

## EFFECTS OF THE PROPOSED REMOVAL OF CBN AUTONOMY ON THE NIGERIAN ECONOMY: AN INFORMED ANALYSIS

Dr. Adeyeye, Patrick Olufemi<sup>1\*</sup>, Dr. Ayorinde, Olabode Oluwasola<sup>2</sup> & Ajinaja, 'Tunde<sup>3</sup>

1. Department of Banking and Finance, Rufus Giwa Polytechnic, PMB 1019, Owo, Ondo State. Tel: +234 806 252 6078.
2. Chancellor's Office, Achievers University, Owo. Tel: +234 803 714 2677
3. Department of Banking and Finance, Rufus Giwa Polytechnic, PMB 1019, Owo, Ondo State. Tel: +234 8038081505

**Abstract:** *In Nigeria, an important issue that has engaged the attention of policy makers and the general public in recent past is the issue of appropriate autonomy for the Central Bank of Nigeria (CBN). The issue is not whether or not the Government should oversee the CBN but rather, which arm of Government should oversee the Bank – the Executive or the Legislature and to what extent. This paper examines this seemingly controversial issue from different perspectives and from an informed opinion concludes that while the CBN autonomy is essential, the issue of transparency and accountability in the conduct of the Bank's affairs remain imperative and CBN autonomy should not be misconstrued as latitude for frivolity and unwholesome dabbling, especially by the CBN leadership, into political matters at every turn of events.*

**Keywords:** central bank, autonomy, independence, accountability, transparency

### INTRODUCTION

Wikipedia (2012) defines a central bank as a public institution that manages a state's currency, money supply and interest rates, which usually oversees the commercial banking system and possesses a monopoly on increasing the nation's monetary base, and also prints the nation's currency, which usually serves as legal tender. The primary function of a central bank is to manage the nation's money supply through the various instruments of monetary policy including managing interest rates, open market operations, discount window lending, setting the reserve requirement and acting as a lender of last resort to the banking sector during times of financial crisis, etc. Central banks usually also have supervisory powers, intended to prevent bank runs and to reduce the risk that commercial banks and other financial institutions engage in reckless or fraudulent behaviour. Central banks in most developed nations are institutionally designed to be independent from political interference.

### Objectives of the Study

Generally, this paper seeks to:

- (i) define different types of central banking autonomy
- (ii) evaluate the propriety of autonomy presently enjoyed by the Central Bank of Nigeria
- (iii) examine the nature of autonomy appropriate to the Central Bank of Nigeria

### Justification for the Study

An important issue that has engaged the attention of policy makers and the general public in recent past is the issue of appropriate autonomy for the Central Bank of Nigeria (CBN). This study, therefore, will not only complement other research works earlier done in the same area, but also contribute immensely to the on-going debate through an informed and in-depth analysis of the issues involved. This will go a long way in bridging the existing information gap and hence assist in no small measure the Legislature in drawing the appropriate legislation on the CBN autonomy.

**THE CONCEPT OF CENTRAL BANK AUTONOMY (CBA)**

According to Walsh (2005), central bank autonomy (or independence) refers to the freedom of monetary policymakers from direct political or governmental influence in the conduct of policy. In essence, CBA is ensured when central bankers are insulated from short-term political considerations and are allowed to take a long-term view of the economy.

The literature on central bank autonomy has defined the following different types: (i) goal or target autonomy (ii) instrument or operational autonomy, (ii) legal autonomy, (iii) management autonomy (iv) limited or no autonomy.

**Goal or Target Autonomy**

Goal autonomy implies a central bank setting its own monetary target, or at least, determining how precisely the targets are specified. In essence, it refers to the central bank's ability to determine the goals of policy without the direct influence of the fiscal authority. By this, the central bank has the right to set its own policy goals, whether inflation targeting, control of the money supply, or maintaining a fixed exchange rate. While this type of independence is more common, many central banks prefer to announce their policy goals in partnership with the appropriate government departments. This increases the transparency of the policy setting process and thereby increases the credibility of the goals chosen by providing assurance that they will not be changed without notice. In addition, the setting of common goals by the central bank and the government helps to avoid situations where monetary and fiscal policies are in conflict. Walsh (2005) opined that the Bank of England lacks goal independence since the inflation target is set by the government. But in the U.S., the Federal Reserve's goals are set in its legal charter, but these goals are described in vague terms (e.g., maximum employment), leaving it to the Federal Reserve to translate these into operational goals. Thus, the Federal Reserve has a high level of goal independence. Price stability is mandated as the goal of the European Central Bank (ECB), but the ECB can choose how to interpret this goal in terms of a specific price index and definition of price stability.

