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Assessing the Issues in Central Banking Independence: The Nigerian central Bank in the Light of the Proposed Amendment Bill by Nigeria Senate of CBN Act

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Abstract
The aim of this paper is to assess the issues in central banking independence in the Nigerian central bank in the light of the proposed amendment bill by Nigeria senate of CBN ACT. The CBN independence began with the promulgation of the CBN Decree (now Act) No. 24 of 1991. The enactment of the Banks and other Financial Institutions Act (BOFIA) 1991 was considered a landmark accomplishment in the Bank's history as it conferred on the CBN some degree of instrument autonomy for the effective discharge of its core mandate. However, the law and its subsequent amendments could not keep pace with the challenges that emerged because of the rapid reforms in the financial sector of the 2000s. These necessitated a comprehensive review of the existing legal framework to strengthen monetary policy formulation and implementation, while ensuring its effective transmission as well as the enhancement of the supervisory capacity of the Bank. Following the CBN amended Decree No 3 and BOFIA (amended Decree No 4) of 1997, the CBN was directly under the responsibility of the Ministry of Finance, with respect to supervision and control of banks and other financial institutions. The amendment placed enormous power on the Ministry of Finance, while leaving the CBN with a subjugated role in monitoring financial institutions with little room for the Bank to exercise discretionary power. However, the CBN regained operational autonomy in 1998, because of the CBN amendment Decree No 37 of 1998 that repealed the 1997 Decree. In 2007, the Bank proposed several measures to strengthen both the CBN and BOFI Acts. Eventually, only the Bill embodying the CBN Act was passed into law by the National Assembly (NASS) and assented to by the President.

Keywords: Assessing, Issues, Central Banking, Independence, Nigeria, Proposed, Amendment, Bill, Senate, ACT

Introduction

Key Features of CBN's Independence in the CBN Act of 2007: Autonomy of the Bank (Section 1(3): In the CBN Act of 2007, the operational autonomy of the Bank is clearly expressed in line with international best practice. This has not only facilitated the achievement of its mandate but also instils stakeholder confidence. Section 1(3) states that "To facilitate the achievement of its mandate under this Act and the Banks and other Financial Institutions Act, and in line with the objective of promoting stability and continuity in economic management, the Bank shall be an independent body in the discharge of its functions". For instance, the Act in Section 30 empowers the Bank to carry out open market operations, issue other forms of securities including treasury bills, as may be deemed necessary for liquidity management.

The objective of price stability is explicitly stated as the core mandate of the Bank. This is informed by the fact that the core function of every central bank is the maintenance of price stability, which is a precondition for economic growth and development. Appointment and Qualifications of the Members of the Board (Sections 8, 10 & 11): To facilitate the achievement of its mandate, the Act states that the appointment of the Governor, the Deputy Governors, and nonexecutive directors shall be by the President subject to confirmation by the Senate while the removal of the Governor is also subject to a two thirds majority of the Senate. The Governor, as the chairman of the Board, is required to keep the President informed of the affairs of the Bank, including a report on its budget; and appear before the National Assembly periodically to present a report on the activities of the Bank. Establishment of the Monetary Policy Committee (MPC) (Section 12):

The MPC was established to facilitate the Bank's instrument independence in the attainment of its price stability objective. To improve the process for monetary and credit policy formulation and implementation, the MPC, with the Governor as its

Chairman, is formally constituted with membership drawn from within and outside the Bank. Membership of MPC includes the Governor and four Deputy Governors, two external members appointed by the Governor and three external members appointed by President as well as two members representing the Board. The Committee, in its periodic meetings, makes informed decisions, chooses appropriate instruments to enhance the quality of monetary policy, and introduce transparency to the process. The MPC meets bi-monthly to review the conditions and challenges that confront the domestic economy and makes appropriate decisions in line with its price stability objective. At the end of every meeting, the Governor reads the communique of the MPC on live television, following which it is published on the Bank's website along with the personal statements of members of the MPC.

External Reserves Management (Section 24): The Act gives the Bank greater flexibility in the selection of instruments for monetary policy and assets in which to invest the external reserves. While the existing restrictions are based on considerations of safety and security of the reserves, the dynamics of modern-day reserve management make it necessary for the CBN to retain some flexibility in determining the choice of investments. The Bank has also been empowered to invest part of the external reserves as loans or debentures, in any suitable development finance institution subject to appropriate limitations.

