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CENTRAL BANK INDEPENDENCE: "THE CASE OF BANK OF GHANA".

1.0 Introduction

During the last two decades, many countries changed their central bank laws to grant their monetary authorities greater independence. It is widely believed that without sufficient independence, central banks will give into pressure from politicians who may be motivated by short run electoral considerations or may value short term economic expansions highly while discounting the larger-run inflationary consequences of expansionary policies (Walsh, 2005). The trend of growing central bank independence in the transition and developing economies accelerated over the past two decades. There were two main reasons for this; the first is the fact that International Monetary Fund, World Bank and other international donor agencies loans were conditioned by the increase in central bank independence, and second, is approaching the European Union (EU) required the central bank's structure to be similar to that of the European Central

Bank (Fabris,2006). Furthermore, in the recent years there has been an accelerated movement towards granting more legal authority to the central banks; first due to successes of highly independent of the German's Bundesbank and Swiss National Bank in maintaining price stability and second, inflationary experiences of the 1970s that were attributed to the governments' excessive borrowing from the central banks which caused the expansionary monetary policies (Satoglu, 2008).

Historically, the Bank of Ghana Ordinance of 1957 which established the Bank of Ghana provided it with statutory and operational independence until the passage of the Bank of Ghana Act 1963 Act 182 which however took away the independence that allowed the government interference in the operations of the central bank for nearly five decades (Bawumia, 2010), but in 1992 the Constitution restored the operational independence and later in 2002 the Bank of Ghana Act was passed by the Parliament to restore the independence. The Bank of Ghana became constitutional independence under 1992 Constitution and the Bank of Ghana Act 2002 Act 612 made Bank of Ghana operationally independent. The Bank of Ghana Act 2002 Act 612 was a landmark legislation because it re-established the independence of the Bank of Ghana. In 1957, the Bank of Ghana Ordinance which established the Bank of Ghana provided its statutory and operational independence (Bawumia, 2010, p.114). The Bank of Ghana Act 1963 Act 182 further empowered the Bank of Ghana to support direct lending to priority sectors of the Ghanaian economy and set ceilings on advances or investments by commercial banks. This policy was driven by the belief that the market imperfections and nature of the colonial financial system could support the desired pattern and level of investment without government intervention. For nearly forty -five years, various governments interfered in the operations of Bank of Ghana and it was characterized by huge fiscal dominance, and with economic crisis of 2000. The Parliament in 2002 passed the Bank of Ghana Act 2002 Act 612 which once again enshrined into law the operational independence of the Bank of Ghana. The independence of the Bank of Ghana under the Bank of Ghana Act also provided the Bank with the freedom to pursue policies in the interest of the financial sector without having to wait on approval from the Government or any other authority. Section 3 (1) of the Bank of Ghana Act 2002 Act 612 specifies that “the primary objective of the Bank is to maintain stability in the general stability in the general level of price.” The Act states that, without (2) without prejudice to Sub-section (1) the Bank shall support the general economic policy of government and promote economic growth and effective operation of banking and credit systems in the country, independent of instructions from the government or any other authority.

This paper is structured as follows; introduction, definition of central bank independence, theoretical aspect of central bank independence; determinant

of central bank independence, Bank of Ghana's independence; critiquing of the Bank of Ghana's independence, conclusion and recommendation.

2.0. Defining Central Bank Independence

Central bank independence can be defined in number of ways. Duff (2014) defined independence by typically referring to a central bank's authority to select and implement its policy objectives, consistent with its mandate, without influence from the executive or legislature. There is no standard definition or scale of central bank independence Ahsan et al, (2006), although researchers have focussed on political and economic constraints established by the central bank's governing law or the country's constitution (Alesina & Summers,1993). However, in the broadest sense, central bank independence means a central bank's freedom to define its objectives and instruments for their implementation without the influence of the government or another institution or individual (Fabris, 2006). Independence analyses are predominantly carried out its four components: institutional; functional; personal; and financial. Indicators of political independence includes the relationship between the central bank and the executive, or the relationship between the central bank and legislature. Central bank independence can be defined by using two theoretical frameworks. The first presents central bank independence as the autonomy of the central bank to have its own independent goals, the political freedom to reach them and how the central bank controls the level and terms of credit to be extended to the government (Beblavy, 2003). The second central bank theoretical framework is based on political and economic independence. Political independence involves the way central bank board is appointed, dismissal, tenure of office, having price stability as a main responsibility in the central bank's charter and degree of interference from political authorities. Economic independence hinges on the autonomy of the central bank to fully the monetary policy and its tools to reach the set of monetary goals (Grilli, Masciandaro & Tabelleni, 1991, Fisher,1995)

3.0. Theoretical Aspect of Central Bank Independence

The level of central bank independence has not always been high as it is today. Until the 1970s, economic practice in the developing economies, the dominant attitudes were based on the view that monetary and fiscal policies should be controlled by the government, and that function of such importance as the conduct of monetary policy should be left to officials who not been elected through electoral process. Since then, monetary policy, which enjoys the status of a key instrument of macro-economic stabilization, has been placed in the hands of independent central banks in most developing economies such as Ghana. The trend of growing central bank independence in the developing economies has become very important since the second half of the 1990s. The main reason for this trend had the fact that International Monetary Fund, World Bank and other international donors have made the independence of the central bank as a condition for financial support. Governments have a strong tendency to exploit the short-run trade-off between unemployment and inflation predicted by the Phillips curve in order to win the favour of the electorate (Polillo and Guillen, 2005). Central banks that are politically dependent on governments thus tend to impress an inflationary bias on the economy (Fuhrer, 1997). In this instance, the long run intention of the monetary authorities would be to keep inflation low but its desire to keep employment high coupled with their inherent discretion would result in tension between its inflation and employment goals (Fuhrer, 1997). Consequently, the monetary authority would tend to be more tolerant of rises in inflation and err on the side of higher employment and thus more inflation, hence an inflationary bias. Two approaches have been suggested to counter this inflationary bias, one is by Rogoff and the other by Walsh (Wagner, 1999). Rogoff's approach suggests that the inflationary bias that exists in most governments can be eliminated by delegating monetary policy to an independent and conservative central bank (Jacome and Vazquez, 2005). The targeting or contracting approach by Walsh suggests that government should not only transfer management of monetary policy instrument to an independent central bank but should also provide the central bank with incentives to optimise the social welfare function (Wagner, 1999). Both approaches however, agree on the establishment of a central bank that is independent of interference from the state. Wessels (2006) indicates that the support for central bank independence largely stems from the argument that “the power to create money should be generally separated from the power to spend it”. Emphasizing some division of responsibility between government and monetary authorities. Fuhrer (1997) goes on to make a distinction between goal independence and instrument independence. The former refers to the ability of the central bank to set its own goals. The latter refers to the ability of the central bank to determine the instruments it will use to achieve the set goal, even though the goals may have been set by government. In his paper Tuladhar (2005) states that in their survey Allen and Sterne found that whereas money targets are set in most cases by central banks, inflation targets are decided upon by government, either independently or jointly with the central bank. There is general agreement in the literature that central banks should have instrument independence but not necessarily goal independence, especially countries that are inflation targets (Tuladhar, 2005).

