Annex 1

ASSOCIATION OF AFRICAN

CENTRAL BANKS

(AACB)

38th ORDINARY MEETING

OF THE ASSEMBLY OF GOVERNORS

(Malabo, Equatorial Guinea, 14 August 2015)

2015 SYMPOSIUM DRAFT REPORT ON:

"CENTRAL BANK INDEPENDENCE: myth or reality?"
(Malabo, Equatorial Guinea, 13 August, 2015)

Revised on 1er February 2016

1. INTRODUCTION

1.1. The Association of African Central Banks (AACB) held its annual Symposium on 13 August 2015 in Malabo, Equatorial Guinea. The theme this year was "*Central Bank Independence: myth or reality?* ". The next day, on 14 August 2015, the AACB held its 38th Ordinary Meeting of the Assembly of Governors.

2. OPENING CEREMONY

2.1. The highlights of the opening ceremony were the opening statements from Mr. Lucas Abaga Nchama, Governor, Banque des Etats de l'Afrique Centrale (BEAC) and Vice-Chairperson of the AACB, Dr. Anthony Mothae Maruping, Commissioner for Economic Affairs, African Union Commission (AUC), and Mr. Miguel Engonga Obiang Eyang, Minister of Finance and Budget, Equatorial Guinea, who officially opened the proceedings.

2.2. Governor Abaga Nchama first welcomed the participants. He commended the Governor of Bank of Mauritius for his unrelenting efforts, during his term as AACB Chairman, to keep the Association on a smooth course. He saluted Equatorial Guinea's eminent persons in attendance. Their presence, he said, made him glad, for it demonstrated their commitment to integration not only in CEMAC, but also in Africa as a whole.

2.3. Mr. Abaga Nchama said Central Banks played a key role during the last global financial crisis. They were instrumental in curtailing the negative effects of the crisis and also in maintaining macroeconomic stability. This was partly the result of the kind of monetary policies they had instituted before the crisis. The BEAC, for example, initiated reforms to modernize and refine its initiatives. In 2007, it set up the Monetary Policy Committee (CPM). From 2010, it added a provision for "promoting financial stability" as one of the fundamental missions in its statutes. And in 2012, the Central Africa Financial Stability Committee (CSF-AC) came into being.

2.4. CEMAC has achieved significant macroeconomic performances with these measures. In the past 15 years, annual inflation rate has been 2.7% on average. Economic growth has been 5% on average. The surplus of the budget balance stood at 3.4% of GDP. The current account balance registered a slight deficit that is only 0.5% of GDP. And import coverage for goods and services has climbed to 6.3 months.

2.5. The Governor wondered how letting Central Banks to handle financial stability would affect monetary policy and Central Bank independence. His hope was that the Symposium would look properly into this matter.

2.6. To conclude, Governor Abaga Nchama warmly thanked the Equatorial Guinea authorities for helping with the meeting's logistical arrangements. He also thanked the AACB Secretariat for organizing the event properly. To BEAC staff and the central services of the National Directorate in Malabo, he gave praise for the hospitality and successful arrangements made for the meeting. Lastly, he wished the participants success in their proceedings.

2.7. Dr. Maruping spoke on behalf of the President of the African Union Commission, Her Excellency Dr. Nkosazana Dlamini Zuma. He thanked AACB for inviting the AUC to the Symposium. He expressed deep gratitude for hospitality from the BEAC Governor, and from the Government and people of Equatorial Guinea. He saluted Charles Konan Banny, former Prime Minister of Côte d'Ivoire, and Jean-Claude Masangu-Mulongo, former Governor of Banque Centrale du Congo, for making time to be at the meeting. Then, he apologized to the Governors for the absence of the AUC President.

2.8. In light of the changing role of Central Banks, Dr. Maruping said the 2015 Annual Symposium's topic was of utmost relevance. Central Banks are now expected to play an active role in Africa's development, an area where progress in recent years has been substantial. But, while this may be pleasing to the ear, the challenges to address are still many. One is financial innovation, particularly after the global crises in recent years. In the USA and Europe, 60% and 40% of financial transactions are done electronically. To reach its targets, Africa needs an efficient financial system. It has adopted the Statutes of the African Monetary Fund (AMF). The next step is for Member States to ratify them.

2.9. The Economic Affairs Commissioner called on the participants to work towards the establishment of the African Central Bank. He acknowledged that, although Southern Africa has reservations about this, political negotiations in the appropriate quarters of the AU would address them. He invited all stakeholders in African integration to own Agenda 2063, the AU's development blueprint, for it was based on a consensual and participatory approach.

2.10. To conclude, Dr. Maruping said he hoped to see fruitful debates on the issue at handand wished the participants success and good luck in their proceedings.

2.11. Mr. Engonga Obiang Eyang addressed the Symposium on behalf of the President, Government and people of Equatorial Guinea. He welcomed all the participants to the Symposium and expressed satisfaction and praise that so many Governors and high-level dignitaries were present at this important meeting.

2.12. The Minister said Africa must strengthen its integration, particularly at a time when regional blocs are growing in number. One sure way to success in this noble quest is to implement virtuous economic policies that deeply transform economic structures, especially through diversification. This would enhance inclusive growth and create wealth and jobs, which are the conditions required to make drastic cuts in poverty levels.

2.13. Honourable Engonga Obiang Eyang said Central Banks, States, entrepreneurs and national institutions have a decisive role to play in this process. He also said currency-issuing institutions should do more and serve as economic and financial advisers that provide technical assistance to States. In this regard, he saluted BEAC's efforts to establish CEMAC despite the many challenges still to be addressed, such as accelerating economic diversification, developing and deepening financial systems, and providing adequate financing to economies.

