Central Bank Independence: A Case of Bank of Ghana in the Post-IMF Bail-Out

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Abstract: The objective of this to assess the independence of the Bank of Ghana from 1992 to 2026 is to evaluate how effectively legal autonomy has protected monetary policy from short-term political interference, fiscal deficit monetization, and structural economic shocks, particularly following major legislative frameworks like the 1992 Constitution and the Bank of Ghana Act 2002 Act 612 (Amendment Act 2016 Act 918). To achieve this objective, we rely on legal, operational, goal/target, functional, personnel, financial, regulatory and supervisory independence of central bank indicators (Cukierman et al. 1992). The results show that Bank of Ghana (BoG) has experienced mixed performance under its constitutional and operational independence, marked by successful inflation-targeting frameworks alongside severe challenges from deficit financing and political pressures. The study shows that the heavy financing of state budget deficits and quasi-fiscal operations by the Bank of Ghana severely compromised its operational independence. This practice erased the boundary between monetary policy and government spending, driving high inflation and that led to intense post-bailout scrutiny under the International Monetary Fund framework. The study showed that Bank of Ghana (BoG) had struggled to maintain effective financial and budgetary independence due to persistent fiscal dominance, heavy deficit monetization (direct lending/overdrafts to the government) during severe economic downturns, and the massive absorption of costs from the 2022/2023 Domestic Debt Exchange Program. The study found that poor governance practices regarding personnel independence at the Bank of Ghana included political interference in leadership actions, excessive fiscal deficits, and weak transparency in administrative decision-making. Finally, the result shows that Bank of Ghana faced severe supervisory critiques during its banking crisis, characterized by delayed interventions in weak institutions, excessive regulatory forbearance, and gaps in enforcing prudential rules that later triggered major sector-wide clean-ups and tighter capitalization reforms. In the Post IMF, the first recommendation will be to protect the Bank of Ghana from fiscal dominance and fix its structural independence gaps, the researcher recommends strictly enforcing zero-financing rules on government deficits, legally capping central-bank money creation, recapitalizing the bank's balance sheet, and cutting non-core operational waste. Another recommendation is the constitutional debt limits/debt brake which will introduce clear, rigid numerical constraints within legislative frameworks to limit fiscal expansion.

Keywords: *Central Bank Independence (CBI); Operational Autonomy; Goal and Instrument Independence; Budgetary/Financial Independence; De Jure vs. De Facto Independence; Personnel Independence; Bank of Ghana.*

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I. INTRODUCTION/BACKGROUND

Ghana recently completed the IMF US$3 billion Extended Credit Facility and then transitioned into a non-financing Policy Coordination Instrument, putting the Bank of Ghana under intense scrutiny to maintain zero-financing of the government. The central bank faces real-world challenges, including negative equity from monetary tightening, ongoing recapitalization plans slated toward 2032, and debates over transferring the Domestic Gold Purchase Program to GoldBod. Ghana successfully concluded its US$3 billion Extended Credit Facility with the International Monetary Fund in July 2026 and adopted a 36-month non-financing Policy Coordination Instrument (PCI) to anchor its post-bailout macroeconomic reform and stability agenda. Ghana's transition to a 36-month non-financing Policy Coordination Instrument (PCI) following its $3 billion Extended Credit Facility (ECF) signals institutional credibility, rules-based fiscal discipline, and an ongoing commitment to macroeconomic stability for investors, development partners, and rating agencies.

Following the conclusion of its $3 billion Extended Credit Facility and transition to a 36-month non-financing Policy Coordination Instrument (PCI). International Monetary Fund outlined 10 core reform pillars for Ghana's post-bailout era to anchor fiscal discipline, institutional credibility, and long-term economic resilience The IMF Post-bailout reform priorities included investor confidence, domestic revenue mobilization, central bank independence,

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Bank of Ghana recapitalization, external debt restructuring, sector and SOEs oversight, public debt trajectory, banking sector safeguards, social protection and governance and anti-corruption. The Bank of Ghana's (BoG) operational independence, therefore, supports the BoG's ability to deliver on its price stability mandate, and is thus an important pillar of a successful inflation-targeting strategy.

Preserving the operational independence of the Bank of Ghana under Ghana's Policy Coordination Instrument (PCI) requires ending quasi-fiscal operations and achieving zero-financing of the government, reinforcing legal provisions already set by the 1992 Constitution and the Bank of Ghana Act 2002 (Act 612). The International Monetary Fund PCI targets practical enforcement by demanding the complete cessation of deficit financing and quasi-fiscal losses that previously strained central bank autonomy.

Article 183, Section (1) of the 1992 Constitution of Ghana establishes the Bank of Ghana as the central bank and the sole authority empowered to issue the country's currency. (2) The Bank of Ghana shall—(a) promote and maintain the stability of the currency of Ghana and direct and regulate the currency system in the interest of the economic progress of Ghana;(b) be the sole custodian of State funds of Ghana both in and outside Ghana and may, by notice published in the *Gazette*, authorize any other person or authority to act as a custodian of any such fund as may be specified in the notice;(c) encourage and promote economic development and the efficient utilization of the resources of Ghana through effective and efficient operation of a banking and credit system in Ghana; and (d) do all other things not inconsistent with this article as may be prescribed by law.

Under Section 3 (1) of the Bank of Ghana Act,2002 Act 612 the main goal of the central bank is to keep prices stable. It must do this while also helping the country grow and managing the financial sector. The Act further states that '(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 sector and credit system in the country, independent of instructions from the government or any other authority (Bawumia, 2010). Despite the Bank of Ghana's constitutional and operational independence, Bank of Ghana (BoG) had faced significant hurdles regarding its de facto independence since 1992, primarily driven by chronic fiscal deficit monetization, heavy government borrowing that bypassed statutory limits, massive central bank losses from debt restructuring, and a legal framework that blurs operational boundaries Fiscal dominance and deficit financing had been one of the key challenges to monetary policy in the country. Heavy government borrowing frequently forced the central bank to print money or finance fiscal deficits, overriding legal limits. For instance, net financing spiked to GH¢44.5 billion in 2022, breaching statutory thresholds. Administrations routinely relied on the central bank as a fiscal buffer during economic downturns, compromising price stability and inflation targets. The provisions in the Bank of Ghana Act 2002 Act 612 did not clearly separate ultimate goal independence from operational instrument freedom, thereby created friction during policy disagreements with the executive branch.

The consequences of the above were domestic debt exchange program in 2022/2023, that raised major concerns and also gained prominence on concept of Bank of Ghana's independence has gained prominence. The Domestic Debt Exchange Program (DDEP) in 2020/2023 severely tested the Bank of Ghana (BoG), that highlighted concerns over central bank financing of fiscal deficits, massive balance sheet losses, and the practical limits of institutional autonomy during severe sovereign debt distress. Participation in the DDEP forced the central bank to absorb heavy impairments on its holdings of government securities, thus contributed heavily to Bank of Ghana's historic GH¢60.8 billion loss for the 2022 fiscal year. The blurring lines between monetary policy and fiscal rescue operations showed that when a sovereign faces default, a central bank's operational independence was compromised by systemic macroeconomic pressures. The losses from the DDEP resulted in the Bank of Ghana into negative equity, has prompted a phased multi-year government recapitalization plan under IMF EFC program in 2024. Bank of Ghana recorded a GHC60.8 billion overall loss for 2022 fiscal year directly tied to the sovereign debt restructuring and impairment of government holdings thus resulted in a negative position on the Bank of Ghana's balance sheet. The deterioration in equity from negative GH¢60.8 billion in 2023 to negative GH¢96.28 billion in 2025 was driven by several factors: First, the accumulated losses of GH¢15.63 billion were transferred to the general reserve fund, which now stands at a staggering negative GH¢111.34 billion. This reserve is meant to be a buffer; instead, it has become a black hole. Second, the revaluation account reserve, where foreign exchange differences are parked, fell from GH¢25.80 billion to GH¢2.18 billion, a decline of GH¢23.62 billion. This reflects the cedi's depreciation and the drawdown of previously accumulated gains. Third, the price movement in gold reserve, which records fair value changes in gold holdings, did provide some offset, rising from GH¢5.94 billion to GH¢8.81 billion. This was driven by the surge in gold prices to US$4,323.87 per ounce at year-end, up from US$2,624.50 in 2024. But this buffer is volatile and cannot be relied upon. Negative equity has undermined credibility, constrained operational flexibility, and raised questions about the bank's independence (Ahinsah-Wobil, 2026). As the central bank must rely on government recapitalization to restore its capital base, the line between monetary and fiscal policy becomes blurred, a dangerous development for any economy seeking to anchor inflation expectations. The Government has implemented a phased capital restoration framework over 2026-2032 alongside annual budgetary provisions and retention of operational profits in line with Central Bank Act. The Government through Ministry of Finance issued an initial GHC5 billion bond in March 2026 to begin restoring equity. A phased capital restoration framework for the central bank can protect its independence if designed with clear legal limits, transparent rules, and zero deficit-financing policies. By spreading equity recovery over time, it avoids abrupt fiscal shocks while allowing the institution to retain operational credibility.

