Economic and Financial Review

Volume 33 | Number 4 Article 10

12-1-1995

Central bank autonomy: historical and general perspective.

S. B. Falegan

CBN ECONOMIC & FINANCIAL REVIEW, VOL. 33, NO. 4: 416-428

Central Bank Autonomy: Historical and General Perspective

by

Chief S. B. Falegan, *FCIB**

As a "fresher" in the Central Bank of Nigeria in July 1961 when I started work, the first assignment given to me was twofold:

(a) To critically examine the Central Bank of Nigeria's functions under the Bank's Act of 1958 which set it up; and

(b) To examine comparable functions of Central Banks elsewhere and the relationship between them and their Governments.

The issue of Central Bank autonomy is as old as Central Banking. This seminar further reinforces the view that the debate is a continuous one, particularly in the present circumstance of the Central Bank of Nigeria's history.

Central bank autonomy is often discussed in the context of the functions it performs. Some of the functions are statutory, non-statutory and developmental. Usually such functions include serving as fiscal agent to the government, lender of last resort for private financial institutions during emergencies, and a regulator and supervisor of the financial system. As the principal public sector agency charged with the execution of a country's monetary policy, however, the Bank can encounter a number of conflicting objectives. It must weigh long range economic growth against control of inflation and external balance. It is almost always under economic and political pressure to emphasize some goals at the expense of others in the formulation and conduct of monetary policy. The extent to which the Central Bank accommodates this pressure can depend greatly on its institutional independence.

Independence of a central bank has always been discussed in the context of autonomy from governments. This is because there has always been some relationship between governments and central banks. Governments set in motion the setting up of central banks. Central banks are created by legislation and they derive their powers from such legislation. The government relies on the central bank to perform certain specialized functions on its behalf and provide certain services for the government. In such a situation, central banks cannot be completely separated from their countries government.

In our comparative study of central bank independence, congnisance must be taken of the history and the ever-changing policy environment arising from changing or challenging economic developments. In the developed countries, the policy concern of some countries at a given point in time is price stability. To achieve such, monetary policy is the canon to curb money supply from growing wild; fiscal policy must be such as not to undermine monetary policy. There is the school of thought which feels that monetary policy is an important economic policy instrument which should not be left out of the government. Although

* Chief S. B. Falegan is a former Director of Research, CBN.

central banks are mostly charged with the execution of monetary policy in most developed economics they do not show much independence in the determination of monetary policy. They are usually subordinate to the Treasury/Finance Ministry in the formulation of policy, and some scope for disagreement with the government exists.

At the inception of the Bank of England, the issue of independence of the Bank was first raised by David Richard in 1824. In spite of his view, British monetary policy is subject to the direction of the U.K. Treasury, and Parliament generally holds the government responsible for the actions of the Bank of England. In **Japan,** Finance Ministry dominates. Both the Finance Ministry and the Economic Planning Agency in Japan are represented on the Policy Board of the Central Bank, and this board's annual report to the Japanese Diet must be submitted through the Finance Ministry. **French** and **Italian** monetary policies are also dictated by the Treasury, even on a very short-term basis. In **Canada**, the Central Bank had more formal authority before 1967 when an amendment to the Bank of Canada Act gave the Minister of Finance the power to issue directives to the Bank. This general pattern of subordination to the Treasury extends to most of the world's other developed countries as well. The Central Bank of **Germany** experienced substantial independence in postwar years. The restructuring of the Deutsche Bundesbank in 1957 actually increased the influence of the Federal Government but still left the Central Bank one of the most independent in the world. Government authorities can attend meetings of the bank's highest deliberative body, the Central Bank Council. They have no vote but only the power to delay a decision for a maximum of two weeks. Although the Bundesbank is charged with supporting general economic policy, this is subordinate to its responsibility for safeguarding the value of the currency. The government itself is responsible for fiscal policy, and the Central Bank deals with monetary policy. While the government is responsible for decisions about the exchange rate regime, subject in practice to Central Bank approval, the Bundesbank is responsible for **discretionary foreign exchange intervention policy**. This division has allowed some conflict in the past, but it has not been prolonged. The Bundesbank is not formally answerable to the parliament, except for submission of an annual report.