2.14. On integration, the Minister said the will to go forward was there since 1991, with the signing of the Abuja Treaty that paved the way to Africa's integration. The African Monetary Cooperation Programme (AMCP) aims to set up the African Central Bank (ACB) as a part of this process. Africa already has a wealth of experience in sub-regional integration. The Central African Monetary Union (UMAC) is one example. And these experiences offer lessons for integration at the continental level.

2.15. To conclude, the Minister said he was confident the Symposium would issue relevant conclusions, based on the level of expertise among the dignitaries at the meeting. On this note, he declared open the 2015 AACB Symposium on the theme "Central Bank Independence: myth or reality?"

3. KEYNOTE ADDRESS from Mr. CHARLES KONAN BANNY

3.1. Mr. Charles Konan Banny, formerly the Governor of BCEAO and then Prime Minister of the Republic of Côte d'Ivoire, began his address with a warm congratulatory message to the President of Equatorial Guinea on the country's extraordinary progress. He then went on to salute the Senior Minister and all the dignitaries present at the meeting.

3.2. On Central Bank independence, the topic of the Symposium, Mr. Banny said it is an issue for debate today and will continue to be in the future. He said there are questions on whether Central Bank independence is a reality, or just some form of rhetoric to conceal unrelenting State omnipotence over economic policy. For him, Central Bank independence should no longer be up for debate in the 21st century. It is obvious today that Central Banks are independent. However, this independence was achieved only after a long and hard struggle.

3.3. Mr. Banny said Central Bank independence is a requirement many agree with, given the centrality of monetary policy to all economic policies. But does the centrality of central bank independence to monetary policy warrant the public authorities to include it in their day to day activities, considering all the risks involved, he asked? In his view, interferences between monetary policy and governance are a thing of the distant past.

3.4. The former Prime Minister further said monetary policy becomes a subject of debate whenever a financial and economic crisis occurs, especially in light of the effects on social conditions. He noted that past attempts to respond systematically to such challenges most often caused inflation and illusion, lowering competitiveness and raising production costs. Under such circumstances, our response ought to be a review of monetary policy objectives, or to build consensus that price stability should be among the objectives of Central Banks, without compromising economic stability.

3.5. Mr. Konan Banny explained that Central Bank independence is twofold: political and economic. On the political or institutional side, independence is achieved when public authorities exert no pressure on the decisions and organization of Central Banks. On the economic side, it exists where the monetary authorities set their own objectives and decide on the ways to achieve them. The Prime Minister shared some indicators of Central Bank independence. These are their revocability of appointments to key executive positions and the duration of terms of office for such positions to ensure they are immune to the effects of election cycles.

3.6. Central Bank independence does not preclude criticism. Examples abound with the recent cases of the Fed in the "subprime" crisis and the European Central Bank (ECB) in the Euro zone crisis. The American Central Bank was criticized for allowing the subprime bubble to build and explode, while the ECB was blamed for financing national debt in economically stressed countries. However, these criticisms were far from counter productive and underlined the need for coordination and a "policy mix" between two different authorities. They showed also that Central Bank independence is a work in progress.

3.7. Lastly, Mr. Konan Banny said Central Bank independence requires compliance with some rules. These include intellectual independence among Central Bank executives, transparency in Central Bank initiatives, and accountability of Central Banks to the political authorities to maintain good collaborative ties between the monetary authorities and the public authorities.

3.8. Mr. Konan Banny's concluding remarks were that "there can be no strong institutions without strong men". He said these words with no intention to challenge President Obama's famous quote in Ghana, where he said "Africa does not need strong men, it needs strong institutions".

4. <u>FIRST SESSION</u>

4.1. <u>Introduction</u>

4.1.1. The Symposium's first session dwelt on "*The independence and role of Central Banks in economic and financial crises* «and was chaired by Dr. Mohammed Laksaci, Governor of Banque d'Algérie*.* The session was based on a presentation by Dr. Shamsuddeen Usman, who was formerly the Minister of Finance, then Minister of National Planning, and then Deputy Governor of Central Bank of Nigeria. The panel members were Central Bank of Lesotho and Jean-Claude Masangu-Mulongo, former Governor of Banque Centrale du Congo.

4.2. <u>Presentation summary</u>

4.2.1. Dr. Usman gave a presentation on the concept of independence, its impact on the results of Central bank initiatives, and Nigeria's recent experience on Central Bank independence.

4.2.2. From the onset, Dr. Usman shared some of the reasons why Central Banks must be independent. He concisely said public authorities pursue growth as a key objective, often in the short term, and eventually over their term of elective office to the detriment of price stability. They consequently fail to achieve optimal growth and instead induce inflation with disastrous consequences. This is fundamentally why Central Bank technocrats should be responsible for monetary policy. They are not subjected to the dictates of electoral calendars and can pursue price stability as a venture for the longer term.

4.2.3. Dr. Usman further shared the main factors influencing Central Bank independence. Key among these are the methods for setting objectives in the Central Bank, the irrevocability and duration of the Governor's term of office, the financial autonomy of the Central Bank, the participation of public authorities in its governance and the possibility for them to block some decisions, and the accountability of Central Banks before policy makers. He stated that while Central Banks are increasingly independent, their level of independence depends also on the political and institutional context, the level of hierarchical relations between the Governor of the Central Bank and the President of the Republic, and between the Governor and his line Minister or Parliament.

