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ASSESSING THE TIES BETWEEN LEGISLATURE AND MONETARY AUTHORITIES AND THE DYNAMICS OF CENTRAL BANKING INDEPENDENCE IN NIGERIA

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ABSTRACT

This study assessed the ties between legislature and monetary authorities and the dynamics of central banking independence in Nigeria. The Balance of Power in Central Banking in the context of BOFI Act 2020 is dynamic and a moving target, with many stakeholders aiming at establishing a strong tie and mutually beneficial relationship between Central Bank and the National Assembly to promote a stronger, more transparent and efficient financial system in Nigeria. Commercial Banks always precede Central Banks in every country. In many cases, it is the popular Commercial Bank that gets transformed to Central Bank, and taken over by Government. Central bank of England started as Joint Stock Commercial Bank in 1694, and in 1844, began to function as Central Bank. The incentives to circumvent the legal framework, with a view to influencing the behaviour of the Central Bank, are always looming. Some of the challenges could come when the Courts test and interpreted some of the provisions of the BOFI Acts or when the Courts try to fill definitional gaps. With good relationships, the Legislature moves to close the gaps and amend provisions. There is empirical evidence that Central Bank independence brings about, lower inflation, more stable environment for economic growth. The balance of Power in Central Banking is dynamic, and a moving target, with many stakeholders aiming at it. Findings revealed that BOFI Act 2020 has created huge opportunities in expanding CBN regulatory oversight and discretional powers, but equally, big challenges, that obviously demands that CBN and the Legislature must work as the closest ally to deliver a stronger, more transparent and efficient financial system in Nigeria. The study recommended amongst others, that in order to facilitate the achievement of its mandate under this Act, the Banks and other financial institutions act, in line with the objective of promoting stability and continuity in economic management, the Bank shall be an independent body in the discharge of its functions.

KEY WORDS: *Ties, Legislature, Monetary Authorities, Dynamics, Central Banking, Independence, Nigeria*

INTRODUCTION

In 1920, International Conference in Brussels, Belgium on central banks resolved that every Country should quickly establish a Central Bank, facilitate the restoration and maintaining currency stability through monetary policy and should encourage and enhance international co-operation. In 1944 another conference was held at Bretton Woods that led to the establishment of IMF, World Bank and so on. Nigeria Central bank was established in 1958. Legal provisions are necessary, but not sufficient condition to ensure Central Banks independence. EU Treaty Article 108. "Neither the ECB, nor a National Central Bank "shall seek or take instructions from Community institutions or bodies, from any Government of a Member State or from any other body" Article 7 of the Statute of the ESCB echoes this statement. "The Treaty provisions on central bank independence apply to all EU Member, States (except the UK, which has a special derogation) irrespective of euro area membership. Countries are then expected to have completed the process of granting their Central Bank full institutional independence by the time of accession to the EU.

In 1995, EU Monetary Institute published the list of requirements for central bank independence. Functional Independence, Institutional Independence, Personal Independence, Financial Independence and Prudential Supervision. Three other issues that may affect central bank independence are Central bank involvement in prudential supervision, the nexus between, independence and accountability and the co-operation and dialogue with other economic policy makers. The functional independence is to set a free policy instrument with the aim of achieving its objectives (*primary objective of price stability. Any obstacle to the ability of CBN to affect short-term market interest rates should be considered as an obstacle to their independence*). Obligation of Central Bank is directly finance, budget finance deficit, will clearly reduce the ability to influence money market conditions in the direction it deems most appropriate in pursuit of price stability.

EU Treaty Article 101 prohibits monetary financing of budget deficit, a legal pre-condition for joining the EU and the Euro. ECOWAS Treaty in some of the 10 Macro-economic Convergence Criteria, restricts ways and means financing to 10% and Fiscal Deficit to 5% of GDP. Nigerian Finance Act, 2022, pushes it from 5% to 15% of previous years got revenue, and which needs to be retired in the financial year. Similarly, the FRA 2007 restriction of Fiscal Deficit to 3% of GDP was pushed to 4% of GDP. The current N28trillion was the ways and means financing has been securitised at 9% interest for upwards to 30 years a much better deal to Government paying 20% annual interest (MPR + 2%).

Over the past 30 years, most central banks across the advanced economies have been given the ability to conduct monetary policy independently from interference by fiscal and political authorities. Today, almost all central banks in OECD countries are operationally instrument-independent, counting on their own tools to set or target several interest rates, even if none of them is goal-independent, since political bodies give them their mandate. Closely related to central bank independence has been the adoption of inflation targeting as a policy framework, whereby central banks announce their target for inflation in the near or medium term, and transparently describe their different policy choices with respect to the target.

LITERATURE REVIEW

Conceptual Framework

Central Bank Independence and Prudential Supervision

The boundary between Banking, Securities and Insurance sectors of the financial market is blurred, although BOFI Act 2020 (which repealed the extant BOFI Act 1991 as amended in 1997, 1998, 1999, & 2002) covers far more grounds than its 2004 predecessor with an expansion of the Central Bank of Nigeria's regulatory oversight and discretionary powers over the Financial Services Industry. These include: Hybrid financial products, increased use of risk transfer instruments, distribution agreement between the three sectors, and growing role of financial Conglomerates.
(*CBN has developed sound and safe Institutional Policy Frameworks, Prudential guidelines, FSS 2020 and so on to ensure stability of the financial system and strictly monitor with risk based banking supervision.*). There are some countries where Prudential Supervision is a separate entity such as Financial Services Authority, FSA (eg Ireland). This is clearly a source of pressure on both financial and personal independence from political economic actors.

Personal Independence: Nomination and dismissal of the Governor and members of the decision making bodies. (Re: National Assembly wanting to separate the office of Governor of CBN and CBN Board Chairman). The criteria are the term of office, professional qualification, political affiliations, and collegiality.

Financial Independence: The financial independence are the right to determine its own budget (*NA at one time, wanted to control CBN budget*). The application of central bank specific accounting rules. Clear provision on the distribution of profits. Clearly defined financial liability for supervisory authorities.

Transparency, Accountability and Independence: Central bank is ultimately accountable for their policies to the elected politicians and the public at large (including future generations sustainability), hence the need for transparency and performance indicators, as can be seen from CBN 2023 strategic action plan.

Central bank independence is essential, but, it cannot be unconditional. Democratic principles demand that, as an agent of the government, a central bank must be accountable in the pursuit of its mandated goals, responsive to the public and its elected representatives, and transparent in its policies. Transparency regarding monetary policy in particular not only helps make central banks more accountable, it also increases the effectiveness of policy. Clarity about the aims of future policy and about how the central bank likely would react under various economic circumstances reduces uncertainty by helping households and firms anticipate central bank action, amplifies the effect of monetary policy on longer-term interest rates, greater clarity and reduced uncertainty, in turn, increase the ability of policymakers to influence economic growth and inflation.