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The Bank of Ghana Ordinance of 1957 that established the Bank provided it with statutory and operational independence but with the passage of the Bank of Ghana Act 1963 Act 182 however expunged the operational independence that allowed the government interference in the operations of the central bank for nearly five decades (Bawumia, 2010). The Bank of Ghana Act 1963 Act 182 further empowered the Bank of Ghana to support lending to priority sectors of the Ghanaian economy and set ceilings on advance 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 was characterized by huge fiscal dominance, and with economic crisis of 2000. But in 1992 Ghana's Constitution restored the constitutional independence and later in 2002 the Bank of Ghana Act 2002 Act 612 was passed by the Parliament to restore the operational independence. The Bank of Ghana Act 2002 Act 612 was a landmark legislation which re-established 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 (Amendment Act 2016 Act 918) 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.

Central bank independence (CBI) is defined as the ability of a central bank to formulate and execute monetary policies without political or government interference. According to Cukierman et al. (1992), this independence can be measured by legal criteria such as decision-making autonomy, the length of mandates, restrictions on public financing, and the priority given to price stability

Central bank independence (CBI) can be broadly defined as "the freedom of monetary policymakers from direct political or governmental influence in the conduct of policy" (Walsh 2010). An independent central bank can, therefore, "control monetary instruments without political interference" (Garriga and Rodriguez 2020). Central bank independence means that a central bank, responsible for maintaining price stability and managing the financial system, can make decisions without undue interference from politicians. Central bank independence is crucial because it allows long-term economic stability, as well as controlling inflation, without political interference, thus leading to more credible and effective. Central bank independence shields monetary policy from short-term political pressures. This autonomy builds public and market trust, keeps inflation low and stable, and promotes long-term economic growth. By focusing on long-term economic objectives, independent central banks could contribute to sustainable economic growth. Central bank independence enhances the credibility of the central bank's actions, as it signals a commitment to sound monetary policy. Independence means just that – independence from the dictates of government, the freedom to conduct monetary policy as central bankers (not politicians). Central bank independence is a measure of how free central bankers are from government influence. Independence increases as a central bank controls its own budget; it cannot be destroyed or modified by mere legislation (or, worse, executive fiat), and it is enhanced when central banks are composed of people serving long, non-renewable terms.

II. CONCEPTUAL ISSUES

The concept of central bank independence refers to the degree to which a central bank can operate without interference from the government, particularly from politicians or elected officials who may have short-term incentives that conflict with the long-term economic goals of price stability. Central bank independence also refers to the freedom of central banks or monetary authorities to conduct monetary policy in accordance with their set mandates without political interference. Masciandaro, and Tabellini (1991) divide central bank independence into political independence (how much elected officials influence the bank's board and policy goals) and economic/operational independence (the freedom to use monetary instruments and handle government borrowing without political interference). The Wikipedia page on central banks identifies six forms of independence: institutional independence, goal/target independence, functional and operational independence, personal independence, financial independence, and legal independence. Debelle and Fischer (1994) separate central bank autonomy into three core concepts: political independence (the appointment and tenure of the board), instrument independence (freedom to use policy tools without government interference), and goal independence (the power to set final economic objectives, like inflation targets). A central bank is the institution responsible for formulating and implementing monetary policy in an economy. This includes setting interest rates, controlling money supply, and managing foreign exchange reserves, all of which have direct implications for inflation. The concept of central bank independence refers to the degree to which a central bank can operate without interference from the government, particularly from politicians or elected officials who may have short-term incentives that conflict with the long-term economic goals of price stability. Central bank independence refers to the freedom of central banks or monetary authorities to conduct monetary policy in accordance with their set mandates without political interference. In recent times, the independence of central banks in the formulation and implementation of monetary policy continues to attract considerable interest in many quarters. Following the success of Germany's Bundesbank in lowering inflation in post-World War II Germany, as a result of the Bank's independence, there has been a growing body of literature on the subject, linking central bank independence directly to price and monetary stability. A central bank is the monetary authority of a country with a mandate to formulate and implement monetary policy. Central banks supervise the deposit-taking financial institutions of their respective countries. A central bank possesses a monopoly on printing the national currency, which usually serves as the nation's legal tender. The role of central banks globally involves attaining and ensuring price stability, issuance of legal tender currency, and maintenance of a safe, sound, and stable financial system. Central bank independence (CBI) helps maintain financial stability by freeing monetary authorities from short-term political pressures. This autonomy allows officials to respond swiftly to financial distress, implement tough supervisory measures, and act as a credible lender of last resort without bowing to election-cycle or partisan demands.

Financial stability refers to the smooth functioning of the various components of the financial system, i.e., financial institutions, markets, and payments, settlement, and clearing systems (Čihák, 2007, Oosterloo and De Haan, 2004). Challenges in implementing central bank independence in the emerging economies had been political interference, weak institutional capacity and lack of transparency. i. Governments may pressure central banks to lower interest rates or print more money, even if it risks inflation, ii in some emerging economies, the operations of the central bank may not be transparent, making it difficult to assess its independence, and iii. some emerging economies may lack the necessary institutional capacity to effectively implement central bank independence. Central bank independence (CBI) is the institutional insulation of monetary policy decision-making from short-term political interference. It comprises goal independence (the ability to set targets) and operational independence (the freedom to use interest rates), serving as a primary mechanism to prevent political business cycles and control inflation. 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). Central bank independence matters because it allows monetary policy to be shaped to support long-term economic stability without being subject to short-term political pressure. Economic theory, and especially the time inconsistency problem put forward by Kydland and Prescott (1977), suggests that governments and politicians may encourage short-term growth or alleviate temporary rises in unemployment, often by money creation or simply by keeping interest rates artificially low. If the central bank is independent and has a clear mandate, which in most cases is aimed at maintaining price stability, it can help a central bank to stand against such temptations and act objectively on available data in pursuit of its longer-term objectives. (Weerasinghe, 2025). This builds trust among markets and the public, helps contain cost of living pressures, prevents wage-price spirals, keeps inflation expectations well-managed, makes production costs more predictable, and therefore sets the stage for being able to maintain economic stability, thereby producing positive spillovers that ultimately improve public welfare. Central bank independence is also a critical requirement for maintaining the stability of the financial system. The ability of a central bank to enforce micro and macroprudential regulation uniformly across all deposit-taking institutions, irrespective of their ownership structure and devoid of political or market influence would ensure a sound and stable financial system (Weerasinghe, 2025).

