

Central Bank of Nigeria: A Truly Independent or Quasi-Independent Agency?

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ABSTRACT

Central bank is said to be independent when the monetary authority is free to make monetary policy it feels that will stabilize the economy without any political interference. This paper therefore focuses on the true independent statutes of the central bank of Nigeria (CBN) as provided in section 1(3) of the central bank of Nigeria Act 2007. The study adopted a doctrinal research method. The primary sources of data includes relevant statutes and legal instruments that establish and govern the activities of the CBN, while the secondary sources of data were experts' opinions in the relevant areas of economics, finance, banking laws in published books, journal articles as well as in prints and electronic media. The study scrutinized the said CBN Act and found out that there are other conflicting sections that undermine the independence of the CBN. Again, the study reviewed the activities and operations of the apex bank in Nigeria so far and make comparison with other central banks like the Federal Reserve System and the Bank of England and concluded that, at best the CBN can be said to be quasi-independent; and at worst it can be said to be NOT an independent public agency. In which the paper recommends that the CBN Act should be amended to expunge any section or subsections that undermine CBN as an independent agency. Again, the paper recommends that a separate institution should be established for the appointments, promotion, remuneration, and discipline of the Board Members, Principal Officers and other Senior Officers of the apex bank as to guarantee the true independence statutes of the central bank of Nigeria.

KEYWORDS: Central Bank Independence, Bank Autonomy, Political Interference, Federal Reserve System, Bank of England).

JEL Classifications: E4, E5, E52, E58, E61, H11.

1. INTRODUCTION

The history of finance is one of the most innovative and existing parts of economics. However, many of the world's major economic traumas of the twentieth and twenty-first centuries could be traced to mismanaged financial system. The absence or inadequacy of well-functioning monetary policy has been identified by policy analysts as the major constraint to the achievement of economic growth potentials in many developing countries. "This is because a major channel by which economic policy affect investment is through monetary policy. Monetary policy manages the nation's money, credit and banking system; and in an open economy, the exchange rate system becomes a central part of monetary policy" (Samuelson and Nordhaus, 2011). "The government institution established to be in charge of monetary policy is the central bank; and today every country has a central bank where most macroeconomic policy makers can be found" (Cauvery et al, 2013). The Central bank and other regulatory bodies are the government establishments particularly important for ensuring efficient and stable financial system, and without these arrangements, macroeconomic stability will be difficult. As the apex bank, the central bank determines the level of short-term interest rates and lends money to other financial institutions. In most countries, the apex bank's central goals are to ensure low inflation, steady growth in national output, low unemployment, and orderly financial markets amongst others; and these key mandates are usually outlined in the legal frame work establishing the central bank. In Nigeria, the legal instrument governing the operations of the central bank of Nigeria as of today is the Central Bank Act of 2007.

The most remarkable of the changes to the central bank of Nigeria (CBN)'s legal instrument came forth with the Central Bank of Nigeria (Amendment) Act 2007, which established both the instrument and operational autonomy of the CBN. Specifically, section 1(3) of the CBN Act 2007 provides that: "*in order to facilitate the achievement of its mandate under the Act and the Banks and other Financial Institution 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 function*".

By definition, an independent central bank is one that operates under an act or rules designed to protect it from political interference. That's the freedom of monetary policy makers from direct political or governmental influence in the conduct of policy. According to Mugaa (2012), "the principle of central bank autonomy concerns itself with direct control that a government has over the functions and decisions taken by the central bank". The credibility of monetary policy is enhanced if central bankers are insulated from short-term political considerations, a condition that is sometimes referred to as central bank independence. Independent central banks will be better able to take a longer-term view of the economy. In particular, they can pursue anti-inflation policy when it is necessary, even if it leads to a temporary recession. Elected politicians, on the other hand, face frequent re-elections, and they may be swayed by short-term political considerations to allow the economy to over expand at the cost of higher inflation in the long run. Because of its enhanced credibility, an independent central bank may find it easier to anchor the public's expectations of inflation, reducing the duration of any inflationary or recessionary gap and promoting overall economic stability.

Frank, Bernanke and Squalli (2012), enumerated the various factors that can be used to determine a central bank's independence to include:

- '*The length of appointments to the central bank*. Central banks are considered to be more independent if their central bankers are appointed for long terms, especially if the terms are staggered so that the current members of the ruling government cannot replace them all at once.'
- '*Whether the central bank's actions are subject to frequent interference or review by the legislative branch*. Central banks are considered to be more independent if their actions are not subject to frequent interference or review by the legislative arm of government'.
- '*Whether the central bank has the obligation, as it does in some countries, to finance the national deficit by buying newly-issued government bonds*. The obligation to do so reduces a central bank's independence'.
- '*The degree to which the central bank's budget is controlled by the legislative or executive branch of government*. Central banks are considered to be more independent if they are allowed to set and control their own budgets'.