In **Switzerland**, the Swiss National Bank and the government must consult with each other on policy matters, but approval before implementation by the other party is not necessary. The Bank is constitutionally independent of the parliamentary body but, as in the German case, submits an annual report. Unlike Germany, the Swiss confederation owns no shares in its Central Bank. Stock is held by the canton, cantonal banks, and the public. Shares are listed on the Swiss stock Exchange. The policy of the Swiss National Bank is made indirectly by the Council, which consists of 40 members, 25 of whom are appointed by the government cabinet for four-year terms. The remaining 15 are elected by bank stockholders. The council selects a smaller board that directly manages monetary policy. The role of the government in the bank is explicitly limited by law to such matters as determining the size of the bank's capital, the denomination of bank notes, and the division of profits among cantons. Formal government participation in monetary policy is quite minor.

The **U.S. Federal Reserve System** is also independent when judged against most other central banks. But the Federal Reserve has a formal responsibility to the legislative branch of the government that is greater than in Germany and Switzerland. It must report in testimony to the Congress twice yearly on the conduct of monetary policy, and it submits an annual report. The Chairman and the six other members of the Board of Governors of the Federal Reserve System are frequently called on to testify before Congress on monetary policy and various other subjects.

Over the years the arguments for more independence were gaining more and more followers. An outstanding example is the formulation in the Treaty of Maastricht, which defines the statute of a future European Central Bank System (ECBS). This system consists of the European Central Bank (ECB) and the National Central Banks which have to be independent when the system starts at the beginning of the final stage III in 1997, 1999 or later. "Independence" means that the decision-making body, the Council of the ECB, does not depend on orders from national governments and supernational institutions. It is even not allowed to ask for government guidance.

As a consequence of this prescription a number of West-European Governments have given independence to their own Central Banks even now. This is true for France, Spain, and more or less for Italy and Belgium. In Germany and in the Netherlands independence existed for a long time. The U.K. is finding great difficulties in the whole matter. Therefore the Treaty of Maastricht gives the U.K. the right of opting out of the European Monetary Union.

In **Australia**, while the Bank operates within the set objectives of Government, its independence within or inside the government is maintained by the armory of instruments to operate freely. In effect, while there is **political independence** within the government, it has the economic independence whereby its ability to freely determine the manner in which it implements policy objectives is guaranteed: that is, it has or experiences **instrument implementation independence**. As a guarantee of mutual respect, the legislation provides that in event of dispute over monetary policy, the government can override the reserve Bank by tabling its objections before both houses of parliament. In practice, such a situation has not arisen.

In the case of developing countries, the laws governing the setting up and the functioning of central banks have generally followed the pattern of the colonial power. Changes are often made in the light of developments and their economic environment. In the case of the Franco-phone countries, with common currency, there is, no independence of central banks from France, especially in monetary, foreign trade and exchange rate policies. The only exceptions were Guinea and Mali, in the 1960s and 1970s which found themselves compelled to return to the Franco-phone fold.

In the English-speaking countries, not only did each establish its national currency at independence, each also pursued independent economic policies with central banks seen as sufficiently strategic and at the core for promoting rapid economic growth. At independence, most central banks were established as independent organs within the government, and not necessarily of government. However, the growing and rapid changes in economic environment led to drastic changes in the laws establishing central banks. In **South Korea**, the amendments to the Bank of Korea Act in 1962 transferred monetary policy power to a Monetary Council of the Government, including foreign exchange policy formulations. The immediate takeover of such functions by the government was followed by a financial reform that included the establishment of special banks according to their distinct financial features. At the other extreme is the case of Uganda during the Idi-Amin regime. It did not require the government to amend the laws establishing the Bank of Uganda to undermine and remove its independence. It merely took over the Bank and forced it to take unorthodox methods to finance government's weird fiscal deficits. This is equally true of Zaire. In the case of Uganda, the attempt by the Governor of the Bank at that time to assert his authority and independence led not only to his being dismissed, but his body found floating on one of the lakes a few days latter.

In Nigeria, the Central Bank of Nigeria has had a chequred history in terms of exercising authority and independence. It has moved from the sublime and descended to the mundane, and no one knows where it will end taking current events into account.