III. THEORETICAL ASPECT OF CENTRAL BANK INDEPENDENCE

The theoretical aspect of central bank independence explains why separation from political control helps lower inflation and builds public trust. Economic models show that independent banks stop politicians from printing money for short-term election gains. While exact definitions vary, the literature generally defines political independence as the degree of influence which elected politicians have over the central bank, and operational independence as the ability of the central bank to select and use monetary instruments with autonomy. Different authors draw slightly different delineations. Grilli, Masicandaro and Tabellini (1991) for example distinguish between political and "economic" independence of central banks (similar to operational independence, encompassing control over the discount rate, freedom from pressure to lend to the government, and a lack of responsibility for bank supervision). Debelle and Fischer (1994) distinguish between political independence, instrument independence (analogous to operational independence), and goal independence, which is the ability of the central bank to set its own operational goal or target. Governments have a strong tendency to exploit the short-run trade-off between unemployment and inflation predicted by the Phillips curve 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)

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 goal set, even though the goals may have been set by government. In his paper Tuladhar (2005) states that in their survey Allen and Sterne (2001) 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 targeters (Tuladhar, 2005). 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 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, 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 instruments to an independent central bank but should also provide the central bank with incentives to optimize 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 (2001) 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). Political independence refers to the central bank's discretion in designing and implementing policies consistent with the monetary stability goal. It shields the central bank from short-term political pressures. Economic independence relates to the freedom of the central bank for choosing the set of instruments consistent with monetary policy (Masciandaro and Romelli 2015)

IV. DIMENSIONS OF CENTRAL BANK INDEPENDENCE

The theoretical literature shows that Central Bank Independence (CBI) is not a single concept. Instead, it includes distinct dimensions: instrument independence, goal and target independence, and personnel independence and regulatory and supervisory independence. The concept is not treated here as a recommendation for complete institutional separation between the central bank and the government. In the international literature, CBI is usually examined as a matter of degree and institutional design. Different dimensions, including goal independence, instrument independence, financial independence, personnel and governance arrangements, and independence in policy implementation, can vary across legal and political settings. This distinction is particularly relevant for economies in which the central bank operates within a broader state policy framework. The relevant issue is not whether the central bank should stand outside that framework, but which dimensions and degrees of independence can strengthen policy credibility, improve the quality of implementation, and support money market operational efficiency (Grilli et al., 1991; Cukierman et al., 1992; Debelle and Fischer, 1994; Romelli, 2024). Recognizing these differences helps us measure their separate effects on economic stability**.** The existing literature central bank independence has examined and its dimensions are classified into eight sub-sections: legal, institutional, goal/target, functional, personnel, financial/budgetary, regulatory and supervisory. At the same time, legal independence and de facto independence may send different signals, especially in developing economies. There is a vast literature on CBI that aims to define various aspects of independence, quantify the existing central bank independence, and assess the relationship between economic variables and CBI. A selective review of these efforts is the present concern. A government can influence and exert pressure on central banks in many ways. When explaining the independence of central banks, it is useful to distinguish between personnel, financial, and policy independence (Eijffinger, 1997). Personnel independence refers to the weight of governmental decisions in personnel appointments to the central bank. Since central banks are generally public institutions, it is quite impossible to eliminate all of the government's influence in the appointment procedures. Yet, issues like composition of the central bank board or the selection, service duration, and dismissal of the governor can be arranged in different ways. Financial independence reflects the government's ability to finance its deficits from the central bank. Central banks' capability of creating money is the source of the tension here. Central bank independence restricts direct government borrowing and limits seigniorage revenue. This separation stops governments from printing money to pay debts. It helps keep inflation low and protects the value of the currency. Policy independence denotes central banks' freedom to conduct monetary policies without any political intervention. This is a restriction of politicians' temptation to exploit possibilities of reducing unemployment (Eijffinger, 1996)

➢ *Legal Independence*

First, legal independence (*de jure* independence) of a central bank means formal rules written in laws or a constitution that protect the bank from political control. It helps keep inflation low by stopping leaders from forcing the bank to print money for government spending. *De jure* independence refers to CBI as enshrined in a central bank's legal framework.

Legal autonomy is the core legal basis that lets a central bank run monetary policy without direct orders from the government. It protects the bank from short-term political

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pressures. This separation helps keep inflation low and builds public trust in the national currency. It underscores the extent of self-governance granted to the Central Bank. Cukierman et- al. (1995), state that the standard employed to evaluate the legal independence of the Central Bank is contingent upon the exactitude of the provisions outlined in the constitutional laws governing the institution. However, gauging the legislative independence of the Central Bank is a complicated task that involves a certain degree of subjectivity, particularly due to certain reservations related to the laws governing the Central Bank. These laws give the bank the power to run monetary policy without political meddling. Legal central bank independence comes from the statutory laws, charters, or constitutional articles that explicitly establish the institution, define its mandates, and set the rules for its operations separate from day-to-day political control.

Legal independence is one, but certainly not sole determinants of central bank. It also suggests the degree of independence that legislators meant to confer to the central bank (Cukierman,1993). Other authors, Bade& Parkin,1998; Cukierman, Webb & Neyepti,2002) noted that legal independence is a significant determining factor for macro-economic performance. Granting legal or constitutional independence to a central bank does not guarantee actual independence. Governments can still find ways to influence monetary policy through informal pressure, budget control, or the appointment of loyal officials. De facto independence depends on political culture and social consensus (Neumann,1991). The Central Bank Act should grant staff and financial autonomy by ensuring the bank manages its own internal administration, hires staff independently, and operates on a budget exempt from normal annual government appropriation procedures, balanced with strict financial reporting and auditing requirements

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 are, however, a number of drawbacks to this method. Central Banks do not always clearly indicate the separation of powers between the government and Central Bank. 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 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 behavior 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 developed countries.

➢ *Institutional/Operational Independence*

Second, operational and institutional independence are treated as interchangeable terms under specific central bank independence (CBI) frameworks. They mean the authority of an institution to execute its mandate, manage its internal operations, and make decisions free from public or private interference (IMF.2020). Institutional independence is guaranteed by clear arrangements for appointing and dismissing senior personnel, the agency's governance structure, the roles and responsibilities of board members, and transparency in decision making. Institutional independence means a central bank and its leaders make policy choices alone. They do not take orders from the government or other leaders. No outside group can help them make these choice

Operational independence can also be referred to as "institutional independence" and can be used interchangeably, in line with the CBI definition outlined in IMF (2020). Operational independence implies that the central bank is prohibited from seeking or taking instructions from any private or public body. The budget deficit may lead to inflation, particularly when the financial market is not developed and the central bank is not independent (Neyapti 2003). This is reflected in the central bank's ability to, for instance, hire staff and secure other necessary resources. The central bank should also have sufficient legal protection for its decision makers and staff and have an effective governance structure. Operational independence of banking supervisors is also part of the Basel Core Principles for Effective Banking Supervision and thereby extends to central banks that are banking supervisors. Central bank independence (CBI) serves as an institutional solution, insulating monetary policy from political cycles and providing a credible commitment to price stability (Rogoff, 1985). Literature shows it acts as a primary institutional mechanism to resolve the time-inconsistency problem and anchor long-term price stability. Institutional and operational independence protects central bank governors and deputy governors from political pressure. The role and interplay of at least four institutional features lead to a better understanding of central bank independence and have implications for the central bank and the other policy design and implementation authorities. The first is the decision-making process in the central bank in matters of monetary policy; the second is its relations with the government and the markets; the third is budgetary independence; and the fourth is central bank accountability, the indispensable other side of

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the coin. This list is by no means exhaustive but covers the more significant pieces in the jigsaw puzzle. The board and composition of the policy making organ of the central banks can have a direct bearing on the institution's autonomy and effectiveness where the Board has a direct or ex ante policy role. Experience shows that too large a board may slow down the decision-making process. It is difficult to cite an absolute limit in the abstract, since arrangements vary widely among the membership of the IMF. However, 10 to 12 members seem to be a psychological limit for a larger-size economy. For large economies, the regional representation at the board may become important. In Germany, the Bundesbank Council comprises the Presidents of the nine Land central banks (the regional central banks), in addition to the members of the Bundesbank Directorate. In the U.S. Federal Reserve System, the 12-member reserve banks have representation on the Federal Open Market Committee—the principal policymaking body—and not on the Board of Governors of the Federal Reserve System. As to composition, there is a general consensus, born of experience, that the members of the policymaking board should not receive any directives from anyone outside the central bank. Board members are usually appointed by the government with backgrounds from various sectors of the economy, but they do not represent the government nor the sectors nor the regions. In some countries it is common practice that, where government or elected officials are appointed, they have to resign their position in the executive or legislative branch. *Alternatively, if there is a provision for a government representative on the board, he may only* have an observer or liaison function and exercise no voting rights, as is the case, for instance, in Canada, Chile, Germany, and Japan. In other countries, such as Germany, Jamaica, and Tanzania, the government representative can delay the decision of the board, while in New Zealand the minister would have to go to parliament to reverse such a decision. In still other arrangements, board members are drawn primarily from within the ranks of the central bank, perhaps reflecting an attempt to achieve greater homogeneity, a better base for consensus, and therefore speedier decision making. In other countries still, members of the board are drawn from within the central bank plus two or more government representatives. A well- defined governance structure of central bank or agency is also key element of institutional independence.