Central bank independence can either be absolute, where the apex bank enjoys complete freedom from governmental influence or control or may be non-existing, where the central bank is dependent on government. Elgie (2012), states the extent of central bank autonomy can be viewed as follows:

"A completely independent central bank would be one which was free from government intervention across the whole set of political indicators: It would have the full range of monetary policy instruments at its disposal; and it would be able to use all of these instruments without any government restrictions. By contrast, a complete dependent central bank would be one which was subject unbound to government intervention across the set of political indicators; and it would either have no monetary policy instruments at its disposal or it would be subject to absolute government restriction on those that it was able to use....The level or degree of central bank autonomy can therefore be looked at in two extremes where on one hand, the central bank is seen as an arm of government and is subject to control by minister under whose docket the central banks fall under; that is the dependent central bank, and on the other hand a central bank that is controlled by technocrats completely independent of government directions, that is an independent central bank".

There are various factors that affect the degree of independence a central bank enjoys but in most instances, the level or degree of independence is dependent on the institutional structure of the central bank. Whereas central banks conduct similar functions across various nations of the world, their levels of independence differ substantially; the institutional structure may either be formal, that is found in enabling statutes, or it may be informal, without enabling legal framework regulating its activities. Most central bank of the world today operate a formal institutionally structured central banking, and yet their degrees of independent still differs mostly because of the provisions in the enabling statutes, and the implementations of those provisions by different government of the world.

The principles of central bank independence has been at the centre of legal reforms in many countries which seek to amend their laws on central banking to increase the degree or the level of autonomy of their respective central banks. To function properly, the central bank is generally expected to be relatively independent. In a truly independent central bank, the daily policy actions of the central bank are not subject to review, approval, or veto by either the executive, legislative, or judicial branches of government. The central bank is under no obligation to finance the national deficit, and it controls its own budget. On the other hand, the laws governing central banks typically do not explicitly prohibit interference in monetary policy decisions by the legislative and executive branches of government; however, this prohibition is explicit in the central banking laws of many other countries.

As mentioned earlier, the institutional design of a central bank determines the degree of independence of a central bank, and one aspect of the institutional design of an apex bank is the relationship the institution should have with the government. Scholars had opined that historical foundations of central banks showed that the early central banks were closely tied to their respective governments particularly as a source of financing to the governments in times of financial distress. According to Wash C.E, “the historical, legal and de facto relationship between a country’s government and its central bank is complex, involving many different aspects. These include but not limited to the role of government in appointing (and dismissing) members of the central bank governing board, the voting power (if any) of the board members, the extent 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 is a clearly defined policy goals established in the central bank charter”.

It is this aspect of relationship between a government and a central bank that are at the centre of determining the extent to which a central bank can be independent. Due to subsidiary relationship between government and its central bank, there is need to draw the rules of engagement that will yield the desired balance of power and control that the government wields over the central bank and affording the central bank an enabling environment in which it can exercise its mandates as prescribed in its legal instruments.

It has been a life time debate, and a critical question in mind is whether central bank laws or constitutions should give the President of the country authority over policies of the central bank or should central banks make decisions free from political influence. In the United States, some prominent economists agreed that their central bank is truly independent. According to Samuelson & Nordhaus (2011), “with the enactment of the Federal Reserve (Fed) Act of 1913 of United States of America, the Fed governors once appointed cannot be recalled even if the President is unhappy with their decisions. For the duo, this is because the Fed is an independence agency”. In addition, Mankiw (1997) opined that the central bank of the United States is largely independent. In his words, “in the United States, Fed governors are appointed for 14 years terms, and they cannot be recalled even if the president is unhappy with their decisions. This institutional structure gives the Fed a degree of independent similar to that of the Supreme Court of the United States”.

2. EMPIRICAL EVIDENCE

Empirical evidence also supports the proposition that countries should foster the independence of their central banks for a robust monetary policy. This is because many empirical studies have confirmed that countries whose central banks are more independent have lower rates of inflation. More importantly, is that the lower inflation does not appear to come at the cost of lower output or higher unemployment. By enhancing a central bank’s credibility, greater central bank independence leads to better overall economic outcomes. Investigations of the relation between these measures of independence and inflation found that among industrialized countries of the world, that, there exist strongly negative relationship between the central bank independence and inflation.

For instance, Alesina and Summers (1993) empirically examined the correlation between central bank independence and macroeconomic performance in some developed countries. The result of the study was striking, as the finding revealed that “more independent central banks are strongly associated with lower and more stable inflation. Countries with an independent central bank such as Germany, Switzerland and the United States tend to have low average inflation; while countries whose central banks are not independent such as New Zealand and Spain, tend to have higher average inflation’. That finding has led some countries, such as New Zealand, to rewrite their central bank laws in order to give their central banks greater independence”. Supporting the outcome of the above investigations, the duo, Samuelson & Nordhaus (2011), reiterated that “the defenders of the central banks’ independence maintained that an independent central bank is the guarantee of a nation’s currency and the best protection against rampant inflation, as it ensures that monetary policy is not

subverted for partisan political objectives, as sometimes happens in countries where the executive branch controls the central bank.”

