SYMPOSIUM OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

“CENTRAL BANK INDEPENDENCE: MYTH OR REALITY

Malabo, 13 August 2015

Keynote statement by Prime Minister Charles Konan Banny

Ladies and Gentlemen

I applaud the Association of African Central Banks for taking the initiative to organize this symposium on central bank independence. I would like to express my appreciation to the association as this forum will provide us with the opportunity to ponder over our own practice as central bankers. This exercise will help enhance the efficiency of the economic and financial governance of our States.

Ladies and Gentlemen

Does the concept of central bank independence concern a practical reality or is it mere rhetoric to conceal the persistence of the mighty power of States with regard to monetary policy?

The freedom of action and decision of institutions responsible for monetary policy seems obvious in this XXI century. And yet, all over the globe, the independence of central banks was a hard fought gain, as the outcome of the distribution of tasks between the institution entrusted with monetary policy and governments responsible for budgetary policy. It would be recalled that not long ago in Africa, the political authorities could even interfere with decisions regarding the appearance of banknotes. We also remember the time it took, prior to the devaluation of the CFA franc in 1994, to adopt the decision, even though the need to do so had become urgent following the major crisis of the 1980s. As a result of interferences between politics and currency management, the political authorities were conferred the dual responsibility of monetary policy and budgetary policy.

However, this situation is now a distant memory, because monetary policy has been the exclusive responsibility of central banks for at least two decades. Central bank independence became the rule once the States entrusted them with full authority to maintain price stability.

What are the characteristics of central bank independence? Such independence is based on the separation of budgetary policy and monetary policy. Budgetary policy is the responsibility of public authorities while monetary policy is under the exclusively jurisdiction of the central bank. Independence has a political aspect and an economic aspect. On the political level, the political authority has absolutely no influence on the decisions taken by central banks, or even on their institutional organisation.

On the economic level, the central bank sets its objectives and defines ways of achieving them; it cannot be compelled to finance the States' budgetary deficits.

Are these universal principles applied in reality, particularly in Africa, to which I will confine my intervention?

The independence of a central bank is linked to the conditions of appointment of their managers, their freedom to choose and implement their monetary policy, and their “accountability “.

To ensure fuller central bank independence, steps were taken with regard to the appointment of their managers and the performance of their duties: Their mandate cannot, in any case, be revoked; they cease to depend on the State as soon as they are appointed; they have a full mandate which shields them from the effects of the election timetable.

Central bank independence is also based on complete freedom of action and decision, notably in the formulation and conduct of monetary policy, the setting of the target level and the choice of monetary policy instruments.

However, central bank independence requires a balancing factor without which the institution would be beyond any form of control. This independence goes hand in hand with "accountability" which compels the bank to account for its actions and observe the standards of transparency in the choice of objectives and the strategy to achieve them.

To refer to the specific case of the Central Bank of West African States (BCEAO), it is required to report the results of its action both to public authorities and economic actors.

It submits periodic or specific reports to policy organs (Conference of Heads of State, Council of Ministers, Board of Governors).

It informs the public through periodic publication, on its website and using a modern communication system.

Besides, the transparency of its procedures is guaranteed by an internal control and external audit system, in compliance with international standards.

Despite their independence, central banks are subject to external factors that contribute to monetary stability. These include budgetary policy, revenue policy, the regulatory framework of economic activity and structural reforms. This is the case of efforts to strengthen the convergence of the States' budgetary policies in a context of a supra-national currency.

The fact that the States' financial resource needs are covered by the market and no longer through public treasury funding, confers greater independence to central banks in relation to public authorities.

Ladies and Gentlemen

Can we consider that central bank independence protects them from criticism? Does it give them the unfettered ability to check and resolve the economic and financial crises? Does it guarantee "de facto" an improvement of the economic policy of States? More specifically, does it give them the ability to act efficiently to control the pace of the economic and financial crises?

The occurrence of crises, regardless of whether they are economic, financial or political, is a revealer that helps examine the relevance and efficiency of this independence.

Ladies and Gentlemen

Part of this responsibility was attributed to central banks during crises that occurred in developed countries.

The subprime turmoil in the United States of America was thought to have been prompted by the monetary policy applied by Governor Greenspan. The FED Governor was said to have had preference for the creation of real estate and financial bubbles by keeping key rates at low levels. By tightening credit later on, to contain inflationary pressure, he triggered the bursting of the bubble.

More recently, the Greek sovereign debt crisis fuelled suspicion about the efficiency of limiting central bank independence when it comes to economic policy. The European Central Bank was criticised for lacking independence when it agreed, under pressure of governments and IMF, to finance the debt of countries in crisis in violation of its own rules.

Finally, these criticisms bring up the problem concerning the harmonious coordination of economic policy instruments which fall under the purview of two different authorities. This difficulty is resolved by the requirements imposed to independent central banks to ensure that they are not beyond any form of control. Independence needs to be balanced with responsibility and credibility, which go hand in hand with accountability.

However, the criticisms I have just mentioned do not call to question the principle of independence. They simply recall that no human enterprise is perfect, but needs to be perfected constantly to take the reality into account. Many of the questions raised in my keynote statement will certainly find answers during the discussions between the panellists of the different sessions of this symposium. I am particularly interested in the answers that will be proposed to the question on the central banks' role in times of economic and financial crises.

Charles Konan Banny