- *Goal And Target Independence*

Third, goal independence is the power of a central bank to freely choose its own ultimate economic objectives (such as the ideal rate of inflation or employment). Target independence is when the central bank must achieve a specific numerical goal or target handed down to it by the government or law, but retains freedom over the intermediate steps. Independence can be categorized into goal independence and instrument independence (Grilli et al. 1991; Crowe and Meade 2008). Goal independence implies that the central bank has the ability to choose the monetary policy goals, be it, for example, an inflation target, employment target, or nominal GDP target.

Instrument independence, on the other hand, refers to the central bank's capacity to choose the instruments with which the policy goals are to be pursued, e.g., lending and discount rates, open-market operations, or reserve requirements (Vermeulen, 2024). Debelle and Fischer (1994) and Fischer (1995) separated central bank independence into two parts. Goal independence means the bank chooses its own final targets. Instrument independence means the bank decides how to use its tools to hit targets set by the government. Goal independence gives a central bank the ability to chose the final goals of monetary policy. Instrument independence gives a central bank the ability to decide the instruments it will use to pursue the final goals of monetary policy. Goal and instrument independence each address a different aspect of the inflationary bias goal independence takes the choice of the inflation rate out of the public's hands while instrument independence allows a bank to pursue its chosen inflation rate consistently across time. Following Fischer a central bank that is given the control over the levers of monetary policy and allowed to use them has instrument independence; a central bank that sets its own policy goals has goal independence. Goal independence implies that the central bank has the ability to choose the monetary policy goals, be it, for example, an inflation target, employment target, or nominal GDP target. However, such a bank is only free to use whichever instrument it wants to reach a predetermined goal; it cannot choose its own goals. If a central bank has the autonomy to choose not only the instruments, but also to determine the goals of monetary policy, then it has goal independence (Fischer, 1995). 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. The goal independence is the strict 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 is 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. Monetary policy is identified with the nature of the instruments under control of the central bank such as the interest rate and/or the ability to conduct open market operations. Consequently, the greater the government influence on the monetary financing of the budget deficit, the smaller degree of independence of the central bank (Grilli,

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Masciandaro and Tabellini 1991, Bade and Parkin 1988, Alesina and Sachs 1988, Alesina 1989).

- *Functional Independence*

Fourth, functional independence is also referred to as instrument independence which can be defined as the ability of the central bank to freely implement policy in pursuit of monetary goals (Walsh, 2005). Functional independence also known as operational independence refers to the freedom that the CB has not only in the definition of objectives to pursue but also to conduct monetary policy that includes the choice of instruments. *Functional independence* grants the central bank the autonomy to work toward achieving its legal mandate without prior approval from the government. This allows the central bank to focus on its goals and insulates it from short-term political pressures. Functional and operational independence means a central bank has clear goals and full control over its policy tools, like interest rates, to reach those goals without outside interference from the government. This feature works in two ways: it allows the central bank to choose and develop the most appropriate instruments to achieve its objectives while, at the same time, limits the independence of the central bank to achieving its objectives and nothing else. A further distinction can be made between "goal independence" and "instrument independence." The former would entrust "the central bank with responsibility for determining the monetary policy and exchange rate regime," and instrument independence implies that "the government or the legislature decides the monetary policy or target, in agreement with the central bank and the exchange rate regime, but the central bank retains sufficient authority to implement the monetary policy target using the instruments it sees fit" (Lybek 2009). Goal autonomy is the broadest degree of autonomy. Instrument independence implies that the "government or the legislature decides the monetary policy or target, in agreement with the central bank and the exchange rate regime, but the central bank retains sufficient authority to implement the monetary policy target using the instruments it sees fit" (Lybek 2009). Functional independence means the central bank has full freedom to use its monetary policy tools—such as setting interest rates or managing the money supply—to achieve its official goals without outside interference from the government or politicians

Instrument independence refers to the ability of central bank to use full range of monetary policy instruments without restrictions from the executive and legislature. Without such freedom, the ability of monetary policy to achieve its objectives would not be credible and the policy itself could become ineffective. 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. 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).

- *Personnel Independence*

Sixth, *personnel independence* entails security of tenure for the members of the central bank's decision-making bodies, including governors and board members. It includes clear eligibility and qualification criteria for the decision-making bodies' appointments, dismissal criteria and procedures, remuneration, duration of tenure, and sufficient legal protection. Cukierman (1992) benchmarked framework that defined central bank autonomy through specific legal clusters. The Chief Executive Officer (CEO) dimension focuses strictly on tenure length and appointment security relative to political interference. According to Cukierman (1992) the governor's appointment is far more important in developing countries than it is in developed countries. He identifies much closer links between the length of the term of office and the decrease in inflation rate in developing countries than between legal independence and the rate of inflation. Central bank personnel independence is the rule that shields top bank leaders and board members from political pressure, focusing on long-term terms and secure appointment rules. A central bank gains legal independence when its governor has a long, fixed, non-renewable term that exceeds standard political election cycles, alongside strict rules limiting government appointment and discretionary dismissal powers. These structural protections insulate monetary policy from short-term political pressures. The mandate is more focused on price stability; the formulation of monetary policy lies squarely with the central bank; and the provisions on direct central bank lending are restrictive. Let me begin with the term of office. The laws must provide that the central bank laws must provide for a minimum term of office of five years for the Governor and protect against the arbitrary dismissal of Governors. Governors may be relieved of their duties only if they no longer fulfil the conditions required for the performance of their duties or if they have been guilty of serious misconduct. Problems may arise if the members of the decision-making bodies have a political affiliation or have played an active political role prior to their appointment, or (even more problematic) if they are expected to play a role afterwards. There are several examples in developing countries showing that political affiliation can be used by other institutions or political parties as an excuse to put pressure on the central bank, especially after a change in government. The ability of the central bank to speak out, if needed, possibly in critical terms, with respect to economic and budgetary policies might also be impaired if the Governor, or the other members of the board, are perceived to have a political affiliation, as this might be interpreted as political interference. Let me turn now to the issue of the professional qualification of the people nominated to be members of the decision-making bodies. This is not only a substantive requirement but also a formal one. Indeed, it is not sufficient that the person has the professional qualifications, he/she must also be perceived to have them by the public. This would ensure that personal issues cannot be used to put pressure on decision-making bodies to influence their behavior. An important requirement for personal independence is the absence of any actual or potential conflict

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of interest between the duties related to the central bank decision-making bodies (and in relation to the national central bank Governors) and any other functions which they may have.

➢ *Financial or Budgetary Independence*

Seventh, financial or budgetary independence means a central bank has full control over its internal budget, revenues, and operational expenses without relying on annual government funding or facing political pressure through "the purse strings". This includes a paid-up capital, reserves and provisions, a profit distribution mechanism, an automatic recapitalization mechanism in case the central bank's capital falls below a statutory threshold, the ability to set its own budget, and the application of internationally recognized accounting standards. Financial independence refers to the role government or parliament plays with regard to the budget of the Central Bank. If the government has influence over the CB's budget, this may make the CB more vulnerable to influence in its monetary policy decisions. The concept of financial independence should 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.

Financial or budgetary independence means a central bank controls its own operational budget, revenues, and spending without needing annual state funding approval. This autonomy stops governments from using financial pressure to influence interest rates or monetary policy. Financial independence stops central banks from giving direct or indirect money to the government. Rare and short-term exceptions can happen during big emergencies like a war or a major natural disaster. To be free of government interference, a central bank needs to have full authority over its internal budgetary matters and must not be held responsible for fiscal losses (Wessels, 2004). *Financial independence* implies that the central bank has sufficient resources available to fulfill its mandate. This includes a paid-up capital, reserves and provisions, a profit distribution mechanism, an automatic recapitalization mechanism in case the central bank's capital falls below a statutory threshold, the ability to set its own budget, and the application of internationally recognized accounting standards. Financial independence also precludes the central bank from providing (in)direct monetary financing, though temporary exceptions—for example, in case of a war or a natural disaster—could be possible. Most central banks have substantial financial independence from the government across all of their functions and irrespective of the degree of monetary policy autonomy they enjoy. This is despite the fact that most of them are 100 percent government owned. The key element here is that. whatever the institutional relationship of the central bank to the government. it should not be considered and treated as just another agency of the state. (IMF,1995). Of course. the actual practice may be different from the arrangements in place. But as a mere government department, a central bank would have difficulty exercising the financial and legal independence that is required for the effective execution of its proper functions: all its operations would have to be authorized by the state and funded under the state budget. Under such an arrangement, the government would be tempted to unduly influence the outcome of the quality of the bank's monetary and financial analysis of the economy by controlling the purse strings. Hence, the right to substantially determine its own budget. subject perhaps to a government or parliamentary veto (France) or to ex post public scrutiny (United States) is crucial (IMF,1995). 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 interference (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 funded directly by government budgets or ministries often face a high risk of political interference. This setup can compromise monetary policy, pressure leaders to print money for public debt, and weaken public trust in economic stability.