4.0. Types of Central Bank Independence

Legal independence

Formal central bank independence is legally enshrined in the country’s constitution and also guaranteed in the legislation of a country. The Central Bank Act of the relevant country should grant staff and financial autonomy to the Central Bank. In other words, the Central Bank is free to appoint its own staff and manage its own budget. There are also specific guarantees regarding goal and instrument independence present (Wessels, 2008). There is however a number of drawbacks to this method. Central Banks acts do not always clearly indicate the separation of powers between the government and Central Bank. Secondly the implementation of the act in practise may be lacking. A bank may on paper be legally independent but in practise it has far lower levels of independence. The presents of laws that confer (legal) independence on the central bank may not necessarily translate into a central bank that is independent to perform its duties without government interference (de Haan and Kooi, 2000 and Cukierman, Webb and Neypati, 1992). Legal independence merely refers to the measurement of central bank independence based on the interpretation of laws (Wagner, 2000). Actual independence may differ from legal independence as it is also influenced by several other aspects such as the informal arrangements between the bank and other parts of government, quality of the bank's research department and the personality of key individuals within the bank (Cukierman, Webb and Neyapti, 1992 and Wagner, 2000). The discrepancies between actual and legal independence are particularly pronounced in most developing economies (Wagner, 1999). A reasonably high legal independence of the central bank can be viewed as a useful step required towards actual independence but it in itself is not a sufficient condition for a truly independent central bank (Wagner, 2000). Cukierman et al (1992) also indicates that legal independence gives a view of the degree of independence that legislators wanted to grant to the central bank. Some of the literature argues that the presence of legal independence without actual independence could be detrimental to the central bank (Wagner, 1999). The central bank may be powerless in preventing government behaviour that may be inflationary and yet the government could shift responsibility for inflationary outcomes to the central bank based on legal independence. In their study, Cukierman et al (1992) concluded that there are larger divergences between actual practice and the law in developing countries than in industrialised countries.

(i) Institutional Independence

Institutional independence refers to the status of the central bank as an institution separate from executive and legislative branches of government. A central bank or agency which forms part of the executive branch such as Ministry of Finance or the United Kingdom Chancellor of Exchequer typically lacks institutional independence. According to Quintyn and Taylor (2002) there are three critical elements of institutional independence: the personal independence where the central banks have clear rules for hiring and firing of senior management staff based on the agency's competencies, skills and probity. The terms of appointment and even more critically – dismissal of the governors and other senior staff. Under such rules, central bank enjoys security of tenure which enables them to speak out and also take action without fear of dismissal by the government of the day. Appropriate salary levels for central banks or agencies; A well- defined governance structure of central bank or agency is also key element of institutional independence. A longer tenure of the board of directors should be more than the government of the day, and this may also strengthen the governance structure of the bank. For example, the boards of USA Federal Reserve Bank are given initial seven years and are eligible for another seven years and similar for Bundesbank of Germany. The board should consist of qualified and experienced members to ensure quality, consistency and continuity of decision making over time and are less likely to be influenced by the view of one single individual. However, it is crucial that board be composed of experts, for instance, retired banker, retired economist, retired lawyer, experienced financial regulator, retired finance professors) but not politicians or representatives from Ministry of Finance; there should be openness and transparency in decision making in the institutional independence. Inevitably many decision- making involve commercially sensitive material that would be difficult to disclose. But the presumption should be in favour of openness in the decision-making process, making it possible for both public and the industry to scrutinise regulatory decisions minimizing the risk of political interference.

(ii) Goal Independence and Target Independence

Goal independence refers to the ability of the Central Bank to determine its own goals and objectives with minimum interference from central government

(Fischer & Debelle 1994). Lybek (2004) considers goal autonomy as the highest level of independence that a central bank could be accorded. Goal independence is the broadest since in principle it gives the central bank authority to determine its primary objective among several competing objectives. This requires the central bank to choose the exchange rate regime and monetary policy. An example of goal independence is the United States of America Federal Reserve System which includes both full employment and price stability among several potential competing objectives, even though price stability is given priority. The goal independence is the strictly prohibition on allowing government to influence monetary policy. The setting of inflation targets is an example of this phenomenon. The US Federal Reserve has broad goal independence in that, although its objectives are set out in legislation, those objectives very broadly defined and it is up to the Federal Reserve to set its own goals (United States, 1913). In contrast the Bank of England (UK Central Bank) has limited goal independence; its inflation targets are determined by the UK government through the Chancellor of the Exchequer (United Kingdom, 1998). In South Africa the SA Reserve bank (SARB) has similar limitations on goal independence as it set its own inflation targets are set by government (South Africa, 1989). Target autonomy is the second highest level of independence according to Lybek (2004). Under the target independence central bank is expected to determine monetary policy and the exchange rate regime or simply monetary policy where the exchange rate in floating. The only difference with goal independence is that target independence means that the central bank is given one clearly defined objective by law. Target independence allows the central bank to decide a specific target for achieving the primary objective which is stipulated in the central banking law.