Literature Review

Conceptual Framework

The Main Issues of Central Bank Independence

EU Treaty Article 108. "Neither the ECB, nor a National Central Bank "Shall seek or take instructions from Community institutions or bodies, from any Government of a Member State or from any other body". Article 7 of the Statute of the ESCB echoes this statement…"The Treaty provisions on central bank independence apply to all EU Member States (except the UK, which has a special derogation) irrespective of euro area membership. Countries are then expected to have completed the process of granting their Central Bank full institutional independence by the time of accession to the EU.

Types of Independence

In 1995, EU Monetary Institute published the list of requirements for central bank independence: Functional Independence, Institutional Independence, Personal Independence, Financial Independence and Prudential Supervision. Three other issues that may affect central bank independence: Central bank involvement in prudential supervision, the nexus between independence and accountability and the co-operation and dialogue with other economic policy makers.

Functional Independence

CBN should be free to set its policy instrument with the aim of achieving its objectives (primary objective of price stability and financial systems stability. Any obstacle to the ability of CBN to affect short-term market interest rates should be considered as an obstacle to their independence. Obligation of Central Bank to directly finance budget finance deficit, will clearly reduce the ability to influence money market conditions in the direction it deems most appropriate in pursuit of price stability.

EU Treaty Article 101: Prohibits monetary financing of budget deficit, a legal pre-condition for joining the EU and the Euro. ECOWAS Treaty in some of the 10 Macro-economic Convergence Criteria, restricts Ways and Means financing to 10% and Fiscal Deficit to 5% of GDP. Nigerian Finance Act, 2022, pushes it from 5% to 15% of previous years Government revenue, which needs to be retired in the financial year. Similarly, the FRA 2007 restriction of Fiscal Deficit to 3% of GDP was pushed to 4% of GDP. The current N28trillion Ways and Means Financing has been securitised at 9% interest for upwards to 30 years, a much better deal to Government paying 20% annual interest (MPR + 2%). So, we welcome the proposed bill reducing the Ways and Means to 10%.

Financial Independence of CBN

The right for CBN to determine its own budget is violated by National Assembly seeking to control budgetary allocations in a pervasive and intrusive manner, rather by BOFI Act requiring periodic returns; CBN Budget approved by CBN Board and the President, and the proposed 'Chief Compliance Officer' with periodic (quarterly reporting to the President, CBN Board and the National Assembly). CBN is already in the FRA2007 Schedule and subject to Operating Surplus accretion to Consolidated Revenue Fund, and monitored by FRC. The proposed Bill has clear enforcement, penalties, fines and terms of imprisonment on personal liability.

Central Bank Independence and Prudential Supervision

The boundary between Banking, Securities and Insurance sectors of the financial market is blurred, although BOFI Act 2020 (which repealed the extant BOFI Act 1991 as amended in 1997, 1998, 1999, and 2002) covers far more grounds than its 2004 predecessor with an expansion of the Central Bank of Nigeria's regulatory oversight and discretionary powers over the Financial Services Industry. These include: Hybrid financial products. Increased use of risk transfer instruments. Distribution agreement between the three sectors. Growing role of financial Conglomerates.

(CBN has developed sound and safe Institutional Policy Frameworks, Prudential guidelines, FSS 2020 etc. to ensure stability of the financial system and strictly monitor with risk-based banking supervision.)There are some countries where Prudential Supervision is a separate entity such as Financial Services Authority, FSA (e.g. Ireland). This is clearly a source of pressure on both financial and personal independence from political economic actors.

Transparency, Accountability and Independence

Central bank is ultimately accountable for their policies to the elected politicians and the public at large (including future generations - sustainability), hence the need for transparency and performance indicators, as can be seen from CBN 2023 strategic action plan. It is hoped, that the proposed 'Chief Compliance Officer' role would strengthen CBN performance measurement and management and assure all parties of CBN transparency, accountability and prudence.

Nexus between independence of different authorities on one hand, and co-operation on the other. Clear separation of monetary policy with central bank and fiscal & structural policies to national Government require co-ordination and alignment through continuous and fruitful dialogue.