➢ *Regulatory and Supervisory Independence*

Lastly, regulatory independence refers to the ability of the agency to have appropriate degree of autonomy in setting rules and regulations for sectors under supervision, within the confines of the law. Central bank independence can be problematic in the context of financial regulation and stability. Central banks maintain financial stability because they control critical emergency tools like the lender of last resort, emergency liquidity, and strong regulatory powers. These unique capabilities allow them to stop bank runs and stabilize the entire money system during major financial shocks. Calomiris and Litan (2000) argue that rapid globalization and financial innovation require supervisors and regulators to adapt swiftly to changing market conditions. This operational agility implicitly demands a substantial degree of agency independence—shielding authorities from short-term political interference and industry capture—so they can effectively preserve financial stability. IMF Working Paper (WP/02/46) asserts that regulatory and supervisory independence (RSI) from both government and industry is crucial for maintaining financial sector stability, functioning similarly to central bank independence. Effective independence requires autonomy across regulatory, supervisory, institutional, and budgetary dimensions to withstand political pressure. It also contends that regulatory and supervisory independence completes central bank independence to achieve or preserve the twin goals of monetary and financial stability. *Regulatory independence*—which is critical for effective rule making—means that

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agencies should have an appropriate degree of autonomy in setting prudential regulations, within the broader legal framework. Supervisory independence is critical to enforcing rules, imposing sanctions, and managing crises. To be effective, supervision must be largely invisible, but this very invisibility makes supervision vulnerable to interference from both politicians and supervised entities.

Regulatory and supervisory independence (RSI) in central banking means the freedom of a central bank (or financial agency) to set rules and oversee banks without political interference. Regulatory and supervisory independence (RSI) lets a central bank oversee financial markets, payment systems, and institutions without outside pressure. This freedom helps the central bank keep the financial system stable and safe for everyone. Regulatory and supervisory independence (RSI) is a complementary role performed by the central bank over other financial institutions, market, as well as payment, settlement and clearing systems to achieve financial stability.

Moreover, regulatory and supervisory independence protects financial stability the way monetary independence protects currency value. It has two main parts: regulatory independence (making rules) and supervisory independence (enforcing them). Regulatory and supervisory independence is associated with a significant improvement in financial stability, as banks tend to hold fewer non-performing loans (NPLs) as a share of total loans in their portfolio for every unit increase in RSI. However, in recent years, CBI has become increasingly challenged, not only in Ghana but around the world. Romelli (2022) argues that central banks' relatively new responsibilities in areas of financial supervision and macroprudential policy might conflict with their traditional price stability goals, calling their credibility into question, while extensive asset purchase programmes after the 2008 global financial crisis are seen as increasing the risk of financial sector dominance.

Regulatory independence in the financial sector means that regulators have wide autonomy in setting, at a minimum, prudential rules and regulations that follow from the special nature of financial intermediation. These rules and regulations concern the practices that financial institutions must adopt to maintain their safety and stability, including minimum capital adequacy ratios, exposure limits, and loan provisioning. *Supervisory independence* is crucial in the financial sector. It is also difficult to establish and guarantee. Supervisors work quite closely with financial institutions, not only inspecting and monitoring them but also enforcing sanctions and even revoking licenses (Quintyn and Taylor,2004). Over recent years, however, a doctrine of regulatory independence has developed debate (Quintyn & Taylor,2002). Just like political pressure, industry capture can undermine effective regulation and supervision. Achieving types of independence, political interference and industry capture is essential. Regulatory and supervisory independence could hardly be achieved without solid arrangements underpinning institutional and budgetary independence.

V. THE INDEPENDENCE OF THE BANK OF GHANA: A CRITICAL REVIEW (1992–2026)

The legal framework established by the 1992 Constitution and the Bank of Ghana Act, 2002 (Act 612) granted the central bank formal operational independence. However, between 1992 and 2026, this de jure autonomy was severely undermined by fiscal dominance, massive balance-sheet impairments, and subsequent reliance on International Monetary Fund conditionality to force legal and institutional remediation

The assessment of the current Bank of Ghana's (BoG) independence examined how legal autonomy clashes with political interference, heavy central bank financing of government deficits, dismissal of governors and two deputy governors' issues and massive financial losses. The review found that the protecting or maintaining the value of the currency and promoting economic development is found in Article 183 of the 1992 Constitution of Ghana, whereas the explicit "price stability" and inflation mandate is legally detailed under Section 3 of the Bank of Ghana Act, 2002 (Act 612) as amended. The critical assessment found that direct price stability mandate of the Central Bank of Ghana is actually defined in the Bank of Ghana Act, 2002 (Act 612), rather than explicitly spelled out with that exact phrase in the 1992 Constitution. Article 183 of the Constitution establishes the bank and speaks broadly to currency and economic development, while Section 3 of Act 612 (amended by Act 918) sets price stability as the primary objective. The Bank of Ghana cannot simply choose to neglect or discard the price stability mandate in favour of other goals. The Bank of Ghana Act, 2002 (Act 612) and its update, the Bank of Ghana (Amendment) Act, 2016 (Act 918), set price stability as the primary objective of the central bank, alongside supporting government economic policy, promoting growth, and regulating the financial sector.

To strengthen the central bank in the conduct of monetary policy, Bank of Ghana Act 2002 Act 612 (Amendment Act 2016 Act 918) gave operational independence to the Bank of Ghana. The Bank of Ghana's independence has various dimensions, namely institutional and functional or (operational), personnel, financial or budgetary and regulatory and supervisory independence. In recent decades, the concept of central bank independence has gained prominence as a crucial factor in promoting economic stability, particularly in developing nations like Ghana. The independence of the Bank of Ghana (BoG) is not merely a matter of institutional autonomy; it is a vital determinant of monetary policy effectiveness, inflation control, and overall economic health. The Bank of Ghana became constitutional independence under the 1992 Constitution and the Bank of Ghana Act 2002 Act 612 made Bank of Ghana operationally independent. The 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. The Acts however adds that without limiting this primary objective of price stability, the Bank shall (a) support the general economic policy of government, (b) Promote economic growth and development and effective and efficient

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operation of the banking and credit system; and (c) Contribute to the promotion and maintenance of financial stability in the country. The critical review showed that the governance structure of the Bank of Ghana separates corporate management from statutory policy duties. The Board of Directors oversees general corporate affairs and policy formulation, while specific operational and policy duties operate through designated internal and statutory committees under the Bank of Ghana Act, 2002 (Act 612). The Board of Directors governs the Bank of Ghana under the Bank of Ghana Act, 2002 (Act 612), and the Bank of Ghana (Amendment) Act, 2016 (Act 918). Its duties include setting the central bank's core strategy, ensuring policy execution, managing resources efficiently, and formulating policies to achieve price and financial stability. The Bank also has a statutory objective to 'protect and enhance the stability of the financial system of the Ghana' and board of directors is responsible for the Bank's strategy in relation to that objective.