4.2.4. Regarding the impact of independence on monetary policy efficiency, Dr. Usman raised two possible scenarios- a normal scenario, whereby monetary policy efficiency increases with Central Bank independence, if the pre-established intervention framework is adhered to, and a crisis scenario, wherein, as recent experiences show, the Central Bank may overstep its prerogatives to the point of undermining its independence. Such excessive authority was seen recently in the USA, where stock markets tend to react more to the actions of the Central Bank than to trends in the real economy. This has given critics more room to challenge the credibility and transparency of Central Banks. And yet, moments of crisis often paradoxically usher in opportunities for Central banks to expand their authority to the monitoring of financial activities.

4.2.5. On the whole, Dr. Usman raised some questions about the real extent of Central Bank independence, transparency and accountability. According to a study by Acemoglu, Johnson, Robinson and Querubin (2008), Central Bank independence may have positive effects on inflation, but this is not always guaranteed. The existence of strong institutions is one of the key requirements to actually ensure there is a positive correlation between independence and monetary policy.

4.2.6. Talking about Nigeria's experience on Central Bank independence, Dr. Usman said the institution lost its inviolability for the first time in its history when the serving Governor was dismissed. He analysed the situation at the Central Bank of Nigeria (CBN), based on the aforementioned independence criteria used by the monetary authorities. He cited some of the actions by CBN that had aroused public criticism. The most controversial of these was the asset procurement programme in which 500 billion Naïra had been spent on AMCON (the Asset Management Corporation of Nigeria), an asset management company the CBN established to redeem public and private securities. To respond to these criticisms, the CBN said it had been trying to maintain price stability and financial stability using the legal powers at its disposal.

4.2.7. Dr. Usman emphasized clearly that even in a Central Bank with de facto independence, the scope and importance of its actions may attract public criticism and require prior negotiations with the political authorities. Nigeria, especially, has witnessed several situations where CBN efforts to restructure the national currency were interrupted, not with standing the Federal President's approval, just because of the public outcry. The same situation was observed in the United States of America, where Congress criticized the Fed for implementing quantitative easing and other measures to curb the financial crisis.

4.2.8. Before ending his presentation, Dr. Usman said the debate on Central Bank independence is not new. What matters is the positive correlation between the independence of currency-issuing institutions and the way they achieve their objectives. He added that Central Banks face criticism, especially in times of crisis, such as the crises the world has experienced in recent years. But with the advent of such challenges, Central Banks should strive towards greater transparency and accountability, because they would ultimately be unable to achieve success unless the public places trust in them, and unless they can ensure price stability and financial stability. Central Bank independence therefore is a reality which has long been strapped in plenty of myth.

4.3. Panel discussion summary

4.3.1. Following Dr. Usman's presentation, Mrs. Makenete Mathambo Sail, Deputy Governor of the Central Bank of Lesotho, said there is need for cooperation between monetary policy and budgetary policy. Although Central Bank independence is now obvious, this might not be the same in times of crisis. Close collaboration between the monetary and budgetary authorities is therefore required. In other words, monetary policy and budgetary policy must be balanced without undermining Central Bank independence to prevent the negative effects of crises. In Lesotho, the currency is pegged directly to the South African Rand. So, the Central Bank has no monetary policy*per se.* The monetary authorities mainly ensure reserve levels are adequate.

4.3.2. Jean-Claude Masangu-Mulongo, former Governor of Banque Centrale du Congo (BCC), began his remarks with a few questions, specifically about who or what Central Banks should be independent from; and which objective and missions they should be pursuing. He said Central Bank independence has to be a choice. It should be enshrined in rules and regulations that set out the powers of the Central Banks. Such powers may differ in several ways from one context to the other.

4.3.3. The former BCC Governor said Central Bank prerogatives should encompass the fight against financial instability mainly as a way to avoid the systemic crises generated by financial markets or the banking sector. He noted there is a relational problem at this level and Central Banks need to use communication and publication as the tools to raise public awareness of the work they do, just as many currency-issuing institutions have been doing in recent years with the adoption of "forward guidance".

4.3.4. In the debates that followed the presentation and the remarks from the panelists, the participants offered some suggestions and the discussants shared some experiences from their countries of origin on the topic addressed.

4.3.5. One participant suggested there should be a deeper discussion on Central Bank independence, and particularly on the leaders' intellectual freedom. He commended Mr. Konan Banny for displaying intellectual independence during his tenure at the helm of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO). He said further that some prohibited acts would have been committed during that period, had he not held on to his intellectual independence. Another participant said Central Bank independence is based on the decisions these banks make on monetary policy, and particularly on interest rates. He wanted to know about the situation in Congo, Lesotho and Nigeria, and especially how the decision making organs of their Central Banks were discharging their duties, how frequently they made decisions, and what challenges they encountered from the other powers.

4.3.6. In response, the former Governor said the Banque Centrale du Congo (BCC) has a Monetary Policy Committee which comes together on a monthly basis. It comprises delegates from State entities that have no direct link with monetary policy. The presence of these dignitaries, who are not from the economic field, enhances communication and accountability in the actions of the BCC. In the case of Lesotho, the currency is pegged to the South African Rand at a fixed exchange rate, in the same way as the currencies of three other Southern African countries. These countries and Lesotho sit on a Management Committee which comes together on a quarterly basis to see that a sufficient level of reserves is maintained.

4.3.7. On the suggestion about intellectual independence, Dr. Usman said the appointment of Central Bank executives is a highly-specialized process that takes into account the best qualities required of aspiring monetary authorities. In the USA, for example, the intellectual abilities of the aspiring Chairman of the Fed are well assessed by the national institutions before the appointee gets confirmed in his/her position. In the case of Nigeria, the Governor of the Central Bank is selected from a group of high profile intellectuals with proven track records and brilliant professional careers.