Over the years, the Federal Reserve, like many central banks around the world has taken significant steps to improve its transparency and accountability. Policymakers give frequent speeches and testimonies before the Congress on the economic situation and on the prospects for policy, and the Federal Reserve submits an extensive report to the Congress twice each year on the economy and monetary policy. The FOMC, the Fed's monetary policymaking arm, releases a statement after each of its meetings that explains the Committee's policy decision and reports the vote on that decision. The FOMC also publishes the minutes of each meeting just three weeks after the meeting occurs and provides, with a lag, full meeting transcripts. In addition, the FOMC has begun providing the public a quarterly summary of Committee participants' forecasts of key economic variables and, more recently, their assessments of the longer-run values to which these variables would be expected to converge over time. The information released by the FOMC provides substantial grist for the activities of legions of "Fed watchers" who analyze all aspects of monetary policy in great detail. Apart from traditional monetary policy, the Federal Reserve's response to the financial crisis has involved a range of new policy measures, about which the Fed has provided extensive information.

Independence and Dialogue with the Government: Nexus between independence of different authorities on one hand, and co-operation on the other. Clear separation of monetary policy with central bank and fiscal and structural policies to national Government, require co-ordination and alignment through continuous and fruitful dialogue.

The mandate of the Central Bank of Nigeria (CBN) is derived from the 1958 Act of Parliament, as amended in 1991, 1993,1997,1998,1999 and 2007. The CBN Act of 2007 of the Federal Republic of Nigeria charges the Bank with the overall control and administration of the monetary and financial sector policies of the Federal Government. CBN Decree No. 24 of 1991, CBN Decree Amendments 1993,No. 3 of 1997,No. 4 of 1997,No. 37 of 1998,No. 38 of 1998,1999 and CBN Act of 2007.

CBN Act 2007 Section 1(3). In order to facilitate the achievement of its mandate under this Act and the Banks and Other Financial Institutions Act, and in line with the objective of promoting stability and continuity in economic management, the Bank shall be an ***independent body*** in the discharge of its functions.

The principal objects of the Bank shall be to: Ensure monetary and price stability, Issue legal tender currency in Nigeria; Maintain external reserves to safeguard the international value of the legal tender currency; Promote a sound financial system in Nigeria; and Act as banker and provide economic and financial advice to the Federal Government (and of last resort).

The key modifications introduced by the BOFI Act 2020 of banking operations are as follows: Removal of requirement to consult with Minister of Finance in granting new Banking Licences. Prohibition of certain foreign banks/entities from operating in Nigeria. Section 3(5) of the act prohibits foreign banks and other entities from operating in Nigeria, if they do not have physical presence or a licence to operate in their country of incorporation and are not affiliated to any financial services group that is subject to effective consolidated supervision. Banks' restructuring and divestment from subsidiaries. Revocation of Banking Licences and related matters. Minimum capital ratio. Investment in medium, small and micro enterprises. Management staff and personal liability for all banking officers and Dormant Bank.

Regulator of specialized banking and other financial service providers also lists the types of entities overseen by the CBN and leaves the list open-ended to ensure flexibility. Some of the specified financial service institutions include discount houses, bureaux de change, credit bureaux, finance companies or money brokerage firms, international money transfer service firms, mortgage refinance companies, mortgage guarantee companies, credit guarantee firms, financial holding companies or payment services providers. Further, the section provides that the CBN would oversee any company whose objects in its Memorandum of Association include equipment leasing, factoring, project financing, debt administration, investment management, private ledger services, export finance, and any other company that the CBN may designate in future. The institutions outlined above are required to be licensed by the CBN, even if their activities are carried out only digitally, virtually or electronically.

Competition Issues Competition and anti-trust issues are relatively new to Nigeria's regulatory landscape and BOFIA 2004 did not address such matters. However, Chapter C of BOFIA 2020 has corrected this by addressing some of the following competition issues:

Special Tribunal for Enforcement and Recovery of Loans: This will complement the effectiveness of the recent Global Standard Instruction Guidelines issued by the CBN to facilitate proactive repayment culture and reduce the worrisome cases of non-performing loans within the system. Also, there should be harmony across the regulators. The Central Bank of Nigeria is yet to reverse its ban on cryptocurrencies but the Nigerian Securities and Exchange Commission (SEC) has issued Regulations with regards to dealing in digital assets. Combined with the recent amendment to the CGT Act, these may send conflicting signals to participants and do not allow for certainty.

Overview of Legislative Authority (National Assembly) and the Monetary Authority (CBN)
The National Assembly, as the legislative arm of the government, plays a crucial role in shaping economic policies. Its responsibilities encompass the formulation and enactment of laws, including those related to fiscal policies, budgetary allocations, and economic development plans. The National Assembly is a vital and critical partner in steering the trajectory of Nigeria's economic journey. The Central Bank of Nigeria (CBN) serves as the nation's apex monetary authority, responsible for implementing monetary policies aimed at achieving price stability, currency issuance, and fostering a sound financial system. CBN has a secondary mandate to promote sustainable economic development. Its decisions significantly influence inflation rates, interest rates, investment, overall economic development and macro-economic stability.

Challenges in Collaboration
Lack of Communication: One of the primary obstacles hindering effective collaboration is the insufficient flow of information between the Legislative and Monetary authorities. Timely and accurate information exchange is essential for both entities to comprehend the intricacies of their respective roles and make informed decisions. The absence of a comprehensive communication framework jeopardizes the coherence and efficacy of economic policies.

Policy Misalignment: Instances of conflicting legislative and monetary policies have been observed, leading to a lack of synergy in the pursuit of economic objectives. Misaligned policies can contribute to economic instability, eroding investor confidence and hindering sustainable development. The imperative for a synchronized approach to policy formulation and implementation becomes evident in light of these challenges.

Institutional Barriers: Structural impediments within the legislative and monetary institutions present formidable barriers to effective collaboration. Historical factors, bureaucratic complexities, and differing institutional cultures contribute to an environment where the full potential of synergy is not realized. Addressing these institutional barriers requires a holistic approach involving legislative reforms and strategic interventions.

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Strategies for Improvement

Establishing regular consultative meeting

To address the challenge of inadequate communication, the establishment of regular consultative meetings between representatives of the National Assembly and the Central Bank of Nigeria is imperative. These meetings should serve as platforms for open dialogue, information sharing, and the collaborative development of economic strategies. By fostering a culture of transparency and cooperation, both entities can enhance their understanding of each other's perspectives, leading to more informed decision-making.

Strengthening oversight mechanisms

Enhancing the capacity of legislative committees overseeing economic matters is essential for effective collaboration. This involves providing training and resources to lawmakers, enabling them to grasp the intricacies of monetary policies and economic indicators. Moreover, a transparent and accountable oversight mechanism should be established to scrutinize the decisions of the Central Bank, ensuring alignment with legislative objectives while maintaining the autonomy necessary for effective monetary policy.