First, the critical assessment found that Bank of Ghana (BoG) has experienced mixed performance under its constitutional and operational independence, marked by successful inflation-targeting frameworks alongside severe challenges from deficit financing and political pressures. The Ghana's 1992 Constitution granted Bank of Ghana (BoG) an expanded mandate for monetary stability and development. Its performance has been mixed: it successfully modernized policy via inflation targeting and cleaned up the financial sector but faced heavy criticism and fiscal strain during severe macroeconomic crises. Bank of Ghana has struggled with de facto independence when heavy fiscal deficits forced large-scale financing of government debt, testing institutional autonomy and faced public and legal scrutiny regarding central bank financing limits during national economic crises. Bank of Ghana has structurally faced recurring hurdles in keeping inflation anchored within single digits due to external shocks and domestic fiscal pressure. The performance of the Bank of Ghana regarding its independence since 1992 showed legal autonomy (*de jure*) and political reality (*de facto*). While statutory reforms strengthened its mandate for price stability, persistent fiscal dominance and executive influence have repeatedly tested its operational freedom. Bank of Ghana's operational independence has been undermined by fiscal dominance, political interferences and crisis constraints. Past governments routinely pressured the bank to finance fiscal deficits, bypassing statutory limits during economic downturns. Successive administrations frequently influenced leadership transitions or effectively curtailed tenures, undermining practical *de facto* independence. Rigid statutory definitions of price stability occasionally clashed with broader national developmental needs during severe macro-fiscal stress.

Second, the assessment of current Bank of Ghana's operational independence found that past heavy financing of government budget deficits and quasi-fiscal operations blurred the line between state spending and monetary policy. Large financial deficits made the Bank of Ghana reliant on government recapitalization, which has weakened its independent standing. The study further revealed that Bank of Ghana struggled with de facto operational independence when large government fiscal deficits forced high central bank financing (overdrafts/printing money). Bank of Ghana has also encountered severe balance-sheet losses during recent domestic debt restructuring operations, fueling intense public debate over institutional autonomy. The Bank of Ghana faced severe fiscal dominance when heavy deficit monetization and overdraft extensions bypassed statutory limits, directly expanding the money supply, accelerating cedi depreciation, fueling high inflation, and weakened the central bank's balance sheet.

Critical assessment of BoG's operational independence is its role in financing the government's fiscal deficits, has undermined its monetary policy and inflation control. Excessive fiscal imbalances sometimes forced the central bank to monetize government debt. For instance, in 2019 and 2022, the Bank of Ghana was compelled to finance government debts of GHS 10 billion and GHS 45 billion, respectively, to support emergency expenditures. One of the key challenges to Bank of Ghana's monetary policy has been the accommodation of fiscal deficit by central bank. Mounting public debt in 2022 and 2023 severely strained the Bank of Ghana, that forced heavy monetary financing of the government budget led to massive balance sheet impairment. Mounting government debt in 2022/2023 actually challenged and strained rather than contributed to the operational independence of the Bank of Ghana. Heavy fiscal deficits forced the central bank into heavy deficit monetization and massive quasi-fiscal costs, blurring lines between fiscal and monetary policy.

The study further revealed that Bank of Ghana total net financing (monetization) of government expenditures by the Bank of Ghana in 2022 was GH¢44.5 billion. The breakdown of central bank financing in 2022 were as follows:GH¢37.9 billion in direct overdraft extensions to the government to cover auction shortfalls and pay maturing obligations, GH¢8.9 billion in international on-lending facilities (from the IMF) routed through the central bank to the government, GH¢7.2 billion used to purchase treasury bonds from commercial banks to provide them with liquidity and GH¢9.5 billion increase in government deposit liabilities at the central bank, which was netted off against total claims to arrive at the final net figure. The total net financing of GH¢44.5 billion by the Bank of Ghana in 2022 amounted to approximately 7.0 percent of Ghana's GDP and roughly 50.8 percent of the total cash budget deficit for that year, which was about GH¢87.5 billion (11.7% of GDP). The above data clearly showed that the Bank of Ghana operational independent had been compromised and weakened. The recent Bank of Ghana losses and negative equity position had posed serious risks and weakened the effectiveness of transmission mechanisms.

Third, the critical assessment showed that Bank of Ghana's independence has had limited freedom in the implementation of monetary policy as result of heavy fiscal dominance, emergency financing of government deficits, and structural economic pressures have historically constrained its policy freedom and complicated long-term stability. The Bank of Ghana had faced limits on its autonomy due to fiscal

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dominance, as heavy government borrowing and budget deficits that had forced the central bank to accommodate public spending. This pressure has compromised its primary goal of price stability, fueled inflation, and weakened long-term economic stability. The Bank of Ghana's primary objective of price stability had been threatened by its mandate to support the government's economic policies, especially as the governments prioritizes short-term growth through expansionary fiscal measures or deficit financing. This has created conflicts where political pressure for economic stimulation that led to inflationary pressures, which undermined long-term price stability. The Bank of Ghana has faced limited freedom in its monetary policy and operations primarily due to fiscal dominance (heavy government borrowing and deficit financing), high inflation pressures, and costly quasi-fiscal operations—such as previous domestic gold purchase programs—that strained its balance sheet and created negative equity. Political pressure and government influence was experienced during the Covid 19 pandemic made operational independence ineffective. BoG's operational independence is its role in financing the government's fiscal deficits, undermining its monetary policy and inflation control. Excessive fiscal imbalances forced Bank of Ghana to monetize government debt. For instance, in 2019 and 2022, the Bank of Ghana was compelled to finance government debts of GHS 10 billion and GHS 45 billion, respectively, to support emergency expenditures. Collaborating on policy goals failed to align monetary policy with fiscal plans. This approach created policy distrust, limited sudden political shifts, and discouraged teamwork between the central bank and ministries. This decreased the transparency of the policy-setting process and thereby reduced the credibility of monetary authority.

It also ensures that the goals would not be subject to discretionary impulses. In addition, setting common goals by the central bank and the government encourages coordination between monetary and fiscal authorities like Ministry of Finance. Under the goal independence, the Bank of Ghana has the right to set its own policy goals, whether inflation targeting, control of money supply, or maintaining a managed floating exchange rate. Under this type of independence, the Bank of Ghana announces their policy goals in partnership with the Ministry of Finance. This increases the transparency of the policy setting process and thereby increases the credibility of the goals chosen by providing assurance that they will not be changed without notice. In addition, the setting of common goals by the Bank of Ghana and Ministry of Finance helps to avoid situations where monetary and fiscal policy are in conflict; a policy combination that is clearly sub-optimal. Operational independence is an essential prerequisite for an effective regulatory regime and for maintaining a fair and equitable financial system.

Regulators must therefore operate independently, without fear, favour or prejudice. Operational independence relates to the central bank's freedom to pronounce ruling based on the laws passed by legislature. Under the Bank of Ghana Act 2002 Act (612) Amendment Act 2016 Act (918) the Bank of Ghana's operational independence includes the freedom to approve, disapprove and revoke licenses, decide to conduct on and off- site examination, as well as take enforcement action against a person or entity based upon evidence of violation of a law or regulation. The total net financing of GH¢44.5 billion by the Bank of Ghana in 2022 amounted to approximately 7.0 percent of Ghana's GDP and roughly **50.8** percen**t** of the total cash budget deficit for that year, which was about GH¢87.5 billion (11.7% of GDP).

Fourth the critical assessment showed that the main challenges and weaknesses in the Bank of Ghana's (BoG) instrument (functional) independence included fiscal dominance, balance sheet constraints, massive cost of open market operations and de facto political pressures. Instrument independence (functional independence) is the freedom of the Bank of Ghana chose and managed policy tools without government interference. This autonomy allowed the bank to focus on its core goal of price stability. Bank of Ghana's open market operations had become the primary instrument for managing excess liquidity. By issuing short term securities, the central bank absorbs surplus funds from the banking system -by aligning market rates with Bank of Ghana's policy stance. Bank of Ghana's current framework heavily reliant on instrument like OMO had proven effective in achieving price stability but at a growing financial cost as well as weakened instrument independence. Massive open market operations (OMOs) mopped up excess liquidity and stabilized prices but imposed severe interest expenses on income statement.