Independence and Dialogue with the Government

The Bill's proposed establishment of a Co-ordinating Committee for Monetary and Fiscal Policies has been long in coming and critically important to institutionalise this to underpin and strengthen the current alignment and coordination of fiscal and monetary policies. Standing Agenda items may well include Ways & Means; Alignment & Harmonization; Dollarisation of the economy; Annual Finance Act; Inflation (structural and Monetary) Forex Stability; Excess Crude Account and Foreign Reserve Accretion Debt Sustainability; etc. MPC is the highest Monetary Policy Making Organ, and its power should not be assigned or overriding by Fiscal and Monetary Policy, Coordinating Committee and neither should that of the CBN in liquidity management and determining its interest rates. The Coordinating Committees must not have power to determine Ways and Means interest rate as that will amount to serious conflict of interest.

Experts have criticized the Senate's proposed amendment of the CBN Act saying it could subject the bank to political interference. Some economists and policy analysts have expressed concern over the move by members of the National Assembly to amend the Central Bank of Nigeria (CBN) Act 2007, saying it may end up eroding the powers of the apex banking sector regulator. They warned that the exercise would not only put the country in bad light, but would also send negative signals to investors. In addition, they stressed that having an independent central bank remains the accepted practice across all major world economies.

The Senate Committee on Banking, Insurance and other Financial Institutions invited members of the public to a one-day public hearing held in Abuja. Some of the stakeholders were invited to make presentations at the public hearing include the Minister of Finance and Coordinating Minister of the Economy; the Attorney General of the Federation; the CBN; President, Chartered Institute of Bankers of Nigeria (CIBN); among several other organisations. The bill was sponsored by Senator Tokunbo Abiru and co-sponsored by all 41 members of the Senate Committee on Banking, Insurance and other Financial Institutions.

Key aspects of the legislation the lawmakers are seeking to amend include the establishment of a 7-member Coordinating Committee for Monetary and Fiscal Policies to be chaired by the Minister of Finance; tenure of CBN Governor and Deputy Governors to be set at a single non-renewal term of six years for the Governor and the Deputy Governors; appointment of a minimum of one career staff of the Bank in the Committee of Governors and appointment of at least one female among the External Directors.

In addition, the bill is seeking to establish the position of Chief Compliance Officer in the rank of a Deputy Governor, who reports directly to the Board and may occasionally be summoned to appear before the relevant committee of the National Assembly; Limit to Temporary Advances to the federal government; Issuance of New Legal tender to replace existing ones and in view of the fact that the Governor of the Bank also serves as the Chairman of the Board, the bill proposes that the Board Committees should be headed by Non-Executive Directors instead of the Deputy Governors.

Furthermore, the bill proposes that the CBN Governor appears on a semi-annual basis whilst the National Assembly in the exercise of its constitutional duties should reserve the power to invite the Governor to make presentations from time to time as the need arises; proposes publishing a monetary policy report and an interim financial report every six months; proposes that where the Governor fails to make a report to the President and the National Assembly as required by Law, he should be served with a warning letter by the National Assembly and if the failure persists, by a recommendation from the National Assembly for the Governor's suspension from office by the President, among others. However, analysts have warned that while some of the proposed amendments to the CBN Act are commendable as they were designed to entrench the culture of compliance, strengthen corporate governance, and reposition the Bank for improved performance in attaining its mandate, some others could erode the Bank's autonomy and weaken the independence of monetary policy, at variance with international best practices.

"The proposed Coordinating Committee for Monetary and Fiscal Policies concerning monetary policy will undermine the Bank's independence in achieving its price stability mandate. Including Fiscal and Monetary Policy Coordination in the CBN Act could undermine the CBN's operational independence and weaken the Bank's flexibility in deploying appropriate policy frameworks in a dynamic economic environment to achieve its mandate. "The proposed amendment will promote undue political interference in purely economic matters, as the fiscal authority would dominate the proposed committee's membership and chairmanship," a source who pleaded to remain anonymous said. Lead Consultant, ECOWAS Commission (Industry & Private Sector Development),

The Case against Central Bank Independence Critics of central bank independence argue that although the average inflation rate and the degree of central bank independence are negatively correlated, this relationship does not reflect any causal link running from central bank independence to low inflation. They claim that in countries where economic agents strongly object to high inflation, there is a strong will to keep inflation down. Conversely, where the economic agents are more tolerant of inflation, they are less inclined to have monetary policy in the hands of an autonomous central bank.