Further empirical studies, Maxfield (1997) and Mishkin (2000) both confirmed that “an independent central bank can indeed, prevent the economic cycles of boom and bursts which often arise from the interference of political authorities who are very often interested in pursuing short-term political objectives”. The duo supported the view of allowing the technocrats in the central bank to perform the bank’s statutory functions without interference. In Nigeria, Nnanna & Nnanna (2012) equally observed that “the Nigerian economy has recorded an impressive average real GDP growth rate of 6.9 percent since the CBN was granted independence in 2007. Between 2007-2011, most macroeconomic indicators improved substantially: the GDP growth rate was relatively impressive at 5.6 percent and 9.4 percent respectively; inflation rate stood at a lower double digit rate 12.0 and 11.5 percent respectively; while external reserves increased sharply to US 15.97 billion and USS 42.32 billion respectively”.

However, some authors could not fully agree on the clear-cut negative relationship between central bank independence and interest rate. According to Romer (2001), there are three limitations to those findings; and firstly, in his own words, “it is not yet clear that the greater central bank independence will produce lower inflation. The argument that they do predict this implicitly assumes that both central bankers’ and government policy makers’ preferences do not vary systematically with central bank independence. But the delegation hypothesis implies that they will. Suppose, for example the monetary policy depends on the central banks and the government’s preferences, with the weight on the bank’s preferences increasing in its independence. Then, when the bank is less independent, government officials should compensate by appointing more inflation-averse individuals to the bank. Similarly when the government is less able to delegate policy to the bank, voters should elect more inflation-averse governments. This effect will mitigate and might even offset, or reduced central-bank independence; secondly, the fact that there is a negative relation between central bank independence and inflation does not mean that the independency of the central bank is the source of the low and stable inflation.

As Posen (1993) once observes that the countries whose citizens are particularly averse to inflation are likely to try to insulate their central banks from political pressure. For example it is widely believed that German especially dislike inflation, perhaps because of the hyper inflation that Germany experienced after the First World War and the institution governing Germany’s central Bunde’s bank appear to have been created largely because of this desire to avoid inflation. Thus, some of German low inflation is almost surely the result of the general aversion to inflation, rather than of the independence of its central bank; thirdly, even if central bank independence is the source of low inflation, the mechanism linking the two may not involve dynamic inconsistency”. In addition, Cukierman, Webb, and Neyapti (1992) “found that there is no clear relationship between legal measures of central bank independence and average inflation among non-industrialized countries. For them, going further the usual measures of independence appear to be biased in favour of finding a link between independence and low inflation. For example the measures put some weight on whether the bank charter gives low inflation as its principal goal or not” (Pollard, 1993).

The theory of dynamic inconsistency as mentioned above has some limitations. Theories based on dynamic inconsistency provide a simple and appealing explanation of inflation. Unfortunately, it is not clear that their explanation is important to actual inflation, particularly for the industrialized countries. There are two problems. Firstly, the importance of forward- looking expectations to aggregate supply, which is central to the dynamic inconsistency explanation, is not well established. For example, Canada and New Zealand took strong measures in the 1990s to make credible commitments to low inflation monetary policies. New Zealand, for instance modified the central banks charter to make price stability the sole objective of policy and to provide for dismissal of the central bank’s governor, if inflation falls outside a target range. “Yet, contrary to the predictions of dynamic inconsistency models these measures do not appear to have had a major impact on the output-inflation relationship in these countries” (Debelle, 1996). Similarly, Fuhrer (1997) fails to fund any evidence that forward looking expectations are important to the behaviors of United States inflation.

Second, the dynamic-inconsistency theories have difficulty accounting for the time series variation in inflation. At least in industrialized countries, high inflation was mainly a phenomenon of the 1970s, not a general characteristic of monetary policy. Yet dynamic inconsistency theories imply that high inflation is the result of optimizing behavior by the relevant players given the institutions; thus the theory predict that in the absence of charges of those institutions, high inflation will remain. This was not what was observed. In the United States, for example policy makers were able to reduce inflation from about 10 percent at the end of 1970s to less than 5 percent just a few years later, and to maintain lower inflation without any significant changes in the institution or rules governing policy.

3. INDEPENDENCE OF FEDERAL RESERVE SYSTEM OF UNITED STATES OF AMERICA

The central bank of the United States of America is known as the Federal Reserve System (Fed). Historically, during the nineteenth century, the United States was plagued with banking panics; and that occurred when large numbers of people attempted to convert their bank deposits into currency all at the same time. When people arrived at the banks, they found that there was insufficient currency to cover everybody's deposits because of the system of fractional reserves. After the bank runs and severe panic of 1907, agitation and discussion led to the Federal Reserve Act of 1913, whose purpose was 'to provide for the establishment of Federal Reserve Banks, to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and for other purposes.' That was the beginning of the Fed.

In the United States, the legal instrument that established the Fed made it a truly independent central bank; and this assertion was supported by many authors including Samuelson & Nordhaus (2011) and Mankiw (1997). This means that the Fed is free to make any monetary policy it believed that will be good for United States economy without any interference or fear from any organ of the government. Thus, Fed is a thorough independent agency of the government. In addition, the duo opined that the central bank of the United States is largely independent just like the Supreme Court of the country.