The Central Bank of Nigeria has the following statutory functions as spelt out in the Bank's original Act of 1958, Section 4:

(1) To issue legal tender currency in Nigeria;

(2) To maintain external reserves in order to safeguard the international valne of the currency;

(3) To promote monetary stability and a sound financial structure in Nigeria; and

(4) To act as banker and financial adviser to the Federal Government. The Act has since undergone 14 amendments culminating in Decree No. 24 of 1991 and Decree No. 25 of 1991.

The authority for managing and administering the affairs and business of the Bank rests with the Board of Directors, with the Governor as the head.

The Board lays down the broad outlines of policy on:

(a) Monetary and credit formulation and execution;

(b) Fixation of the rate or rates of discount or rediscounts and the rate or interest on advances to the Government and to other customers of the Bank;

(c) Determination of the rate of exchange at which the Bank buys and sells foreign currencies.

(d) Establishment and closure of banks' branches;

(e) Appointment of currency agents, auditors and officials and other employees.

For the purpose of achieving these objectives, especially the much broader function of maintaining monetary stability, an array of tools is available to the Bank for monetary control:

(a) Variable discount rate; interest rate structure and bank charges.
(b) Open market operation.
(c) Variable liquid assets and liquidity ratio.
(d) Moral suasion.
(e) Selective credit control.
(f) Cash reserve requirement.
(g) Special deposits.
(h) Stabilization securities.

When the Central Bank of Nigeria Act was amended in 1968, a number of additional instruments of monetary control were given to the bank. These include the power:

(a) To prescribed minimum ratio of total loans and advances and discounts which each commercial bank shall grant to indigenous persons;

(b) To prescribe cash reserve ratios from time to time for deposit liabilities which the banks should maintain at the Central Bank;

(c) To call for special deposits from commercial banks;

(d) To impose credit ceilings;

(e) To vary the composition of specified liquid assets to be held in stipulated ratio to deposit liabilities;

(f) To approve commercial bank loans of certain sizes;

(g) To issue, allocate to and repurchase from financial institutions stabilization securities.

Decree No. 24 and Decree No. 25 of 1991 provided additional functions, which, as will be examined later provided for the Bank's Archilee's heel. Some of these instruments which amounted to command control and rigid credit system of the economy have fallen into disuse as a result of the deregulation and open market policy of the Structural Adjustment Programme.

At the same time some, like the stabilization securities, are being over used at the expense of other suitable and relevant instruments such as open market operations that commenced on June 30 1993 through the establishment of three Discount Houses. If it is true that Treasury bill sold out of Central Bank portfolio are always over-subscribed, I am still puzzled why the same CBN embarks on unmitigated use of stabilization securities, if indeed it is operating unfettered.

Central Bank – Government Monetary Policy - Making Relationships

The relationship between the Ministry of Finance and the Central Bank of Nigeria took a new turn when the Central Bank Act was amended in 1968 with the following provisions:

1. The Board shall keep the Minister informed of the monetary and the banking policy pursued or intended to be pursued by the Central Bank.

2. The Minister shall, from time to time, if he disagrees with the Board on the monetary and banking policy pursued, so inform the Board of his disagreement thereto, and the Minister may submit his representation and that of the Central Bank to the Federal Executive Council.

3. The Federal Executive Council may, in writing after considering the representation, direct the Central Bank as to the monetary and banking policy pursued or intended to be pursued and the directive shall be binding on the Board which shall forthwith take all necessary step or expedient to give effect thereto.

Thus, the discretionary power of the Central Bank on matters relating to the formulation of monetary policy became a joint responsibility of the Federal Ministry of Finance. Hitherto responsibility for the formulation of monetary policy rested primarily with the Board of Directors of the Central Bank in close consultation with the government.

The Financial System Review Committee set up in April 1976 examined, among other things, the implication of this aspect of the Central Bank (Amendment Act of 1968). The Committee recommended an amendment of Section 3 (2) of the Act to have the word 'may' changed and substitute 'shall' in its place so that the amendment will read 'shall' submit his representation and the representation of the Central Bank without any abridgment to the Federal Executive council (now to read President-in-Council).

Since the Government failed to accept the amendment, it is obvious that the Central Bank **creates and initiates** new policy instruments, but the Ministry of Finance **exercises and controls** policy. One of the immediate effects of this change in the status of the Central Bank is that the level of authority and precedence of **Governor-Minister** relationship became the **Governor-permanent Secretary** relationship. The Governor has no more direct access to the Minister as to the evolution and the style in the change in status. One important point however, is that the image, effectiveness, professionalism, proficiency and character of an incumbent is a strong determining factor in the working relation between the two authorities. In a managed economy, it may be too much to expect the Governor of the Bank to have a decisive influence on Government's will. The control or exercise of monetary policy power by a Government Ministry is therefore, not peculiar to Nigeria.