Legislative reforms

Legislative reforms are indispensable for dismantling institutional barriers that impede collaboration. This may involve revisiting existing laws governing the relationship between the National Assembly the Central Bank, with an emphasis on creating an environment conducive to cooperation. Additionally, measures to streamline decision-making processes within the National Assembly and the Central Bank can contribute to a more agile and responsive economic governance framework.

Transparent oversight mechanism

The UK Parliament exercises robust oversight over the Bank of England's activities. Regular hearings and inquiries by the Treasury Committee provide a platform for questioning and scrutinizing monetary policies, enhancing transparency.

Independence with accountability

While the Bank of England operates independently in setting monetary policies, it is accountable to the Parliament. The clarity of roles and responsibilities ensures a balance between independence and accountability.

Inclusive Decision-Making

The inclusion of diverse perspectives in the decision-making process, through committee structures, contributes to well-rounded economic policies. This model emphasizes collaboration and input from various stakeholders.

Establishment of Clear Communication Channels

Nigeria can benefit from establishing regular consultative meetings between the relevant committees in the National Assembly and the Central Bank of Nigeria.This ensures effective communication and information exchange.

EMPIRICAL LITERATURE REVIEW

Unsal & Papageorgiou (2022) studied a sample of 50 countries from 2007 to 2021 and show that strong central bank independence scores helped to keep inflation expectations low. Parkin and Bade (1978) were the first to identify a negative cross-sectional relationship between central bank independence and inflation among a select group of advanced economies. Canonical papers on this topic by Cukierman, Webb and Neyapti (1992) and Alesina and summers, (1993) further solidified this finding using broader samples. More recent studies have exploited variation in measures of central bank independence over time to identify the temporal relationship between changes in central bank independence and inflation. In a sample of 96 developing countries between 1980 and 2014, Garriga and Rodriguez (2023) found that increases in central bank independence were associated with lower price volatility.

Crowe, & Meade, (2023), measured independence using a variety of different indicators. The Research emphasised the importance of transparency and accountability of the central bank, the ability of the central bank to use its balance sheet, and the extent to which the central bank counts on fiscal backing and the rules for distribution of its revenues. As a result, central bank independence is not a binary outcome of either independent or not, but rather can increase or decrease in a more continuous fashion. Empirical evidence shows the evolution towards central bank independence has coincided with a long-term decline in inflation in advanced economies and corresponds to well-anchored long-term expectations. Because of these macroeconomic benefits, governments around the world continue to increase central bank independence: a study of 370 central bank reforms from 1923 to 2023 finds a renewed global commitment to central bank independence since 2016.

The empirical literature shows that inflation volatility is associated with a host of economic factors (Weber, 2018), including trade openness (Bowdler and Malik, 2017, Dincer and Eichengreen, 2014), and fixed exchange rates (Bleaney and Fielding, 2002). Beyond economic factors, governments' policies and institutions affect macroeconomic fundamentals including, potentially, inflation volatility. In fact, previous research suggests that inflation volatility results from unstable monetary and fiscal policies (Aisen and Veiga, 2008, Cukierman, 1992, Rother, 2004). For example, Aisen and Veiga (2008) find that political instability measured as cabinet changes, government crises, and instability indices ethnic homogeneity, and democracy are associated with higher inflation volatility.

Weber (2018), finds that transparency is negatively associated with volatility, and Berlemann and Hielscher (2016) find that central bank conservativism is negatively associated with inflation volatility and significant for long lags of at least three years. Other studies link characteristics of central banks with inflation volatility. For example, Dincer and Eichengreen (2014) find that central bank transparency is associated with lower volatility when past inflation is not included in their specifications. Regarding the curbing effects of CBI on volatility, the evidence is mixed, especially for developing countries. Aisen and Veiga (2008) find that *de facto* CBI reduces inflation volatility in developing countries, but do not find such an effect in industrial countries. Using a measure of turnover rate of the governor as a proxy for de facto CBI, Higgins and Qureshi (2021) find a negative unconditional effect in a sample of 21 developing countries from 1985 to 2006 but partial results for developed countries. Focusing on legal or *de jure* CBI, and based on cross sectional analyses or panels with small samples, some scholars suggest an unconditional effect of legal CBI on inflation volatility (Alesina and Summers, 1993, Alpanda and Honig, 2010, Arnone and Romelli, 2013, Cukierman, 1992, Eijffinger and de Haan, 1996, Walsh, 1995). In contrast, others fail to find this unconditional association (Aisen and Veiga, 2008, Bade and Parkin, 1977), or only find it depending on the indicator used to measure CBI (Eijffinger et al., 1996).[7]

In sum, despite the potential negative effects of inflation volatility, the evidence of a relationship between legal CBI and inflation volatility is still inconclusive, especially for developing countries. Furthermore, most of these studies analyzed limited samples, used decade data on CBI, or did not consider the conditioning effect of the institutional framework, which justifies revisiting this relationship. Hence, this paper unveils the conditions under which legal CBI curbs inflation volatility in developing countries, stressing the importance of the institutional context.

Although research suggests that legal CBI is associated with lower inflation in developing countries (Agur, 2021, Bodea and Hicks, 2015b, Garriga and Rodriguez, 2020), and that inflation and its volatility tend to be correlated especially at high levels of inflation (Fischer et al., 2002), high volatility does not necessarily imply high inflation (Çekin and Valcarcel, 2020). Therefore, it would be misleading to extrapolate from the association between CBI and inflation that CBI and inflation volatility are also associated. The focus on price stability makes central bankers especially reactive to deviations from their (formal or informal) inflation targets (Eichengreen et al., 2020).

In particular, independent central bankers have incentives to control inflation effectively or risk losing their jobs (Dreher et al., 2008, Dreher et al., 2010). These incentives for independent central bankers to react promptly to inflation deviations from the target may curb the magnitude of eventual deviations (Dmitriev and Kersting, 2016), resulting in lower volatility. Fiscal policy instability is another potential source of inflation volatility. The fiscal side of CBI the ability of central banks to impose constraints in lending to the government or even participate in the design of the budget encourages stability on fiscal policy (Bodea and Higashijima, 2017), and can contribute lowering inflation volatility.

Amsterdam: Elsevier. Garriga & Rodriguez, (2020), supported the institutional changes that have given central banks greater independence. An influential 1992 study by Alberto Alesina and Lawrence Summers showed that central bank independence was associated with lower inflation on average, without any significant increase in unemployment or volatility. And summarising a long research literature on the topic, Alex Cukierman said that 'the evidence is consistent with the conclusion that inflation and actual independence are negatively related in both developed and developing countries. Partly driven by these results, the argument for independence has been extended to other realms of economic policymaking. For example, the International Monetary Fund documents 39 independent fiscal councils that publicly assess fiscal plans, budget forecasts, and policy implementation and performance. At the same time, central banks have embraced, more or less reluctantly, roles for financial stability and the use of macro prudential policies, where some cooperation with other public authorities is needed and which have clear distributional implications. This has created institutional pressures for central banks to be less independent.

