

2012

A MEMORANDUM
SUBMITTED TO THE
NATIONAL ASSEMBLY IN
RESPECT OF THE PROPOSED
AMENDMENTS TO THE
CENTRAL BANK OF
NIGERIA ACT, 2007

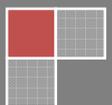


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1. Introduction

This Memorandum is presented following the proposals of both Houses of the National Assembly to amend the CBN Act, 2007.

Whilst the Amendment Bill before the Senate, (No. SB 75) only seeks to compel the CBN to submit its annual budget to the National Assembly “in the course of the Annual Appropriation Bill or subsequent thereto”, the House of Representatives Bill (HB276) goes further on its part to provide for the appointment of “a person other than the Governor as the Chairman of the Board of the Bank; exclude Deputy Governors and directors (sic) as members of the Board; and divest the Board of the power of consideration and approval of the annual budget of the Bank. “

Given the actual and perceived implications of these proposals on the administrative and budgetary independence of the CBN, it has become imperative for the Bank to make this presentation with a view to bringing to the fore the functions of central banks around the world and the enabling environment appropriate for the achievement of their mandate.

The Central Bank of Nigeria (CBN), like most other central banks, has the core mandate of maintaining price stability and ensuring a non-inflationary growth. It also has the responsibility to ensure a sound and stable financial system in addition to other developmental functions. These mandates and functions are peculiar to central banks all over the world, and no other institution performs such functions. These special responsibilities are enormous and have continued to pose increasing challenges to central banks, largely because developments in the domestic and international economies create more intricacies and complexities in the financial systems and the art of central banking. Indeed, the current trend of globalization exemplified by economic and monetary unions has increased the challenges to central banking. The effective discharge of these responsibilities requires that central banks be independent in the true sense of it, that is, shielded from political interferences, have administrative independence and instrument autonomy. This memorandum presents issues in the administrative autonomy and budgetary independence of central banks, highlight empirical evidence on the performance of central banks vis-à-vis their independence, country experiences and the implications of the amendments being proposed.

2. Issues in Central Bank Independence

2.1 The global trend for efficient and effective central banking, is, a truly independent central bank with both operational and financial independence.

Financial independence for a central has four ingredients namely;

- The right to determine its own budget;
- The application of central bank-specific accounting rules;
- Clear provisions on the distribution of profits; and
- Clearly defined financial liability for supervisory authorities.

These are particularly relevant especially in not-well-developed political systems where central banks are most vulnerable to outside influence. A central bank would be operating under the 'sword of damocle' if it depends on government for funding or follows through the process of government/legislative approval for its financial needs.

- 2.2 Central bank independence has been an age long issue. As early as **1824**, David Ricardo in a paper on the establishment of a national bank had advocated full independence for central banks. Similarly, Keynes in a testimony before the **1913** Royal Commission into an Indian central bank said, ***“it would be desirable to preserve unimpaired authority in the executive officers of the bank whose duty it would be to take a broad and not always commercial view of policy.”*** Yet, on central bank independence, the Chairman of US Reserve, Ben S. Bernanke, in his remarks at the international Conference on “Central Bank Independence, Transparency, and Accountability” at the Institute for Monetary and Economic Studies, Bank of Japan, May 2010, stated inter alia; ***“Undue political influence on monetary policy decisions can also impair the inflation-fighting credibility of the central bank, resulting in higher average inflation and, consequently, a less productive economy”***. He argued that while central banks commit to low inflation in the long-term and this, viewed as credible by the public, engenders low inflation expectations. He further argued that short-term political influences on central bank reduces the credibility of a promise of low inflation and thus, increases inflation expectations.
- 2.3 Lending credence to the above, Charles T. Carlstrom and Timothy S. Fuerst writing on central bank independence in the Economic Commentary (Federal Reserve of Cleveland, September 2009) stated - ***“greater independence has been the key factor in New Zealand’s inflation success***. Furthermore, it was not the only nation to grant its central bank more independence. Others followed suit, and increased independence is, perhaps, responsible for a decline of nearly two percentage points in the average inflation rate for the industrialized nations as a whole...” Low inflation over long periods is the sign of an effective central bank. Furthermore, according to the Commentary, “the authors suggested that a large fraction of the worldwide decline in inflation since the early 1980s results from an international movement towards more independent central banks”.

- 2.4 Of recent, there has been a consensus in theoretical and empirical literature on the one hand and among both academic economists and central bankers on the other, that achieving and maintaining long-run price stability is the unique goal of monetary policy. This is the obsession of central banks' anti-inflation policy measures. It then follows that the institutional arrangement through which this can be achieved has become critical. There is also a widespread agreement that the most important institutional arrangement in this respect is the delegation of monetary policy to a truly independent central bank and this, is predicated on the causal link between monetary policy autonomy and inflation.
- 2.5 In the last couple of years, there has been growing evidence that central banks, which operate outside government control, have performed better in achieving their primary mandate. Such evidence include empirical investigations by: Rogoff (1985), Persson and Tabellini (1990), Cukierman (1992), Alesina and Gatti (1995), Walsh (1995), Waller and Walsh (1996), among others. Each of these works concluded that central bank independence is very important to achieve price stability. Indeed, most of the studies on the subject of central bank independence provided evidence of negative correlation between central bank independence and inflation as well as a negative correlation between central bank independence and a countries long-term budget deficit to gross national product ratio¹. There is also evidence that central bank independence positively affects growth. In a cross country study of 70 developing and industrial countries, Cukierman, Kalaitzidakis, Summers and Webb (1993) found that central bank independence in developing countries has positive effect on growth.
- 2.6 Besides that monetary delegation leads to lower basic inflation, other motivations for central bank independence are lower inflation variability and higher and more stable economic growth. In addition, there are three other basic arguments that underlie the causal link between independent central bank and low inflation. Central bankers are exposed to strong political pressures to adopt lax monetary policies due to budgetary and seigniorage considerations. An independent central bank will be less subject to short-term political influences, and is, thus, better able to commit to long-term policies for promoting price stability. The Sargent Wallace argument says that in a situation of fiscal dominance, monetary authorities will sooner or later be compelled to monetize the budget deficit, ultimately generating inflation. A strong and independent central bank can force the government to take measures to reduce the deficit or the volume of outstanding debt. This calls for financial independence. The time inconsistency argument is the