But in our case, how was this authority used? One can with some measure of judgement as an insider say that the golden era of Central Bank authority ended with the civil war. There is nothing particularly wrong in the Treasury exercising control over the Central Bank once the human resources and ability to perform the functions and shoulder responsibility are assured. There were those in the Treasury who were more keen on exercising authority over individuals as evidence of the newly acquired power than in mastering the responsibilities that the new power entails in terms of policy formulation and mastery. They now see the Central Bank as one of the parastatals under them whose top officials are summoned to meetings at command and questioned for coming late to meetings. Purely fiscal policy issues for which a Treasury man should proudly command respect in terms of understanding policy formulation implications are easily passed to Central Bank of Nigeria for action. There are occasions when the Permanent Secretary sees himself more powerful and important than the Governor of the Central Bank of Nigeria. Two instances will suffice here. On one occasion, a paper on "Management of Nigeria's External Reserves," was to be presented for public enlightenment by the Director of Research of the Bank. Two days before the presentation, the then Permanent Secretary, Ministry of Finance, wrote a letter to the then Governor of the Central Bank of Nigeria directing that the public lecture be stopped. Thank goodness, the Governor, a man of straw, turned down the request and the lecture was given. That information-gap-bridging opened the eyes of intellectuals and the public to another perception of the Central Bank and that has, given the Research Department of the Bank an image of human resource centre till today.

The other is what to me amounts to arrogance of power. Under the World/IMF rules or conventions at their annual meetings, the Minister of Finance and the Governor of the Central Bank of Nigeria are Governors of the World Bank and IMF, respectively. As an evidence of exercising power, the Permanent Secretary of Finance in 1980 or so removed the Governor of Central Bank of Nigeria's name as the IMF Governor and substituted his name instead. When a Permanent

Secretary went to that length, it shows lack of respect not only to the Governor of the Central Bank but also to his Minister of Finance who in fact did not do anything to rectify the insult meted to the Central Bank Governor. The hassle it generated left a gap of responsible performance on all sides. To me it was a period of dishonour among policy makers, I must confess the incident hastened my exit from the Bank.

At one time, the Bank was stifled of initiative and innovation and confined to the routine functions of exchange control administration, opening letters of credit for public bodies, and humdrum credit control operations for which the Bank was better known. Criticisms such as delays of Central Bank in releasing foreign exchange often gave the wrong impression that exchange control was the main, if not the sole responsibility that the Bank exercised. The other danger was that what should be a day-to day monitoring of monetary tools and operations (for example interest rate changes) was turned, unfortunately, into an annual budgetary affair, thus glossing over prompt remedies to emerging problems arising therefrom.

Infact, the credit control which the Central Bank has relied upon and used most excessively can operationally be described more as a direct control measure dictated by Government than a measure exercised by the Central Bank. Whether or not the Central Bank should be completely independent of Government, particularly of the Federal Ministry of Finance, is not an issue of too great significance. What is important are the consequences of the various amendments to the Central Bank of Nigeria Act, most especially the fact that:

(a) Over the years since its inception, the Bank has lost most of its independent powers which have been vested in it, to the Federal Ministry of Finance;

(b) Since the Bank has little or no discretion in formulating and executing monetary policy, Government fiscal policies (especially expenditure policies) override monetary policy; and

(c) The ability of the Bank to set the course as well as a stance of monetary policy at its discretion has been severely restricted by Government's excessive spending. This limitation is reflected in the Bank's little success, if any, at controlling the inflation arising from expansion of monetary aggregates.

The Central Bank of Nigeria Under the President

What I have described so far was a child's play with subsequent developments. Under Decree 24 of 1991, the Central Bank got its "freedom" (mark my emphasis on "freedom" rather than independence) from the Ministry of Finance and found itself buried in the belly of the tiger-the presidency with responsibility for performing monetary and banking functions stated as follows under articles 8, 1 & 2: (1) The Government shall **keep the President** informed of the monetary and banking policy pursued by the Bank. (2) The President after due consideration may in writing, direct the Bank as to the monetary and banking policy pursued or intended to be pursued and the directive shall be binding on the Board which shall forthwith take all steps necessary or expedient to give effect thereto.

