IV. REVIEW OF FOURTEEN YEARS OF BCC INDEPENDENCE**

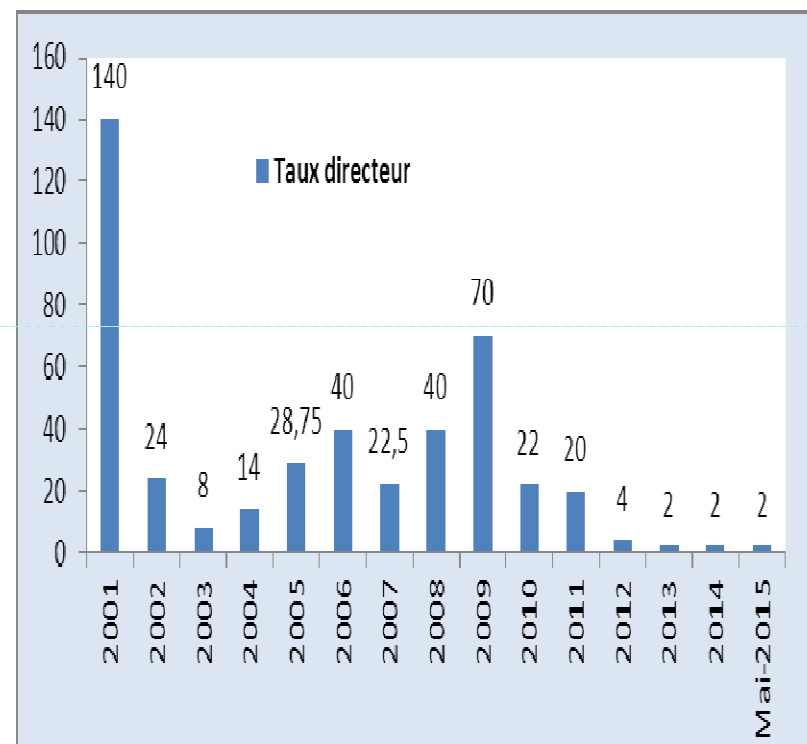
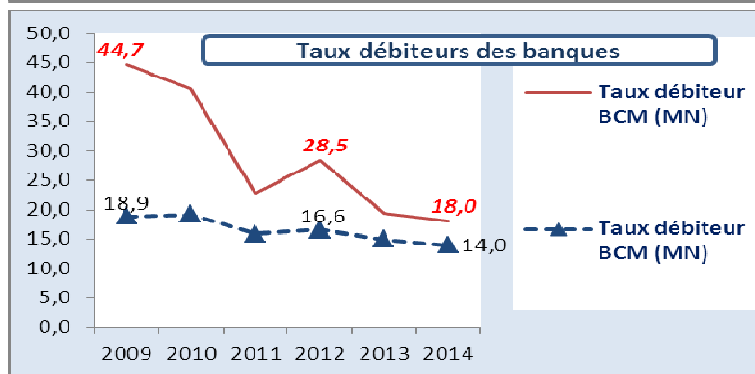
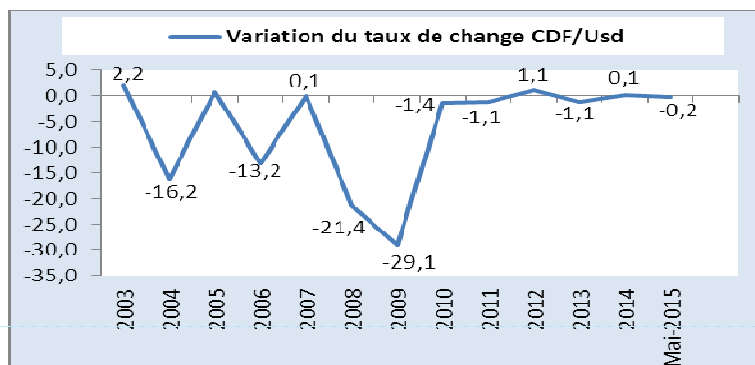
##### **4.3 From the strategic viewpoint**

- **Improve BCC transparency and communication**
  - ✓ **Regular communications with the public: Press conferences by the governor**
    - **Publication of monetary policy decisions (in real time) and the analytical framework that underpins them**
  - ✓ **Publication of a half-yearly report on monetary policy**



## IV. REVIEW OF FOURTEEN YEARS OF BCC INDEPENDENCE

### 4.4 Reducing exchange rate volatility and easing interest rates



#### Impact on the business climate

- ✓ Restores confidence, improves BCC credibility and progressive control of inflation and exchange rate expectations



#### IV. REVIEW OF FOURTEEN YEARS OF BCC INDEPENDENCE

##### 4.5 Attempts to violate BCC independence

- The government's aborted attempts to have a stability pact signed with BCC imposing binding conditions on the use of the principal instrument of monetary policy and interest rates.
- Attempts to have the BCC statutes amended in order to limit the scope of its independence

✓ *Permanent reality characterizing the macroeconomic policy management system in view of the recurrent conflicts between central bankers and government authorities throughout the world*





#### IV. REVIEW OF FOURTEEN YEARS OF BCC INDEPENDENCE

**Some divergences between Central Bankers and Government authorities**



President Sarkozy accused the BCE of being responsible for unemployment in Europe and always called for the reduction of the key rate



President Bush father accused Alan Greenspan of being responsible for his departure from the White House



The DRC Government often requested BCC Governor to reduce its key rate.



## IV. REVIEW OF FOURTEEN YEARS OF BCC INDEPENDENCE

### 4.6 Conclusion

- *Generally speaking, the BCC is independent, despite the burden of a difficult financial situation ...*
  - ✓ *... Evaluation based on the Cukierman, Webb and Neyapti index which gives 0.59 to BCC against an average of 0.53 in Sub-Saharan Africa, on the basis of a scale of 0 to 1 (IMF, 2013).*

#### Comment:

*Even though its independence is legally established, the effective exercise of this independence by the Central Bank may take years and requires personality and determination of Central Bank management (the latter is required to hide behind the shield provided by the institutional machinery which established the bank's independence (statutes, constitution, law, treaty, etc.).*





**THANK YOU FOR YOUR KIND  
ATTENTION**