The further review of the Bank of Ghana's 2025 financial statements confirmed that Open Market Operations (OMOs) cost GH¢16.73 billion, up from GH¢8.59 billion in 2024. This affirmed the aggressive liquidity mopping was the primary driver behind the central bank's GH¢15.63 billion operating loss, serving as the monetary cost to lower inflation from 23.8% to 5.4%. The assessment revealed that Bank of Ghana spent approximately GH¢16.73 billion on Open Market Operations (OMOs) in 2025, nearly doubling the GH¢8.59 billion spent the previous year. This aggressive liquidity sterilization was a deliberate policy tool to curb money supply, stabilize the local currency, and bring down headline inflation. The heavy interest expenses directly contributed to the Bank of Ghana recording an overall operating loss of GH¢15.63 billion for the 2025 financial year. According to Bank of Ghana reports for 2023, 2024 and 2025 the OMO instruments cost had increased from GHC 8.37 billion in 2023 to GHC8.6 billion in 2024 but cost increased further to GHC16.73 billion in 2025 which have impacted negatively on the Bank of Ghana's profit and loss and balance sheet over the past three years. While effective at reducing inflation and supporting the local currency (Cedi), the heavy reliance on interest bearing OMO instruments had placed severe structural strain on the Bank of Ghana's balance sheet and deepened negative equity. The high expenses of these high-yield monetary instruments heavily contributed to an overall operating losses of the central bank. The rise in OMO liabilities had been closely tied to legacy effects of the Domestic Debt Exchange Program which impaired the Bank of Ghana's sheet through a GHC35.67 billion haircut on government securities (Bank of Ghana report 2025). Fiscal dominance and deficit financing had resulted in weaknesses and challenges in the instrument or

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functional independence of Bank of Ghana. The weaknesses in the Bank of Ghana's functional independence had manifested in the balance sheets as well as high operational costs. The study revealed that since 1992 Bank of Ghana's instruments commonly used for open market operation include government treasury bills, Bank of Ghana treasury bills, and prime commercial papers (Bawumia, 2010). The setting of monetary instruments values (like the level of the repurchase agreement rate; policy rates and discount rate) are entirely up to the Bank of Ghana. However, the Bank of Ghana Act 2002 Act 612 (Amendment Act 2016 Act 918) further goes to provide for Minister of Finance that may influence the way the central bank carries its mandate. This essentially means that instrument independence is granted to the Bank of Ghana by the Act 612, but this independence is limited by the powers granted to the Minister of Finance.

The Ministerial powers appear to conflict with the provisions of the Act on independence and in view of this, there is a need to reform the Ghanaian legislation on central banking to make the Bank of Ghana truly independent. The primary weaknesses in the Bank of Ghana's instrument (functional) independence include fiscal dominance pressures**,** quasi-fiscal cost burdens**,** and structural inflation limitations. The Bank of Ghana Act 2002 Act 612 has given Bank of Ghana functional independence to determine the best way of achieving policy goals, including the types of instruments used and the timing of their use. The setting of monetary instruments values (like the level of the repurchase agreement rate; policy rates and discount rate) are entirely up to the Bank of Ghana. However, the Bank of Ghana Act 2002 Act 612 further goes to provide for Minister of Finance that may influence the manner in which the central bank carries its mandate. This essentially means that instrument independence is granted to the Bank of Ghana by the Act 612 but this independence is limited by the powers granted to the Minister of Finance. The Ministerial powers appear to be in conflict with the provisions of the Act on independence and in view of this, there is a need to reform the Ghanaian legislation on central banking to make the Bank of Ghana truly independent.

Fifth, the assessment found that Bank of Ghana's (BoG) personnel independence has pointed to political influences in the appointment, tenure, and removal of the Governor and the Board of Directors. As outlined in Ghana's constitution, the President appoints the Governor, the two Deputy Governors, and most of the Board members. This has raised concerns that political considerations affected these appointments. Furthermore, the Governor and the Board are appointed to serve a four-year term with the possibility of reappointment, and the Bank of Ghana Act 612 (and its Amendment Act 2016, Act 918) offers protection for the Governor's tenure. Regardless of this provision, successive governments have often found ways to prematurely end the terms of governors appointed by previous administrations. This is frequently done through voluntary or forced resignations, with the argument that new governments prefer to work with officials of their own choosing, despite the constitutional provisions that state the Governor can only be removed under the same conditions as a Justice of the Superior Court, per Article 184 (4d) of the 1992 Constitution and Section 12 of the Bank of Ghana Amendment Act. In contrast, countries like South Africa, Germany, and the United States have governors whose terms extend beyond the tenure of the sitting government, thus enhancing the personnel independence of their central banks.

The critical assessment also found that poor governance practices regarding personnel independence at the Bank of Ghana included political interference in leadership actions, excessive fiscal deficits, and weak transparency in administrative decision-making. The study further found that board or key management selection were aligned with political cycles rather than strict technical merit. The total net financing (monetization) of government expenditures by the Bank of Ghana in 2022 was GH¢44.5 billion. The clearly affirmed how the Bank of Ghana's leadership were aligned with then political leadership that led to the huge deficit financing or monetization of the government expenditures in 2022. Vulnerability to political pressures from the executive or legislative branches regarding policy stances and public accountability. Furthermore, the reviewed found that from 1992 to 2026 the Bank of Ghana has had fifteen (16) Governors whose tenures have either spanned their full four (4) year renewable terms or the duration of the political appointing authority following a change in government. Though the Bank of Ghana Act 612 provided protection for the tenure of the governor of the central bank, successive governments have found ways of ending the tenure of governors who were appointed by past governments with most of them taking the forms of voluntary or forced resignations. Some of these, we are told, cost the state some huge sums of money as the resignations had to be negotiated by the government who wants to bring in their preferred candidate with the argument of having to work with central leadership that they are comfortable with and as a team.

Another threat to Bank of Ghana personnel independence has been where the President appoints the Governor and board, changes in administration often lead to the early exit of central bank leadership, hurting real-world (*de facto*) independence. Bank of Ghana's governance failures include the Governor, Deputy Governors, and board members are appointed directly by the President of Ghana, potentially compromising political neutrality. Absence of a mandatory parliamentary confirmation process for top personnel reduces independent public oversight of candidate selection. Statutory provisions allowing the removal of central bank leaders contain broad or vaguely defined conditions, creating risks of politically motivated dismissals. The personnel independence expects to protect the members of the Bank of Ghana's decision-making bodies against external influence. Personnel independence is partially provided for in the BOG Act. While minimal executive and legislative intervention is desirable during appointment, this is difficult to achieve in developing countries like Ghana. However, the BOG Act's provisions attempt to guarantee the independence of office bearers in the BOG. Upon appointment and assumption of office, the execution of their mandate is instructed by the provisions of section 4 of the BOG Act aforementioned. The lack of transparency in the

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appointment (and removal) processes for Board members, have not safeguarded possible conflicts of interest and clear provisions outlining possible causes for removal from office are key in this regard. The BOD is the apex governing body in the BOG. It is comprised of the governor and deputy governors of the BOG, a representative from the Ministry of Finance and nine other directors. The BOD is appointed by the President of Ghana. The Governor and Deputy Governors are appointed in terms of article 183 of the Constitution of Ghana and section 17 of the BOG Act of 2002. The governor and deputy governors of the BOG are appointed by the President of Ghana in consultation with the Council of State. The BOG Act also provides for security of tenure and remuneration of the governor and deputy governors and requires dismissal on specified grounds and through outlined procedures only. For the personnel independence of Bank of Ghana's Governor and two deputy governors have been enshrined the Section 184 of the Ghana's 1992 Constitution, and the Bank of Ghana Act 2002 Act 612(Amendment Act 2016 Act 918 that provides that the President of the country's appoint of Governor as the Chief Executive Officer of the Bank of Ghana and two Deputy Governors. The Governor and two deputies are to be appointed by the President of Ghana through a transparent and competitive process and with the approval of the Council of State to hold office for a term of 4 years and eligible for another term of four years. The critical review showed that these appointments were not done through transparent and competitive processes as all appointments were aligned with ruling political parties. While these appointments require consultation with the Council of State, governance reviews showed that that the process lacked open, competitive, and transparent public advertisements, reinforcing perceptions of political alignment under winner-takes-all governance.