Note that under Decree No.17, Central Bank of Nigeria (Amendment) of 1968, **the Minister and the Federal Executive Council** were involved in monetary and banking policy. In the 1991 Decree, **the President (not even the Presidency or President-in-Council) was substituted for the**

Minister and the Federal Executive Council to formulate, determine, and execute monetary and banking policy for which "forthwith" the Central Bank was compelled to "take all steps necessary to expedite action to give effect to the President's directive," no matter the level of the Central Bank of Nigeria's disagreement with such policy. The consequence is our inability to explain how $12.2 billion was used between the President and the Chief Executive of the Bank, an issue that has dented the image of the Bank. If what was credited to former President Ibrahim Babangida in Tell Magazine is true about the unaccounted for ₦412.2 billion, then the Central Bank of Nigeria has been cheated out of its responsibilities. It is to the effect that once you run a government, you don't put money in the bank. Government is about development and development is about spending money. The far-reaching economic consequence of such cynicism of a president to his citizenry is obvious today as per capita income has dropped below poverty line, and what we are now having is development by destruction. If the president of a country can say that and get away with it, what his statement has shown is that government is no more the art of governance but a gambling den of trading outpost or a market for business enterprise for the favoured where the rules of the game are no more relevant and therefore, there is no more **ceteris paribus** (all things being equal), as economists are fond of assuming. What in effect he is saying is that all policy formulations and conceptions whether budgetary, fiscal or monetary are irrelevant and therefore, the institutions concerned, especially the Central Bank, are redundant. In that case, the Central Bank is being made to become a mere clearing house, a trading and transactions outpost having only a say and not its **way, barking** without ability to bite.

I have mentioned earlier that there is nothing unusual in the proper collaboration and mutual respect between a supervisory ministry like the Federal Ministry of Finance that is responsible or is at the core of government fiscal if not total economic policy, and the Central Bank of Nigeria whose statutory role it should guard jealously without hindrance. The Bank of England is directly under the Treasury but we have never heard the Secretary of Treasury subjecting the Governor to indignity or opprobrium, bully and threats as is common here and in many developing countries. It is mutual respect; and where there is disagreement, it will be over policy and not on personality, and their duty is first to the nation and the overall interest of the country.

For example, Balewa during his regime made a categorical statement that though the Central Bank of Nigeria is not independent of the Government, it is independent within the Government, and that was how it operated. That is why from the founding fathers of the Bank under Roy Fantan, Mai Bornu and to a lesser extent under Dr. Isong as Governors, there was mutual respect between them and their respective ministers under Chief Festus Okotie Eboh, and Chief Obafemi Awolowo; all working closely and without hindrance, and their permanent secretaries were loyal and were not usurping other people's functions.

There is an irony in the leadership role the Central Bank of Nigeria is giving iu economic and financial matters. At one breadth those who are mentally lazy to perform their statutory functions find the Central Bank a fertile ground to shift their statutory functions and have them performed for them because the Central Bank continues to provide professional and competent leadership for policy formulation. The apparent transparent and competent performance of these functions is making the Central Bank a dumping ground for all sorts of unsolicited functions that detract from its prime and statutory functions. Under the new dispensation, all sorts of duties are put on the Central Bank to perform and these have created a monster for it under which it is suffocating. Meanwhile, of the five functions on which the Board is expected to lay down broad policy guidelines, the Bank seems to have lost its discretionary powers in determining three most important functions listed earlier in this paper, while the last two which are operationally inevitable are left for the Board to perform.