**Instrument (Operational) Autonomy**

This refers to the ability of the central bank to choose and use the instruments of monetary control without instruction, guidance or interference from the government. According to Lybek (2004), instrument autonomy implies that the government or the legislature decides the monetary policy or target, in agreement with the central bank and the exchange rate regime, but the central bank retains sufficient authority to implement the monetary policy target using the instruments it sees fit. According to Walsh (2005), the Bank of England, while lacking goal independence, has instrument autonomy (a kind of operational independence); given its inflation mandate set by the government as announced in the Chancellor's annual budget speech to Parliament, it is able to set its instruments without influence from the government. Similarly, the inflation target range for the Reserve Bank of New Zealand is set in its Policy Targets Agreement (PTA) with the government, but given the PTA, the Reserve Bank has the authority to set its instruments without interference. The Federal Reserve (USA) and the European Central Bank (ECB) have complete instrument autonomy.

**Legal Autonomy**

The independence of the central bank is enshrined in law. This type of autonomy is limited in a democratic state; in almost all cases the central bank is accountable at some level to government officials, either through a government minister or directly to a legislature. Even defining degrees of legal independence has proven to be a challenge since legislation typically provides only a framework within which the government and the central bank work out their relationship.

**Management Autonomy**

The central bank has the authority to run its own operations (appointing staff, setting budgets, and so on.) without excessive involvement of the government. The other forms of independence are not

possible unless the central bank has a significant degree of management independence. One of the most common statistical indicators used in the literature as a proxy for central bank independence is the "turn-over-rate" of central bank governors. If a government is in the habit of appointing and replacing the governor frequently, it clearly has the capacity to micro-manage the central bank through its choice of governors.

### **Limited or No Autonomy**

This means that the central bank is almost a government agency. In this case, the government determines the policies (objectives and targets) as well as influences the implementation. The latter is the case mainly in centrally planned economies and in some developing countries.

### **Overview of the CBN Legal Framework**

The enabling CBN Act of 1958 contained no restriction from government to formulate and implement monetary policy. It also had no provision for resolution of differences which might arise between the Bank and Federal Government. Since then, the Bank has carried out traditional central banking functions as well as other development activities. These include formulation of monetary policy for approval by the Federal Government before implementation; acting as a banker and financial adviser to the government; promoting the development of a sound and competitive financial system; issuing of legal tender currency and monitoring banking industry's allocation of credit to priority sectors of the economy to ensure growth of aggregate output and price stability. In executing these functions, however, some developments in its relationship with the government have tended to restrain its capacity to perform, especially with respect to the maintenance of monetary stability and enforcement of discipline on erring banks. These unfavourable developments are highlighted below:

The first significant measure which restricted the role of the CBN in monetary policy formulation was the amendment to the CBN Act under Decree 3 of 1968. The amendment required the Board of the CBN to inform the Minister of Finance of the banking and monetary policy pursued by the Bank. The Minister was to submit his disagreement with the Bank, together with the CBN's position, to the Federal Executive Council (FEC) which the FEC may in writing, after considering the submission, direct the Bank as to the monetary and banking policy to be pursued. Such directive shall be binding on its Board which shall take all steps to give effect thereto. The amendment put the Federal Ministry of Finance in a position of being almost a co-presenter of monetary policy in some situations, while the final decision on the policy to be pursued rested with the government. In addition, the amendment empowered the Bank to apply specific measures of monetary control. Among these were: to impose credit ceilings, approve deposit money banks' loan of certain sizes, allocate and purchase stabilisation securities from financial institutions, prescribe cash reserve ratio and minimum ratio of total loans and advances which each commercial bank shall grant to indigenous persons, etc. It was the introduction of the Structural Adjustment Programme in 1996 that rendered reliance on many of these instruments obsolete.

Another major constraint which the CBN had to contend with was its being subsumed in the Presidency under Decree 24 of 1991. Segments of the decree required the Governor of the CBN to keep the President informed of the monetary policy to be pursued and the subsequent presidential directive shall be binding on the board of the Bank. This requirement had the effect of limiting the discretionary application of policy instruments by the CBN.