In spite of an academic consensus on the value of central bank independence and a three-decades-long movement towards greater independence, there are some signs that this trend may reverse in the near term. The vice chair of the Federal Reserve, Stanley Fischer, recently described the many current challenges to central bank independence.

As central banks have assumed wider responsibilities for financial stability, used unconventional instruments and acted with a great deal of discretion during the global financial crisis, these controversial choices have been subject to political scrutiny and disagreement. More recently, discussions of explicit fiscal measures by the central bank, such as helicopter drops of money, have led to increasingly critical voices of central banks as overstepping their mandates. Some academics have even wondered whether central bank independence is already dead. Among policymakers, Abenomics in Japan involved significant intervention by political authorities over the target and actions of the Bank of Japan. In the Eurozone, only 30 per cent of Germans trust the European Central Bank (ECB), according to the Eurobarometer survey of public opinion, and the ECB's rescue operations have led to questions about its independence.

In the UK, some commentators have been critical of Governor Mark Carney's involvement in the Brexit debate, and senior figures in both major political parties, Ed Balls and William Hague have written public pieces criticising the Bank of England's independence. These critiques by politicians receive much media coverage. Finally, in the United States, president-elect Donald Trump frequently criticised the Federal Reserve during the election campaign, and members of congress have argued that the House should have more oversight over the activities of the central bank. Some of these criticisms contradict each other, but together they form a tide of opinion questioning the independence of the central bank.

METHODOLOGY

This study examines the ties between legislature and monetary authorities and the dynamics of central banking. The study employs autoregressive distributed lag model (ARDL) and Augmented Dickey Fuller to test the existence of unit root of the variables. , the study modifies the model in the work of Olugbenga A.A and Oluwabunmi Dada (2020).

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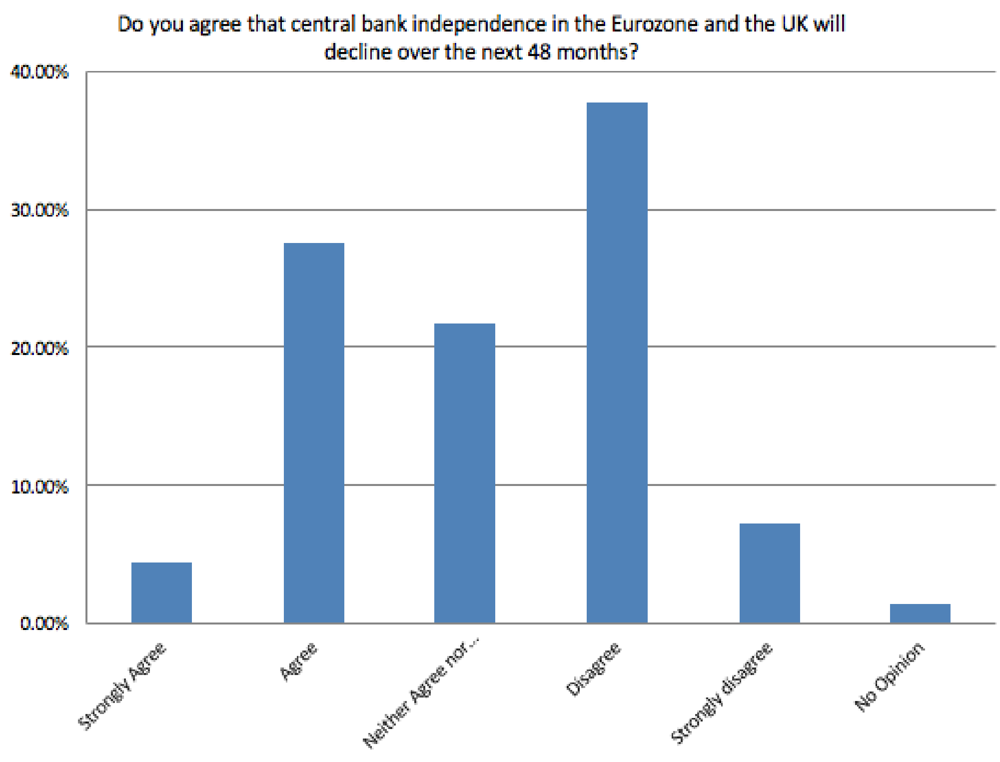
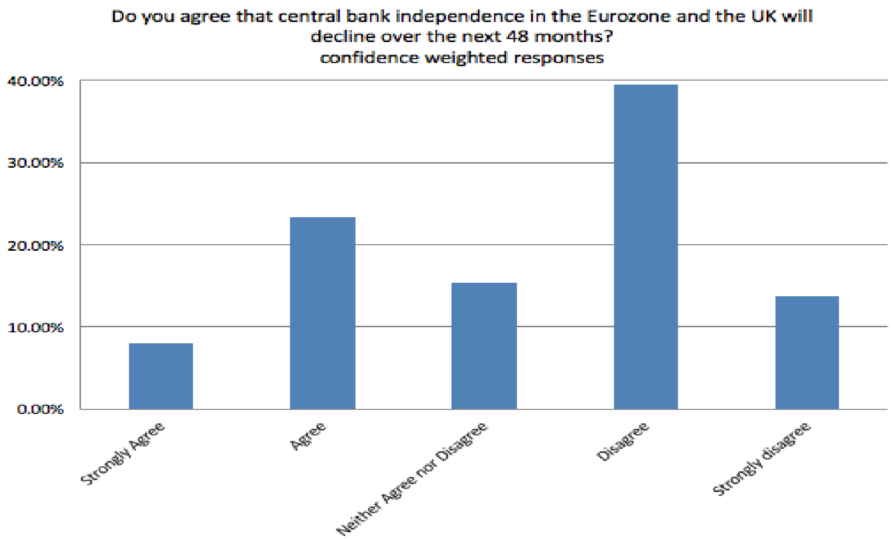
The model for this study is as follows: GDP = f (INFR, INTR, MS, GCE)……………..1 $LGDPt = \propto 0 + \beta 1 LGDPt-1 + \beta 2\ INFRt-1 + \beta 3\ INTRt-1 + \beta 4 LMSt-1 + \beta 5 LGCEt + \mu t$..2 4. Estimation Technique

Unit Root Test Macroeconomic variables are generally known with their random walk nature, which can be mitigated when converting it into first differencing. Datta and Kumar (2011) note that regressing a non-stationary series on another would generate spurious results. In an attempt to guide against this, Augmented DickeyFuller (ADF) technique developed by Dickey and Fuller (1979) was employed. This test is necessary as it guides the study on the selection of appropriate estimation techniques required for the analysis.