Furthermore, they argue that average inflation is influenced largely, by its persistence and the preferences of a country's inhabitants, with causality originating from inflation to the institutional structure of the central bank. In the literature, a pervasive argument against the autonomy of central banks is that monetary policy forms a part of the overall economic policy, implying that there can be no meaningful and effective monetary policy, where there is a separation between fiscal, monetary, labour, trade and any other macro policies. Where such a separation exists and policies run at cross-purpose, then the resultant conflict in objectives may have considerable repercussions for the economy. Proponents of this view argue that efficient fiscal and monetary policy formulation and implementation requires coordination. The political argument is that turning over interest and exchange rate decisions to a body of unelected officials, is simply "undemocratic". In a democracy, they argue, all decisions should be subject to scrutiny by the elected members of the legislature, thus the concept of an autonomous central bank is, therefore, not acceptable (Mboweni, 2000) [50].

Now that President Muhammadu Buhari has put a seal of authority and law on the Repealed and Amended BOFIA Act 2007 earlier passed by the Senate in July 2020, giving legal framework to CBN to perform its statutory role of ensuring monetary and price stability; issuer of legal tender currency in Nigeria; maintenance of external reserves to safeguard the international value of the legal tender currency; as well as promoting sound financial system in Nigeria; and at the same time act as Banker to the federal government by providing economic and financial advice, the coast is now cleared for the CBN to assume full authority and autonomy over banking and financial services sectors. The decision and passage of amended BOFIA 2007 was a landmark piece of legislation that gave the Central Bank of Nigeria (CBN) an instrument of autonomy to effectively discharge its core mandate. However, developments in the financial sector globally has exposed the defectiveness of the Act, which necessitated the agitation for the review of the CBN Act 2004.

The law and its subsequent amendments, however, could not meet the challenges posed by emerging developments in the financial sector in addition to the rapid reform programmes of the Federal Government. The financial system for instance, continued to witness developments such as the transfer of supervision of specialized banks, such as primary mortgage institutions (PMI), community banks and development financial institutions (DFIs) and other non-bank financial institutions to the CBN. These development as expected expanded the regulatory and supervisory responsibility of the Bank which called to question the legal framework within which the Bank operated as its activities seemed beyond the scope envisaged by the Decree No. 24 of 1991(as amended in 1997, 1999, and 2000).

In this regard, the CBN proposed a number of measures for strengthening both the CBN and BOFI Acts. The Bills embodying the proposals were extensively deliberated upon by the government and following their approval were forwarded to the National Assembly (NASS) as executive bills. The intention was that both Bills would be considered together by the NASS but unfortunately, due to inexplicable reasons, only the CBN Bill was promulgated into law. The Central Bank of Nigeria (CBN) at the behest of the Committee recognized that whilst the extant BOFI Act 1991 (and amended in 1997, 1999 and 2002) provided appropriate foundation for the growth and development so far witnessed in Nigerian banking sector over the last three decades, the significant financial, socio-economic and technological transformations that have been witnessed therefore necessitates a review of the legal framework to ensure that it remains for purpose.

It was thus, commendable of the current 9th NASS Committee on Banking, Insurance and Other Financial Institutions to have called for a public hearing on Wednesday, July 15, 2020, to enhance its deliberation on the Bill seeking to repeal the existing Act 2004 and re-enact the Banks and Other Financial Institution Act 2020. The new BOFIA 2020 which took nearly 30 years in making is to make bank officials personally liable for contraventions of the terms of a banking license hoping to improve compliance and reduce recklessness. It will also immune the sector against incidence of toxic asset crisis witnessed in 2009 in which the banks were largely complicit. Thus, the new Act is historic and significant to strengthen the banking and financial services sectors in order to enhance the soundness and resilience of Nigeria's financial system.

The decision and passage of amended BOFIA 2007 was a landmark piece of legislation that gave the Central Bank of Nigeria (CBN) an instrument of autonomy to effectively discharge its core mandate. The Act has also opened up opportunities for each investors to meaningfully innovate in financial services that will improve the living standard of Nigerians especially for each to consider in the operational guidelines of the law. This game changing law will sanitize and achieve sound financial system which bank officials had hitherto taken advantage due to apparent limitations of the repealed Act, particularly for the lack of stringent sanctions to deter infractions, lack of special courts to prosecute financial crimes, as well as absence of a clause that prevents bank officials from giving indiscriminate credit facilities to staff and family members, among others. The BOFI Act 2020 thus updates the enabling law in response to developments and significant evolution in the financial sector over the last two decades.