I have personally watched with apprehension the phenomenal and unparalleled increase in unsolicited, non-statutory, developmental and financial functions the bank has been made to take on in the last couple of years, the totality of which has relegated the statutory functions of the Bank to secondary position. Not only is the Bank made to perform such functions, it is also expected to provide and execute the regulatory and supervisory instruments. The anomalous situation is to find the Bank competing in some areas with institutions it is supposed to regulate; that is the banking system, while its core function on which its authority, autonomy, impartial role, and prestige rest is performed or usurped by the Presidency and other super-and-supra-hidden bodies that press the button behind the scene. It does not even matter to those concerned whether the Central Bank has the well-equipped staff to take on these imposed duties. The result is the overstretching of the staff of the Bank into very many functions. The consequence is that even when someone else should be held responsible for obvious lapse in functional responsibility, the Central Bank becomes the victim, as if the Central Bank is the Government of Nigeria. Have these extraordinary functions not undermined and eroded confidence in its impartiality and independent judgement? I am often amazed at the pace of attack on the Central Bank by the operators of the financial markets. If the merchant and commercial banks don't attack the Bank for not providing adequate supply of foreign exchange to the market, it is the Stock Exchange and/or SEC and NDIC feeling uncomfortable that the bank is eroding their functions. I am often puzzled at the accusation that the Bank does not provide enough foreign exchange to the market as if it manufactures foreign exchange. Can we guarantee any independent action of the Bank in foreign exchange operations where what constitutes official transactions can not be independently determined by the Bank?

It should be emphasized that since the inception of the Central Bank in 1958, it has never been insulated from the frequent changes in Government. It has had the opportunity to operate briefly under two civilian administration, while it has consistently operated for 30 years under military rule with every regime manipulating it to meet its set objectives. No matter how elegantly couched and spelt out the language of independence and functions of the Central Bank can be, the military regime can not capture the changing policy making environment and set objectives for which it is not schooled (in the art of governance), and therefore, can not appreciate the damage being done to the economy by merely printing and spending money for worthy and unworthy causes without restraint. Such regimes are not averse to inflation and hyper-inflation. There are also those who benefit from government-induced inflation who don't care about any policy as long as they are the beneficiaries.

Even when these statutory functions are strictly followed and conscientiously executed by the monetary authority, changes in economic and financial circumstances, more-than-extraneous factors, are making those statutory functions themselves no more adequate unless adjusted to meet the changing environment. For example, time was when the major, if not the only determining factor of exchange rate changes was the international flow of goods. It was then easy to operate a fixed exchange rate determination and movement under the IMF up till the mid 1970s. However, with the explosive growth in financial markets both at the international and domestic markets, operations in the financial markets have increasingly become decisive in exchange rate movements globally, thus displacing the international flow of goods. The factors behind exchange rate fluctuation become less visible, transparent and tangible but more severe than when such rates were based on flow of goods. No central bank could thereby independently operate or determine its exchange rate in isolation from the rest of the world. Exchange rate determination has thus become a global function with some key currencies playing the role of reserve and intervention currencies, while the rest use those currencies to determine their own rates. In our own case, the black market rates seem to give the lead in dictating the official exchange rate.

What we have said about the Central Bank of Nigeria under the president brings into focus a serious issue about the integrity and accountability of the Bank. In effect, if a central bank can be misused and made to function unprofessionally by a President, to whom is it accountable? The almost incessant attacks on the Central Bank from all sides of the country's financial system often worry me. It must be admitted that we have all contributed to the problems. The operators are manipulators, and the Bank proved to be an innocent confusionist. Prudential supervision of the country's banking system was only recently enforced as a formal core function of the Bank arising from the unrestricted establishment of commercial, merchant, mortgage, People's, community banks and other non-bank finance houses. While the law for establishing some of the institutions are vested in the Central Bank, and advice has been given by the Bank against granting licences to some banks, pressures have been made to bear, and indeed, such powers exercised outside the Central Bank to grant such licences. When many of them are running into problems, the Central Bank is always the focus to be called upon to find solution to them and enforce prudential supervision which, at times, turns out to be action worse than inactivity or applying medicine after death. It does not even matter to those who create the problems in the first instance whether the Bank is overstretched or not or have the human capacity to perform such unsolicited functions. Even where the Central Bank succeeds in enforcing such supervision, more than political pressures are made to bear on the Bank to soft-pedal. In a situation like that the Bank becomes ineffective, and unco-ordinated: protective of some untouchables and more-than-severe on others. In such a situation, not only does it become a victim of attack from all angles, its own sense of accountability and impartiality is called into question. What it genuinely puts out in its half-yearly and yearly reports as economic performance are regarded either as doctored to suit the government or taken as unreliable. A willing President that has manipulated the Bank cares less about data on trends in economic performance, budgetary performance, staff quality and availability and utilization of financial resources entrusted to the Bank, etc. Once the Bank also feels it is protected by the President, it unconsciously exposes itself to limitless and less-than-candid financial probity and control. In such a case, a central bank which stresses only its independence and ignores its ultimate accountability to the body politic may find itself being kicked about like a football. It would have succeeded in giving away and losing touch with its ultimate mission of serving the public at large. I personally feel sad to read in the 1995 bndget that the Central Bank of Nigeria was one of the parastatals that was directed to snbmit its budget for scrunity in order to curb unmitigated budgetary spending by such parastatal.