The CBN (Amendment) Decree No. 3 and BOFI (Amendment) Decree No. 4 both of 1997 brought the Bank under the Minister of Finance who more or less had the responsibility for the supervision of the Bank. In addition, the 1997 law provided for a board of directors that would have an external appointee as the chairman. This provision was never implemented as the laws were repealed in 1998 and replaced with the CBN (Amendment) Decree No. 37 and BOFI (Amendment) Decree No. 38 both of 1998.

The most important change brought about by the new law is the reconstitution of the Board comprising eleven members with the Governor as Chairman. The function of the Board, unlike in previous laws which outlined general responsibilities, are specifically outlined in the new law and these include the formulation of monetary and credit policy, determination of the exchange rate of the naira and general administration of the Bank. Another important element of the new law is the fine-tuning of the process of government borrowing from the CBN. Before the law was promulgated, the Bank was mandated to negotiate with the Federal Ministry of Finance the rate of interest at which the bank would lend money to the government, particularly through the facility of Ways and Means advances to cushion temporary shortfalls in its current revenue. This process was abolished, implying that the Bank had full discretion in this area.

It is also of significance to mention that the 1998 law enhanced the CBN's supervisory authority over the entire financial sector. Equally, the 1998 BOFI decree gave a lot of discretion and authority to the CBN to regulate and supervise some categories of institutions in the financial sector. The CBN had authority to vary or revoke the conditions for granting new banking licences, including the discretion to determine periodically the minimum paid-up share capital of each category of banks. The law also retained the authority granted to the CBN to supervise all specialised banks and other financial institutions in the country. The issue of prompt action to address the problem of distress in the financial sector was also resolved in favour of the CBN. Under the 1998 legal framework, the Bank is empowered to apply any actions it deems fit to resolve the incidence of distress among banks and other financial institutions without recourse to and other authority. From the foregoing, it can be seen clearly that the CBN has been enjoying some degree of increasing autonomy over the years from a minimal level graduating to the high latitude it is today.

#### **The Present Scenario as it Affects Central Bank of Nigeria's Autonomy**

In Nigeria, an important issue that has engaged the attention of policy makers and the general public in recent past is the issue of appropriate autonomy for the Central Bank of Nigeria (CBN). The issue is not whether or not the Government should oversee the CBN but rather, which arm of Government should oversee the Bank – the Executive or the Legislature and to what extent? Other related questions are in terms of what should constitute the legal relationship between the government and its central bank, involving many different aspects including, but not limited to, the role of the government in appointing (and dismissing) members of the central bank governing board, the voting power (if any) of the government on the board, the degree to which the central bank is subject to budgetary control by the government, the extent to which the central bank must lend to the government, and whether there are clearly defined policy goals established in the central bank's charter. Irrespective of how these are resolved, it is a generally acceptable truism that the Central Bank needs a degree of autonomy to carry out its primary mandate of monetary management. At the same time, it is imperative that it must be accountable for the authority delegated to it to ensure proper checks and balances.

In his opinion, Ayorinde (2012) sees the CBN as an octopus existing as an independent regulatory institution with little or no control from the Executive, the Judiciary or the National Assembly. According to him, as soon as the Executive appoints the Board members and they are screened and approved by the Senate, the Executive and the Legislature statutorily "go to sleep". The laws as presently constituted make the following provisions giving a "semblance of control".

- (a) The Banks and Other Financial Institutions Act (BOFIA) 2004 as amended in 2007, provides that:
  - (i) The CBN shall have all the functions and powers conferred and the duties imposed on it under the Act subject to the overall supervision of the Minister.
  - (ii) An application for a license shall be forwarded to the Governor and all licenses to be issued shall be with the prior approval of the Minister.

To what extent can we say the phrase “overall supervision of the Minister” possess the vigour of implementation in Nigeria compared with other jurisdictions? Can it really be said that the autonomy of the CBN is hampered by this provision considering the latitude the Bank presently enjoys in carrying out its operations?