Importantly however, the new law will increase the appetite of banks and other financial institutions to channel much needed credit to the real sector to support economic recovery and promote sustainable growth. Another key merit of the new legislation is the creation of a Credit Tribunal to improve loan recovery, thus addressing the incidences of high non-performing loans rates in the financial sector which has been a key deterrent to lending by financial institutions. The law also affirms and strengthens the regulatory and supervisory framework of the Bank for the financial industry and equally provides tools for managing failing institutions and system distress to preserve financial stability among others.

In essence, it put paid to the desirability of a single regulatory authority in the banking sub-sector. Hitherto, monetary policies were exclusively managed by the government until recent past when a trend emerged that gave independence to central banks. The logic behind the decision was that central banks would be more independent of political considerations and be willing to keep inaction low, even if there are political costs to raising interest rates. Thus, an independent central bank with price stability mandate would most likely avoid over-exuberance by keeping growth at a more manageable level, which was the case at the outbreak of COVID-19 by the CBN. The gesture and approval of the new Act was like the case of Bank of England before it got its independence in 1997 from the government and control of the Treasury Chancellor. The international best practice is having the banking legislation empower the financial services industry regulator to regulate banks, promote their soundness and stability; superintend issuance and revocation of operating license without recourse to any other institution, while the deposit insurers are charged with bank resolution activities after the revocation of operating license. This issue had been a matter of contention, and it was good and commendable of the Senate and the President who had to eschewed political sentiment to put a permanent rest to this matter.

Empirical Review

Prof. Ken Ife, (2024) [40] in a recent study showed that central bank's independence was crucial to ensure that the regulatory institution continues to meet its objectives. The respondents strongly agreed that it was desirable to maintain central banks' independence. "Nevertheless, an overwhelming majority still favours central bank independence," he said, stressing the need for central bank's independence, combined with a high level of transparency and accountability. According to the research findings, central bank independence must be accompanied by sufficient "central bank accountability to achieve the democratically determined objectives of monetary policy." He added: "Monetary policy independence should be maintained to avoid concerns that government is trying to regain control of monetary policy for such manipulation. "The International Monetary Fund (IMF) recently called for caution regarding the ongoing amendment to the CBN Act and had warned that it might weaken the bank's autonomy. In its recent Article IV consultation with Nigeria released recently, the IMF had recommended caution regarding amendments to the CBN Act, stating that, "it might weaken the central bank's autonomy.

Discussing on the Core Criteria, strongly welcome the on personal qualifications, Tenure (whether 2 terms of 4 or 5 years) staggered for continuity; zero tolerance for political affiliation, and even 3 years after leaving office; and personal liability (sanctions, fines and term of imprisonment), bearing in mind, that FRA2007 has 'ouster of Locus Standi' by granting anybody the capacity to bring action on any MDA through prerogative of the High Court, *The separation of the office of the CBN Governor and CBN Board Chairman, thereby introducing two Captains at the Apex Independent Body will inevitably politicise the Apex Body contrary to the spirit of BOFI Act 2020, which even grants power to CBN to issue Licenses without recourse to the Minister of Finance.* It is better for the President to remove the CBN Governor, than to manage political conflict of two waring Captains and factions that will be sending conflicting signals to the banking, finance and investment markets and thereby creating uncertainty in the macroeconomic. (Ife A. K 2024) [40].

Adamu Yahaya, Mohammed, Saidu & Abdulaziz (2022), examines the relationship between central bank independence (CBI), financial stability, and inflation in 14 African countries within the period 1985-2019. Initial test revealed the presence of cross-sectional dependence (CD) among the countries. Thus, the Mean Group (MG), Common Correlated Effect Mean Group (CCEMG) and Augmented Mean Group (AMG) were employed for the analysis. The CCEMG and AMG results showed a significant and negative correlation between central bank independence and inflation. On the other hand, financial stability is only significant in the MG Model. Additional results obtained using the Garriga CBI index is consistent with our main results. The study recommends greater independence of central banks from all forms of political and government influence in order to have greater chance of achieving lower inflation within the African nations.