At this juncture, I want to make bold to ask, as we are among ourselves, how we feel about our personal image and the image of the Bank as perceived by the:

- the public;
- the banking system;
- the commerce and industry;
- the trading public; and
- the government.

Some of us must have a sense of fulfilment, while others, both within and without, will have a searching conscience in saying that. I want to recall a book titled, A 100 Years of Central Banking in USA, by Metzler and Brunner. The authors took pain to look at key staff of the Federal Reserve Bank over the period and passed judgement on them as to the effectiveness of policy goals and objectives under them. Some stood condemned, some stood vindicated. That is the verdict of history after we would have left.

There is one area, that may sound self-seeking and that is the attitude of the Board and Management of the Bank to its staff, serving and retired. As said earlier, I am often puzzled at the amount of responsibility being made to be performed by the Bank. Yet the velocity of circulation of retired professional staff is increasing, even though they are well-equipped, alert and still capable of serving. The excuse is the so-called retirement age policy of the government. Herein comes ambivalence of the Bank. At one breadth seeking independence from government, and at another breadth, conveniently using government machinery, where suitable, to deny professionals of continuous service to the bank.

The second point is more than puzzling and that is the attitude of the Bank to the welfare of its retired staff, especially in areas of pension and medical services. It is a matter of conscience, but let me warn the professional staff of the Bank that they will one day find themselves outside the Bank, and it is then they will know what it is to be on a monthly pension of less than N5,000 without medical assistance. I have done a lot of home work on this issue. It is painful to reveal that of all government institutions and agencies, it is only the Central Bank that has this negative attitude to its staff, bearing in mind that these are the founding fathers of the Bank. At this juncture, let me make this scriptural injunction and appeal.

Go to the Ant, Thou Sluggard
Consider its ways, and be wise.

Conclusion

Finally, if what one is hearing from the grape vine is true to the effect that the Central Bank is to be returned to the Federal Ministry of Finance, a word of advice and a note of warning need to be sounded. As shown earlier, there is nothing wrong in the Central Bank being under the Federal Ministry of Finance provided the latter is not overbearing as it was from after civil war year up to today. The relationship between the Minister and the Governor must be clear and mutually respectable. Where there is dispute over monetary policy the government can override the Bank by tabling the views of both the Central Bank of Nigeria and the Federal Ministry of Finance before both houses of parliament where the final decision should reside. The Permanent Secretary will continue to play his role as an official and not a boss of the Governor or any of his staff.

The reason for my position is this. Just as the Central Bank of Nigeria has statutory duty for monetary policy, so does the Federal Ministry of Finance have responsibility for initiating and executing fiscal policy. If there is one sore point in Nigeria's economic woe today that has rendered all solutions to the economic problems impotent, it is the government's scandalous deficit financing arising from fiscal indiscipline of the budgetary authorities headed by the Federal Ministry of Finance. How then can the Ministry that renders the major monetary functions of the bank ineffective be called upon to exercise authority and control over the Bank?

One of the areas therefore, the image of the Bank can be enhanced is in financial discipline of the government. Unless the Central Bank is protected from the need to fund government induced and unmitigated budget deficits, price stability whose achievement seems to rest more in the hands of the budgetary authorities (under present circumstances) than in the Central Bank will never be achieved. In short, sound monetary policy cannot be maintained without a sound and disciplined fiscal system.