(iii) Functional independence

Functional independence is sometimes referred to as instrument independence. It is all about having the tools to carry out monetary policy and being free to use them as seen fit. An independent central bank should be free to set its policy instrument with the aim of achieving its objective. Functional independence thus requires the primary objective that central bank be stated clearly and legally in a certain way and be fully in line with primary objective of price stability established by the law. From an operational viewpoint, this implies that the central bank should have full autonomous power in setting the level of the short-term interest rate in the money market. Any obstacle to the ability of central banks to affect market interest rates should be considered as an obstacle to their functional independence. An example of such an obstacle would be the obligation for the central bank to directly finance budget deficits, which would clearly reduce the ability to influence money market conditions in the direction it deems most appropriate for the pursuit of price stability. More generally, governments can undermine the functional independence of monetary policy by conducting an excessively profligate and hence unsustainable fiscal policy. Buiter (2002) posited that it is beyond doubt that conducting an independent monetary policy, aimed at the achievement of low and stable inflation, is made significantly more difficult by existence of large budget deficits. This is true for two related reasons. First, when deficits and public debt become unsustainable, the incentive for the government to force the central bank to monetise its deficits, thus eliminating public debt via inflation, increases substantially. Second, the larger the budget deficits and accumulated debt, the more market participants become aware of the risk of monetisation. Instrument independence refers to the amount of freedom a Central Bank has to adjust its policy instruments without interference or instruction from government. The Central Bank should have the ability to freely use its monetary policy tools in order to meet its stated policy goals and objectives. The Bank of England as well as the US Federal Reserve and the South African Reserve Bank have instrument independence; it can set interest rates without interference from government (Cukierman, 2005).

iv. Financial Independence

Financial independence is defined as the ability of central bank to attain its objectives efficiently without financial assistance from the government (Stella, 2005). In practice, financial independence is represented by strong income position that provides the central bank with necessary means to obtain its objectives (Cukierman, 2008; Jacome and Vazquez, 2008). Financial independence refers to the role of executive or legislature in the determination of central bank budget and its use, including the staffing and salary levels. The concept of financial independence should be therefore be assessed from the perspective of whether any third party is able to exercise either direct or indirect influence not only over central bank tasks but also over its ability (understand both operationally, in terms of manpower and financially, in terms of appropriate of appropriate financial resources) to fulfil its mandate. Four aspects of financial independence: the right and ability 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. Central banks who can independently decide over their sources, size and the use of their budget in function of their mission are far better equipped to withstand political inteference (pressure through the budget) and have the ability to respond more quickly to newly emerging needs of the areas of supervision, regulation, and monetary policy framework including inflation-targeting that would enable to pay attractive salaries and compensation to enable the central bank to employ competent, experienced and skilled staff (Quintyn and Taylor,2002). According to literature, central banks whose budgets are determined by the government or any other authority could lead to dependence on the industry or government can possibly lead to industry capture. Central banks that are funded through government or the Ministry of Finance or any agency that exercised oversight of their operations or directly from their budget, may be prone to political interference of different sorts. Funding through governments can also be abused by the latter to organise other types of interference such as forbearance. Alternatively, central banks that funded through the beneficiaries of regulation, that are funded via levies on the regulated institutions or combination of levies and governments could also be leads to political interference. Fund -based funding has several advantages such as the avoidance of political interference and more freedom for the agency to set its budget in line with its need. But unless the levies are properly structured it may produce a sense of budgetary dependency on the industry that could undermined the agency's autonomy in other ways.

v. **Regulatory Independence.**

Regulatory independence refers to the ability of the agency or unit to have an appropriate degree of autonomy in setting rules and regulations for sector under its supervision within the confines of the law. The requirement of regulatory independence for prudential supervision has, however, been traditionally somewhat more controversial than in the case of monetary policy. On the one hand, this reflects the fact that prudential supervision is a matter political interests are typically strong, for various reasons (for example, providing credit to insolvent bank is ultimately financed out of tax payers' money). On the other hand, there is no clear provision for regulatory independence in any legislation. Over recent years, however, a doctrine of regulatory independence has developed as a “best practice” and is now one of the Basel Core Principle for good supervision. In this regard, one should distinguish between two cases: (i) where prudential supervision is a department of the central bank; and (ii) where supervision is a separate entity, though possibly connected in some way with the central bank. Quintyn and Taylor (2002) opined that the degree of autonomy is desirable in the financial sector regulation and this could be divided into three categories : economic regulations encompassing controls over pricing, profits, entry and exit; prudential regulations covering general rules on the stability of the business and its activities (legally required minimum amount of capital and fit and proper requirements for board of directors and senior management) as well as specific rules that follow from special nature of financial intermediation (risk based capital ratios, limits on off-balance sheet activities, definition of limits on exposure to single borrower or group of persons, limits on connected lending, foreign exposure limits, loan classification rules and loan loss provisioning rules); and finally, information regulations governing information disclosure, accounting standards, transparency and other information provided by the regulated institutions for the public at large and to the regulators and supervisors. Regulatory independence has two dimensions- independence from political interference and freedom from capture. Regulatory agencies or units that suffer from regulatory capture identify interests (or even the interests of individual institutions within it) with public interest. The fear of industry capture was popularized by Stigler’s (1971) seminal article that stimulated the principal -agent debate (Quintyn & Taylor,2002). Stigler (1971) demonstrated that bureaucracies respond to the wishes of the best organised interest groups rather than to political directives or the public interest. Just like political pressure, industry capture can undermine effective regulation and supervision. Achieving types of independence, political interference and industry capture, is essential. However, the element of political independence draws special attention from the point view of financial stability, given the vested interests that many national governments still have in banking and, therefore in regulation and supervision (Quintyn and Taylor,2002). There is empirical evidence that political interference leads to a weakening regulatory and supervisory arrangements. In the specific case of financial institutions, industry capture in some cases led to disguised form of political capture when bank owners are politically connected or political exposed persons.

6.0. DETERMINANTS OF CENTRAL BANK INDEPENDENCE

According to Cukierman (1994), what determines the optimal level of central bank independence is a balance between flexibility in creating monetary policy and its credibility. In line with such theoretical considerations, several economic and political determinants of central bank independence have been formulated. (Eijfinger & de Haan, 1996,). The first determinant in the literature is inflationary bias, which can be approximated by the equilibrium or natural rate of unemployment. According to Eijfinger & de Haan (1996) and Cukierman (1994), a higher natural rate of unemployment means a higher level of independence of central bank, which is explained by the fact that a higher rate of natural unemployment leads to a higher time-consistent inflation rate which leads to an increase in social credibility problem. With an unchanged relative significance attributed to stabilizing inflation as compared to the stabilization of unemployment, the commitment of monetary authorities to fighting inflation will be at too low a level to be effective. Another potential determinant of central bank independence may be the level of public debt. The higher the amount a state wants to borrow in the capital market, the lower inflationary expectations and, therefore, lower the nominal interest rates. The benefits of applying unexpected inflation as a way of reducing the real value of government debt in this case cannot exceed the costs of permanently higher interest payments that result from lost credibility. According to Cukierman (1994), the greater the debt, the higher the likelihood that the central bank will be allowed greater independence.