4.3.8. Drawing conclusions from the session, Mr. Laksaci said independence is a permanent struggle for Central Banks seeking to achieve their objectives. When Central Banks achieve this independence, they should communicate sufficiently and conduct activities that enhance their transparency vis-à-vis the public.

5. SECOND SESSION

5.1. Introduction

5.1.1. The second session was chaired by Dr. Sarah Alade, Deputy Governor of the Central Bank of Nigeria (CBN). It dwelt on "*Fiscal dominance and Central Bank independence*", based on a presentation by Dr. Christian Ahortor of the West African Monetary Institute (WAMI). The panel comprised Bank of Botswana, South African Reserve Bank and Banque de la République du Burundi.

5.2. Presentation summary

5.2.1. Dr. Ahortor talked about stylized facts on Central Bank independence using Ghana as a case study.

5.2.2. He began by paraphrasing Janet Yellen, the Chairperson of the Fed, that we all agree the Central Bank should be independent from Government in its primary goal of maintaining price stability. But it is difficult for a Central Bank to be independent when it mainly holds government securities. Several sub-Saharan countries have been through a transitional phase in their monetary policy framework, particularly due to (i) the deepening and diversification of the financial system, (ii) the increasingly significant integration of financial markets, and (iii) improvements in the quality of statistical data.

5.2.3. Dr. Ahortor said any modern monetary policy framework requires (i) true independence for the Central Bank, (ii) the absence of fiscal dominance, (iii) the absence of administered prices, and (iv) an efficient communication system to help address the warning signs of inflation. He remarked that in a situation of fiscal dominance, the roles of the monetary and budgetary authorities are reversed: the former addresses public debt while inflation, which should normally be within its jurisdiction, is left to the budgetary authorities. This leads to high and volatile inflation which the Central Bank can no longer control. Under these circumstances, the independence of the Central Bank may only become reality if the fiscal account is balanced. Central Bank independence then becomes a figment of the imagination, and mere legal rhetoric.

5.2.4. Dr. Ahortor cited the study by Cukierman, Webb and Neyapti (1992) which groups sixteen indicators of Central Bank independence in four categories, namely: (i) appointment procedures for Central Bank Executives, (ii) provisions for resolving disputes between the Central Bank and Public Authorities, (iii) explicit targeting of the monetary policy objective, and (iv) limitation of Central Bank lending to the Government. He also mentioned the work of Dincera et Eichengreen (2014) which adds the duration of terms of office and the dismissal of governance organ members to this list of indicators.

5.2.5. The presenter reviewed the situation at the Central Bank of Ghana, using the criteria cited earlier. He noted that Ghana's macro-economic performances from 2007 to 2012 made it possible for the country to conclude an economic and financial programme with the IMF. One of the conditionalities in this arrangement was for Ghana to strengthen the effectiveness of its monetary policy.

5.2.6. In the first half of the 2000 decade, the budgetary policy yielded good performances. But public debt skyrocketed between 2006 and 2008. Dr. Ahortor used the empirical model in Markov's theory to review the budgetary policy's impact on the monetary policy. He found a positive correlation between budgetary slippages and monetary policy responses. In other terms, Ghana's monetary authorities tend to react in a relatively erratic and aggressive manner to changes in budgetary policy.

5.2.7. This clearly shows Ghana faces a situation of fiscal dominance which would trigger (i) a problem in coordination between monetary and fiscal policies, (ii) a need for the Central Bank to adopt and comply with a maximum level of lending to the State, (iii) a need to expand the tax base and effectively address the financial needs of the State, and (iv) a need to strengthen the private securities market as an alternative source of funding.

5.2.8. To conclude, Dr Ahortor said ending fiscal dominance is the key to achieving price stability over the long term. The three key first steps are: (i) fiscal consolidation to address inflation expectations, although this reduces growth, (ii) introducing credible and sustained fiscal adjustment, and (iii) improving Central Bank independence by defining price stability clearly as the main objective.

5.3. <u>Panel discussion summary</u>

5.3.1. Mr. Daniel Mminele, Deputy Governor of South African Reserve Bank, centered his remarks on fiscal dominance and the South African experience in fiscal dominance.

5.3.2. His remarks were precisely that the recent global financial crisis had caused several countries to implement monetary and fiscal stimulus packages, inducing a rapid expansion of the cash base, an increase in the national debt and public deficit, and substantial inflation in the balance sheets of Central Banks. We all know such a situation has disastrous consequences on the global economy. In this case, it resurfaced the debate on fiscal dominance. Mr. Mminele, like the previous speaker, said the situation caused the monetary and budgetary authorities to reverse roles. The Central Bank was more concerned with stabilizing public debt, while inflation was determined by fiscal policy needs.

5.3.3. The Deputy Governor further said it is now well established that Central Banks need a high degree of independence to conduct an effective monetary policy, but fiscal dominance may actually undermine this independence. Some often argue there should be a minimum level of fiscal dominance. This may come only where there is close collaboration between monetary and fiscal policies. The level of fiscal dominance depends on the circumstances in countries. A good example is the Fed's recent experience in the USA with the non-conventional measures it implemented to secure soft fiscal dominance. The results attest the move was desirable and did not compromise the independence of the Central Bank.