Bounds Test the study conducted co integration test to find out whether the dependent and independent variables have a long run association using ARDL Bounds Test to co integration method. Autoregressive Distributed Lag Following the unit root test, the study proceeds to examine short- and long run relationship among the variables. This is done using autoregressive distributed lag (ARDL) known as the bound test approach to co-integration. ARDL model developed by Pesaran, Shin and Smith (1996) and later popularized by Pesaran, Shin and Smith (2001) is more advantageous to other co-integration procedures as it can be used when the variables under consideration are integrated of order zero I(0) and order one I(1) but will crash when integrated stochastic trend of I(2) is found. With this, bound test eliminates the variability in the order of integration against co-integration approach.

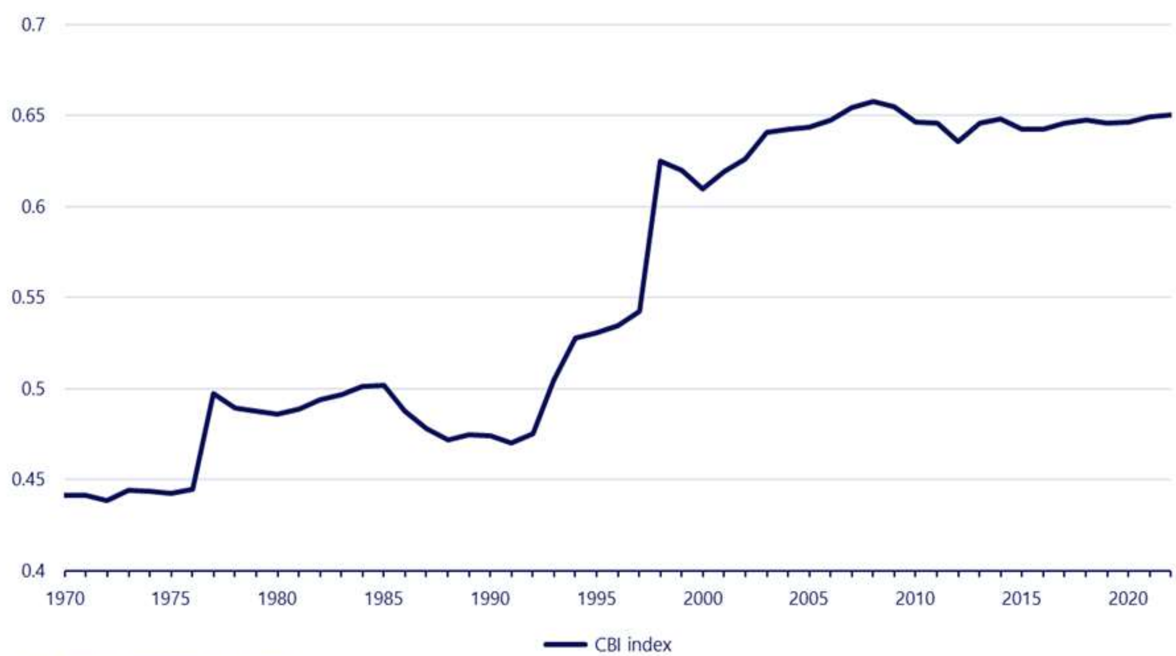


The central bank independence in the Eurozone and the UK decline over the next 48 months



Many of them acknowledge that there will be pressures challenging central bank independence. The disagreement mainly lies in whether the pressure will be strong enough and whether it will last long enough to make a difference. An exception is David Miles (Imperial College London), who argues that *"some of what appear to be criticisms of central banks is not so much a threat to their independence but more a questioning of the goal they are set*".

Figure 2. Central Bank Independence (CBI) in Advanced Economies, 1970-2022



Council of Economic Advisers
Sources: Romelli (2024); The World Bank; CEA calculations.
Note: CBI index is weighted by gross domestic product (GDP) for countries classified as advanced economies by International Monetary Fund.
As of May 22, 2024 at 5:00pm

Empirical evidence shows the evolution toward central bank independence has coincided with a long-term decline in inflation in advanced economies and corresponds to well-anchored long-term expectations. Because of these macroeconomic benefits, governments around the world continue to increase central bank independence: a study of

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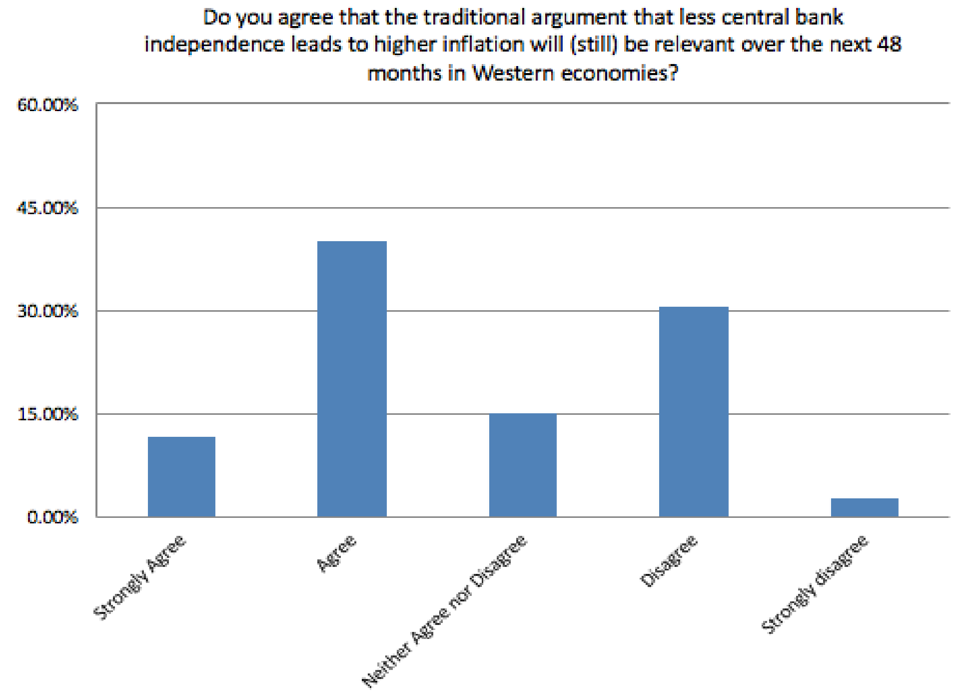
370 central bank reforms from 1923 to 2023 finds a renewed global commitment to central bank independence since 2016.