Supervision of financial institutions has been recognized as a political-economic determinant of the level of independence of the central bank. Empirical studies dealing with the relationship between supervision and the independence of the central bank show that supervisory data are the most important source that indicates a possible occurrence of financial instability, and as such are extremely important for the conduct of monetary policy. According to Heller' study (1991), central banks that do not have supervisory authority generate the lowest inflation rate while those that are fully responsible for supervision generate high inflation rates. With regard to transition economies, most authors find it better to keep supervision under the authority of the central bank, as this means that supervision will be carried out better, financed in an adequate way and less vulnerable to external influences. Another determinant of the independence of the central bank is mentioned in Posen's study (1995) where the author discusses the ability of the financial system to resist inflation, i.e. financial opposition to inflation. According to Posen (1995), the causal relationship between the central bank's independence and low inflation is illusory and the central bank's independence does not affect the differences in inflation rates between different countries, but there is a third factor that explains the negative correlation between central bank independence and inflation. In his study, Posen (1995) argues that monetary policy is essentially driven by political interests in society because the central bank is ready to pursue a strong anti -inflationary policy only when there is a coalition of interests that are politically strong enough to protect the conduct of such a policy. A study conducted by Cukierman in the 1980s showed that countries with well-developed financial markets, such as the US, France, and the United Kingdom, have relatively independent central banks, while those with underdeveloped financial markets, mainly developing countries, have relatively dependent central banks. This result leads to the conclusion that a high level of central bank independence and low inflation represent a favourable environment for the development of financial markets. We can conclude that the achievement of the goal of price stability, that is, a high level of central bank independence largely depends on society's support and the willingness and commitment of the government to achieve this concept.

7.0. Independence of the Bank of Ghana

Independence of the Bank of Ghana is enshrined in the 1992 Constitution and also defined by the Bank of Ghana Act 2002 Act 612. The Bank of Ghana Act 2002 Act 612 was passed in 2002 but later amended in 2016 as the Bank of Ghana (Amendment) Act 2016 Act 918. The principle of Bank of Ghana's independence has been improved and harmonized with international best practices. Bank of Ghana's independence, as a basic precondition for successful implementation, can be analysed through the prism of five components; institutional, functional, personal, financial and regulatory. The legal framework has provided an important foundation on which the independence upon which Bank of Ghana is built and also given clearly defined tasks and furthermore, demand compliance in carrying its functions. The Article 183 of the 1992 Ghana's Constitution clearly stated that "the Bank of Ghana in pursuit of its primary objective must perform its functions independently and without fear or favour or prejudice. Bawumia (2010) also opined that the Bank of Ghana Act 2002 Act 612 as amended Bank of Ghana (Amendment) Act 2016 Act 918 was a landmark legislation which established the operational independence of the Bank of Ghana. In the Bank of

Ghana Act 2002 Act 612 on the Bank of Ghana (Section 3 (1), Bank of Ghana states that “the primary objective of Bank of Ghana is to maintain stability in the general level of prices”. Functional independence implies that the main goal of the Bank of Ghana is to main price stability. The Bank of Ghana Act 2002 Act 612 and Bank of Ghana (Amendment) Act 2016 Act 918 explicitly established the maintenance of price stability as the primary objective of the Bank of Ghana. Furthermore, the Bank of Ghana Amendment Act 2016 Act 918 further states that Section 3 (2) without prejudice to Sub -Section (1) the Bank shall support the general economic policy of government; (b) promote economic growth and development and effective operation of banking and credit systems in the country, and contribute to the promotion and maintenance of financial stability in the country but by inserting independent of instructions from the government or any other authority. If we refer to functional independence, we have to examine the degree of freedom in choosing the objectives of monetary policy. Bank of Ghana's main goal is attaining and maintaining price stability. According to the Section 3(2) Bank of Ghana will support economic policy and act according to the principles of open market economy and free competition, as long as it does not endanger its main objective. In examining the institutional freedom of Bank of Ghana concentrated on freedom to select the instruments of monetary policy, their definition and implementation. Independence of central bank also referred to instrument independence (i.e. the ability of the central bank to choose the instruments) independent of political pressures.

In 2007, the Bank of Ghana, in line with its mandate under the Bank of Ghana Act to maintain a primary focus on price stability, adopted inflation targeting monetary policy framework. In general, under inflation targeting, Bank of Ghana reacts to deviations of targeted inflation from a forecasted inflation by adjusting its policy instruments, mostly a short-term interest rate. The fundamental requirement of an inflation targeting framework is the central bank must be given complete independence to adjust freely its instruments of monetary policy towards the attainment of the objective of low inflation. The independence does not mean the full independence but implies at least instrumental independence which permit greater discretion in the conduct of monetary policy and which also implies that the central bank cannot finance the government's budget. Bank of Ghana claims to be independent while passing and implementing its decisions. It also states that it is not dependent on the instructions of the Ghanaian government or any other authority. In accomplishing its objectives, but without endangering its main objective and tasks, Bank of Ghana is allowed to cooperate with the government and Ministry of Finance and Economic Planning. Government delivers to the Bank of Ghana all the proposals and reports in connection with the objectives, business and tasks of the Bank of Ghana. In addition to this, government also delivers proposals of decisions, directives and acts, before they are passed on to the Parliament, to Bank of Ghana to offer its opinion. At least once on a semi-annual basis, Ministry of Finance and Economic Planning consults with Bank of Ghana concerning semi-annual plans of domestic and foreign indebtedness. Moreover, Ministry of Finance and Economic Planning is obligated to inform Bank of Ghana about all the transactions concerning domestic and foreign debt.