It does not credit the country to hold its Central Bank responsible for the self-inflicted, profound and fundamental problems (with structural foundations that have a long history and are now permanent and leprous) of our economy. But for a brief period of the Structural Adjustment Programme after which discipline was thrown overboard in our economic management, exogenous and endogenous problems such as reckless and unmitigated deficit financing, leading to rapid growth in excess liquidity, scandalously high and unstable interest rates, induced exchange rate instability, leading to distressed financial institutions and erosion of the value of financial resources have held sway. Unfortunately the bulk of these problems of macro-economic instability are being largely tackled by monetary-management-induced policies only which are normally central banking primary functions. When the Central Bank fails in nipping in the bud the consequences of the induced excessive monetary expansion, market depreciation of the naira exchange rate, a sustained weakening of external payments position, and run-away inflation but gets the government to impose unrealistic and artificially dictated interest rates and exchange rates, the Central Bank becomes the victim. The only instrument left in its armory is the now hide-and seek stabilization securities that have added to compounding the illiquidity of the banking and the economic system. A knowledgeable man once wrote that there is nothing wrong to allow the bird to fly over your head. If the Central bank fails to shout publicly to let people know the two deadly sources that generate excess liquidity which it wrongly attacks through stabilization securities (the two are uncontrolled government deficit financing and the ubiquitous but unacknowledged cocaine money-laundering), a wrong assessment will be made about the role and place of the Central Bank and someone will shout for a wrong reason and say the power of the Central Bank of Nigeria has increased; it is increasing and it ought to be diminished.

The Central Bank should be on its guard in public accountability of its budgetary and financial operations so that it does not become a victim of Mr. Schopenhauser's epitaph. He went to visit the gallery where the portraits of bankers were hung, and observing their image exclaimed: when I look at your faces, even in your graves, I have to admit that God is not with you.

ADDENDUM

NEW FOREX DECREE ERODES CBN'S AUTONOMY

I had finished this paper when I read about the Foreign Exchange (Monitoring And Miscellaneous Provisions) Decree No. 17 of 1995 in one of Nigeria's Dailies, THIS DAY of September 1&2 1995, and I quote:

By the new Decree, The CBN, aside from seeking the approval of the Finance Minister to issue guidelines to regulated procedures for transactions in the autonomous foreign exchange market, could have some of its decision reverse by the Minister.

Section 1, subsection 2 of the Decree states: Subject to this decree, the CBN may, with the approval of the Minister, issue from time to time, guidelines to regulate the procedures for transactions in the market and for such other matters as may be deemed appropriate for the effective operations of the market.

Section 8 (2) of the Decree also empowers the Minister to intervene. The Minister may from time to time, issue such directives not inconsistent with this decree as to how he may deem appropriate for the efficient operation of the market.

This same power is conferred on the Minister in Section 39 which states that he may by order make such transitional provisions as appear to him necessary or expedient to give full effect to the provisions of this decree.

Experts believe these provisions are ominous for the CBN. In addition to being at the mercy of the Finance Minister in the efficient operations of the foreign exchange market, the Decree, in Section 6, also denies the CBN the right of final decisions in the appointment of authorised dealers or buyers in the market. Sub-section 2 states: A person aggrieved by the decision of the CBN under sub-section (1) of this section may within 28 days of the receipt by him of the letter of revocation, appeal in writing to the Minister. Sub-section 3 states: The Minister may, after giving consideration to the circumstance of the case, reverse or affirm the decision of the Central Bank, as the case may be.

The new Decree is not only ominous for the Central Bank of Nigeria, but extremely disastrous for policy formulation. It is an action worse than inactivity. It is a political time bomb. It only takes a self-seeking foreign exchange user to blackmail the Governor of the Central Bank before a politically appointed Minister of Finance. The cost to the nation of this new Decree cannot be estimated now. Foreign exchange operation is a sensitive, daily affair, where national and international currencies are traded. To subject the foreign exchange market to suspense, wait-and-see manipulation is to render policy formulation meaningless. What I have even foretold earlier will be a child's play from what this new Decree has brought out. In this day and age when one can scarcely know the difference between the civil servant on his desk and the portmantoe carrying business man-cum Jankara market women in quest for money, the country is up for a rough-time in decision-making on fiscal and monetary policies that are not based on sound economic and financial policy formulation. It takes patriotism and professionalism to assemble data and analyze them in formulating policy, and not mere guess work, a tragic effort of judgement to which we are returning through buck-passing by those who will see the Central Bank now as a mere Department of the Federal Ministry of Finance. The situation is particularly tragic against the background of our civil service that is still administration oriented for a function that is developmental and business-like in this stage of our economic growth and development where a great deal of structural adjustment is required.

S. B. FALEGAN

12th September, 1995.