- (b) The Central Bank Act, 2001 did not make provision for furnishing of Annual Accounts and Returns to anybody. Glad to note that the revised edition of the law in 2007, after the failed consolidation exercise, has made provision for the following:
  - (i) The Bank shall, within two months after the close of each financial year, transmit to the National Assembly and the President, a copy of its annual accounts certified by the Auditor.
  - (ii) A report required to be submitted to the National Assembly and the President shall be published by the Bank in such manner as the Governor may direct.
  - (iii) The Board shall ensure that accounts submitted pursuant to this section shall as soon as possible be published in the Gazette.
  - (iv) The Bank shall as soon as may be practicable after the last day of each month make up and publish a return of its assets and liabilities as at the close of business on that day, or if that day is a holiday, as at the close of business on the last preceding business day.
  - (v) A copy of the return referred to in sub-section (4) of Section shall be forwarded to the President and shall be published in the Gazette.
  - (vi) In the application of this section, the gold tranche position at the International Monetary Fund shall form part of the external reserve assets of the Bank.

According to Ayorinde (2012), the stark realities of this minimal control of the CBN, in the name of “autonomy”, have made the following situations possible in the recent past:

1. The CBN can and has revoked the licences of 26 banks in 1996 without recourse to the Minister, and 54 banks’ licences were revoked in 2006 without any recourse to the Minister or the National Assembly.
2. The CBN in the course of its power in Section 9 of BOFIA, and in its capacity as an ‘autonomous’ regulatory institution announced in 2004 an arbitrary increment in the minimum shareholders’ fund of banks from ₦2 billion to ₦25 billion without recourse to the Minister of Finance or National Assembly. It was the major component of the banking consolidation announced by the CBN in 2004. The consolidation exercise which reduced licensed banks from 89 to 24 was hurriedly packaged and implemented in 18 months, all in the name of “CBN autonomy”. Any wonder the exercise failed woefully as attested to by the Minister of Finance, now Minister of Trade and Investment. Just about 2½ years after, a special examination jointly conducted by the CBN and NDIC revealed that 9 out of the 24 banks were in grave situation.
3. The CBN can and has removed directors of banks without recourse to the Minister of Finance or National Assembly, and without any written query to those affected, no statutory provision for appeal, except for the common law right of any aggrieved person to sue in court of law.
4. Three banks were arbitrarily “nationalised” by the CBN in 2011 without any law backing it up, and without any recourse to the Minister of Finance or the National Assembly.
5. The Assets Management Corporation of Nigeria (AMCON) was statutorily established in 2010 with an authorised capital of ₦10 billion fully subscribed to by the Federal Government and held in trust by the CBN and Minister of Finance.
  - (i) In 2011, AMCON expended ₦620 billion to bail out 10 banks described as ‘distressed’ by CBN.

(ii) In 2011, AMCON equally expended ₦678.5 billion to acquire 3 banks 'nationalised' by the CBN.

(iii) On 20<sup>th</sup> September, 2011, AMCON announced that it would inject additional ₦800 billion into the five rescued banks.

It is an open secret that all these funds were not approved by the National Assembly and were not provided for in any Appropriation Act. Nobody seems to be asking for the source of these funds and at what cost to the electorate.

6. The CBN operations are not currently supervised by any agency of government, so it manages the treasury of the nation as an independent body. Its budget is not approved and its audited account is presented to no authority except its Board.
7. The Board of the CBN as presently constituted is headed by the Governor of the CBN. It fixes the salaries and other perquisites of members of the Board and that of its staff at will without any recourse to anybody. Recall the on-going scenario in the succession plan at the Bank of England in the UK. The salary of the incumbent is fixed to the public knowledge and even the salary to be earned by his in-coming successor has been fixed ahead of time to the public knowledge. Nobody can say per se what the Governor of our own CBN or that of his Deputies and staff earn. It is kept in utmost secrecy! Even that of the President of the Federation is well known to the public.
8. Again, in the absence of the Governor, only one of his Deputies is authorised (he chooses whosoever he wills under the protection of Section 7(1) of the CBN Act) to stand in for him at the Board. It is better imagined how matters that affect the Governor would be handled without any bias in favour of the Governor under that situation. Besides, four Deputy Governors and five Directors who are answerable to the Governor are members of the CBN Board. The tendency is that at meetings none of these subordinates will toe a different line on any position adopted by the governor.
9. The provision of the laws as at when the duo of CBN Act and BOFIA were enacted in 1991 did not provide for any report of the CBN to be presented to anybody. In 2007, by an amendment to the CBN law, there is now a provision that says an audited account be submitted to the President in such a manner as the Governor of the CBN would determine. We must, however, note that the so-called auditors are appointed by the Board of CBN, paid by CBN and the report is statutorily provided to be published by CBN "in such manner as the Governor may direct"!
10. Matters relating to banks in Nigeria are in the exclusive legislative list, meaning that only Federal lawmakers can make laws on banks. Hence, there are no banks in Nigeria established by a state law. Furthermore, there is no single foreign bank operating in Nigeria, either operating as a representative or as a branch. The CBN as a regulatory agency is fully in charge of all licensed banks, including the 21 commercial banks, the mortgage institutions, the microfinance banks in their hundreds, development financial institutions and other non-bank financial intermediaries in the country.
11. By implication, there are now 21 banks in Nigeria to service the economy of a country with over 160 million people, all of which are private banks, except the so-called three 'nationalised' banks. The Government, by our laws, had hand-off the ownership and equity of all the banks; whereas Ghana with a population of 24 million people has 26 commercial banks and South Africa with 49 million people has a vibrant banking sector which comprises 18 registered banks, 12 mutual banks, 13 local branches of foreign banks and 41 foreign banks with approved local representative offices. The USA with 307 million population has over 7,000 banking institutions, while Australia with 21 million people has access to 52 retail banks, 78 merchant