¹ T. T. Mboweni, Governor of South African Reserve Bank, Speech at the Reuters Forum Lecture, Johannesburg, October 2000

major contribution by Rogoff (1985). Very often, monetary policy making under the influence of politicians tends to focus too much on short term considerations, which easily lead to temporary, non-sustainable outcomes (where such outcome is positive) at the expense of sustained economic growth. Politicians all over the world appear to have come to appreciate these issues and decided to remove the temptation to pursue short-term gains and make their central banks independent. Indeed, the literature has outlined that one of the solutions to the problem of time inconsistency is the delegation of monetary policy to an independent authority with a longer time horizon and a greater preference for price stability.

Moreover, a long held view, which has received rigorous analysis (Cukierman, 1986) in recent years, is that central bank independence raises policy credibility and transparency and dampen inflation expectations and ultimately promoting economic stability and reducing risk premia in real interest rates.

- 2.7 In the specific study by Cukierman, in which financial independence of central banks was investigated, 16 out of the 23 central banks (i.e. 67%) surveyed determined their budget. Furthermore, with regard to financial independence of central bank, the Governor of the Central Bank of Cyprus, Athanasios Orphanides², wrote; “as the ECB stipulates in its latest Convergence Report, **“even if a national central bank (NCB) is fully independent from a functional, institutional and personal point of view, its overall independence would be jeopardized if it could not autonomously avail itself of sufficient financial resources to fulfill its mandate (i.e. to perform the ESCB related tasks required of it under the Treaty and the Statute)”** (European Central Bank, 2008, p. 20). Therefore, the NCBs should not be financially dependent on the political authorities in office or any other third party in order to exercise their ESCB-related tasks”. **According to him, the ability of a central bank to perform smoothly its tasks could be undermined when, for example, the central bank does not have sufficient control over its budgeting process for administrative and operating issues. “Thus, financial independence takes into account a multitude of factors such as the ability of the NCB to determine its own budget, to prepare its accounts in accordance with general accounting principles, and to enjoy the requisite autonomy in staff matters”.**

²Speech by Governor of the Central Bank of Cyprus, at the Oxford University Society Cyprus branch meeting, Limassol, 21 October 2008

- 2.8 Administrative independence is an integral part of central bank independence. The excerpts below from Athanasios Orphanides's speech referred to above, very aptly underscores this aspect of central bank independence; "personal independence also implies that there should be "...no conflict of interest between the duties of members of the NCB decision making bodies in relation to their respective NCBs (and also of Governors in relation to the ECB) and any other functions which such members of decision making bodies involved in the performance of ESCB-related tasks may have and which may jeopardise their personal independence" (European Central Bank, 2008, p. 20). It goes without saying that the avoidance of any actual or potential conflicts of interest should not stop at the appointment process of any members of the decision making bodies of an NCB. Continuous confirmation of avoidance of any actual or potential conflicts of interest is particularly important for non-executive Directors of an NCB. Non-executive Directors are not employed by the NCB on a full-time basis and their evolving outside business or other activities may inadvertently create conflicts that may not have been present at the time of the appointment. Consider, for example, a situation where following the appointment of a Director to an NCB that also has supervisory responsibilities for financial institutions, a company in which this particular Director has a controlling interest is found to engage in substantial business activities with the financial institutions that are being supervised. Situations such as this might raise legitimate questions about actual or potential conflicts of interest that may not have existed when the Director was appointed....."
- 2.9 Furthermore, in the area of governance of central banks, the global practice has been and still is that the chief executive officer of the central bank chairs the Board of Directors and the Executive Directors are members of the Board of Directors. This is the practice in most countries. Indeed, it is very uncommon to find a contrary arrangement in the corporate world whether at the firm level or conglomerate level.

3. Country Experiences

Central banks of several countries including the US, the UK, Europe, Brazil etc., and African countries such as South Africa, Ghana, Botswana etc., determine their budget. The governor also chairs the board of directors that includes at least some of the deputy governors (i.e. executive directors). Experiences of the EU, Chile, United States of America, New Zealand, Germany, Egypt and Ghana are discussed below, but a more extensive list of the respective legal instruments of the central banks around the world is presented in appendices I and II.

3.1 European Central Bank

In the most recent regional integration of a wide scale, the European Union (EU), a key element in the European Monetary Union was the formation of an independent supra-national central bank. Indeed, the EU's view on central bank independence is defined by the provisions of Article 107 of the Maastricht Treaty: *"when exercising the powers and carrying out the tasks and duties conferred upon them by this Treaty and the Statute of the ESCB, neither the ECB, nor a national central bank, nor any member of their decision-making bodies shall seek or take instructions from Community institutions or bodies, from any Government of a member State or any other body. The Community institutions and bodies and the governments of the Member States undertake to respect this principle and not to seek to influence the members of the decision making bodies of the ECB and the national central banks in the performance of their tasks"*. In addition, many of the transitional economies of the Eastern Europe have adopted reforms aimed at making their central banks more independent. In a research survey of the countries of the Western Balkans on central bank independence, the eight countries' central banks have financial and administrative independence (Milica Vlahovic and Svetlana Cerovic, 2005) in conformity with the Maastricht treaty and the European System of Central Bank (ESCB) requirements. Furthermore, the traditional practice of central bank governor presiding over the board of directors that include all or some of the executive directors subsists across the globe including regional banking institutions such as the European Central Bank. (See appendix II).