Empirical Literature Extensive research conducted on the relationship between central bank independence and inflation remained inconclusive. While a large number of scholars like Garriga and Rodriguez, (2020) [34], Kokoszczynski and Mackiewicz-Łyziak, (2020) [45], and Posso and Tawadros, (2013) [30] hold that the relationship between CBI and inflation is negative, others like Chrigui *et al*. (2011) [19] and He and Zou, (2019) [37] believe that such association revealed a positive outcome. Insignificant result is also obtained from an empirical study by Martin (2015) [49]. The discrepancies obtained from the findings of the study were largely due to the measurement of CBI. While some employed the Cukierman CBI index, others used the Garriga CBI index. Moreover, the context of the studies contributed a lot as most of the studies focused in advanced countries with few from emerging economies.

This study uses both indices with Cukierman index in the main model, and Garriga index in the robustness model. Studies on the relationship between inflation and CBI reported mixed findings. Ever since the seminal work of Kydland *et al*. (1977) and Barro and Gordon (1993) on the inconsistency of the dynamic time, the support for the greater independence of central bank needed to manage inflation is seen as an institutional necessity for the effective and efficient implementation of monetary policy. In addition, Rogoff (1985) is also of the opinion that the application of stringent policy and CBI result to lower and stable price than less stringent and independent central banks.

Posso and Tawadros, (2013) [30], show that CBI independence from political influence is imperative to curtail inflation. Their results confirmed the inverse relationship between CBI and inflation. Arnone and Romelli (2013) [4] in their study on the dynamic CBI indices and inflation rate, indicated the extent of central bank independence strong influence on the inflation rate. Their findings support the negative relationship between CBI dynamic and inflation. On the other hand, Martin (2015) [49] conducted a research on the relationship between debt, inflation and CBI. Results from the study revealed that independence of central bank in curbing inflation is only effective in the short run but became inactive in keeping lower inflation in the long run. In another study, He and Zou, (2019) [37] employed the monetary Schumpeterian model to evaluate the extent of influence of CBI on inflation. Their study revealed that it cannot predict a monotone relationship between CBI and inflation. They further reveal that when elasticity of labour supply is high, a situation likely associated with developed countries, CBI has a positive impact on inflation; in contrast, when there is inelastic labour supply, situation that is common in developing countries, CBI has a negative or no effect on inflation. Garriga and Rodriguez, (2020) [34] evaluated the influence of legal CBI on inflation in emerging countries. Finding of the study revealed that lower inflation rate is achieved through higher CBI. Kokoszczynski and Mackiewicz-Łyziak, (2020) [45] examined the ´ relationship between Central bank independence and inflation. The study used the generalized method of moment for the analysis. Result of the study indicated that CBI has a negative and significant effect on inflation.

Strong (2021) [54] examined the relationship between political influence, central bank independence and inflation in Africa. Results from the study showed that higher turnover rate indicates higher inflation. The findings are robust to the decomposition of the turnover rates into yearly removals and quarterly replacements. Following the findings from studies, the attributes of central bank institution has been adjusted, adapting their objectives or with many revisions, governance, structures and practice to realize more political independence and maintain lower inflation. Large number of researchers have examined the proposition and revealed negative association between CBI and inflation. (Alesina, 1988; Alesina & Summers, 1993 [3]; Cukierman *et al*., 1992 [26]; Eijiffinger & de Haan, 1996; Loungani & Sheets, 1997; Berger *et al*., 2001 [9]; Haan & Kooi, 2000; Temple, 1998; Panagrotidis & Triampella 2005). Meanwhile, there has been growing number of literatures recently that hold contrary opinion. They believe such inverse relationship between inflation and CBI does not exist. Many of these studies according to Posso and Tawadros (2013) [30] suggest that firstly, the significant inverse relationships are obtained by few number of high inflation countries. Secondly, the use of turnover rate as alternative CBI measure gives different findings. Thirdly, the addition of more control variables alters the inverse relationship obtained. Fourthly, the relationship could be positive and fifthly, there is absence of causal relationship and the indices of central bank indicated the extent of inflation bias in the economy so that the evident negative association with inflation must hold by construction.

Methodology

The relationship between central bank independence and transparency in achieving price stability. The results indicated a nonexistent or weak association. Klomp and Haan (2009) [44] evaluated the relationship between central bank independence and financial instability. 160 CBN Journal of Applied Statistics Vol. 13 No. 2 (December 2022) 155-184. The result indicated a robust and significant negative association between financial stability and CBN. Moreover, in a study conducted by Chrigui *et al*. (2011) [19], on the correlation between CBI and inflation from emerging economies, revealed a positive and non-significant relationship between CBI and inflation. Brumm (2011) [16], analyzed the relationship between inflation and CBI. Findings from the study indicated a negative relationship between CBI and Inflation.