5.3.4. On the case of SARB, Mr. Mminele said the independence of the monetary authorities is enshrined in the constitution and put into practice accordingly. Such a level of independence has never promoted fiscal dominance, at least since 1994. So, SARB comfortably fulfills its mission of ensuring price stability and can rely on an efficient fiscal policy. To achieve a good mix between the two policies, the two Authorities collaborate closely together. They hold regular meetings to discuss issues of common interest. And there is a Committee dedicated to monitoring the rollout of fiscal and monetary policy.

5.3.5. In his introductory remarks, Mr. Motshidisi Oduetse Andrew, Deputy Governor of Bank of Botswana, said fiscal dominance is a concept that goes a long way back in time. He asked whether de facto fiscal dominance should be abolished or tailored to the situation in each country. High inflation, he added, may cause a Government to re-assess fiscal policy. With the interrelationships between the different sectors of the economy, he was surprised that some Central Banks tried to strengthen their independence at the expense of financial freedom, whereas Central Banks could be used to deal with the public deficit in countries with poorly developed capital markets.

5.3.6. To conclude, the Deputy Governor said, no matter the form of independence considered, relations between the Central Bank and the Ministry of Economy and/or Finance play a decisive role in the success of monetary policy. Transparency is required in all the actions taken by the monetary authorities so that the Government and public are informed about them.

5.3.7. Mr. Prime Ngendanganya, the representative of the Governor of Banque de la République du Burundi, tendered an apology on behalf of the latter who could not travel to Malabo. He said it is now well established that the Central Bank should not finance the public deficit. But he also said it is common for States to still turn to currency-issuing institutions, especially in countries where financial markets are not well developed.

5.3.8. Using Burundi's example, Mr. Ngendanganya said provisions for the independence of the Central Bank and the framework for relations between the Bank and the Government are enshrined in the statutes of the Central Bank. These statutes also prohibit the Central Bank from financing the budget deficit. But this has always been common practice in Burundi, whereas provisions in the 2009 Law aim to gradually and permanently abolish such financing.

5.3.9. He said fiscal dominance hampers the smooth conduct of monetary policy. It also induces pro-inflationary behaviour from the monetary authorities and slackness from the budgetary authorities. This is a situation that worsened during the recent financial crisis due to the considerable drop in budgetary support that many developing countries depend on.

5.3.10. To conclude, Mr. Ngendanganya stressed that, given the complementary roles which budgetary and monetary policies play in the overall goal of achieving economic growth, there is an imperative need to have a coherent policy mix. In this regard, he called for close coordination between the two authorities to ensure there is compatibility in the missions they are assigned. This would make it possible to institute reforms and laws aimed at strengthening Central Bank independence and enhancing growth in the domestic financial market to enable the State to mobilize private resources.

5.3.11. Following these presentations, the participants shared their remarks on the balance of payments deficit caused by frequent demands on foreign reserves, and on the issues around the moral prejudice fiscal dominance could generate. They also discussed the responsibilities of Central Banks in times of crisis, given their position as major players in the economic life of their respective countries. The delegate from Egypt, who had raised this matter, said their Central Bank took its responsibility during the country's period of crisis to serve as the State's lender of last resort. It did so without inducing any negative consequences either on the evolution of the overall economic situation and inflation in particular, or on the independence of the Central Bank. This led the Central Bank into a thorough review of the context to see whether or not fiscal dominance affects Central Bank independence in some very specific situations.

5.3.12. In response, the discussants said the authorities concerned need to have a clear understanding between them and bring things back to normal once the crisis period or exceptional situation is over. On the balance of payments, they said safety reserves need to be established during periods of growth, so that countries can face hard times when crises occur.

5.3.13. To draw conclusions from the session, Dr. Alade noted with satisfaction that Central Bank independence is a reality, but the situation just gets more complicated in times of crisis. There should be no taboos in light of the methods and means the USA and Egypt used to stem the impacts of their recent crises. Therefore, good coordination between the budgetary and monetary authorities is needed to curb or even anticipate the negative effects of a crisis. To crown it all, there has to be good communication.

6. THIRD SESSION

6.1. Introduction

6.1.1. This session, chaired by Mr. Ebson Uanguta, Deputy Governor of Bank of Namibia, dwelt on "*Increasing Central Bank commitments in relation to their balance sheets, instruments and administrative autonomy*", and was based on the presentation by Prof. Sylvanus Ikhide. The panel was made up of Banque Centrale du Congo (BCC) and Bank of Uganda.

6.2. Presentation summary

6.2.1. To begin his presentation, Prof. Ikhide outlined the structure of a Central Bank balance sheet. Then, he discussed the various commitments of Central Banks in relation to their balance sheets, their instruments and their administrative autonomy. He stressed that Central Banks play a key role in the economy. This was attested especially during the financial crisis in 2007-2009, when they were required to apply non-conventional measures.

6.2.2. Prof. Ikhide said price stability is the main objective of Central Banks, although they also have other macro-economic objectives such as promoting employment, economic growth, financial stability and the stability of interest rates and exchange rates. He said implementing monetary policy may entail several challenges, in particular, conflict between macro-economic objectives, time inconsistency and the prioritization of objectives.

6.2.3. On Central Bank balance sheets, Prof. Ikhide said, because of the exceptional initiatives Central Banks had to take during the last global financial crisis, new items had been added to their balance sheets, such as loans to the private sector and to non-financial enterprises in the public sector. They also had strengthened the key areas, including loans to other banking institutions. Foreign exchange reserves, in particular, had increased rapidly on the balance sheets of African Central Banks to give markets some confidence in the solidity of the exchange rate regime. At the same time, there was a rapid increase in liabilities, including currency flows and bank reserves, reflecting the vibrancy of economic activity in several countries. But this expansion in Central Bank balance sheets also induced risks for inflation and financial stability, as well as for the credibility and independence of these Central Banks.