At the same time as the analytical arguments against fine tuning and discretionary policy of the central banks were being refined in the 1980s, and 1990s, the Fed, under the chairmanship of first, Paul Volcker (1979 - 1987), and then Alan Greenspan (1987 – 2006), was in one of the most successful periods of implementation of monetary policy in its history and the policies were clearly discretionary. What happened? 'Through the 1970s, inflation had been rising from business cycle to business cycles, in each cycle; the peak inflation rate was higher than it had been in the previous cycle. Paul Volcker's priority as chairman was to bring inflation under control. That goal was achieved, albeit at the cost of recession of 1981–1982, during which the unemployment rate hit the highest level of the post-world war II period, at 10.8 percent'.

'When Alan Greenspan took over in August 1987, the inflation rate was 4.6 percent and the economy was fundamentally at full employment. Two months later, the new chairman of the Fed was faced with a potentially massive crisis, when the stock market crashed on October 19, 1987. The Fed rose to the challenge by providing enough liquidity to make sure there was no financial panic. Perhaps, partly as a result of that injection of liquidity, inflationary pressures continued to rise through the end of the decade, and the Fed accordingly tightened monetary policy by raising interest rates. Eventually, in July 1990, a recession began. However, the recession was shallow, with unemployment rising to a maximum of only 7.7 percent. Once the recession was clearly recognized, the Fed cut interest rates, slowly and repeatedly. The recession ended in March 1991, and the recovery continued as inflation declined. By the end of 1994, the economy was back at full employment, but inflation stayed low. And during the following two years the Fed succeeded in keeping both inflation and unemployment low. As the economy went into the mild 2001 recession, the Fed drastically lowered interest rates. Then when it was clear that the recovery was strong, the Fed began to move interest rates up once more. An important point to note here is that the Fed was employing all those measures without interference from any organ of the government' (Dornbusch and Fischer, 2008).

Meanwhile, Milton Friedman and Anna Schwartz, in their classic titled: "A monetary history of the United States", blamed the Fed for not responding to the system wide problems induced by the stock market crash of 1929, and that pushed United States and the World to the Great Depression. But during the stock market crash of 1987, the lesson had been learned. The then Fed Chairman, Alan Greenspan did not hesitate. He announced that the Fed stood behind the banking system. The Fed immediately reduced interest rates providing the much needed liquidity that would help stem the risk of a credit collapse" (Dornbusch and Fischer, 1990).

Again, when the world trade center in the United States was attacked on September 11, 2001, there was a risk that the financial system could have been brought to its knees. New York City is the financial center of the United States and much of the world. But on the day of the attack and over the next few days, the Fed pumped reserves into the financial system, and 30 billion dollars more on September 12. In furtherance, the Fed made huge temporary loans to financial institutions, about 45.5 billion dollars on September 12, and nearly 50 times the loans made the previous Wednesday" (Dornbusch and Fischer, 2008). Cooperation between the Fed and the private sector in the hours and days immediately following the attack guaranteed that the financial system would have all the liquidity it needed to meet the crisis. The September 11 attacks were the worst on U.S soil since the civil war, but because of quick and resolute Fed action, the U.S financial system survived it.

‘Another example happened during the global meltdown of 2007-2009, when a cascade of failures of financial institutions caused a major financial crisis as the investment-banking firm Bear Stearns had severe liquidity problems on Friday, March 14, 2008. The Fed needed to come up with a solution before markets opened on Monday morning. By Sunday, working with U.S Treasury Department, the Fed had engineered a takeover of Bear by J.P Morgan and had opened an entire new credit facility for its primary dealers. It is difficult to conceive of any legislature taking such complex measures in such a short time’ (Samuelson & Nordhaus, 2011). Thus, the Fed is much better placed to conduct stabilization policy than the fiscal policy makers. Its staff of professional economists can recognize cyclical movements as well as anyone, and it can move quickly when the need arises. A key ingredient in Fed policy that enables it to perform optimally is its independence, and the Fed has proved that it can stand the heat of making even politically unpopular decisions when they are necessary to slow down inflation.

On examining the structure of the Fed, one might naturally ask, in which of the three organs of government does the Fed lie? The Federal Reserve System is in practice a public agency, and the chairman of the board and governors of the branches are usually appointed by the President upon confirmation by the Congress. It is directly responsible to the Congress; it attends to the advice of the president; and whenever any conflict arises between making a profit and promoting the public interest, it act unswervingly in the public interest.

Above all, the Federal Reserve as have been emphasized is truly an *independent agency*. While it consults with Congress and the President, in the end the Fed decides monetary policy according to its own views about the nation’s economic interests. As a result, the Fed sometimes comes into conflict with the executive or legislative branch. Almost every past and present United States Presidents has words of advice for the Fed. When Fed policies clash with the administration’s goals, presidents’ occasionally use harsh words. The Fed listens politely but generally chooses the path it deems best for the country, for its decision do not have to be approved by anybody.

From time to time, *Critics* argue that Fed is too independent; that it is undemocratic for a small group of unelected people to govern the nation’s financial markets. This is a sobering thought for unelected bodies sometimes lose touch with social and economic realities. But, the *Defenders* of Fed’s independence respond that an independent central bank is a guardian of a nation’s currency and the best protector against rampant inflation.

In all one can say with certainty that the United States Federal Reserve System is an independent public agency, however, the recent altercation of President Donald Trump on the activities of the Fed under Jerome Powell put a doubt and wrong signal on the historical independent statues of the Federal Reserve System.