banks, 96 finance companies and 25 building societies. Evidently, Nigeria is currently under-banked. Any wonder most Nigerian have no easy access to banking facilities. It is obvious that majority of Nigerians are left at the mercy of microfinance institutions that provide very poor banking services at a very exorbitant cost in excess of 35 per cent per annum.

12. There is a serious 'cash crunch' in the country, resulting in high rate of unemployment. For businesses to grow and economy to thrive, the banks must lend. As at now, under the 'autonomy' enjoyed by the CBN, industries groan in pain and the few industries that thrive are owned and financed by those that have access to public funds and are 'patriotic' enough to invest in the economy. No genuine investor can enjoy any reasonable level of bank financing in Nigeria of today except at a very high and almost unbearable interest rate. This is one of the major reasons, coupled with infrastructure decay, why so many multinationals left the shores of the country for other neighbouring countries, especially, Ghana and the latter's economy is the better for it.
13. Also, the CBN under the euphoria of its 'autonomy' has variously embarked on direct financing of selected industries in Nigeria, thereby competing with the licensed banks and abandoning its statutory duties. Not being a chartered company or a profit-making/sharing corporation, it is doubtful if it has the capacity for moral justification to embark on corporate social responsibility that would cost the nation millions of naira. Or how can one explain the justification of CBN acquiring hectares of land for property development, events centre or bread baking business? Or is there any moral justification for CBN indiscriminately donating millions of naira to victims of bomb blast engendered by the controversial Boko Haram insurgents? The selection of the beneficiaries of such largesse was obviously arbitrary as it followed no particular order.

The above facts are the fall-outs of the present 'autonomy' enjoyed by the CBN. While the independence of a central bank is germane, the issue of its good governance, transparency and accountability in its conduct cannot be wished away. According to Amtenbrink (2004), the three pillars of central bank governance are: (i) central bank independence, (ii) central bank accountability, and (iii) central bank transparency. Previously, the central bank literature was mostly concentrated on the independence issue, but the current literature is very much directed towards governance of central bank, which includes, analytical framework of degree of autonomy, directors and their functions and the board of the bank and its management (Lybek and Morris, 2004). Moreover, it also means the credibility of the monetary policy and appropriate reform of central bank legislation (Lybek, 2004). What then should be the appropriate autonomy for the CBN?

#### **The Nature of Autonomy Relevant to the CBN**

According to Lybek, (2004), the International Monetary Fund (IMF) supports central bank autonomy and accountability, since it facilitates price and financial sector stability, which are conducive to sustainable economic growth. Excess money supply causes most economic distortions, and an effective monetary policy is required to remove them. A relationship between the government and the CBN that does not enhance monetary and price stability can only perpetuate such distortions.

The nature of autonomy required for the CBN involves the determination of the function and mandate of the Bank by the Executive/Legislature, which should be in terms of granting of powers legally to the Bank to select and make of suitable policy instruments to fulfil that mandate. This should also include accountability by the Bank for its performance through periodic reporting to and reviews by the Executive/Legislative authorities. The periodic reporting should not be at the whims and caprices of the Governor of the Bank as it is presently legislated.

The type of independence canvassed here should not be absolute such that the Bank would be above the laws of the land, unaccountable to anybody and would have unfettered freedom to spend recklessly as noted earlier. Autonomy, as conceptualised above, should in no wise mean freedom of

the Bank to determine its own mandate. What is being advocated is 'instrument autonomy' which presupposes free selection of suitable instruments by the Bank after the appropriate authority (Government or National Assembly) would have determined the Bank's functions. The instruments so selected would be those which the Bank, in its judgement, believes would best facilitate the realisation of its given mandate or goal.