Managing the monetary policy of a country is one of the key roles of the central bank. The supply of money in the country is controlled by central bank and it is usually the primary means of executing monetary policies. Other roles performed by central bank may include formulation of exchange rate policies. The aims of the central bank are mainly to ensure price stability. This implies minimum inflation rate and in some cases stability of exchange rate and full employment (Lassiter *et al*. 2010). There has been increase in the responsibility of central banks following growing challenges faced by banks in most developing countries. In view of this development, the supervisory function needs to be enhanced, so that there will be interaction between the monetary policy function of the central bank and the supervisory role (Pellegri naet *et al*., 2013). Meanwhile, economic literature have not provided any explicit evidence with respect to optimal ways of supervisory task assignment (Masciandaro, 2009). On the other hand, Berger and Kibmer (2013) [10] evaluated the relationship between CBI and financial stability.

Results from the study show that, central bank is more likely to desist from executing proactive monetary measures towards sustaining financial stability, if given more independence. Hence, their result is in disagreement with popular views that CBI enforces financial stability. Haan *et al*., (2018) [36] finds that proxies of CBI do not provide sufficient evidence that CBI has declined following the financial crisis. The only factor is the rise in central bank governor's turnover rate in developed economies. The central bank is an embodiment of the state monetary authority. Serving as lender of last resort and liquidity sources, the management and prevention of banking crises are part of the commitment of central bank (Goodhart, & Shoenmaker, 1995; Masciandaro, 1995; Bernanke, 2007; Blanchard *et al*., 2010 [12]; Blinder, 2010) [13]. Moreover, it facilitates financial stability in close co-ordination with agencies of the government (Nowotny *et al*., 2010; Angelini *et al*. 2012) [48]. The commitment of the central bank on banking supervision was a result of economies of scale and other information advantage which they have over complimentary institutions charged with the task of maintaining optimal liquidity and sustaining financial stability of institutions under their control (Ferguson, 2000; Kaufman, 2000; Pauli, 2000; Bernanke, 2007; Herring & Carmassi, 2008 [38]; Klomp, & De Haan, 2007). Cecchetti and Krause (2001) [17] revealed that an enhancement in the level of financial sector and the transformation stages which is quantified by a liberal central banking has significantly minimized inflation variability, and ensured financial stability. Ma and Lin, (2016) [47] also outlined how the financial system and monetary policy are intertwined. For a variety of reasons, the financial system is crucial when evaluating the relationship between inflation and CBI; the third component argues that the financial resistance to inflation is the cause and effect between CBI and inflation.

Conclusion

The balance of Power in Central Banking is dynamic, and a moving target, But while BOFI Act 2020 has created huge opportunities in expanding CBN regulatory oversight and discretional powers, many aspects of the proposed Bill for an Act to amend CBN Act No 7 of 2007 provide for: Strengthening oversight mechanisms, ensuring CBN independence with transparency and accountability to National Assembly, President and the CBN board, inclusive decision making, greater alignment and coordination of fiscal and monetary policies, stricter enforcement with fines and penalties at personal levels and addressing institutional barriers.

Recommendations

The balance of Power in Central Banking is dynamic, and a moving target, but while BOFI Act 2020 has created huge opportunities in expanding CBN regulatory oversight and discretional powers, many aspects of the proposed Bill for an Act to amend CBN Act No 7 of 2007 provide for strengthening oversight mechanisms. Ensuring CBN independence with Transparency and Accountability to National Assembly, President and the CBN Board. Inclusive decision making. Greater alignment and coordination of fiscal and monetary policies. Stricter enforcement with fines and penalties at personal levels and addressing institutional barriers.

The broad consensus is that monetary policy committees may be established by the government, but the conduct of monetary policy must be free from political interference. To achieve both price stability and sustainable employment, monetary authorities must steer the economy towards economic growth. Given the lags in the transmission of monetary policy, achieving this objective requires policymakers to take a longer-term perspective of desired macroeconomic developments.

An independent central bank with a mandate to achieve the best possible economic outcome in the longer term is better placed to take monetary policy decisions with such a perspective. Excessive political influence on monetary policy decisions can also weaken the ability of the central bank to control inflation. There is, therefore, a growing number of countries adopting central bank independence, thereby insulating their monetary authorities from political and other external interference

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