Goal independence is the broadest since in principle it gives the Bank of Ghana authority to determine its primary objective among several competing objectives included in Bank of Ghana Act 2002 Act 612 as amended Bank of Ghana (Amendment) Act 2016 Act 918. This requires that to choose monetary policy or the promotion of economic growth and development. The Bank of Ghana chose price stability through inflation targeting as against the exchange rate regime through the floating exchange rate. The Bank of Ghana, in line with its mandate under the new Bank of Ghana Act to maintain a primary focus on price stability, opted for an inflation targeting monetary policy framework among several competing goals such as supporting the general economic policy of government and promote economic growth and effective operation of banking and credit systems in the country. Under the targeting independence, Bank of Ghana is also expected to determine monetary policy as well as support the economic growth and development of the government. The only difference with goal independence is that target independence ensures that Bank of Ghana is given one clearly defined primary objective specified in the Bank of Ghana Act. Target independence allows the Bank of Ghana to decide a specific target for achieving the primary objective, which is stipulated in Section of the Bank of Ghana Act

2002 Act 612 as amended (Bank of Ghana (Amendment) Act 2016 Act 918 as price stability.

The next aspect of Bank of Ghana's independence related to institutional independence implying that the central bank from seeking or accepting instructions from government. other institutions or individuals outside the central bank. The Bank of Ghana Act 2002 Act 612 and Bank of Ghana (Amendment) Act 2016 Act 918 did define its institutional independence. A higher level of institutional independence was achieved with the Bank of Ghana Act which stipulated that Bank of Ghana shall be independent in pursuing primary objective and exercising the functions established under this law. The Section 3 (1a) of the Bank of Ghana (Amendment) Act 2016 Act 918 states that except, as provided in the 1992 Constitution, the Bank of Ghana in the performance of its functions under this Act, shall not be subject to the direction or control of any person or authority

Personal independence refers to the nomination and appointment of central bank bodies, including the governor, two deputy governors and nine non-executive directors as well as to the procedures for making the most important decisions. The principle of personal independence is enshrined in the 1992 Constitution and also defined by the Section 11 of the Bank of Ghana (Amendment) Act 2016 Act 918. It also refers to the appointment and election process, removal from office, the duration of a mandate and possibility of re-election. According to Section 11 of the Bank of Ghana Amendment Act 2016 Act 918, and the President shall, in accordance with Article 183 of the 1992 Constitution, appoint the Governor for a period of four years and also eligible for re-appointment for another four years. Subject to Sub section 11 (2a) the President in accordance with Article 195 of the Ghana Constitution appoint two (2) deputy Governors for term of four years and are eligible for re-appointment for term of four years. For to effectively ensure central bank personal independence, the appointed members of central bank decision-making bodies should clearly be perceived to possess high professional capabilities. The Bank of Ghana Act states that “the President in accordance with Article 70 of the 1992 Constitution shall appoint nine non- executive directors with experience and extensive knowledge in monetary, banking, finance, and economic matters and any other discipline relevant for board function for a term of four years but are also eligible for reappointment for another term of four years.

Grounds for dismissal and actual procedures are explicitly stated in both the Constitution and the Bank of Ghana Amendment Act 2016 Act 918 to improve the functioning of the Bank of Ghana. According to Article 183 (4d) of the 1992 Constitution the Governor of the Bank of Ghana shall not be removed from office except on the same ground and in the same manner as a Justice of the Superior Court of Judicature other than the Chief Justice may be removed. Section 12 Sub-section (4) of the Bank of Ghana Amendment Act 2016 Act 918 states that Deputy Governors shall not be removed from office except – (a) for stated misbehaviour or incompetence or (b) for inability to perform the functions of the office arising from infirmity of mind or body. Section 12 (Sub-section 2) the President shall constitute a panel to investigate a matter specified under subsection (1a). Section 12 (Subsection 3) of the Bank of Ghana Amendment Act 2016 Act 918 states that the Panel shall consist of (a) Chairperson who is a Justice of the Superior Court of Judicature (b) Lawyer of at least 10 years standing at the Bar or (c) one other person with knowledge in banking, finance, economics or related fields. Section 12 (Sub-section 4) of the Bank of Ghana Amendment Act 2016 Act 918 states the Panel shall investigate the matter and make recommendations to the President. According to Section 12 (5) The President may act in accordance with the recommendation of the Panel.

Bank of Ghana’s financial independence refers to the role of executive or legislature in determination of the size of its budget and use, including staffing and salary levels. Bank of Ghana could be said to be independent as they decide over its own sources, size and the use of their budget function of its mission and are better equipped to withstand any political interferences (pressure through budget) and should be able to respond more quickly to the newly emerging needs in the area of supervision and regulation of the banking sector. Financial independence relates to budget independence and prohibition of monetary financing. Bank of Ghana has authority to determine its own budget and profit allocation and is therefore considered to be financially independent while on other countries like Serbia-Montenegro Central bank has its own budget and profit allocation has to be approved by both government and parliament and said to be financially dependent (Cukierman,1992). Bank of Ghana should not allow themselves to get in a position of insufficient financial resources, necessary to fulfil its duties. There are certain issues that central banks must settle to be financially independent; who manages the budget, how to restore net loss, is it allowed to finance government and if it is, when is it allowed etc. It is important to stress out that Bank of Ghana is financially independent from the Ministry of Finance and Economic Planning since relationship of this two could lead to high inflation. However, a certain contact between this two exists. Bank of Ghana performs fiscal agency function, function of depository, function of participant in legislative procedures and function of a consultant of Ministry of Finance and Economic Planning. Nevertheless, Bank of Ghana points out that the budget is managed by the bank, independently from any governmental institution. The Board of Bank of Ghana adopts its own financial plan. Concerning net loss, if it occurs, it is usually covered from the Bank of Ghana's reserves. In the case of insufficient reserves, the loss can be covered from the state budget or by issuing stocks. In Bank of Ghana direct financing of government is firmly limited to 5% of previous fiscal year’s total revenue Section 16 of Bank of Ghana Amendment Act 2016 Act 918, nevertheless Bank of Ghana is allowed to purchase government securities on secondary market, and thereby finance government indirectly.