John Driffill (Birkbeck, University of London) writes that "*the argument will remain relevant, despite weak demand in the Eurozone and Japan. If populist governments in the US or UK get more control of monetary policy, there may be no danger of higher inflation in the short run, but it would bring risks of inflation further into the future."*

Sir Christopher Pissarides (LSE) argues that financial markets would be the first to react to any reduction in independence: "*financial markets will interpret it as political meddling with inflation targets and will adjust inflation expectations upward. This will be immediately reflected in lower real interest rates*."

Jonathan Portes (King's College London) says that "*the traditional frame is increasingly irrelevant. Higher inflation has not been a problem – quite the opposite – in advanced economies for most of the last decade*."

Per Krusell (Stockholm University) writes that "*[t]he difference is unlikely to be small, given that the central banks have shown limited ability to affect inflation in the current low-interest rate regime*".

Lars Svensson points to transparency: *"it seems that pressure to deviate from the inflation target may be in either direction, not necessarily always to exceed the target. ... Central bank independence must be accompanied by sufficient central bank accountability to achieve the democratically determined objectives of monetary policy*."

Jordi Gali (Universitat Pompeu Fabra) comments on the role of fiscal policy as being more important: "*A more expansionary fiscal policy, supported by monetary policy, would be a more suitable way to tighten labour markets and capacity and raise inflation where it needs to*."
Martin Ellison notes that *"if central bank independence falls, then people like former Conservative Party leader William Hague will have more influence. He wants interest rates to rise to reward savers, but if this happens then inflation would actually turn out to be lower than it would be under a fully independent Bank of England*."

John Muellbauer (University of Oxford) says "*there are different counterfactuals, and the answer would then depend very much on the nature of the reduction in central bank independence. For example, if the ban on monetary finance*

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of the fiscal authorities were removed, this might change the long-term inflation outlook. But if an independent ECB remained the guardian of when such monetary finance were offered, I see little reason why worries about inflation should increase."

TABLE 1

INDEX OF CENTRAL BANK INDEPENDENCE

Country	BP[1]	GMT[2]	Conversion from GMT to BP[3]	Average GMT, BP[4]
Australia	1	9	3	2
Belgium	2	7	2	2
Canada	2	11	3	2.5
Denmark	2	8	3	2.5
France	2	7	2	2
Germany	4	13	4	4
Italy	1.5	5	2	1.75
Japan	3	6	2	2.5
Netherlands	2	10	3	2.5
Norway	2	NA	NA	2
New Zealand	1	3	1	1
Spain	1	5	2	1.5
Sweden	2	NA	NA	2
Switzerland	4	12	4	4
United Kingdom	2	6	2	2
United States	3	12	4	3.5

1. This is the index originally proposed by Bade and Parkin (1982) and extended by Alesina (1988).
2. Sum of the indexes of economic and political independence computed by Grilli, Masciandaro, and Tabellini (1991).
3. Conversion from the GMT scale to a (1) to (4) scale comparable with the BP scale. The conversion is as follows:

GMT index (i)	conversion
$i > 11$	4
$7 < i \leq 11$	3
$4 < i \leq 7$	2
$i \leq 4$	1

4. Average of columns (1) and (3).

APPENDIX: TABLE A2

CENTRAL BANK INDEPENDENCE AND ECONOMIC PERFORMANCE IN THE POST-OIL SHOCK PERIOD

Country	Average Index of Central Bank Independence	Average Inflation 1973–88	Variance Inflation 1973–88	Average Real GNP Growth 1973–87	Variance Real GNP Growth 1973–87	Average Per Capita Real GNP Growth 1973–87	Variance Per Capita Real GNP Growth 1973–87	Average Unemployment Rate 1973–88	Variance Unemployment Rate 1973–88	Average Real Interest 1973–88	Variance Real Interest 1973–88
Spain	1.5	12.4	22.1	2.0	2.1	1.2	8.9	n/a	n/a	n/a	n/a
New Zealand	1	12.2	10.5	1.5	4.5	0.7	21.7	n/a	n/a	−.3	21.0
Australia	2.0	9.5	7.3	2.8	3.2	1.4	7.2	6.6	3.0	1.6	21.0
Italy	1.75	12.5	29.6	2.4	4.9	2.9	7.7	8.4	4.0	n/a	n/a
United Kingdom	2	6.7	23.5	1.6	4.1	2.0	7.8	8.8	15.0	0.9	27.0
France	2	8.2	12.6	2.1	1.3	1.5	4.1	7.0	6.0	2.1	10.0
Denmark	2.5	8.6	11.0	1.9	5.2	1.1	11.5	7.5	4.0	6.5	10.0
Belgium	2	6.0	11.9	1.7	3.8	1.5	10.1	12.8	20.0	3.6	12.0
Norway	2	8.2	5.6	3.9	3.3	3.0	6.3	2.2	0.3	2.4	14.0
Sweden	2	8.3	7.6	1.8	2.1	1.5	5.6	2.3	0.3	1.7	17.0
Canada	2.5	7.2	7.9	3.3	4.7	2.8	11.6	8.7	3.0	2.9	11.0
Netherlands	2.5	4.3	10.5	1.7	3.2	1.1	3.6	9.7	26.0	2.1	10.0
Japan	2.5	4.5	17.1	3.7	2.8	2.6	8.5	2.3	0.2	2.4	7.0
United States	3.5	6.4	11.1	2.4	6.5	1.6	9.8	7.2	1.0	2.1	11.0
Germany	4	3.4	4.0	1.8	3.3	1.8	6.9	6.2	6.0	3.0	3.0
Switzerland	4	3.1	4.3	1.0	8.1	1.4	11.0	n/a	n/a	1.6	3.0

Sources: See Table A1.

Verifies a near perfect negative correlation between inflation and central bank independence

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Independence Vs Inflation Control