3.2 Central Bank of Chile

The bank under Article 97 of chapter XII of the present constitution of Chile grants the bank constitutional autonomy. The bank champions its equity, organizational structure, compositions, function and attributes. It manages its equity, independent of the executive arm of the government of Chile and is free to enter into agreements and take technical decision in the exercise of its statutory functions and in fulfillment of its mandates. The bank is not subject to the state administration but government by its own rules, as espoused in its basic constitutional law.

The institution's board of directors with the Governor as Chairman comprise of ten persons out of which the President of the Republic had the right to name three, Chilean commercial banks two, foreign banks one, representative associations three, and the shareholding public one. This same board was empowered to appoint the governor and vice-governor of the Bank.

3.3 Federal Reserve System of USA

The Federal Reserve System operates independent of government. As an independent organization it maintains the autonomy and authority to take decisions without prior approval from the congress or President. Like the

Central Bank of Nigeria, it generates its own revenue and remits surplus/profit to government.

The Chairman of the Board of Governors of the Federal Reserve System is the head of the central banking system of the United States. He is the "active executive officer" (see 12 U.S.C. § 242) of the Board of Governors of the Federal Reserve System.

3.4 Reserve Bank of New Zealand

The Reserve Bank of New Zealand is 100% owned by the government. The authority of exercising the powers of the bank is assigned to the Governor with respect to bank regulation, banking supervision and general administration of the bank. Checks and balances in the delegation of the authority to the Governor include monetary policy target setting by the government, close public monitoring of the achievement of the targets by the bank, and comprehensive performance monitoring across the banks functional areas. Based on the target set for the banks by government, it is expected to issue policy statements every six months with regards to how it intends to achieve the policy target. The assessment of the performance of the board is then based on the extent to which it meets the policy target set by government. Under the Act, the Governor is appointed by the Treasury on recommendation of the Board of Directors for the renewable tenure of five years.

3.5 Central Bank of Germany

The central bank of Germany is one of the central banks with relative maximum autonomy and has been able to creditably perform its function of meeting price stability consistently for decades. Its institutional autonomy is guided by the mandate given to it by law. The Deutsche bank as it is called was the first central bank to be given full independence. It is greatly respected for ability to control inflation over the second half of the 20th century and this reputation has been responsible for the substantial influence the bank today exerts on the European economies. With the joining of Germany to the European central bank the ECB has taking over responsibility for currency management and its currently governed by the 7th law amending the "Law on German Bundesbank" of April 2002.

The Executive Board comprising of the President, vice President and one additional Board member as nominees of the German government and three additional members of the executive board put forward by the federal council that represents the sixteen federal states of Germany oversees the activities of the Bank.

3.6 Central Bank of Egypt

The law No 163 of 1957 established the central bank of Egypt as an autonomous public legal entity amended by law No 155 of 1998. The board comprises the Governor as chairman, two Deputy Governors, the Chairman

of the Capital Market Authority and three other members. The board, amongst others approves the budget of the bank and the resolution of the banks' board in that respect is final.

3.7 Bank of Ghana

The governing body of the Bank is Board of Directors consisting of:

- The Governor of the Bank who shall be the chairperson;
- The First and Second Deputy Governors;
- One representative of the Ministry of Finance; and
- Eight other directors.

4. The CBN Case

The Central Bank of Nigeria has had a chequered history of autonomy since its inception in 1958, varying between autonomy and control. In the 1958 Act, the CBN was granted a measure of autonomy, which was gradually eroded until 1991. In 1991, autonomy to conduct its operations was restored and this immensely aided the Bank in stemming episodes of financial sector crises.

Subsequently, the Bank's autonomy was again, gradually eroded until 1999 when administrative and instrument autonomy were granted to shield it from political pressures in the implementation of policy. Since inception, the Bank's administrative structure has been that the Governor presides over the Board of Directors (which the Executive Directors or Deputy Governors have always members of). This arrangement has ensured easier, smoother and faster implementation of monetary and financial policies.

The Central Bank of Nigeria requires full independence in the true sense of it to enable it act appropriately according to its expert and independent viewpoint. The global trends have been towards full independence for central banks. Indeed, budgetary and instrument autonomy are the reasons why most central banks are now proactive rather than reactive in the discharge of their responsibilities – central banks are able to anticipate and identify problems and unintended outcomes and respond immediately with appropriate policy actions. This is the trend all over the world – in both developed and developing countries.

The 2007 Act ensures good corporate governance in the conduct of the Bank's affairs by putting in place institutional and administrative safeguards. The safeguards listed below ensure that the National Assembly has oversight of the CBN;

- The requirement to submit its audited financial statements to the National Assembly;

- The confirmation by the National Assembly of appointment to the office of the Governor, Deputy-Governor or External Director of the Bank;
- Having five independent External Directors on the CBN Board, subject to prior confirmation by the Senate;
- An avenue for conflict resolution between the Bank and the government by having on the Bank's Board of Directors a government nominee in the person of the Permanent Secretary, Federal Government of Finance and Accountant General of the Federation;
- A legal requirement that obligates the Governor to keep the President informed of the affairs of the Bank. This is done usually by informing the President through economic reports on key monetary, financial and external sector developments on regular basis, as well as alerting the President on vital developments;
- Semi-annual briefing of both houses of the National Assembly through the appropriate committees of the Houses

5. Implications of Curtailing the CBN's Governance and Budgetary Independence

The arguments in support of an independent Central Bank of Nigeria are very strong and have been well articulated in numerous forums and in the earlier sections of this memorandum. Therefore, in this section, we highlight some eventual repercussions of the proposed bill by the NASS to diminish the CBN's Independence as granted by the 2007 Act.