The regulatory independence of the Bank of Ghana is defined in Section 4 (d) of Bank of Ghana Act 2002 Act 612 and Section 54 of the Bank of Ghana (Amendment) Act 2016 Act 918 which empower Bank of Ghana to license, regulate and supervise the banking system and credit system to ensure smooth operation of the financial sector. Regulatory independence refers to the ability of Bank of Ghana to have an appropriate degree of autonomy in setting regulations and rules for the Ghanaian banking sector under its supervision within the confines to Section 54 of the Bank of Ghana (Amendment) Act 2016 Act 918 and Banks and Specialized Deposit Taking Institutions Act 2016 Act 930. The traditional boarders between the banking, securities and insurance sectors under the universal banking concept since 2003 have become increasingly blurred, as demonstrated by the emergence of hybrid financial products, the increased use of risk transfer instruments and distribution agreements between sectors and the growing role of financial conglomerates In a number of academic literature, the IMF has emphasised that maintaining the close involvement of national central banks in prudential supervision is an important condition for allowing the regulator or supervisor to contribute adequately to monitoring the risks to financial stability and to safeguard a smooth coordination between Bank of Ghana and other regulators. The degree of regulatory independence is desirable when banking sector regulations is divided into three main categories: economic regulations, encompassing controls over pricing, profits, entry and exit; prudential regulation involving minimum capital requirement, capital adequacy ratio, liquidity requirements and limit on financial exposure; and while information regulations governing guidelines on accounting standards and disclosure in financial statement, display of financial statement, accounting records and financial statements. Taken together, the Bank of Ghana Amendment Act 2016 Act 918 and the Banks and Specialised Deposit Taking Institutions Act 2016 Act 930 have resulted in fundamental changes in the regulatory framework for banking sector in Ghana.

8.0. **CRITIQUING OF THE BANK OF GHANA'S INDEPENDENCE**

From the above critical review on the Bank of Ghana's independence, we observed that there were serious gaps and lapses that need to be addressed to strengthen the independence of the central bank. First, the critical review of the Bank of Ghana (Amendment) Act 2016 Act 918 Section 2 Sub-section (1a) states that Bank of Ghana shall support the general economic policy of the government and sub-section (1b) promote economic growth and development potentially undermines the independence of the central bank and brings into question the existence of objective that is in conflict with primary objective of price stability. In literature review, a single monetary target identified as critical to the implementation of inflation-target adopted since 2007 (Masson et al, 1998). The Bank of Ghana (Amendment) Act 2016 Act 918 states that price stability as the primary objective while the same Act further refers to economic growth as a potential outcome from price stability. The critical importance of unambiguous declaration of the primary goal of central bank as price stability in an inflation targeting regime cannot be understated (Wessels, 2006). The Bank of Ghana Act 2002 Act 612 as amended by Bank of Ghana (Amendment) Act 2016 Act 918 does explicitly mention primary stability as the primary objective, however the same Act further refers to economic growth and development which potentially undermines the independence of the Bank of Ghana and it brings into question the existence of other objectives that is in conflict with price stability. Economic growth is viewed as incompatible with inflation targeting regime and should thus ideally not be mentioned as part of the objective of the Bank of Ghana that is inflation target. It is critical though to point out that economic growth is not stated as primary objective of the Bank of Ghana in the Act and that it is merely seen as an outcome of price stability. The achievement of the primary goal (price stability) is seen as contributing to the achievement of economic growth in Ghana. The price stability and economic growth are mutually exclusive. The public, politicians, economists and business people expect too much from the Bank of Ghana in growing the economy. This responsibility sits primary with the private sector while politicians create an enabling economic environment for the private to grow. Ideally, economic growth should be mentioned as part of objectives of the Bank of Ghana, but focus only on the price stability, which will in turn influence economic growth and development of the country. General consensus exists that a single objective is preferable over the multiple objectives for central bank independence and adequate execution of monetary policy. Issing (2012) argues that the problem of dual or multiple objectives for a central bank is most likely to fail. For example, a clearly formulated and single monetary policy goal enables adequate monitoring and promotes the accountability of a central bank. In the 1990s, vast majority of economists reached a common agreement that price stability should be primary objective of monetary policy (Laurens et al, 2009). However, many central bank laws in the developing economies are rather ambiguous regarding other objectives or contain various (possibly conflicting) objectives without giving indications as to their prioritisation. Furthermore, the 1992 Constitution and the Bank of Ghana Act never mentioned the implementation of inflation targeting regime in Ghana and thus not have been amended to explicitly reflect the inflation targeting since 2007.

Second, the critical review of the Bank of Ghana's independence showed that there is a policy conflict between the government and Bank of Ghana. Central banks with wider authority to formulate monetary policy and are able to resist the executive branch in cases of conflict are classified as more independent on policy formulation parameter (Cukierman, 1992). The Bank of Ghana Act does not make provision for the formulation of policy or the resolution of conflict in the Act. This parameter could thus not be assessed with regards to Ghana. This leaves a significant vacuum in terms of how conflict would be dealt with, legally, should it arise between the two institutions (Bank of Ghana and Government). There is no provision in the law for the resolution of conflict between the Bank of Ghana and Government. It would seem the conflict are resolved on informal basis and that the number of conflicts in the recent past have been limited. For example, the recent bank recapitalization in the 2018 where the local banks protested to the Presidency on the GHC 400 million minimum paid capital announced by the Bank of Ghana. The President intervened and resolved the conflict. Bank of Ghana does however, as provided for in the Bank of Ghana Act 2002 Act 612 as amended Bank of Ghana (Amendment) Act 2016 Act 918 has the authority to make decisions over the instruments they use to effect monetary policy (goal independence) is determined by government.

Third, the critical review of the Bank of Ghana’s functional independence showed that the persistent accommodation of fiscal deficits over the past decade had thrown the monetary policies over board over the years. Fiscal dominance meant that the conduct of monetary policy by the Bank of Ghana was unduly influenced by fiscal consideration (Wagner, 2000). In addition, even though the Bank of Ghana remained responsible for banking supervision and regulation, but the cost of the 2016-2018 banking crisis burdened the government budget to the tune of GHC 12.1 billion. Excessive fiscal imbalances put pressure on Bank of Ghana to monetise debt. This was especially in the cases when governments had excessive budget deficits in the early 2000s. The monetisation of debts led to inflationary increases which seriously undermined the Bank of Ghana’s inflation targeting policy. The issue of fiscal dominance had plagued the Bank of Ghana’s monetary policy even though the Bank of Ghana Act 2002 Act 612 has placed explicit limit of 10% financing of government budget. Excessive fiscal imbalances put pressure on Bank of Ghana to monetise debt. This was especially in cases when governments had excessive fiscal deficits. The monetisation of debts led to inflationary increases which seriously undermined any inflation targeting policy. Over the past decade, government policies have come in direct conflict with the Bank of Ghana's objective of price stability, as governments borrowed from the Bank of Ghana well over the explicit limit set out in the Bank of Ghana Act 2002 Act 612. Traditionally, the Bank of Ghana's monetary policies have impacted negatively as results of high fiscal deficits. According to the various IMF country reports on Ghana showed that in 2011 recorded 10.9 % of GDP, 2012 (10.3% of GDP), 2013 (12% of GDP) while in 2014 (13%of GDP).

