

Caleb M Fundanga: Trends in central bank governance

Opening remarks by Dr Caleb M Fundanga, Governor of the Bank of Zambia, at the official opening of the seminar on “Trends in Central Bank Governance”, Livingstone, 28-29 February 2008.

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His Honour the Vice President
Her Grace the Mayor of Livingstone
The Chairperson
Central Bank Governors and Deputy Governors
Board Members of Central Banks
Resource Persons
Distinguished International Participants
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 seminar on “**Trends in Central Bank Governance.**” To our colleagues from outside Zambia, I wish to extend a special welcome to you to Zambia, in particular to Livingstone, our tourist capital especially at this time of the year. Like the rest of Zambia, Livingstone is a city of tranquility with an easy-going African charm. Apart from the famous Victoria Falls, there are many other tourist spots such as the Mukuni Cultural Village, curio markets, the Game Park, the National Museum, railway museum, e.t.c. I therefore urge you to find time or indeed stay an extra day or more to sample this special menu that Livingstone can offer.

Like other participants, I am glad to be part of this rare gathering of imminent experts. Ladies and Gentlemen, this seminar comes at a time when the economic performance of our country has significantly strengthened as partly reflected in the developments in the gross domestic product (GDP), inflation, interest rate and exchange rate. At a preliminary estimate of 5.7% in 2007, growth in real GDP has been above 5% for the fifth consecutive year. During the month of January 2008, inflation remained in single digit at 9.3%, from 8.9% and 8.2%, in December 2007 and December 2006, respectively. Commercial banks lending rates have also exhibited an investment-supportive trend while the Kwacha has remained relatively 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. The financial sector has also been very stable and registering appreciable growth in the recent years.

Nevertheless, Mr. Chairman, 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 over-emphasised. This is even more pronounced given the recent electricity outages experienced across the country and floods that have ravaged some parts of Zambia.

Chairperson, it is also pleasing to note that, in the recent past, there has been recognition of the need to adopt economic and structural reforms in most African countries and some benefits are already evident in this regard. Inflation rates have been falling in most countries and they have registered appreciable expansion in economic activities with GDP growth rates averaging at about 5% in 2007. In addition, most countries have become more democratic in political circles, giving more say to the public on the running of governments and their institutions.

Distinguished Participants, allow me now to turn to the subject we are gathered here for, that is, “Central Bank Governance”. Good corporate governance is generally acknowledged as

important in economic management. In this regard, Central bank governance is arguably defined by a number of key-concepts or pillars, which *together* should form the basis of an effective legal framework governing a central bank and on which central bank governance should rest, that is, operational independence, democratic accountability and transparency. Despite its common usage, it is not always very clear what central bank transparency amounts to. Generally, two definitions of transparency can be distinguished in the policy-oriented literature. Firstly, central bank transparency is referred to as the activities of the central bank in providing information. Thus, in this case, transparency has been defined as the degree to which information on policy actions is available. However, a somewhat broader approach to transparency includes the public's understanding of the decisions taken by the monetary authorities and the reasoning behind it.

Ladies and Gentlemen, the mere fact that a central bank has to conduct monetary policy in a transparent manner at best results in the availability of the information necessary in order to judge the bank's performance. Discussions of this information are not only done by the government but also most importantly, the public at large. The latter's perception of what the central bank does and how it is done may have an impact on the central bank performance.

Furthermore, Mr. Chairman, our contribution therefore should set out to develop the pillars on which central bank governance must rest. These include operational independence, accountability and indeed transparency which are complementary. Yet, certain tensions between these elements of governance cannot be ignored and have to be observed when establishing a code of good governance.

With respect to operational independence, there seems to be consensus among academics and central bankers 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 operational or instrument independence to effectively pursue their primary objectives. In a democratic society, transparency and accountability are essential if central bank independence is to remain "acceptable to the public". Providing for a sufficient degree of transparency can help not only to increase the understanding of monetary policy which ultimately enhances central bank credibility.

Your Honour, This conference follows a similar one held in Botswana hosted by the Botswana Central Bank from 5 to 6 February, 2007 and supported by the BIS Governance Forum and the IMF. It also comes shortly after our very successful conference held at this same venue in November last year on the theme, "Central Bank Independence, Does It Hurt the Treasury?"

All these activities are part of the building blocks to a bigger project we have been undertaking in the SADC region aimed at developing a Model Central Bank Act.

For us in Zambia, efforts at perfecting the governance as well as the operational efficiency of the financial sector are being done through the Financial Sector Development Plan (FSDP). Under the Plan we have already developed Corporate Governance Guidelines for the financial sector as a whole. Many of these have a lot of relevance to the Central Bank as well. Through the FSDP, even issues such as who should chair the Board of the Central Bank are being discussed.

Lastly, let me say that we expect to learn from what other central banks have done, and what challenges they have faced in their quest for enhanced central bank governance. However, it should be noted that each country should establish a legal framework for its central bank governance, which best fits that country's own history and institutional evolution. This should also take into account international best practice.

Your Honour, apart from Zambian delegates, this international seminar has drawn participation from several other countries including: Angola, Ghana, Kenya, Lesotho, Madagascar, Malawi, Mauritius and Mozambique. Other participants are from Namibia,

Nigeria, Sweden, Tanzania, Swaziland and Uganda. With this wide participation, I have no doubt that the seminar will be thought-provoking and highly participatory, given also the high calibre of resource persons from institutions such as the International Monetary Fund and the Bank of International Settlements. I therefore wish all of you good deliberations and a memorable stay in Livingstone and Zambia in general.

It is now my privilege to call upon His Honour the Vice President of the Republic of Zambia, Mr Rupiah Banda to deliver the official opening speech for the seminar. Your Honour Sir!

Thank you.