5.1 Higher Inflation

It has been found that most countries that are independent tend to have lower inflation. Curbing the independence of the Central Bank is likely to lead to heightened inflation expectations, which would have implications for both nominal and real interest rates.

5.2 Financial Sector Instability

Greater susceptibility to political influences will prevent the CBN from acting swiftly to prevent or resolve a financial crisis. The recent banking crisis in Nigeria provides the best illustration of this point. In 2009, the CBN's intervention in the banking sector prevented the collapse of several banks that would have led to the massive loss of depositors' funds, which the NDIC lacked the requisite capital to resolve. **Had the CBN not acted as quickly and decisively as it did, there would have been colossal damage to the financial sector and consequently the entire economy.**

A situation where the CBN's independence is curtailed will inhibit its ability to achieve one of its critical roles of providing standby loans to distressed banks. The absence of this form of insurance to the banking sector will increase the industry's perceived riskiness, reduce overall confidence in it and therefore reduce growth of the sector and economy.

The success of the CBN at managing and containing the effects of the crisis were lauded when in 2010, the Governor was invited by the US Congress to brief on how the Bank was able to resolve the crisis without recourse to the treasury.

Financial crises have occurred time after time, decade after decade and will most certainly occur again in the future. Besides the CBN, no other national institution is equipped with resources to prevent or resolve a future crisis and to reduce the Bank's independence is to reduce the country's capabilities in this regard, which will be costly for the economy.

5.3 Lower Sovereign Credit Rating

Sovereign ratings are derived from a set of economic, financial and political information of which central bank independence is a critical factor (under monetary stability).

In 2011, Fitch ratings revised Nigeria's country outlook from 'negative' to 'stable', which clearly signaled international confidence in ongoing economic reforms. Diminishing the independence of the CBN, making it more susceptible to political interference will certainly result in a lower sovereign credit rating for the country.

A lower sovereign rating will reduce our ability to access international funding and capital markets (for developmental projects) as well as the flow of foreign direct investment. It will also negatively affect our banks especially those that seek to expand overseas and will increase the country's riskiness as perceived by the international community.

5.4 Financial Autonomy is Critical to the Achievement of the Bank's Mandates

Most expenditures of the bank are interwoven with its mandates. Therefore, decisions about staff training, recruitment and remuneration, capital spending and the like are issues that cannot be clinically separated from the objectives and mandate of the central bank. The amendments proposed by the National Assembly will not only make the Bank susceptible to political influence, they will also slow down decision making, and reduce the agility of the Bank with respect to execution of its mandates

The unique responsibilities that have been bestowed on the Bank require it to act expeditiously should the need arise, for example the lender of last resort function, without recourse to the debates of political authorities. This explains why financial autonomy remains global best practice.

5.5 Global Practice- Governance

The global practice is for the Governor to chair the Board of Directors and for the Deputy Governors to be members of the Board (as illustrated by appendix I and II).

The reasons why this is global best practice is that there is a role for the Board on taking decisions on monetary policy and governance related matters even though the board is an instrument of political accountability to the government. Allowing an outsider to head the board and appointing politicians to deliberate on matters that border on monetary policy issues, while excluding the Governor and Deputy Governors may introduce multiple layers of conduct of monetary policy that could lead to opinion divergence on the key mandates of the Bank. This could possibly lead to suboptimal outcomes. In such a circumstance, the question is, if the Board's decision conflicts with Management position on mandate implementation, whose opinion should prevail and what will be the likely consequences on mandate achievement?

Whilst, the laws of a few countries provide for a board chairman other than the governor/president. These countries are not democratic, for example Thailand and Oman. Also, the recent development in which the Central Bank of Kenya Act was amended to allow this is against the global practice. The case of these three countries is not the way to go if Nigeria wants to be among the top twenty economies by the year 2020.

5.5 West African Central Bank and Eco Currency

Nigeria is a driving force in the WAMZ project. The establishment of the West African Central Bank (WACB) and the eventual take off of the Eco currency in 2015 is very important to the process of economic integration in the region. The institutional frameworks that inform the WACB's operations are expected to be informed by international best practices as is the case with European Central Bank.

If the institutional framework in the Central Bank of Nigeria is skewed towards political control, the necessary role model impact expected from the Central Bank of Nigeria in that context will be undermined by double standards, which could be detrimental to the success of the project.

5.6 Impact on the Reputation of the Country

It should be noted that central bank autonomy portrays the level of political development within countries. Generally, as countries' political processes improve, the level of autonomy granted to their Central Banks' is expected to increase. This is because politicians become better informed about the primacy of the mandate of central bank, increasingly appreciate the need for Independence in achieving those mandates and are less suspicious about their activities. This is why all developed countries have granted their Central Banks independence.

In light of this, the proposed amendments will certainly send a negative signal about our political development and country risk and will be perceived as a backward step by the international community.

6. Concluding Remarks

In this era of globalization, a truly independent and autonomous Central Bank of Nigeria is imperative for the integration of our financial system with the rest of the world economy. A strong and independent central Bank is required to achieve the goals of the Federal Government Vision 20:2020, the FSS 200 strategy and the objective of Nigeria joining the BRICSclub in the nearest future.

In order to achieve these goals it should be emphasized that instrument autonomy without financial/budgetary autonomy, as obtained in other countries, is meaningless. What is required now is not an erosion of the financial or governance autonomy of the Central Bank but rather a strengthening of relationships that would enhance complementarity between the monetary and the fiscal authorities, and ensure accountability and transparency.