The large fiscal deficits (exceeded 10% of the GDP) limit set by the Bank of Ghana Act 2002 Act 612 which reduced the functional independence of Bank of Ghana. Over the past decade, large fiscal deficits have added to significant increases in the public debt eroding the fiscal buffer created in ex -President Koffour debt relief (IMF Country report no,2017/17/262). Fiscal slippages have been particularly pronounced in the election years, setting in motion an increase in external and domestic imbalance. The Bank of Ghana's explicit limit could be interpreted as limiting the government hands and thus restricting the influence on the bank to monetise its debts with limitation (Cukierman,1992) but this has not been effective. For central bank where the limit is defined as an absolute cash amount are viewed as more independent. To deal with the huge persistent fiscal deficits that plagued the Bank of Ghana's monetary policies over the past decade, the new Bank of Ghana (Amendment) Act 2016 Act 918 has placed explicit limit of 5% on the Bank of Ghana's financing of government borrowing. In addition, the Fiscal Responsibility Act 2018 Act 982 has also placed budget deficit limits not exceeding 5% for the fiscal year. It is crucial for Bank of Ghana to avoid direct financing of the government's budget or any other activities as this may be inflationary in the longer run (Wessels,2004). The stricter the limitation on lending to government the more independent the central bank (Cukierman,1992). The Bank of Ghana (Amendment) Act 2016 Act 918 represents a robust way to eliminate fiscal dominance and insulate the Bank of Ghana from the government possible political pressures to fund the government.

Fourth, the critical review of both the Article 183 of the Ghana Constitution and the Section 11 of the Bank of Ghana Act 2002 Act 612 and Bank of Ghana Amendment Act 2016 Act 918 provisions have been made for dismissal of Governors indicated that could not be dismissed without due process of the Constitution and the Bank of Ghana Act and any breached could be seen as the meddling or interference by Government, which is viewed as a positive influence on the level of independence. However, over the past four years, two Governors of Bank of Ghana have been forced to resign from office without any tangible reasons in contrast to the Article 184 (4d) of the 1992 Ghana Constitution and Section 12 of Bank of Ghana (Amendment) Act 2016 Act 918 which states that Governor shall not be removed from office except on the same grounds and in the same manner as a Justice of Superior Court of Judicature, other than the Chief Justice. The Article of the Constitution 146 (1) states that a Justice of the Superior Court of Judicature shall not be removed from office except for stated misbehaviour or incompetence or on grounds of inability to perform the functions of his/her office arising from infirmity of body or mind. On what grounds were the two previous governors resigned from office abruptly? Were they forced to resign? How much were spent on these two Governors whose term of office ended abruptly? Were the due processes followed as stated in the Article 183 of the Constitution and Section 11 of the Bank of Ghana Amendment Act 2016 Act 918? On the resignation of deputy governors from the office, Section 12 of the Bank of Ghana Amendment Act 2016 Act 918 except (a) for stated misbehaviour or incompetence or (b) for inability to perform the functions of the office arising from infirmity of mind or body. The high rate of turnover of governors impact negatively on the personal independence of Bank of Ghana. A high rate of turnover indicates lower personal independence (Cukierman ,1992).

Fifth, the critical review of the tenure overlap assesses the extent to which the terms of Governor, Deputy Governors and Non-Executive Directors coincide with the Government of the day thus make the Bank of Ghana less independent.

The higher the degree of overlap between the governors, deputy governors, nine non-executive directors and turnover of the government of the day the less independent. The central bank's governor appointment is not supposed to be linked with the tenure of the government and the overlap in the tenure clearly provide an opportunity for politicians to influence the governor's decisions. In Ghana, there is no significant overlap between the term of office of Governors, Deputy Governors, board of directors is four years and the government for every four years overlap with the tenure of government of the day and thus makes Bank of Ghana less independent. The appointment of the Governor of Bank of Ghana rest squarely on the President under Article 183 of the 1992 Constitution and Bank of Ghana Amendment Act 2016 Act 918 in consultation with the Council of State, this can be seen as an area of concern, which may reflect a lack of independence (Cukierman,1992). Based on Cukierman (1992) index, the lack of collective decisioning-making on the appointment of the Governors and two deputy Governors can be seen as a threat to the independence of Bank of Ghana. This is largely due to the potential influence of a single individual may have on the appointment of three key persons in the central bank.

In Ghana, the terms of Governor and two deputy Governors overlap with the tenure of government in power that makes that the Bank of Ghana less independent, but countries such as South Africa, Germany and United States of America the terms of Governors are much longer than the tenure of government in power thus making them highly independent (Cukierman,1992). For example, the Deutsche Bundesbank Governor's term of office is eight years is twice as long as Federal Government's term and longer than the terms of any Federal State government. The has made the Deutsche Bundesbank as one of the most independent central banks in the world ((Neumann & Hagan, 1993). In Germany, the governor and board members or council members have little reason to fear for their jobs when Bundesbank's policies do not conform with the government political interest because they have no specific mandate and cannot be removed or forced to resign from office except for personal or criminal reasons or upon the request by the Council. The role of the President in the appointment of Governor, two deputy Governors and the nine Non-executive directors is seen as unacceptable. This view is in support to Cukierman's in which he identifies government's involvement as compromising independence (Cukierman, 1992)