4. QUASI-INDEPENDENCE OF THE BANK OF ENGLAND

The Bank of England started life as a privately owned joint stocked company in 1694, mainly to provide loans to meet the needs of the Crown; it eventually became the government’s bankers for all purposes. It was taken into public ownership under the Bank of England Act 1946 when it was nationalized, although the Treasury had for many years been able to control its policies. Under the 1946 Act, the Bank of England remained a separate institution from the Treasury and it is not a government department. From 1946 to 1997, the Bank of England had a key role in implementing monetary policy but the decision about policy were all taken by the elected government of the day, through the person of the Chancellor of the Exchequer. That was because since 20th century, the Treasury in United Kingdom was an economic policy department. The economic functions of the Treasury, together with its control over spending, give the department a uniquely powerful position of every government, though the responsibility for monetary policy has been devolved to the Monetary Policy Committee of the Bank of England. There were complaints and concern been expressed in United Kingdom and even beyond that the Treasury was becoming too rigid and powerful in those days, that its influence over the strategic direction of the government were enormous, and that it was exercising too much influence on policy making.

Reason, being that pursuant to Section 4 of the Bank of England Act 1964, ‘the Treasury may issue formal directions to the Bank. Thus, unlike the detailed constitutions of some of the other central banks, the 1946 Act did not accord the Bank of England stated duties and responsibilities. Instead, it was an apparently simple Act by which the Treasury merely assumed stock from the Bank’s Proprietors, made arrangements for the Crown to appoint the Governors and directors, and gave legal support firstly to the ultimate authority of the Treasury over the Bank in matters of policy’, but that position of the Bank had been substantially reformed by the Bank of England Act 1998.

On May 6, 1997, just about four days in office as the British Prime Minister, Tony Blair through Gordon Brown the chancellor of Exchequer announced the independence of the Bank of England, having campaigned against the conjunction of the Treasury and the Bank of England during his electioneering campaign. In his own words, Blair (2010) stated that “some months before the election, Gordon and I formed the desire to give monetary policy i.e. the setting of interest rates over to the Bank of England. The so called ‘independence’ of the Bank had been a keen academic, economic and political debate going back decades. I had no doubt it was right. I had been convinced long ago that for politicians to set interest rates was to confuse economics and politics, the long term with the short term, the expedient with the sensible. I had watched the game played out as governments carefully calibrated the interest rate movements with the electoral cycle. Everyone knew it was happening and why. The result was the country effectively paid a political premium on the interest rate. The contrast with the independent central banks of Europe especially that of Germany, and with the US Federal Reserve, was instructive and telling. The issue, as I like to say to doubting backbenchers and the serious experts who opposed the move, was not whether the Governor of the Bank was a more intelligent person than the Chancellor of Exchequer. He might or might not be of superior intellect. But the decision-making process at the Bank was definitely of superior objectivity.”

Thus, on May 6, 1997 with the above conviction, the then Labour government of Tony Blair decided to delegate the power to set interest rates to the Bank of England with effect from June, 1997, and the new arrangement were embodied in the Bank of England Act of 1998. The Constitution of the Bank of England is now governed by the Bank of England Act 1998, which makes a number of radical changes to the functions performed by the bank. This formally established the Monetary Policy Committee and the framework within which it operates. A major initiative introduced in May 6, 1997 was to give Bank *operational responsibility* to set interest rates. This step was taken by the Prime Minister and the Chancellor of the Exchequer without consulting cabinet, in order to ensure that decision-making on the monetary policy was more effective, open, accountable and free from short term political manipulation. By keeping the government hands off interests’ rates, central bank independence removes the temptation for the government to overheat the economy in pursuit of a pre- election boom.

However, even with the coming of the Bank of England Act 1998, which made a number of radical changes to the functions now performed by the bank, the government of the day still chose the aim of monetary policy to keep inflation low by setting an inflation target for the Bank of England, but the Bank alone now decides what interest rates is needed to achieve this. Again, by section 4 of the said Act, the Bank must report annually to the Chancellor of the Exchequer, who must lay the report before parliament. Moreover, pursuant to section 19 of the Act, the Treasury still reserves some powers to give the Bank directions relating to monetary policy in extreme economic circumstances. However, the government expects this power to be used rarely, if at all. For instance, it was reported in September, 2005 that the Treasury had taken ‘administrative action’ against group proscribed under the Terrorism Act 2000. In all cases this had involved freezing the funds, financial assets, and economic resources of the proscribed groups in question. Individual bank accounts were also frozen under a procedure whereby the treasury instructs the Bank of England to direct financial institutions that the funds of named individuals have all been frozen.

Thus, by retain the power to set inflation target, the government of Britain still exercise some influence with the activities of the Bank of England, and hence the Bank at best can be said to be quasi-independence.