APPENDIX 1: TYPICAL ADMINISTRATIVE AUTHORITY OF CENTRAL BANKS ACROSS THE GLOBE

S/N	Country	Section of Act	Board Composition
1	Canada	Management Sections 5-12, Pages 2-7	Governor, 1 Deputy Governor, 12 Directors and Deputy Minister of Finance or representative. Governor – Chairman of the Board. Deputy and Directors –Members
2	The Gambia	Administration Part IVSub-part I	Governor and 4 Other Directors. Governor –Chairman Directors – Members
3	Ghana	Bank of Ghana Act. Part II, Section 8 a & b and Section 14 (2) a & b	<ul style="list-style-type: none"> • Governor – Chairperson • First and Second Deputy Governors • One representative from federal ministry of finance • Eight other directors
4	Zimbabwe	Reserve Bank of Zimbabwe Part IV Section 21 & 22	Governor, 2 Deputy Governors and 5 or 7 Directors Governor – Chairman Deputy Governors and Directors – Members
5	Botswana	Bank of Botswana Act Part IV Section 9	Governor – Chairperson 8 other members
6	Belgium	Statute of National Bank of Belgium Chapter III Article 17-19	Governor – Chairperson 5 or 7 Members
7	Bank of Zambia	Bank of Zambia Act Part III Section 12, 28 and 29	Governor – Chairperson 6 other Members

S/N	Country	Section of Act	Board Composition
8	Kenya	Central Bank of Kenya Act Part IV Section 11	Governor – Chairperson 1 Deputy Governor Permanent secretary to the treasury and 5 other non-executive directors
9	Japan	Bank of Japan Act	Governor – Chairperson 1 Deputy Governor 6 Policy Board members
10	Pakistan	State of Pakistan Act Chapter III Section 9	Governor – Chairperson Secretary, finance ministry and 7 directors representing key industries and provinces
11	Romania	National Bank of Romania Article 34 (2)-(3)	Governor – President 3 Deputy Governor 5 Members
12	Malaysia	Central Bank of Malaysia Act 2009 Part III Section 13 Part IV Section 14 & 19	Governor – Chairman 3 Deputy Governors 5 or 8 other members
13	Macedonia	National Bank of Macedonia Law Articles 2, 5 & 46	Governing body Article 46 <ul style="list-style-type: none"> • The National Bank Council shall be the governing body of the National Bank. • 1 Governor, 3 Vice Governors and 5 nonexecutive members. • Governor - Chairperson • Vice Governors and the nonexecutive members shall take part in the decision-making of the National Bank Council as members

S/N	Country	Section of Act	Board Composition
14	Lithuania	Law of the Bank Lithuania Org &Mgt Chapter 11, Article 10 and 11	<ul style="list-style-type: none"> 1 chairperson, 3 deputy Chairpersons and 10 members.
15	Argentina	Central Bank of Argentine Act BCRA Charter Section 10	<ul style="list-style-type: none"> 1 Governor – Presides 1st Deputy Governor 2nd Deputy Governor Directors
16	Croatia	Act on the Croatia an National Bank ORG. & MGT. Section	<ul style="list-style-type: none"> 1 Governor, 1 Deputy Governors and 8 other external members Governor – Chairperson, Deputy Governor, Vice Governors and external Directors are members
17	Czech Republic	Czech National Bank Act Part II Section 6& 7 Part III Section 9	<ul style="list-style-type: none"> 1 Governor, 2 Vice Governors and 4 senior officers of the Czech National Bank Governors – Chairperson Vice governors and other members are members
18	Mauritius	The Bank of Mauritius Act Part IV Section 12 & 21 Part V Section 32	<ul style="list-style-type: none"> 1 Governor – Chairperson, 2 Deputy Governors and 5 or 7 other Directors
19	Bulgaria	Law on the Bulgarian National Bank. Chapter 3 Article 10, 11, 15 and 16	<ul style="list-style-type: none"> 1 Governor, 3 Deputy Governors and 3 other members Governor – Chair/Preside over meetings
20	Kenya	Central Bank of Kenya Act	<ul style="list-style-type: none"> 1 Governor- Chairman

S/N	Country	Section of Act	Board Composition
		Part IV Sections 10, 11 & 12	<ul style="list-style-type: none"> • 1 Deputy Governor • Perm. Sec. to treasury or Rep. • 5 other non-executive directors
21	Indonesia	Act of the Republic of Indonesia Chapter II Article 4	<ul style="list-style-type: none"> • Governors – Chairman • 1 Senior Deputy • Deputy Governor
22	India	Reserve Bank India Act Chapter II Section 8	<ul style="list-style-type: none"> • 1 Governor – Presides over the Board • 4 Deputy Governors • 14 Directors • 1 Government representative
23	Chile	Basic Constitutional Act of the Central Bank of Chile. Section 7, 8 & 9	<ul style="list-style-type: none"> • Governor – Chairman • 1 vice Governor • 3 other members
24	Mexico	Banco de Mexico Act Chapt. VI Article 38 & 46	<ul style="list-style-type: none"> • 1 Governor – Preside over the Board • 4 Deputy Governors
25	Namibia	Bank of Namibia Act Part II Section 4	<ul style="list-style-type: none"> • Governor - Preside over Board • Deputy Governor • Perm. Sec. Finance • I person from public service • 4 other persons
26	United State	Federal Reserve Act Section 10	<ul style="list-style-type: none"> • Fed Chairman
27	Korea	Bank of Korea Chpt.III Article 32 Chpt. II Article 13	<ul style="list-style-type: none"> • I Governors – Chairman of the MPC • 1 Senior Deputy Governor