In addition, while it is the prerogative of the government to conduct monetary policy, it may obviously lack credibility if done by the government itself. The reason may not be far-fetched. In the short-run, the government has many competing objectives, including being re-elected. Even if the government states that it will pursue price stability, the general public knows that it has incentives to compromise; and as such, the delegation of authority to conduct monetary policy to an autonomous and accountable central bank with clearly defined objectives can enhance both credibility and flexibility. Furthermore, a financial sector stability that ensures a sound and stable financial system including an efficient payment system is also important for a market economy to realize its full potential. Therefore, an autonomous and accountable central bank may help prevent undue influence that is capable of adversely affecting the financial sector.

However, while the need to have a CBN which has sufficient instrument autonomy as well as adequate insulation from political pressure seems quite obvious, it is reasonably imperative to ensure transparency and accountability in the conduct of its affairs. When the state delegates authority to a central bank and gives it autonomy, the central bank must be made accountable to ensure appropriate checks and balances and to minimize any abuse of powers by any of the parties involved. The accountability provisions should thus ensure that an autonomous central bank uses its delegated authority effectively and efficiently to achieve its primary objective, namely price stability, as well as its other tasks, and manages its resources in a thrifty way. An autonomous central bank is ultimately accountable to the general public, but may be directly accountable to the executive branch or the legislature through, say, a separate supervisory board, to avoid dilution of responsibilities. The way and manner the CBN unilaterally revoked the licences of three banks is suspect and smacks of transparency and accountability.

Although the provision of the NDIC Act (amended), 2006, Sections 37-39, makes provision for restructuring failing banks by way of bridge bank, which cannot in any way justify the shoddy manner the exercise was carried out. Let us ponder on the following scenario: The CBN unilaterally revoked the licence of three banks on Friday evening on the announcement that three bridge banks had been established to take over their assets and liabilities; and by 7am the following Saturday (an officially non-working day), the NDIC had transferred the baton of the banks to AMCON, while by 4pm news, AMCON injected \$4 billion into the banks. By 9pm *Network News*, the new banks have been given new names. What remained for Sunday news bulletin were the names of the new directors of the banks! It would be recalled that the ultimatum given to these banks by the CBN to recapitalise was 30<sup>th</sup> September, which was still six weeks ahead, when the octopus agency of government struck in the name of 'autonomy'.

One may ask: (i) Does Sections 38 and 39 of the amended NDIC Act confer on it the power to 'nationalise' banks? (ii) Who are the shareholders of the three bridge banks? (iii) Were they incorporated with the Corporate Affairs Commission or chartered by the National Assembly or statutorily incorporated by an Act of the National Assembly? (iv) Does CBN autonomy imply incapacitation and erosion of the roles of CAC in registration and incorporation of companies in Nigeria? (v) Were there any Memorandum /Articles of Association for the three bridge banks? (vi) By 6<sup>th</sup> August 2011, AMCON signed an agreement to take over the three nationalised banks as 'owner'! Does the AMCON Act provide such powers to AMCON? (Note that the main purpose of parliament in enacting the AMCON Act is to purchase and deal with problematic loans of troubled banks referred to as eligible assets in Part IV of the Act. This obviously does not include a banking institution!) If the



answers to the above questions are not in existence, then, the 'nationalisation' of the three banks just exist in the imagination of those that conjured it.

As presently practised, the CBN enjoys considerable financial autonomy. The Bank is self-financing in that its earnings stems principally from interest income on the portfolio of government securities it holds to conduct open market operations. Financing itself internally means that the Bank is not dependent on the National Assembly for annual appropriations and is therefore insulated from pressures that might otherwise flow from the "power of the purse". However, sound business practices are important for the credibility of the central bank and support its financial autonomy. Should sound practices not be implemented, the government may feel a need to further control the central bank. It is therefore highly desirable that the central bank, as a minimum, publishes audited annual financial statements—ideally audited by independent external auditors. The subsisting relationship between the auditors of the Bank as highlighted earlier is not healthy enough and smacks of transparency and accountability. The Bank should be made accountable to a supervisory body, who should have the right to ask for an external audit of the adequacy of its accounting procedures.