Sixth, the review of the Bank of Ghana's personnel independence showed a problem concerning the appointment of Non- Executive Directors with political affiliation or also played an active political role prior to their appointment, or (even more problematic) if they are expected to play a role afterwards. There had been several examples showing that political affiliations were used by political parties as an excuse to put pressure on the central bank, especially after a change in government. The ability of the Bank of Ghana to speak out, if needed, possibly in critical terms, with respect to the 2015-2018 banking crisis were impaired because of Governors, two Deputy Governors and the Nine non-executive board members were perceived to have political affiliation, as that might have been interpreted as political interference. It is important to note, however, that the Bank of Ghana Amendment Act 2016 Act 918 does not prohibit the appointment of individuals that are either deputy minister or members of political parties. This provision could be interpreted as increasing political influence on the operations of Bank of Ghana

Seventh, the critical review of the Bank of Ghana’s regulatory independence showed that it has been subverted by political interference over the past decade. Lack of regulatory independence has contributed to financial distress and banking crisis over the 2015-2018 which resulted in the consolidation of seven universal banks and collapse of Capital Bank and UT Bank. Protection of weak regulations by politicians and forbearance as a result of political pressures (prevented Bank of Ghana from taking action against UT Bank, Capital Bank, Unibank, Royal Bank and others that they needed to intervene earlier but woefully failed had undermined the integrity of the Bank of Ghana’s supervisory function. Licensing regulation by the Bank of Ghana were also subverted by political interference (Lewis & Stern,1997). For instances, Savings and Loans Companies were upgraded and issued with universal banking licenses without proper due diligence, poor corporate governance structures, suspicious and fraudulent capital and weak operational systems in contravention of the Banks and Specialised

Deposit Taking Institutions Act 2016 Act 930. Failure on the part of Bank of Ghana to impose stricter fit and proper test on board of directors and senior management and no observance on the limit on individual shareholdings in the private domestic banks had resulted in connected persons and politically persons holding banking licenses. These lapses have reduced the franchise value of holding a banking license and had reduced incentives on bank owners to facilitate bankruptcy or other actions such as serious breaches of the banking laws and regulations that could have resulted in the loss of their license (Caprio, 1996; Caprio & Summers,1993). Regulatory capture occurred when Bank of Ghana became, at least partly, advocate for some banking institutions they were supposed to regulate and supervise than being stricter enforcers of rules and regulations. This led to lose application of regulatory rules, forbearance to regulatory infractions that resulted in poor application of supervision of distressed banks. On the account of the Ghanaian banking crisis for the period 2015-2018, Atuahene (2018) noted that ineffective regulation, weak and dispersed supervision and political interference as major factors that contributed to the weakening of banks in the run-up to the crisis. In the recent banking crisis, there were very strong indications that political interference in the regulatory and supervisory processes postponed recognition of the severity of the crisis and therefore, delayed actions by offering emergency liquidity support to some failed banks and deepened the crisis. In some cases, Bank of Ghana were aware of the severity of problems in the distressed banks but political pressures inhibited them from tackling these problems. Similarly, practices of forbearance and persistent emergency liquidity support extended to the already insolvent banks were inspired by political motives.

Conclusion.

In pursuing central bank independence, the Bank of Ghana is relatively well aligned with international best practices. It operates autonomously within the 1992 Constitution and also within the Bank of Ghana (Amendment) Act 2016 Act 918 which affords it a substantial degree of independence, while remaining accountable to Parliament. From central bank independence perspective, Ghana needs to do more to ensure that the all components of independence of Bank of Ghana are explicitly addressed in both in the Constitution, Bank of Ghana Act 2002 Act 612 and Bank of Ghana (Amendment) Act 2016 Act 918. Although the 1992 Constitution states that Bank of Ghana in pursuit of primary objective, must perform its function independently, and without fear, favour or prejudice, but both the Constitution and the Bank of Ghana (Amendment) Act 2016 Act 918 should be amended to address the issues where Governors and deputy Governors are arbitrarily forced to resign or remove whenever there is a change of government. If other specific issues are not addressed the independence of Bank of Ghana will be undermined seriously. Some of the specific issues need to be addressed include:

- The 1992 Constitution pre-dated the implementation of inflation targeting regime while the Bank of Ghana (Amendment) Act 2016 Act 918 post-dated the implementation of inflation targeting but have not been amended to explicitly reflect the inflation targeting regime since 2007. Both 1992 Constitution and the Bank of Ghana (Amendment) Act 2016 Act should be amended to reflect the inflation targeting regime. The reference in the Act to economic growth and development potentially undermines the independence of Bank of Ghana's primary objective and brings into question the existence of an objective that is in conflict with price stability. The Act states the primary objective, the same Act further refers to economic growth as a potential outcome from price stability. Economic growth is viewed as incompatible with inflation targeting regime and should thus ideally not be mentioned as part of the objective of Bank of Ghana that as an inflation targeted. The achievement of the primary goal (price stability) is seen as contributing to the achievement of economic growth in Ghana
- Clear and concise mechanism to address conflict resolution between the government and Bank of Ghana. Genberg (2002) suggests that "it is essential that government policies such as budgetary and exchange policies are consistent with the pursuit of price stability. Reference is made to GHC 12.1 billion as the cost of bail-out for the 2017-2018 banking crisis that burdened the government's budget deficit.

- Explore the possibility of amending the 1992 Constitution and Bank of Ghana (Amendment) Act 2016 Act 918 ensuring that the decision on appointment of the Governor and two deputy Governors are joint decision between the Presidency and the Parliament and not only the case of the President in consultation of the Council of State.
- Consideration should be given to lengthening the tenure of the office of the Governor and deputy Governors from the current four years to seven years to improve the autonomy of the Bank of Ghana by separating four yearly political cycle from the appointment of the Governor and two deputy governors. To strengthen the personnel independence of Bank of Ghana the Article 183 of the 1992 Constitution and the Section 11 (a) of the Bank of Ghana (Amendment) Act 2016 Act 918 on the tenure of the Governor and deputy Governors' period of four years be amended to six years
- There are strong reasons for delegating banking supervision and regulation to an independent body rather than housing it in Bank of Ghana, including the scope of political interference, regulatory capture and time inconsistency (Hellwig, 2014). The process of banking supervision will be relatively well defined, involving off-site, on-site, inspection and examination that could be encoded in clear processes. An independent bank supervisor and regulator could operate relatively without the need for complex inter-department coordination; while it must liaise with plethora of regulators whose territory the bank's activities are likely to involve this

cooperation is likely to involve in information sharing rather than directing other agencies. This action may also require amendment to both the 1992 Constitution and the Bank of Ghana Amendment Act 2016 Act 918.