S/N	Country	Section of Act	Board Composition
			<ul style="list-style-type: none"> • 5 Deputy Governors
28	China	Central Bank of China Act, 1979, Article 10	“The Governor shall be the chairman of the Board of Directors...”
29	Norway	Section 6	Governor – Chairman and Deputy governor –vice chairman
30	Germany	Bundesbank Act, Part II , Section 7	The Executive Board shall deliberate under the chairmanship of the president or the Deputy President
31	South Africa	South African Reserve Bank Act 90 of 1989,Section 7 (1)	Governor presides and in his absence a designated Deputy Governor presides.
32	ECB	Statutes of the European System of Central Banks and of the European Central Bank, Article 13	“The President or in his absence, the Vice President shall chair the Governing Council and the Executive Board of the ECB.....”
33	Netherlands	Article 13 (1)	“The joint meeting of the Governing Board and Supervisory Board shall be chaired by the President.”
34	Poland	NBP ACT of August 29, 1997. Section C.Article 17	NPB Management Board President – Chairperson 2 Vice President 4 or 6 members
35	Australia	Act No. 4 of 1959 Compiled March, 2012 with amendments of 2011 Part 3 Sections 14 and 20	The Reserve Bank Board 1 Governor –Chairperson 1 Deputy Governor; 1 Secretary Treasury Dept. 6 Other members

S/N	Country	Section of Act	Board Composition
36	Tunisia	LAW 58 - 90 1958 as Amended Law 2007/69 of December 2007Section 2Article 19	THE BOARD 1 Governor - Chairman 1 Vice-Governor 8 Board members
37	Tanzania	The Bank of Tanzania Act, 2006 PART II Section 9	1 Governor – Chairman 1 Deputy Governors – Deputy Chairman. Perm. Sec. Treasury Dept. 4 Non-executive Directors Principal Sec. Treasury of Revolutionary Govt. of Zanzibar.
38	Sri Lanka	Monetary Law Act No.58 of 1949 (MLA) with amendments up to December 2002	Monetary Board 1 Governor – Chairman 1 Sec. Min. of Finance 3 Members
39	Bangladesh	Bangladesh Bank Order, 1972 (President’s Order No. 127 of 1972) and amendments up to March 10, 2003	1 Governor – Chairman 1 Deputy Governor 4 Directors 3 Government
40	Cyprus	The Central Bank of Cyprus Law of 2002 (N. 138(I) 2002) PART III Organization of the Bank Section 12& 17 (2)	1 Governor – Preside 1 Deputy Governor 5 Directors
41	Trinidad and Tobago	Central Bank ACT of Trinidad and Tobago 1964 including	1 Governor – chairman 2 Deputy Governors

S/N	Country	Section of Act	Board Composition
		Amended of up to 2009 Part I Section 3 (5 & 15)	6 Directors
42	Seychelles	Central Bank of Seychelles, 2004 as amended (Act 12 of 2004) PART III Sections 5 & 6	Governor – Preside. Deputy Governors Attorney General 4 Other members
43	Portugal	Banco de Portugal Approved by Law No. 5/98 of 1998, with amendments to No. 39/200, 2007. CHAPT V Section 2 Article 32 & 33	1 Governor – Chairman 2 Deputy Governors 5 Directors
44	Cambodia	"Bank of Cambodia sub-decree No 1211, 1979. With reference to the Royal Kram N° NSIRKM/O 196/27 of, 1996, Law on the National Bank of Cambodia	National Bank of Cambodia Board of Directors Governor - Chairman of the Board. 1 Deputy Governor 5 Other members
45	Malta	Central Bank of Malta Act XXXI of 1967 with amendment up to 2007. Part II Sections 7 (2)	1 Governors – Chairman 1 Deputy Governor 3 Members
46	Slovenia	Bank of Slovenia Act 2002.	Governing Board 1 Governor – Chairman

S/N	Country	Section of Act	Board Composition
		Article 2 & 30 (1-3)	4 Vice Governors 4 Members
47	Slovakia	National Bank of Slovakia Slovak Republic No. 566/1992 with amendments up to Act No. 519/2005 Part 2 Article 7 & 8	1 Governor - Chairman 2 Vice-Governors 8 Members
48	Ukraine	The Law of Ukraine on the National Bank of Ukraine Section II, Article 8 & 16	Governor – Chairman 1 first Deputy 2 Deputies
49	Papua New Guinea	Papua New Guinea Central Banking Act 2000 Part IV Section 27 & 32	Governor – Preside Deputy Governors 8 other Members
50	Egypt	Presidential Decree No 64 of the Year 2004 Central Bank of Egypt Chapter 2 Article 18	1 Governor – Chairman 2 Deputy Governors Chairman of Capital Market Authority 3 Other Members government representative 8 Members experienced professionals
51	Armenia	The Republic of Armenia Law on the Central Bank of the Armenia Chpt. 3 Article 18-19	Chief Executive – Chairman Deputy Chairmen 5 Other members

S/N	Country	Section of Act	Board Composition
52	Turkey	The Central Bank of the Republic of Turkey Law No. 12111970 with amendments including, 2011) Chapter 2 Article 219	1 Governor – Chairman 6 Other Members
53	Thailand	Bank of Thailand Act B.E 2485 Division 1 Section 24	The Bank of Thailand Board Chairman - Appointed by His Majesty the King Governor - Deputy-Chairman 3 Deputy Governors, Secretary - National Economic & Social Development office, Director - Fiscal Policy Office and 5 experts appointed by the Minister
54	Belarus	Edict of the President of the Republic of Belarus No. 320 dated June 13, 2001 With amendments & modifications up to March, 2012. Chapter 10, Section 60	The President of the Republic of Belarus shall appoint the Chairperson of the Board of the National Bank. 1 Chairperson 2 First Deputy Chairmen 4 Deputy Chairmen 4 Other Members
55	Oman	Central Bank of Oman Banking Law in 1974 (amended vide Royal Decree No. 114/2000) Title 2 Article 8 (1-2)	7 Governors One Governor shall be Chairman One Governor shall be Deputy Chairman 5 Other Governors