5. IS CENTRAL BANK OF NIGERIA A TRUE INDEPENDENT AGENCY?

Many authors and scholars have opined that the Independence of the Central Bank of Nigeria as provided in section 1(3) was the greatest innovation brought about by the CBN Act of 2007. According to them, with the above provision, the Act insulates the apex bank from political influences and positions it to effectively achieve its mandates. This provision is following a life time debate on whether central bank laws or constitution should give the president of the country authority over policies of the central bank or just allow central banks make their decisions free from political influence. However with the community reading of the entire CBN Act of 2007, a critical question in mind will be, did the Act actually give the central bank of Nigeria true independent to function independently without recourse to the president or any other arms of the government?

As stated above that with the Federal Reserve (Fed) Act of 1913 of United States of America, the Fed chairman and governors once appointed cannot be recalled even if the President is unhappy with their decisions, because the Fed is an independence agency. An independent central bank is the guarantee of a nation’s currency and the best protection against rampant inflation, as it ensures that monetary policy is not subverted for partisan political objectives, as sometimes happens in countries where the executive branch controls the central bank”.

Most politicians are very often interested in pursuing short-term political objectives (Maxfield (1997) and Mishkin (2000)). Consequently, allowing the technocrats in the central bank to perform the bank's statutory functions without interference whatsoever is the best any instrument establishing any central bank can grant the apex bank.

Now given the nature of partisan politics practiced in Nigeria, can it be said that the security of tenure of the governor and deputy governors of central bank of Nigeria has been assured under the CBN Act of 2007? Again, can we say that the Act granted the central bank of Nigeria the power to exercise full discretion to choose the appropriate mix of monetary policy to achieve its mandates without any interference? Furthermore, can CBN set its own policy goals and implement them without seeking the approval from the executive or legislative arms of the government?

It is noteworthy to state that the independence granted by the CBN under the Act has some certain provisions in the same law that seems to be contradicting and undermining it. Some of the provisions include:

(1) Firstly, By Section 8(3), of the same Act, *“the salaries, fees, wages or other remuneration or allowances including pension and other allowances payable to the Governor and the Deputy Governors shall be as stipulated from time to time by the Board subject to the approval of the president”*. Furthermore, by Section 8(4) *“the Governor shall appear before the National Assembly at semi-annual hearings regarding (a) efforts, activities, objectives and plans of the Board with monetary policy; and (b), economic development and prospects for the future”*. Again, section 8(5) provides that *“the governor shall from time to time, (a) keep the president informed of the affairs of the Bank including a report on its budget, and make a formal report and presentation on the activities of the Bank and the performance of the economy to the relevant Committee of the National Assembly. In addition the above, by section 50(1), “the Bank shall, within two months after the close of its financial year, transmit to the National Assembly and the president a copy of its annual accounts certified by the auditor; by section 50 (2), 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; and by section 50(5), a copy of the returned referred to in Sub-section (4) of this section shall be forwarded to the president and shall be published in the Gazette.”*

Recall that according to Frank, Bernanke and Squalli (2012), *“Central banks are considered to be more independent if their actions are not subject to frequent interference or review by the legislative arm of government and if they are allowed to set and control their own budgets”*. The independence of Central Banks globally is of paramount importance in the pursuit of the long term economic performance and sustainability.

Thus, so long as the CBN are subjected to frequent visits and instructions from either the executive or the legislative organ of government, it cannot be said to be performing its mandates without political interference. For instance, the CBN monetary policy committee meeting scheduled to hold on Monday and Tuesday 22 and 23 January, 2018 could not take place due to the non-confirmation of the MPC nominees by the Senate. The then CBN Governor, Godwin Emefiele said that the MPC meeting would not hold in January 2018 as a result of the CBN's inability to form a quorum as stipulated by the CBN Act 2007. This is because being a statutory meeting the MPC meeting cannot hold without forming a quorum. This raised the question of qualifying the CBN as truly an independent agency as the President's or Legislative actions and inactions still affect its smooth operations. This is critical since it is only an independent central bank that can assist the government to define and implement a realistic and an inclusive monetary policy agenda for the country.

(2) Secondly, section 11(2)(f) of the Act opined that the Governor, Deputy Governor or Director shall cease to hold office in the Bank if he *“is removed by the president provided that the removal of the Governor shall be supported by two-thirds majority of the Senate praying that he so removes”*.

The first litmus test on the above showcased when conflict arose between ‘the former President Goodluck Jonathan and the then Governor of the central bank of Nigeria, Malam Sanusi Lamido. Recall the CBN Act put in place appropriate measures to monitor and checkmate the excesses of the management and Board of the CBN in section 11 of the Act. The section provides for disqualification and cessation of appointment of any erring member of the management team of the CBN. The aforementioned drama unfolded between former president Goodluck Jonathan and Sanusi Lamido when the then CBN governor was penciled as working against the interest of the government of Goodluck Jonathan’ (Onwudinjo, 2024). For instance, Atojoko (2014) noted that *“Sanusi claimed that total revenue from the sale of crude oil was \$67.8 billion while records of remittance to the federation account by the Nigeria National Petroleum Corporation (NNPC) indicated \$47.8 billion, with the short fall of \$20 billion. At the end of the reconciliation meeting between the CBN, NNPC, and Finance*

Minister, Sanusi reversed the missing figure to \$12 billion. Again, Sanusi doled out ₦15 billion to four educational institutions in unexplained circumstances, donating ₦500 million to University of Benin; ₦10 billion to Usman Dan-Fodio University, Sokoto; ₦4 billion to Bayero University, Kano and ₦500 million to Lisabi Grammar School Abeokuta. Sanusi was then perceived to be working against the government. As the conflict aroused, Sanusi was quoted to have boasted that even President Jonathan cannot sack him without two-third majority of the Senate, the upper chamber of the Nigerian parliament as provided in section 11(2)(f) of the Act. Sanusi was later suspended on February 20, 2014 by President Goodluck Jonathan who claimed that the CBN Governor's utterances and actions could rock the nation's economic system if allowed to continue to man the Nigerian apex bank.