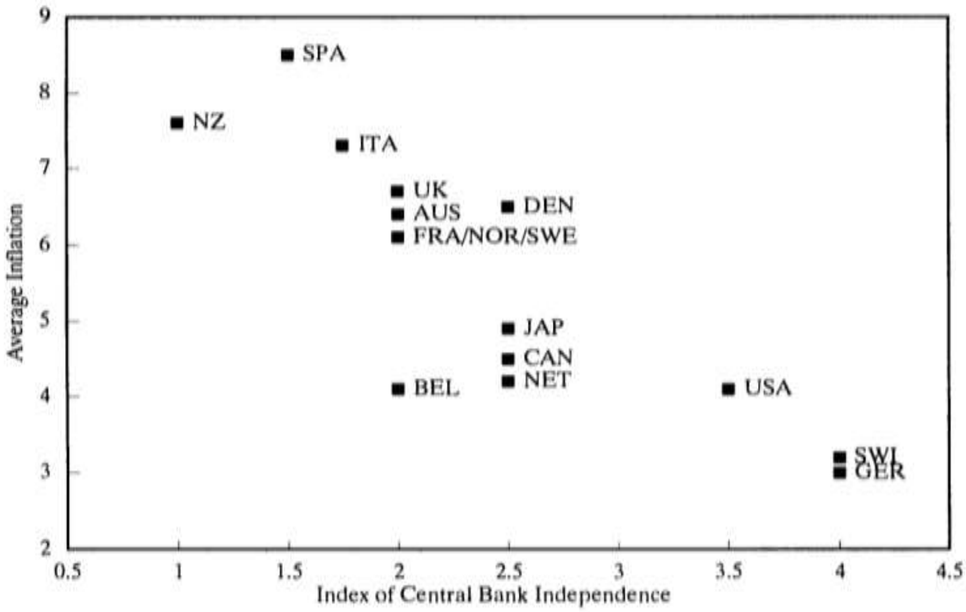

FIG. 1a. Average Inflation

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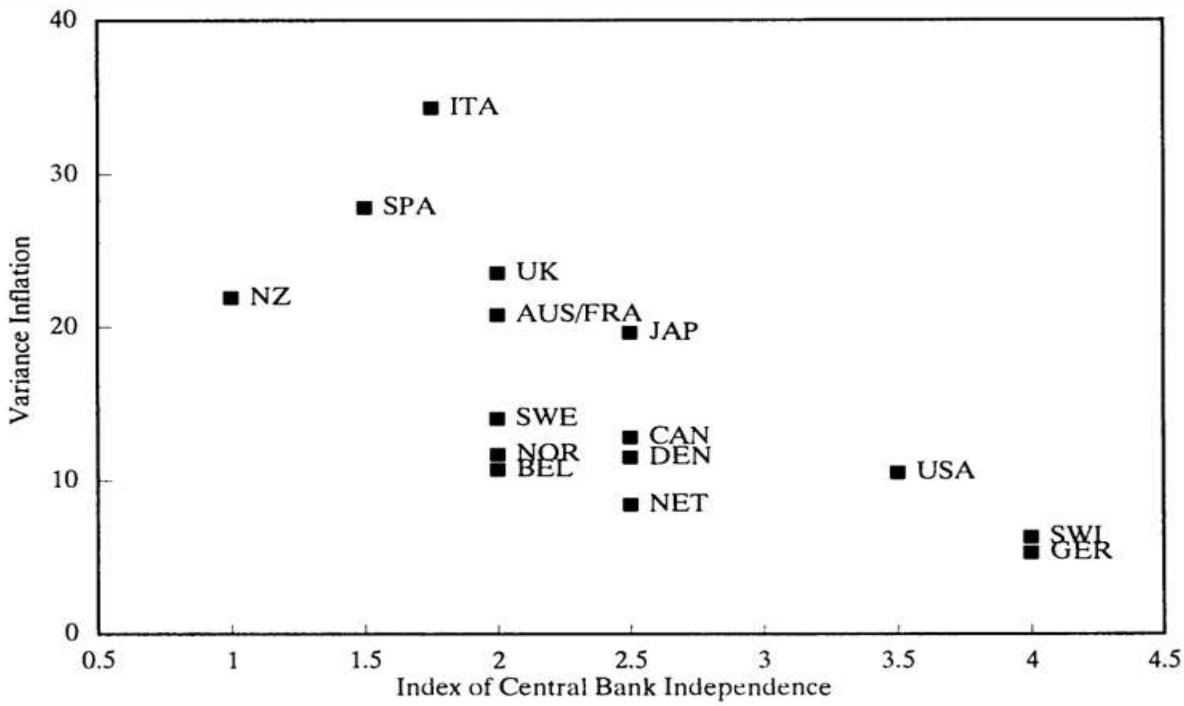

FIG. 1b. Variance Inflation

Figures 2a and 2b investigate the relationship between central bank independence and either the level or variability of economic growth. None emerges. Switzerland, which has an extremely independent central bank, shows much slower

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and variable growth than the average country in the sample, while Germany and Netherlands which also have relatively independent central banks have relatively good economic performance. On the other hand, countries with relatively dependent central banks such as Spain and New Zealand have relatively variable economic growth whereas France with a relatively dependent central bank has enjoyed steady growth

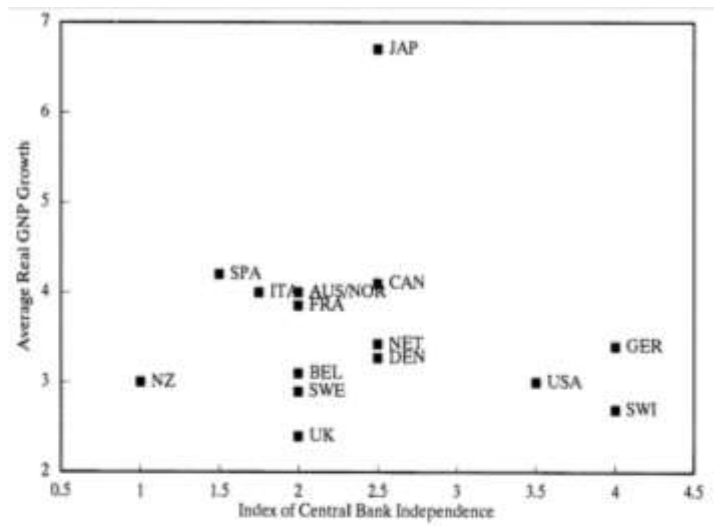

FIG. 2a. Average Real GNP Growth

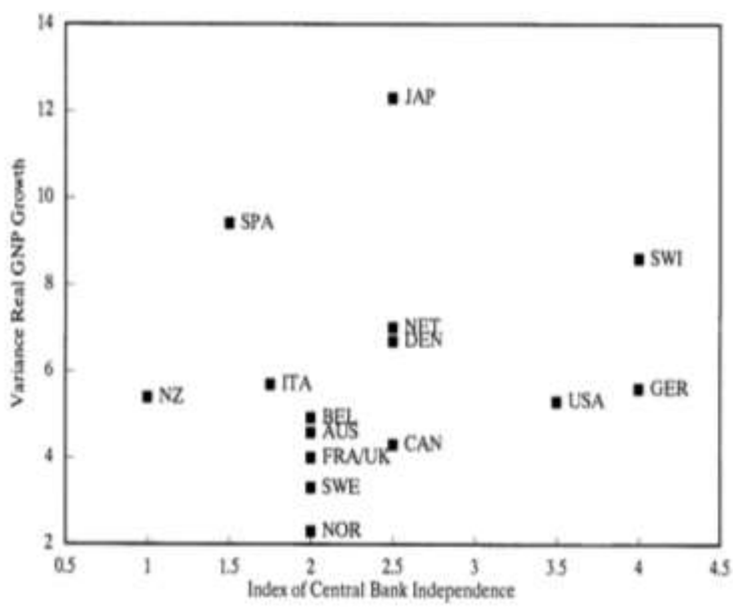

FIG. 2b. Variance Real GNP Growth

Central Bank Independence and Macroeconomic Performance: Some Comparative Evidence