### **Effect of Withdrawal of CBN Autonomy**

The Central Bank of Nigeria (CBN), like most others, has the core mandate of maintaining price stability and ensuring a non-inflationary growth. The Central Bank is also a regulator, banking supervisor and development bank. It has the responsibility to ensure a sound and stable financial system in addition to other developmental functions. These mandates and functions are peculiar to central banks across the globe, and no other institution performs such functions.

A withdrawal of CBN's instrument independence would likely result in any combination of the following, among others:

- (i) The Bank may face difficulties in its mandate of maintaining price stability as this will heighten inflationary expectations and influence its decisions on the Monetary Policy Rate (MPR), which would impact on both nominal and real interest rates.
- (ii) Without autonomy, the Bank will find it difficult to pressure government in reducing deficit, its spending and volume of public debt; without budgetary independence, the Bank will not avail itself of sufficient financial resources to fulfil its mandate in terms of the volume of resources and speed required to timely respond to systemic crises.
- (iii) The Bank's mandate of acting as a lender of last resort may also be threatened by slowed decision-making, reduced effectiveness in respect of the execution of staff training and welfare, recruitment and remuneration, as well as capital spending.

### **CONCLUSION**

This paper has examined various issues and challenges regarding the CBN autonomy. Some of the issues raised in this paper should in no wise be misconstrued as an advocacy in support of the proposed withdrawal by the National Assembly of the CBN autonomy especially its financial independence. The global best practice for an efficient and effective central banking is a truly independent central bank with both operational and financial independence. Financial independence involves four aspects, namely: the right to determine its own budget; the application of central bank-specific accounting rules, clear provisions on the distribution of profits and clearly defined financial liability for supervisory authorities. Instrument autonomy without financial/budgetary autonomy, as obtained in other countries, may be counterproductive. However, the issue of transparency and accountability in the conduct of the Bank's affairs remain imperative. The Governor and his team should be made accountable to an independent body (not headed by the Governor as currently practiced) and such a body will have the mandate to hold formal reviews of the performance of the Governor and his team annually. Or, how do we ensure transparency and accountability when a body is only accountable to itself? We strongly believe that tinkering with the composition of this board in a fair manner will democratise the activities of the board and save it from continuing as one-man show.

Besides, there is the need to strengthen the existing relationships that would enhance complementarity between the monetary and the fiscal authorities, and ensure accountability and transparency. Just as it is undesirable to have a politically controlled Central Bank, the board of the CBN must also learn to comport themselves and control their public utterances and actions in the interest of the economy. The current hullabaloo about removal of a portion of CBN autonomy is clearly burn out of the perceived public opinion regarding capricious and less than impressive involvement of its leadership in issues that are seeing as being tribalistic and sentimental. If the CBN desires independence from political pressures, its leadership should equally restrain itself from dabbling into matters that have political undertone. Obviously, the actions/utterances of the leadership of the CBN in the recent past are perceived as out of place with the worldwide tradition of central banking. Through its actions, the leadership exposed the institution to severe attacks, questions and direct onslaught on its independence. The same CBN Act (with some amendments) that is currently an object of public sitting in the House of Representatives was equally in force at the time of the previous CBN leadership without generating negative public and legislative reactions as currently witnessed.

## REFERENCE

- Antenbrink, F. (2004) The Three Pillars of Central Bank Governance: Towards a Model Central Bank Law or a Code of Good Governance? *IMF LEG Workshop on Central Banking, and IMF Institute Seminar on Current Developments in Monetary and Financial Law*
- Ayorinde, Bode (2012) *Re: Proposed Amendment of the Central Bank of Nigeria Act – An Informed Opinion*, an unpublished paper
- Lybek Tonny (2004) “Central Bank Autonomy, Accountability and Governance: Conceptual Framework”, a write up presentation at *IMF LEG Workshop on Central Banking*
- Lybek, T. & Morris, J. (2004) “Central Bank Governance: A Survey of Boards and Management”, *IMF Working Paper*, WP/04/226
- Walsh, Carl E. (2005) “Central Bank Independence”, a write up presentation for the *New Palgrave Dictionary*
- Wikipedia (2012) *Central Bank*, [http://en.wikipedia.org/wiki/Central\\_bank](http://en.wikipedia.org/wiki/Central_bank), retrieved November, 2012

\* Corresponding Author: [adeyeyepo@gmail.com](mailto:adeyeyepo@gmail.com)