Again, on Friday June 9, 2023 just barely ten days after President Tinubu took office as the president of the Federal Republic of Nigeria, he suspended the then CBN Governor Mr Godwin Emefiele, and directed the CBN deputy Governor (Operations Directorate) Mr Folashodun Adebisi Shonubi to act as the CBN Governor pending the investigation of Emefiele and his office as CBN Governor. Around 2am on Saturday 10th June, 2023 Emefiele was arrested by the men of Directorate of Security Services (DSS) for interrogation and investigation on the 10 count charges leveled against him, and is still on the trial till date. These unceremonious exits of the immediate past two CBN governors are enough to question the independency of the CBN in Nigeria. This is because even though any erring CBN governor anywhere in the world should face the law, but in Nigeria case, care should be taken not to mix politics with the activities of the CBN governors' otherwise successive CBN governors would always act in fear of political repercussions and this undermines their independence status and also affect their performances in office.

(3) Thirdly, by section 19(1), *“the Currency notes and coins issued by the Bank shall be-(a) in such a denominations of the Naira or fractions thereof as shall be approved by the president on the recommendation of the Board; and (b) of such forms and designs and bear such devices as shall be approved by the president on the recommendation of the Board. Also by section 19(2), the standard weights and composition of coins issued by the bank and the amount of remedy and variation shall be determined by the president on the recommendation of the Board.”*

As a CBN governor, Prof Chukwuma Soludo was queried and asked to withdraw the naira re-denomination policy, for embarking on such a profound monetary reform without due authorization by the government. Thus, it is obvious that a CBN Governor in Nigeria needed not only legal but political authority to embark on any radical monetary reforms. The CBN governor needed not just a written approval from the president but ought to have taken other stakeholders into confidence, and that killed the policy. The naira re-denomination was not the first of Soludo's policies to receive such unfavorable public reactions at the beginning. The banking consolidation policy went through the same criticism soon after it was announced on July 6, 2004. At that time, the policy which made banks recapitalize to the tune of N25 billion was strongly criticized. However, the different between the consolidation era starting from July 2004 to December 2005 and the redenomination era of July–September 2007 was political climate. During the consolidation era, President Olusegun Obasanjo was in charge and gave his full support. But during the redenomination discourse, President Umaru Musa Yar'Adua was in charge and could not give support. Thus, in Nigeria, the people at the helms of affairs of a government agency like the CBN have to watch and realize the political mood of the nation and reflect same in the handling of the policy.

Thus, many expected Professor Charles Soludo to go for a second tenure considering his achievements, more especially on banking consolidation, and efforts on the coming of the CBN Act 2007, but he was not re-nominated by the government of the day. This cannot happen in a truly independence central bank. “In the United States for instance, Alan Greenspan Chaired the Fed for almost 20 years, serving four United States Presidents. Greenspan, a conservative business economist was appointed by Ronald Reagan in 1987, and was replaced by Ben Bernanke in 2006 during the time of George Bush II. Even recently in the United States, failure of Donald Trump to re-nominate Janeth Yellen for a second term was perceived to be more political than merit. Yellen, succeeded Ben Bernanke in 2014 as the 15th chairman of the Federal Reserve Bank of USA, and the first woman to mount the saddle of the over 100 years old institution. She is a renowned economist and a co-winner with his husband George Akerlof of the 2001 Noble price in economics. In Nigeria, only Godwin Emefiele has ever being re-nominated for second term in office since the return of democracy in Nigeria in 1999. President Goodluck Jonathan nominated Godwin Emefiele, who was confirmed by senate for 2014-2019. Godwin Emefiele was re-nominated by president Muhammadu Buhari and was subsequently confirmed for the second term by Senate for 2019-2024 making him the only of the four CBN Governors before Cardoso to be appointed for the second term since the Nigeria's Fourth Republic. However, his second tenure was aborted

following his suspension by President Bola Tinubu, and subsequent arrest by the Directorate of Security Services (DSS)” (Onwudinjo,2024).

(4)Fourthly, by section 20(3), “*Notwithstanding Sub-sections (1) and (2) of this section, the Bank shall have power, if directed to do so by the president and after given reasonable notice in that behalf, to call in any of its note or coin with respect to which a notice has been given under this Sub-section, shall on the expiration of the notice, cease to be legal tender, but, subject to section 22 of this Act, shall be redeemed by the Bank upon demand*”.