6.2.4. In the choice of monetary instruments for Central Bank commitments, Prof. Ikhide noted there had been a change in the instrument used normally for monetary policy, that is, monetary policy targeting. This justified the move by Central Banks to use non-conventional measures. These measures were associated particularly with low interest rates and gave rise to "Monetary Policy Plus", a concept used to describe monetary policy which goes beyond conventional measures, instruments and objectives. Prof. Ikhide said this policy had achieved results, especially in the early days of the"*subprime*" crisis, limiting the impact of the crisis to the monetary and financial markets. It helped also to prevent a cascading trend in bank closures. African Central Banks generally did not have to use these measures, given their low involvement in the last crisis due to the structure of their external liabilities.

6.2.5. On the administrative autonomy of Central Banks, Prof. Ikhide said the fundamental reason for Central Bank independence is that price stability can be measured objectively only in the long term and by an entity free of political pressure. Conversely, where the public authorities interfere with monetary policy, price stability may be achieved in the short term in accordance with their electoral targets, but it would have disastrous consequences in the long term. The findings of several studies and experiences in developing countries corroborate this argument. He indicated however that enshrining independence in laws does not necessarily lead to independence in practice, for this depends on certain factors that have been addressed abundantly in previous debates, such as public confidence in the integrity and commitment of the key leaders of Central Banks, the level of transparency in their actions and accountability in the achievement of objectives. He also mentioned that financial autonomy is key to this independence. Hence, Central Banks should ensure they have a solid financial base.

6.2.6. On financial stability, Prof. Ikhide said it is an objective which Central banks embraced after the financial crisis in 2007. And macro-prudential regulation and supervision were the preferred instruments they used to control the factors of financial instability, especially the bubbles in asset prices. Prof. Ikhide acknowledged that there is evidence these non-conventional measures have achieved results in the countries where they were implemented. Since the majority of these countries were among the developed economies, the Professor wondered whether those measures would have been relevant for Africa. He also wondered if it is possible to promote price stability in several African countries that do not have their own currency and depend on foreign currencies. In the final analysis, he said further thought needs to be given to this issue.

6.3. Panel discussion summary

6.3.1. Mr. Deogratias Mutombo Mwana Nyembo, Governor of Banque Centrale du Congo (BCC), discussed the risks of swelling Central Bank balance sheets, as a result of injecting cash for the purchase of securities. He stressed the need to guard against deteriorating the quality of the currency and eroding public confidence in the currency itself and in the Central Bank's ability to manage monetary policy, both of which could increase the risk of dollarization in the economy. He also said that the increasing commitments of Central Banks derive generally from massive purchases of securities after a deficit in liquidity on the financial market, a drop in interbank lending, a decline in private sector lending incentives and repulsion towards risk taking in the private sector. But this adds to asset risk that is likely to come from the emergence of non-conventional assets and the increase in the weight of non-performing assets in the balance sheet.

6.3.2. The BCC Governor explained that this situation has brought about a change in the interventions of Central Banks with new instruments such as the zero or negative interest rate policy and quantitative easing. In addition, forward guidance has been introduced to guide agents' expectations and promote the success of the measures applied. Mr. Mutombo Mwana Nyembo however highlighted the risks that such measures induce for Central Banks, namely, the risk of losing financial and operational independence, the risk of creating bubbles and the risk of bringing back expectations. Faced with this situation, there is need to preserve the credibility of currency-issuing institutions in the commitments they have, especially by withdrawing non-conventional measures, initiating reforms in the public finance sector and ensuring that States support Central Banks when these latter incur losses.

6.3.3. To conclude, Mr. Mutombo Mwana Nyembo explained that African Central Banks can put in place non-conventional instruments. To do so, they need first to establish a suitable institutional and operational framework. The Central Banks should enhance cooperation between them and the budgetary authorities, as well as strengthen their framework for risk analysis and assessment. They need also to develop the securities and insurance market as well as to establish effective payment systems.

6.3.4. Dr. Louis Kasekende, Deputy Governor of Bank of Uganda, said it is important to separate monetary and financial policies, while maintaining close collaboration between them, because the actions of the budgetary authorities, especially public borrowing, may have disastrous consequences on monetary policy through an increase in interest rates. He went on to say, given the role they play, Central Banks should not have the same capital requirements as the commercial banks.

6.3.5. Dr. Kasekende also said foreign reserves are crucial for guaranteeing Central Bank commitments. The Central Banks therefore need to be able to control and assess them in a context where the free flow of capital makes the situation even more complicated. On Central Bank independence, he said it should be assessed on the basis of objectives and not in relation to the public authorities, to whom the monetary authorities are liable for the purpose of accountability. To conclude, he said it is important for Central Banks, aiming to conduct an effective monetary policy, to master the structure of their balance sheets and know how to anticipate the occurrence of shocks.

6.3.6. To draw conclusions from this session, the Deputy Governor of Bank of Namibia, who was chairing the session, said whenever a Central Bank takes an initiative which may have consequences on its balance sheet, it should always bear in mind that price stability remains the ultimate goal. To accomplish this mission, Central Banks should always maintain close collaboration with the budgetary authorities, while also ensuring or strengthening their independence and financial autonomy via actions of their choice.

7. FOURTH SESSION

7.1. Introduction

7.1.1. This session was chaired by Mr. Lucas Abaga Nchama, Governor of BEAC. The focus was on *exchanging experiences from the various Central Banks on the Symposium's main theme*. Five presentations were given on the experiences in the sub-regions by National Bank of Rwanda, Banque d'Algérie, Banque Centrale du Congo (BCC), Bank of Ghana and Central Bank of Namibia.

