

“INDEPENDENCE OF CENTRAL BANKS: MYTH OR REALITY”
**Experiences of Sub-regional Central Banks and Monetary Communities:
A case of SADC**

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Outline of the Presentation



- 1. What is Central Bank Operational independence?**
- 2. Why is it important?**
- 3. The experience of SADC**
 - a) Operational independence**
 - b) Financial independence**
 - c) Appointment and terms of office of Governors and Deputy Governors**
 - d) Appointment and terms of office of Board Members**
- 4. Namibia's experience**
 - a) Operational and financial independence**
 - b) Appointment of top office bearers and Board Members**
- 5. Conclusion and Recommendations**

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What is Central Bank Operational Independence?



Ability of CB to pursue objectives without interference/pressure from third parties

Political independence: CB cannot take instructions from Government/state body or any institution

Technical independence: CB must have competent professionals and tools

Financial independence: separate budget and secure capital base

Competent court of law to settle disputes between CB and Government

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Why is Operational Independence of CB important?



- It insulates monetary policy from undue political pressure.
- Eliminates effects of “fiscal dominance” (i.e. the extent to which fiscal deficits condition the growth of the money supply) by government.**
- Countries with independent Central Banks show a better record of containing inflation.
- Operational independence enhances the reputation and credibility of Central Banks in general, and monetary policy execution in particular.**
- Central Bank operational independence is critical for the success of stability-oriented monetary policy frameworks.

SADC Experience – Operational independence



- Generally, the Constitution of a country can unambiguously provide for the independence of a Central Bank.
- Within SADC, only South Africa's Constitution provides for CB independence.
- Namibia, Mauritius and Seychelles have provisions protecting the independence of Central Banks enshrined in Central Bank Acts.
- All other SADC Central Banks have no provisions safeguarding CB operational independence in all their laws.

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SADC Experience – Financial independence



- SADC Central Banks allocate a certain percentage of the surplus profits to the General Reserve to build up the capital base.
- All Central Banks transfer a bulk of the surplus profits to the government/state, with the highest percentage paid by South Africa at 90 percent.
- In the cases of Lesotho, Swaziland and Zambia the law provides that CB redeem all government securities from the surplus profit before transferring the residue to government.
- In the case of Lesotho, Namibia, and Swaziland the legislation provides that they may transfer amounts deemed necessary by the Board to other reserve accounts.

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Appointment & terms of office of Governors and Deputy Governors



- Except for Mauritius where the Governors are appointed by the Prime Minister, Governors in the rest of SADC are appointed by the Head of State (King or President).
- Generally, Heads of State consults with the Public Service Bodies (i.e. Commissions) and receive recommendations from the Ministers of Finance and or the Board in this process.
- In most countries, the term of office is five years, while others have not specified the tenure of office of the Governors.
- SADC Model Act limits the tenure to 10 years.

Appointment & terms of office of Board Members



- In most SADC countries, Board Members are appointed by the Ministers of Finance.
- In a few countries, Directors in the Boards are appointed by the President in consultation with the Ministers of Finance and or the Public Service Commissions.
- The term of office in most SADC economies is 3 years, renewable.
- Most SADC Central Banks requires Directors to be persons of recognised standing and experience in business, professional or academic matters.
- In 6 of the SADC countries, the PS of the Ministry of Finance/Treasury is a member of the Central Banks Board of Directors.

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The Namibian experience



- The Bank of Namibia enjoys operational independence as it pursues its mandate without political interference.
- In executing its mandate, Bank of Namibia does not seek or take instructions from any government/state body or other institution/body.
- In Namibia, the Central Bank is well staffed with professionals and has the tools to fulfill its objectives.
- The Bank of Namibia can lend to government up to 25 percent of government average Annual revenue for the last 3 years.
- In Namibia, the central bank cannot be coerced to extend permanent financial assistance to the government or to private agents.

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The Namibian experience – Appointment of top office bearers for the Bank of Namibia

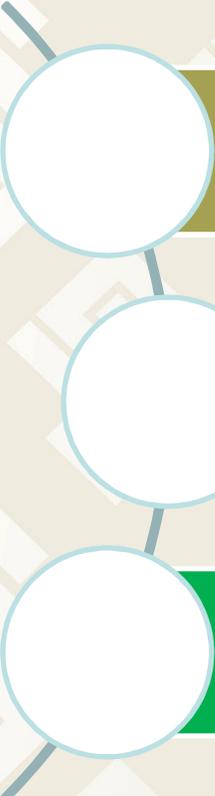


- The Governor and Deputy Governor are appointed by the President on the recommendation of the Public Service Commission after consultation with the Minister of Finance.
- The Governor and Deputy Governor is appointed from among persons who have the necessary qualification and professional experience for those offices.
- Governor and Deputy Governor may be dismissed for misconduct or inability to discharge duties.
- The Governor and Deputy Governor are appointed for 5 years and are eligible for re-appointment.

The Namibian experience – Appointment of Board Members for the Bank of Namibia



- The Directors are appointed as follows:



One member from Public Service – Appointed by the President

Four members appointed by President in consultation with Minister of Finance

Governor, Deputy Governor, PS Ministry of Finance: members of Board by virtue of positions

- Board Members serve for 5 years subject to re-appointment and disqualification.

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Conclusion



- Operational independence of Central Banks is very important for proper execution of the mandates of Central Banks and for sustained economic growth and development.
- All SADC Central Banks have a fair degree of operational independence.
- All SADC Central Banks enjoys financial independence.
- The extension of central banks' mandate to include financial stability poses a challenge for their operational independence.
- This calls for effective collaboration on the financial stability role of Central Banks with the government.
- To enhance operational independence in SADC Central Banks should implement the following recommendations;

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Recommendations to enhance CB Independence



- It is recommended that all national Constitutions in SADC and Central Bank Acts clearly provide for the operational independence of their Central Banks.
- An adequate percentage of surplus profits should be transferred to the General Reserve account or other reserves where necessary in order to build up the capital base of SADC Central Banks.
- It is recommended that all SADC Central Banks' legislation should provide for the instance of Central Banks making losses.
- It recommended that Board members be appointed on the basis of their qualifications and experience, not their affiliations and Board members should be appointed on a staggered term basis.
- It is recommended that appointees for Governor and DGs positions be experienced in economics, banking or finance.

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Thank you very much!
Merci beaucoup!
Muito obrigado!
Muchas gracias!