On October 26, 2022, the former governor of central bank of Nigeria, Godwin Emefiele, announced that a new naira notes would be introduced to replace the current 200, 500, and 1000 naira notes. He also stated that the redesign will take effect from Thursday, December 15, 2022. He also said that the existing notes would cease to be regarded as legal tender by January 31, 2023. However, following a court action instituted by some All Progressive Action (APC) challenging the way and manner the naira redesign policy was introduced to the country; on March 3, 2023 the Supreme Court of Nigeria in a unanimous decision ruled that all the 200, 500, and 1000 naira notes should continue to be used as legal tender till 31st December, 2023. Again, in his inaugural address on May 29, 2023 the newly elected President of Federal Republic of Nigeria, Bola Ahmed Tinubu condemned the way and manner the redesigned policy was introduced to the country and lamented on the suffering and hardships it inflicted to Nigerians which it was meant to serve; he therefore promised to revisit the policy. Needless to say that the ill-planned redesigning of some naira notes together with the cashless policy, as was allegedly directed by the former president Buhari really dealt Nigerians together with the massive political undertone that it came with. For instance, the then CBN governor, Godwin Emefiele was said to have purchased the ruling All Progressive Congress (APC) presidential ticket to contest for the president of Nigeria without firstly resigning as the apex bank governor. Again, amongst other allegations, the redesigning policy was said to be targeted against some politicians, and it took the Supreme Court decisions to halt the situation. This is an evident of playing politics with the apex bank which supposed to concentrate on making monetary policy for the economic advancement of the country.

6. CONCLUSION

Every central bank chooses short-term monetary policy with two goals in mind: to keep economic activities high and inflation low. Most important is that with some qualification from the point of view of demand management, monetary policy can do, or undo, many things that fiscal policy cannot accomplish. In the early years of the Keynesian revolution, some macroeconomists were skeptical about the effectiveness of the monetary policy. Over the last three decades, however, these concerns has been put to rest as many independent central banks have been capable of slowing down, or speeding up, the economy. The Keynesian emphasis on fiscal policy and its downplaying of the role of money, has been successfully challenged by Milton Friedman and his co-workers during the 1950s, and there emphasis on the role of monetary policy in determining the behavior of both output and price has been justified.

The only reservation here is that if the economy gets stuck in a liquidity trap, with nominal interest rate at or near zero level, then monetary policy loses its ability to stimulate the economy. When the economy is in or near liquidity trap, fiscal policy must therefore take over the major expansionary role. This is because, according to Samuelson (2011), when the economy in a liquidity trap, then the central bank will have no further room to lower the short term interest rate. This was the case in Japan in the beginning of the millennium and in United States during the 2007-2009 recessions; which in an effort to revive the US economy, the Obama administration worked with the congress in the early 2009 to pass the largest fiscal stimulus package in US history.

Thus, a truly political independence central bank is always quick in decision making, and is well placed to be on the front line of defense in stabilizing the economy against business-cycle shocks. Moreover, central bank independence ensure that the monetary policy is not subverted for partisan political objectives, as sometimes happens in countries where the executive branch controls the central bank. Historical studies show that countries with independence central banks have generally been more successful in keeping inflation down than those whose central banks are under the control of elected officials.

In Nigeria, former head of state General Abdusalam Abubakar clearly appreciated the technical nature of central banking and came up with Decree 41 of 1999 which firstly granted the CBN limited autonomy and allows the technocrats in the central bank to perform the bank’s statutory functions without any interference from the government. That represented a step in the right direction, and in practical terms, it meant that the CBN will no longer be directed by either the presidency or the Federal Ministry of Finance on monetary policy as it was before the Decree. Consequently, empirical evidence gathered in Nigeria from 1989-2011 so far highlights a

superior economic performance when the Central Bank was granted semi-autonomy under the CBN Act of 1999 and allegedly full autonomy under CBN Act of 2007 (Nnanna and Nnanna, 2012).

However, presently in Nigeria, inflation has been episodic, and there is clear cross-country evidence that high rates of inflation are associated with low rates of sustained growth. The inflation rates serves as an indicator of the overall ability of the government to manage the economy, and since there are no good arguments for very high inflation, a government that is producing inflation is a government that has lost control (Dornbusch and Fischer, 2008). And the only Nigerian government agency responsible for monetary policy is the central bank of Nigeria, which by law has as one of its key mandates the maintenance of monetary stability; but for the CBN to consistently perform this function, the apex bank has to be truly independent from political interference.

This paper hereby concludes that from the operations, activities and circumstantial evidence surrounding the governance and operations of the central bank of Nigeria from inception in 1959, and even after the coming of the CBN Act 2007, the central bank of Nigeria can be said to be at best, quasi-independent, and at worst, a dependent Federal Government Agency. Thus, it is recommended that CBN Act of 2007 should as a matter of urgency be amended, and all the conflicting sections and sub-sections of the Act that undermines section 1(3) of the said Act, which provides for the independence of the CBN, should be expunged from the law. Again, a separate institution should be created by law which should be responsible for the appointments, remuneration, and punishments of the principal officers of the CBN. In addition, CBN should have financial autonomy, while the political class should by law be barred from interfering on the activities of the central bank of Nigeria. This is because like the judiciary, the central bank of Nigeria can only perform optimally, if it is insulated from partisan politics and every form of political interference.

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