7.2. Summary of Central Bank presentations

7.2.1. The experience of National Bank of Rwanda

7.2.1.1. The presenter, Mrs. Monique Nsanzabaganwa, Vice Governor of Bank of Rwanda, said there is a Memorandum of Understanding between the Central Bank and Ministry of Finance, which provides that the Ministry shall reimburse the costs of implementing the monetary policy. She stressed that while this may not conform with the view some have on independence, the monetary authorities in Rwanda consider the arrangement as a matter of financial autonomy. She noted also that the good collaboration between the monetary and budgetary authorities has fostered strong economic growth in a context of low inflation. However, this growth remains fragile because it is vulnerable to external shocks. She said a sign of this collaboration is the Treasury Management Committee that is responsible for harmonizing the views of both stakeholders in a macroeconomic framework. The challenge still facing the National Bank of Rwanda is to be able to think ahead in order to continually improve its ability to meet its external commitments.

7.2.2. The experience of Bank of Ghana (BoG)

7.2.2.1. The experience of the BoG was presented by Mr. Milison Kwadjo Narh, Deputy Governor of the Bank of Ghana. From the onset, he said the balance sheet of the Central Bank includes government securities from the national debt. The monetary authorities, in accordance with their mandate, are responsible for financial stability and also for achieving price stability. He remarked that the independence of the currency-issuing institution is defined in relation to objectives, and not in relation to the public authorities. Therefore, the BoG is independent inside the Government, and not from it. He also said monetary policy objectives are set together with the public authorities.

7.2.2.2. To discharge its duties, the Bank of Ghana takes a participatory approach by conducting surveys among customers, banks, etc. It identifies the growth trend using a composite index on economic activity, which takes into account the risks involved. The BoG is also responsible for the management of foreign exchange reserves to ensure stability in the foreign exchange market.

7.2.2.3. The Bank of Ghana has two governance organs, namely a Board of Directors and a Monetary Policy Council that holds meetings every month. There is a meeting every fortnight between the monetary authorities and the public administration authorities.

7.2.3. <u>The experience of Banque d'Algérie</u>

7.2.3.1. The experience of Banque d'Algérie was presented by Mr. Mohammed Laksaci, Governor of Banque d'Algérie. In the presentation, he described Algeria's case in light of the recent developments on the global financial landscape. He concentrated on the independence of the Banque d'Algérie from the financial perspective and the role this institution plays in preserving and strengthening financial stability.

7.2.3.2. The Governor said Banque d'Algérie, as from 1980, was entrusted with the functions that Central Banks perform everywhere, following a round of banking reforms. These functions were further strengthened in 2010 with new legal provisions that clearly identified price stability as the primary goal of the monetary policy. The new provisions were complemented the same year with the attribution of an explicit mandate for financial stability.

7.2.3.3. As concerns the Bank's relations with the political authorities, the Governor said they are informed by a law passed in 1990, amended in 2003 and updated in 2010. The law enshrines, among other things, the operational independence of Banque d'Algérie. In return for this, the currency-issuing institution is compelled to be accountable to the State. Hence, each year, the Bank's balance sheet, income statements and activity and operations report are sent to the national authorities, including the President of the Republic and the Minister of Finance.

7.2.3.4. In terms of asset risk, the Governor said the evolution of his institution's balance sheet was characterized on one hand, from 1991 to 2001, by the implementation of structural adjustment programmes and the recovery of internal and external stability, and, on the other hand, from 2002 to 2014, by an accumulation of reserves that was driven by the upturn in world oil prices. He stressed that currency exchange is the main risk facing the Banque d'Algérie, because of the weight of reserves that represented over 98% of its balance sheet in 2014. However, the currency-issuing institution has been able to control this risk by taking a prudent approach in the management of these assets, accumulating provisions and substantially increasing its capital.

7.2.3.5. On the issue of financial stability in a context of crisis, Mr. Laksaci said Banque d'Algérie has been paying particular attention to the volatility of oil prices. In accordance with its mandate to achieve financial stability, as stated in the 2010 Law, the Bank has adopted macro-prudential instruments which are best suited to detecting and averting the early signs of risk that may undermine its efforts to achieve this goal. It has also made reforms to comply with the new Basel standards and norms. The Governor said a banking sector assessment was carried out in 2014. The study suggests this sector was preserved throughout the recent crises. The Governor ended his remarks by stating that Banque d'Algérie now seeks to maintain its macro-prudential system in line with international standards and to adopt a forward-looking and risk-sensitive approach which will strengthen loan allocation by banks and make it possible to stem the recurrence of concentrated risks.

7.2.4. <u>The experience of Banque Centrale du Congo (BCC)</u>

7.2.4.1. The experience of the BCC was presented by the Governor, Mr. Deogratias Mutombo Mwana Nyembo. He mainly gave an overview of the situation at the BCC before and after its independence, and on the consequences of those periods.

7.2.4.2. The Governor, from the onset, said the primary objective of the BCC is to ensure overall stability in price levels. However, his institution has not always had the means required, especially on independence, to properly execute this mission. Hence, the Government frequently intervenes in the conduct of monetary policy. Coupled with the monetization of the budget deficit, this has brought disastrous consequences that lasted until the late 1990s. There was hyperinflation of over 10.000% in the 1970s and over 2.000% in the 1990s, causing economic agents to turn away from the national currency and seek refuge in the dollar. The consequences were the dollarization of the economy, degradation of the Central Bank balance sheet, and a negative showing for equity. The currency's exchange rate depreciation ratio was averaging 75% each year.