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APPENDIX: TABLE A2

CENTRAL BANK INDEPENDENCE AND ECONOMIC PERFORMANCE IN THE POST-OIL SHOCK PERIOD

Country	Average Index of Central Bank Independence	Average Inflation 1973–88	Variance Inflation 1973–88	Average Real GNP Growth 1973–87	Variance Real GNP Growth 1973–87	Average Per Capita Real GNP Growth 1973–87	Variance Per Capita Real GNP Growth 1973–87	Average Unemployment Rate 1973–88	Variance Unemployment Rate 1973–88	Average Real Interest 1973–88	Variance Real Interest 1973–88
Spain	1.5	12.4	22.1	2.0	2.1	1.2	8.9	n/a	n/a	n/a	n/a
New Zealand	1	12.2	10.5	1.5	4.5	0.7	21.7	n/a	n/a	−.3	21.0
Australia	2.0	9.5	7.3	2.8	3.2	1.4	7.2	6.6	3.0	1.6	21.0
Italy	1.75	12.5	29.6	2.4	4.9	2.9	7.7	8.4	4.0	n/a	n/a
United Kingdom	2	6.7	23.5	1.6	4.1	2.0	7.8	8.8	15.0	0.9	27.0
France	2	8.2	12.6	2.1	1.3	1.5	4.1	7.0	6.0	2.1	10.0
Denmark	2.5	8.6	11.0	1.9	5.2	1.1	11.5	7.5	4.0	6.5	10.0
Belgium	2	6.0	11.9	1.7	3.8	1.5	10.1	12.8	20.0	3.6	12.0
Norway	2	8.2	5.6	3.9	3.3	3.0	6.3	2.2	0.3	2.4	14.0
Sweden	2	8.3	7.6	1.8	2.1	1.5	5.6	2.3	0.3	1.7	17.0
Canada	2.5	7.2	7.9	3.3	4.7	2.8	11.6	8.7	3.0	2.9	11.0
Netherlands	2.5	4.3	10.5	1.7	3.2	1.1	3.6	9.7	26.0	2.1	10.0
Japan	2.5	4.5	17.1	3.7	2.8	2.6	8.5	2.3	0.2	2.4	7.0
United States	3.5	6.4	11.1	2.4	6.5	1.6	9.8	7.2	1.0	2.1	11.0
Germany	4	3.4	4.0	1.8	3.3	1.8	6.9	6.2	6.0	3.0	3.0
Switzerland	4	3.1	4.3	1.0	8.1	1.4	11.0	n/a	n/a	1.6	3.0

Sources: See Table A1.

TABLE 1

INDEX OF CENTRAL BANK INDEPENDENCE

Country	BP[1]	GMT[2]	Conversion from GMT to BP[3]	Average GMT, BP[4]
Australia	1	9	3	2
Belgium	2	7	2	2
Canada	2	11	3	2.5
Denmark	2	8	3	2.5
France	2	7	2	2
Germany	4	13	4	4
Italy	1.5	5	2	1.75
Japan	3	6	2	2.5
Netherlands	2	10	3	2.5
Norway	2	NA	NA	2
New Zealand	1	3	1	1
Spain	1	5	2	1.5
Sweden	2	NA	NA	2
Switzerland	4	12	4	4
United Kingdom	2	6	2	2
United States	3	12	4	3.5

1. This is the index originally proposed by Bade and Parkin (1982) and extended by Alesina (1988).
2. Sum of the indexes of economic and political independence computed by Grilli, Masciandaro, and Tabellini (1991).
3. Conversion from the GMT scale to a (1) to (4) scale comparable with the BP scale. The conversion is as follows:

GMT index (i)	conversion
$i > 11$	4
$7 < i \leq 11$	3
$4 < i \leq 7$	2
$i \leq 4$	1

4. Average of columns (1) and (3).

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S/N	FUNCTION/ACTIVITY CBN 2019 – 2023 Policy Thrust	Complete Government control	Strong measure of Government control	Neutral	Strong measure of CBN control	Complete CBN control
1	Inflation target at single digit					
2	Collateral registry asset to grow from N400b to N1.2t					
3	Bank recapitalisation to reduce impact of economic crisis & increase ranking of Nigerian banks					
4	Macro-economic & Financial Stability: Increase GDP and reduce inflation: a) Trade Monitoring System; b) N500b to support non-oil products					
5	Secure & Robust Payment Systems e.g. USSD					
6	Targeted Development Finance: From \$2b to \$12b by 2023					
7	Financial Inclusion: broaden access					
8	Access to Credit: credit expansion to Agric, MSMEs, Manufacturing etc					
9	Unique identification & enrolment into the BVN Systems					
10	Lending to SMEs: Creation of Trade Receivable Portal to allow MSMEs trade their invoices with financial institutions to aid cash flow (Invoice factoring)					
11	Consumer Credit: Develop lending framework to promote Credit creation to consumers at lower interest rates and protect both lender and borrowers					
12	Mortgage Lending: Development of a framework to allow banks to securitize mortgage loans that can be sold in capital market					
13	National Assembly proposed Seperation of CBN Governor from CBN Board Chair					
14	National Assembly proposed control of CBN Budget					
15	Flexible tenure for CBN Governor					
16	Recruitment Policy					
17	Forex Allocation					
18	Monetary Vs Fiscal Policy alignment					
19	Presidential Directive to CBEN on 10 Priority Agriculture Value Chain					

CONCLUSION

The balance of Power in Central Banking is dynamic, and a moving target, with many stakeholders aiming at it. It is influenced by the level of transparency, engagement of appropriate stakeholders in the primary and secondary mandate policy environment, which policy and how the policy is conceived, risk assessed, formulated, delivered and monitored for compliance. The level of the Political economy, sensitization, and reasonable interval allowed between enactments, and going into force, of regulations.

BOFI Act 2020 has created huge opportunities in expanding CBN regulatory oversight and discretional powers, but equally, big challenges, that obviously demands that CBN and the Legislature must work as the closest ally to deliver a stronger, more transparent and efficient financial system in Nigeria.

RECOMMENDATION

In order to facilitate the achievement of its mandate under this Act, the Banks and other financial institutions Act, and in line with the objective of promoting stability and continuity in economic management, the Bank shall be an ***independent body*** in the discharge of its functions.
The principal objects of the Bank shall be to –
Ensure monetary and price stability;
Issue legal tender currency in Nigeria;
Maintain external reserves to safeguard the international value of the legal tender currency;

Promote a sound financial system in Nigeria; and Act as banker and provide economic and financial advice to the Federal Government (and of last resort).

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