Caleb M Fundanga: Central bank independence – a Zambian perspective

Opening remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, to the symposium “Central Bank Independence: Does it hurt the Treasury?”, Livingstone, 12-13 November 2007.

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The Chairperson
The Guest of Honour, the Hon Minister of Finance and National Planning
The Attorney General
Honourable Minister of Southern Province
Honourable Members of Parliament present
Fellow Central Bank Governors present
His Worship the Mayor of the City of Livingstone
Deputy Central Bank Governors present
Senior Treasury Officials present
The Executive Secretary of SADC
Members of the Diplomatic Corps and Representatives of International Organisations present
Distinguished Invited Guests
Ladies and Gentlemen,

On behalf of the Bank of Zambia and indeed on my own behalf, I would like to extend a very warm welcome to you all to this important symposium entitled “Central Bank Independence: Does it Hurt the Treasury?” To our colleagues from outside Zambia, I wish to extend a special welcome to you to Zambia, in particular to Livingstone, our tourist capital. Like the rest of Zambia, Livingstone is a city of tranquility with an easygoing African charm. The city is not short of interesting sites and places to visit. It hosts the Victoria Falls, also known among the locals as “Mosi-o-Tunya, the Smoke that Thunders” and is one of the world’s seven wonders! There is also a game park, a well-stocked curio market and the Mukuni Cultural Village, among the many attractions. I therefore urge you to find time or indeed stay an extra day or more to sample this special menu that Livingstone can offer.

Ladies and Gentlemen, this symposium comes at a time when the economic performance of our country has significantly strengthened as partly reflected in a 6.2% growth in real GDP and single digit inflation of 8.2% for 2006. During the month of October 2007 inflation edged downward to 9.0%. Commercial banks’ lending rates have also exhibited an investment-supportive trend while the Kwacha has relatively been stable. Further, we have observed an improvement in the fiscal operations of the Government, which is supportive of the country’s inflation and growth objectives.

Chairperson, despite these achievements, our country like so many other developing countries, still faces some challenges. Notable among these is the urgent need to consolidate and build the gains so far attained. In particular, the need to attain sustained price and financial systems stability can hardly be overemphasized.

Chairperson, allow me to make a few comments on the issue we are all gathered here for, that is, Central Bank Independence vis-à-vis, the Treasury. The issue of central bank independence has taken some degree of prominence in the region, to the extent that it is one of the core principles underlying the draft SADC Model Central Bank Bill which is being actively pursued by the Committee of Central Bank Governors in the Southern African Development Community (SADC).

In fact the issue of central bank independence, Ladies and Gentlemen, is as old as central banking itself, having been debated on and off over the past couple of hundred years. Many of the “transitional economies” of Eastern Europe also have adopted reforms aimed at
making their central banks more independent. 19th and 20th century economists such as, David Ricardo and John Maynard Keynes have all added their views to the subject. There seem to be consensus that central banks must be given a charter which includes a strong commitment to price stability, and the freedom and sufficient scope to pursue it. This means that while central banks may not have goal independence, they should have instrument independence. One need not dwell on the desirability of price stability. **Economies work better if investment and wage decisions are not thwarted and confused by high inflation.** However, the fears in some respects are associated with the financing of fiscal deficits that governments in the developing world from time to time have to run to meet, for instance, social obligations or indeed provide public goods. This indeed is a genuine fear (including others that may be identified) that this symposium must address.

*There are arguments that there is a fundamental conflict between independence and an obligation to finance the budget deficit – a conflict which often is resolved at the expense of price stability.*

**Ladies and Gentlemen,** it is in this regard that the Bank of Zambia and Professor Collier with the support of the UK Department for International Development partnered to hold this international symposium whose objectives include:

(i) enhancing understanding of advantages of central bank independence among central bankers, Government, banks, non-bank financial institutions, the business community, academics and other stakeholders;

(ii) drawing lessons and sharing experiences of central bank independence in developed, emerging and developing countries;

(iii) appreciating the political, economic and legal aspects of operationalising greater independence for central banks; and

(iv) exploring ways of enhancing fiscal and monetary coordination.

**Ladies and Gentlemen,** the selection of papers to be presented and discussed at this Symposium will provide a platform for sharing ideas required for practical solutions aimed at improving the Bank’s service delivery. As we tackle issues of inflation, exchange rates, and other key macroeconomic indicators, let us use this forum to outline some of the past developments and challenges that lie ahead of us as we aim to taking Zambia’s financial sector to higher heights.

Lastly, let me say that while we can all learn from what other central banks have done, each country should establish the legal framework for its central bank, and allow for its evolution, in ways which best fit that country’s own history and institutions. I have no doubt that the symposium will be thought-provoking and highly participatory.

May I wish all of you a good symposium and a memorable stay in Livingstone and Zambia in general.

I thank you.