7.2.4.3. The Governor said the situation improved after negotiations between the Government and IMF. Since 2002, the BCC has established organic, operational and financial independence. It freely conducts monetary policy under the helm of a Monetary Policy Committee (MPC). This has improved results in the actions of the BCC. For example, the inflation rate in June 2015 was 0.6%, down from 1.1% in 2014 a mid moderate growth in the cash base and money supply. The Governor stressed, however, that these results were obtained also because of better coordination between the monetary and fiscal policy, and major improvements in the management of public finances. Furthermore, reforms such as the adoption of the floating exchange rate and the liberalization of currency exchange markets and prices were made as necessary.

7.2.4.4. Lastly, Mr. Mutombo Mwana Nyembo said these achievements have in no way preserved the Central Bank from new waves of Government pressure in the management of monetary policy, or from public criticism. The challenge for the BCC is to consolidate its gains as it pursues the de-dollarization of the economy. Transparency in BCC actions has been enhanced through regular communication with the public, the publication of reports on its decisions and the implementation of monetary policy.

7.2.5. <u>The experience of Bank of Namibia</u>

7.2.5.1. This presentation was given by Mr. Ebson Uanguta, Deputy Governor of Bank of Namibia. He spoke mainly about the experiences on Central Bank independence in the SADC group of countries and Namibia.

7.2.5.2. Mr. Uanguta said the state of Central Bank independence in the SADC region varies from one country to the other. From an operational standpoint, the SARB is the only Central Bank with clear constitutional provisions which enshrine its independence. In the other countries, operational independence is either mentioned in the laws on currency-issuing institutions, or it is not stated in any other provision at all.

7.2.5.3. As concerns financial independence, the Deputy Governor stressed that SADC Central Banks transfer the bulk of their profits to the Government. In some cases, they are required by law to acquire public securities. They also have the possibility to transfer them into reserve accounts. In terms of appointing the Governor, he said this is the prerogative of the Head of State, based on the recommendation of some public institutions, except in Mauritius, where the onus is on the Prime Minister. The term of office, where it is specified by law, lasts generally for a period of five (5) years and cannot exceed ten (10) years, as stated in the provisions of the "SADC Model Act". As for the members of the governance bodies, they are appointed by the Minister of Finance in most of the countries.

7.2.5.4. Talking about the experience of Namibia, the Deputy Governor said the Central Bank there enjoys operational independence, in that, it discharges its duties without interference from the Government. He noted, however, that the currency-issuing institution continues to provide direct funding to the State. On the appointment of the key executives, he added that they are chosen among persons with recognized academic credentials and professional experience by the President of the Republic, based on the recommendation of the Minister of Finance. Their term of office is five (5) years and it is renewable once. Nonetheless, they can be removed for serious violations of their mission.

7.2.5.5. To conclude, the Deputy Governor said all SADC Central Banks enjoy operational and financial independence. However, they need to collaborate truly with the Governments so that they can effectively address the new challenges induced by the new goal of financial stability. To this end, he recommended as follows: (i) state the operational independence of Central Banks clearly in the laws, (ii) strengthen the financial base of Central Banks by using a part of their profit to constitute reserves, (iii) appoint the key executives based solely on competence, especially in economics, banking or finance and make provision for members of the Governance Council to have a term of office that does not coincide with that of the national political authorities.

7.3. <u>Discussion summary</u>

7.3.1. After these presentations, the participants gave clarifications and additional information relating to the presentations. Some discussed the situation in their countries. In this respect, Mr. Charles Konan Banny said the decision taken by Central Banks to adopt non-conventional measures should not be seen as a breach of ethics, where it was done in a coordinated manner and only for the period of crisis.

7.3.2. The Vice-Governor of National Bank of Ethiopia said, meanwhile, that independence is not an issue, because Central Banks are expected to play a role in growth. The challenge is for them to strike a balance between managing independence and the problems facing the country, including the structural transformation of the economy. Speaking after him, the Deputy Governor of Bank of Mauritius suggested that independence should not be considered in its literal sense but rather in relation to the goals to be achieved, which continue to be the most important aspect. This requires harmonized monetary and fiscal policies and close collaboration between the authorities responsible for these two sectors. He also recommended that attention should be paid always to maintaining sound financial autonomy for the Central Bank, in particular by using a portion of its profits. The Governor of Bank of Tanzania said the law clearly defines the mandate of the Central Bank in Tanzania and prohibits any interference in its work. It also limits the Governor's terms of office to two (2).

8. GENERAL CONCLUSION

8.1. Drawing the final conclusions of the Symposium, Governor Abaga Nchama said Central Banks are independent as attested by the various presentations. He stressed, however, that this independence is defined in terms of achieving the objectives they are assigned.

8.2. The Governor, in his closing remarks, cited the key elements that determine the independence of Central Banks. These are (i) the formalization of independence in legal frameworks, (ii) independence in setting objectives and choosing monetary policy instruments, (iii) the conditions for appointment and dismissal of Central Bank leaders, and, (iv) the financial autonomy of these institutions.

8.3. However, this independence requires currency-issuing institutions to meet the following requirements: (i) intellectual independence of their leaders, (ii) accountability, (iii) transparency and communication on their actions, and (iv) maintaining good collaboration between their leaders and the public authorities. Lastly, he stressed the need to continually strengthen this independence, especially through close collaboration between monetary and budgetary policies, developing regional financial markets and making reforms to improve the legal and institutional framework of Central Banks.