S/N	Country	Section of Act	Board Composition
56	New Zealand	Reserve Bank of New Zealand Act 1989. Part 3, Sections 54, 59A & 60	Governor – Board member staff of the Bank. 5 or 7 Members appointed by Minister (One of whom is elected as Chairman)

APPENDIX II: TABLE SHOWING CENTRAL BANKS WITH FINANCIAL INDEPENDENCE

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
1	Bulgarian National Bank	Yes	"The Governing Council shall ...approve the annual budget, the annual balance sheet and the report under Article 51 as presented by the Governor (Article 16, section 13)"
2	Bank of Mauritius	Yes	"The budget of the Bank in respect of a financial year shall be determined by the Board..." (Article 32(1))
3	National Bank of Poland	Yes	"The National Bank of Poland Management Board shall ... adopt the NBP plan of activity and budget, ... establishing NBP personnel and staff compensation policies" (Article 17, section 4 (6),(10))
4	Czech National Bank	Yes	"The Czech National Bank shall manage its finances on the basis of a budget approved by the Bank Board (Section 47 (1))" "The Board of the Czech National Bank shall particularly ... approve the budget of the Czech National Bank (Section 4 (2b))"

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
5	Central Bank of Chile	Yes	"The Board shall be responsible for ... approving the internal regulations for the staff of the Bank, determine the administrative and personnel structure of the Bank, set the compensation and any other allowances or benefits to the staff members of the Bank" (Section 18 (3))
6	Bank of Ghana	Yes	"The Board shall appoint such other officers and employees ... the salaries, benefits, wages or other remuneration or allowances paid by the Bank shall not be computed by reference to the net or other profits of the Bank"(Part II, Section 23(1 and 3))
7	The Central Bank of China	Yes	"Before the beginning of each fiscal year, the Bank shall prepare a draft budget for examination and adoption by the Board of Directors, the adopted budget shall be processed in accordance with the Budgeting Law"(Article 40)
8	Croatian National Bank	Yes	"The National Bank of Croatia shall be independent in its work and shall be responsible to the Croatian Parliament". (Article 53 of the Constitution of the Republic of Croatia)
9	Central Bank of the Argentine Republic	Yes	"The Governing Body of the Central Bank of the Argentine Republic shall draw up and submit for approval the annual budget of expenses, assessment of resources and wages of the staff of both the Central Bank of the Argentine Republic and the Superintendence of Financial

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
			and Exchange Entities(Article 15(e))
10	Central Bank of Malaysia	Yes	"The Board of Directors of the Bank shall be responsible for the general administration of the affairs and business of the Bank and the approval of the budget and operating plan of the Bank". (Part IV, Section 14 (2A))
11	Bank of Albania	Yes	the entire paid-up capital is state owned (Article 6.3.) the budget is determined by the Supervisory Council (Article 43.n)
12	Central Bank of Bosnia and Herzegovina	Yes	The budget is determined by the Governing Board (Article7j)
13	BangkoSentralPhiilipines	Yes	"In the exercise of its authority, the Monetary Board shall: adopt an annual budget for and authorize such expenditures by the BangkoSentral as are in the interest of the effective administration and operations of the BangkoSentral..." (Section 15 (d))
14	Central Bank of Armenia	Yes	The Board of the Central Bank shall: approve the Statute of the Central Bank, and approve the annual budget and annual and other statements of the Central Bank, (Chapter 3 Article 20 a & j)
15	Central Bank of Montenegro	Yes	The annual financial plan is adopted by the Council and furnished to the Government for information only (Article 56. Annual financial statement, together with an Independent

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
			external auditor's report and opinion is considered and adopted by the Council and delivered to the parliament for information purposes (Article 59). Upon the proposal of the president of the Council, the Council decided on the use of special reserve funds during the year (Article 57)
16	National Bank of the Republic of Macedonia	Yes	"The National Bank Council shall have the following powers and tasks: approve the Annual Budget of the National Bank". Article 47.14
17	National Bank of Romania	Yes	Capital is fully state-owned (Article 38.1) The NBG Board approves the annual budget (Article 41). "In carrying out their tasks, the NBR staff and the members of its decision-making bodies must not seek or take instructions from public authorities or from any other institution or authority."
18	National Bank of Serbia	Yes	The NBS Council adopts the financial plan of the NBS (Article 24.1). The Government decides on the use of the special reserve funds (Article 78)

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
19	Bank Indonesia	Yes	The Board of Governors shall, at the latest of 15 (fifteen) days prior to the beginning of a fiscal year, prescribe the annual budget of Bank Indonesia which should be submitted to the House of Representatives and the Government along with the evaluation of the budget implementation of the current year. Every increase of the amount of required expenditures in the current year shall have a prior approval from the Board of Governors. (Article 60)
20	Magyar Nemzeti Bank (MNB) - Central Bank of Hungary	Yes	The MNB and the members of its decision-making bodies shall be independent in carrying out the tasks and meeting their obligations conferred upon them by this Act, and shall neither seek nor take instructions from the Government, the institutions and bodies of the European Union, the governments of its Member States and any other bodies, except from the European Central Bank. (Article 1(2))
21	Bank of Korea	Yes	The Monetary Policy Committee shall deliberate and decide on matters concerning the operations of the Bank of Korea – Structure and organization of the Bank of Korea; Budget and closing statements of the Bank of Korea; Standards of remuneration of employees of the Bank of Korea; and Other matters concerning the operation of the Bank of Korea within the competence of the

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
			Monetary Policy Committee as laid down by this Act or the Articles of Incorporation. (Article 29)
22	Reserve Bank of Zimbabwe	No	"The Board shall, with the approval of the Minister, prepare the budget of the Bank"(Part IV, Section 26(K))
23	Central Bank of the Russian Federation	Yes	The Board of Directors shall approve the Bank of Russia expense budget, taking into account the total amounts of Bank of Russia expense indicated in paragraph 4 of this Article, no later than December 31 of the preceding year. Article 18
24	Central Bank of Seychelles	Yes	The Budget of the Bank for each financial year shall be determined by the Board before the 15th day of December of the previous year. (Part XII, Section 45)
25	National Bank of Belgium	Yes	The Board of Censors shall the preparation and implementation of the budget. It is the audit committee of the Bank and shall exercise in this capacity the task laid down by Article 21 bis. (Article 20 (4))
26	Central Bank of Luxembourg	Yes	The budget, annual accounts and reports approved by the Council shall be sent to the Government and the Chamber of Deputies. The Government in Cabinet shall decide whether the Central Bank Bodies be granted discharge. Article 30.

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
27	National Bank of Georgia	Yes	The Board shall approve the budget of the National Bank of Georgia. Article 18(j)
28	National Bank of Slovakia	Yes	"The Bank Board shall... approve the budget of the National Bank of Slovakia, financial statements of the National Bank of Slovakia, annual results of operations and annual reports of the National Bank of Slovakia, decide on the use of profits or settlements of losses of the National Bank of Slovakia, and set the types of funds of the National Bank of Slovakia, their level and application." Article 6 (2b)
29	USA	Yes	
30	UK	Yes	
31	Bank of Lithuania	Yes	"The Board of the Bank of Lithuania shall in compliance with the requirements of the Legal Act of the European Central Bank, establish the financial accounting policy of the Bank of Lithuania, approve a set of annual financial statements and the allocation of profit for the financial year". Article 11.16.
32	Cyprus	Yes	<p>"When carrying out the tasks conferred upon them under this Law, neither the Bank nor any member of its decision-making bodies shall seek or take instructions from the Government or any other body"</p> <p>"The Board shall be responsible for the preparation and adoption of the annual budget of the Bank and transmit same to the assembly."</p>

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
			The Central Bank of Cyprus Law of 2002 (N. 138(I) 2002) Part II Section 7 & 62 (independence of Bank)
33	Egypt	Yes	<p>“The Board of Directors of the Bank shall be vested with all powers, including, Approving the budget, financial statements, organizational structure of the bank, Issuing the internal bylaws and systems connected with the financial, administrative, and technical affairs of the Bank, and the Bank’s personnel regulations, without being restricted by the rules prescribed in the laws and regulations applicable in the government, the public sector and the public business sector.”</p> <p>Chapter 3, Article (20, f-h)</p>
34	Thailand	Yes	<p>“The Bank is a juristic person which is a state agency, and is neither a government agency nor state enterprise under the law on budgetary procedure and other laws.”</p> <p>“The BOT Board shall have the powers to consider and approve the operation and budgetary plan and assessing the undertaking of business and operations of the Bank” and to “issue regulations on budget, expense and procurement, and in relation to setting a remuneration and other monies, including the granting of loan, financial granting, and other</p>

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
			benefits to the officers, employees or other retired persons and their family” Chapter 2 Section 5 and Chapter 4 Section 25 (1-7)
35	Tunisia	Yes	“There shall be a Board of Directors of the Bank and subject to this Act, the Board shall be responsible for the determination of the policy of the Bank, approval of its budget” The Bank of Tanzania Act, 2006 Part II Section 9 (1)
36	Portugal	Yes	CHPT. I Article 27 (2) The Governor and the other members of the Board of Directors shall be independent in accordance with the Statute of the European System of Central Banks and of the Central Bank (ESCB/ECB) and shall not seek or take instructions from Community institutions, the State sovereign bodies or any other institutions.” CHPT. VII Article 52 “An operating budget shall be drawn up every year and forwarded to the Finance Minister not later than November 30 of the preceding year.”
37	Malta	Yes	CENTRAL BANK OF MALTA ACT <i>Including provisions and amendments of, 1968 to amendments by Acts of 2007.</i> “In accordance with the Treaty and the Statute, neither the Bank nor any member of the

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
			Board or any official of the Bank, when exercising any function, duty or power under this Act, shall seek or take instructions from the Government or any other body” Part II Section 5 (2)
38	South Africa	Yes	The Board shall be responsible for the corporate governance of the Bank by “adopting rules and determining policies for the sound accounting, administration and functioning of the Bank; and approving the budget and annual reports and financial statements of the Bank for submission to the meeting of shareholders, the Minister and Parliament” South Africa Reserve Bank Act 90 of 1989 including amendments up to 2010. Section 4A (3).
39	Mexico	Yes	The Board shall have power to Prescribe the general rules and guidelines for the preparation & execution of the Bank's current expenditure and physical investment budget, as well as authorize said budget and any modification thereto that may be required throughout the financial year.” Banco de México Law Chapter 6 Article 46 (11)

S/N	Central Bank	Financial independence	Excerpt from Relevant Act
40	Malaysia	Yes	<p>“The Board shall be responsible for the general administration of the affairs and business of the Bank and the approval of the budget and operating plan of the Bank”</p> <p>Central Bank of Malaysia Act 2009, Part IV Section 14 (a)</p>
41	Kenya	Yes	<p>“The Governor shall be the chief executive officer of the Bank and, subject to the general policy decisions of the Board, shall be responsible for the management of the Bank, Including the organization, appointment and dismissal of the staff in accordance with the general terms and conditions of service established by the Board, and the Governor shall have authority to incur expenditure for the Bank within the administrative budget approved by the Board.”</p> <p>The Central Bank of Kenya Act Part IV Section 13</p>