The critical assessment also revealed that under Ghana's 1992 Constitution, the President appoints the central bank's leadership, which creates structural vulnerabilities. Critics argue this sweeping executive authority compromises central bank independence by leaving key positions open to political patronage and short-term electoral incentives rather than purely technocratic merit. Again, the Governor and the Board are appointed to serve a four-year term with the possibility of reappointment, and the Bank of Ghana Act 612 (and its Amendment Act 2016, Act 918) offers protection for the Governor's and two deputy governors' tenure. The critical assessment revealed that successive governments have found ways of prematurely terminated the terms of Governors and two deputy Governors appointed by previous governments through voluntary or forced resignations, with the argument that new governments prefer to work with officials of their own choosing, despite the constitutional provisions that state the Governor can only be removed under the same conditions as a Justice of the Superior Court, per Article 184 (4d) of the 1992 Constitution and Section 12 of the Bank of Ghana Amendment Act. Poor personnel independence of the central bank refers to the influence the government has in appointment procedures. It is not feasible to exclude government influence completely in appointments to a public institution in the developing country such as the central bank, however, the level of influence may be determined by criteria such as government representation in the board of the central bank and government influence in the appointment procedures, terms of office and dismissal of the governing board of the bank (Eijffinger& De Haan, 1996). Professional competence builds staff independence at the Bank of Ghana. High-level skills and good management protect the bank from outside political control. A competent team makes smart choices and keeps the financial system safe

Bank of Ghana's staff selection, training and promotion should promote professionalism, expertise and continuity. It is necessary to provide a solid empirical database for outstanding research, and to survive passing political and ideological fads and fallacies (Erb, 1989: 12). Outstanding economic knowledge and in-depth knowledge of the institutional structure of the country, supported by good public relations, will enhance the respect for - and therefore also the independence of - the bank even further. Good liaison work will not only garner support for the bank, but explain the reasons for a particular policy stance, making the bank's operations more transparent and accountable. In addition to employing professional and career-orientated officers, the bank deals with money and monetary functions and must therefore have a corruption-free record and incorruptible staff. Bank statements must be non-partisan in nature and convey the image of freedom of speech within the organization. The statements should also be an integral part of the bank's communication function by means of which it explains its policies. Reports, articles, speeches, panel discussions, submissions to parliamentary committees etc., should all be part of the bank's mode of communication and accountability, which enhances its stature and independence and explains what its policy can and cannot do.

Sixth**,** the critical assessment found weaknesses in the Bank of Ghana budgetary independence which included statutory financing loopholes during past crises, heavy quasi-fiscal involvement, and balance sheet vulnerabilities from macroeconomic shocks. Over the past decade, the Bank of Ghana faced severe constraints on its financial and budgetary independence. This resulted from heavy deficit monetization, continuous fiscal dominance by the government, and absorbing major balance-sheet impairments from the Domestic Debt Exchange Program. The Bank of Ghana Act limits temporary central bank advances to the government to 5% of the previous year's total tax revenue. This rule helped control government borrowing and protects the economy. Emergency clauses allow changes during major national crises. Legal provisions often allow these thresholds to be exceeded or "stretched" via parliamentary approval or special board invocation during severe national crises, wars, or economic emergencies. Shocks such as debt restructuring left the central bank with significant negative equity positions, have raised questions about financial flexibility without dependent government recapitalization. The bank's involvement in quasi-fiscal initiatives and intensive economic stabilization programs historically blurred monetary and fiscal roles. The review showed that Bank of Ghana loss deteriorated from GH¢ 9.49 billion in 2024 to GH¢15.6 billion in 2025. The Bank of Ghana faced severe financial stress, recording a 2025 loss of GH¢15.63 billion

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and negative equity of GH¢96.28 billion. While central banks can function with negative equity during stabilization, long-term autonomy requires balancing operational independence with legal limits and legislative oversight. Over the past decade, the Bank of Ghana faced major threats to its independence. These pressures came from heavy deficit financing for the government, political interference, and massive financial losses linked to debt restructuring. These weaknesses stemmed primarily from heavy direct government deficit financing during economic shocks, costly quasi-fiscal operations, and balance-sheet strains like massive multi-billion Cedi operational losses and negative equity. Record operational losses (such as tens of billions of cedis during debt restructuring and monetary interventions) had pushed the central bank into deep negative equity, making it financially independent because it has to depend on future state recapitalization. The critical assessment showed that Government programs like the Covid 19 pandemic and Domestic Gold Purchase Program (DGPP) and heavy open-market liquidity operations had saddled the bank with enormous financial costs and multi-billion Cedi losses, blurring the line between monetary policy and fiscal management.

Central banks often keep financial independence from the state even when the government owns 100 percent of the bank's stock. This separation protects daily operations and monetary policy from short-term political pressures. The key element here is that. whatever the institutional relationship of the central bank to the government. It should not be considered and treated as just another agency of the state. Of course. The actual practice may be different from the arrangements in place. But as a mere government department, a central bank would have difficulty exercising the financial and legal independence that is required for the effective execution of its proper functions: all its operations would have to be authorized by the state and funded under the state budget. Under such an arrangement, the government would be tempted to unduly influence the outcome of the quality of the bank's monetary and financial analysis of the economy by controlling the purse strings. Hence, the right to substantially determine its own budget. subject perhaps to a government or parliamentary veto (France) or to ex post public scrutiny (United States) is crucial.

Seventh, a critical review of the Bank of Ghana highlighted historical supervisory gaps, including delayed actions on distressed institutions, weak enforcement of prudential rules, and excessive regulatory forbearance that worsened financial sector vulnerabilities and contributed to systemic banking crises. These vulnerabilities culminated in a massive 2017–2019 financial sector clean-up that licenses of numerous banks, specialized deposit-taking companies, and microfinance institutions were revoked. The Bank of Ghana raised the minimum paid-up capital requirement for commercial banks from GH¢120 million to GH¢400 million in September 2017 (not from GH¢60 million, which was the baseline set in 2008 before being doubled to GH¢120 million in 2012). Banks were given an implementation window of about 16 months, running through December 31, 2018. This rapid timeline caused panic, funding stress, and industry consolidation as smaller banks struggled to raise funds. The weaknesses of the regulatory framework caused challenges that range from insolvent to illiquid to solvent but illiquid, depending on the bank. In part, this was due to shoddy corporate governance, falsified financial reporting, and insider trading. Bank of Ghana's regulatory and supervisory 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 banking sector. Regulatory and supervisory 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 been 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 emphasized 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.

Regulatory independence is vital for banking stability. It prevents short-term political interference in technical safety rules. When rules divide into economic, prudential, and structural categories, autonomy ensures that risk management standards remain objective, transparent, and focused on long-term systemic health rather than political pressures and while information regulations governing guidelines on accounting standards and disclosure in financial statement, display of financial statement (IFRS and IAS) accounting records and financial statements.

This is because a more reliant central bank may be affected by political interests linked to poor and less compliant financial institutions, resulting in a weaker exercise of central bank control in exercising its powers to regulate these finite institutions. This may have consequences for financial stability and financial system trust. This is further emphasized by Hutchison and McDill (1999) who argue that a dependent central bank with close association with government may have more propensity to provide monetary finance to distressed financial institutions, thus providing an additional channel for the problem of moral hazard. The study noted that IMF country reports (2011,11/131; 2012, 2013) showed that regulatory gaps such as the disorderly existence of banks, regulatory forbearances and low compliance with the Basle Core principles have undermined the Bank of Ghana's operational independence. Ghana has since 2017 suffered its worst banking crisis ever. The Central Bank of Ghana has come under harsh criticism for failing to enforce the necessary corrective interventions in a consistent and

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timely manner. This paper shows the Bank of Ghana's excessive regulatory forbearance as an indicator of regulatory failure and attempts a political economy analysis of why the regulatory forbearance occurred.

Eight, critical assessment revealed that conduct and integrity failures within the Bank of Ghana (BoG) did undermine its institutional independence by fostering regulatory forbearances, inviting political interference, and eroding public trust during banking crisis in 2019. As supervisory oversight was compromised by internal lapses or external pressure, the central bank lost the moral and operational authority required to act as an objective market gatekeeper. Historical reluctance or delay in penalizing distressed or non-compliant institutions allowed systemic risks to compound before forced interventions occur. Weak internal integrity structures exposed supervisory decisions to external political or commercial pressures, that compromised objective enforcement. Failures to catch insider lending, misreporting, and governance rot early shift the burden to costly sector-wide bailouts, inviting intense public and legislative critique that weakens institutional autonomy. Conduct and integrity failure was major contributor to the collapsed of some of the seven banks and savings and loans ltd in 2018-2019 due to moral crisis characterized by breakdown in values, unethical behavior and unprofessional conduct of some staff working in supervisory and regulatory department. In August 2017, the Bank of Ghana commissioned Boulders Advisors Limited to independently investigate the collapse of UT Bank and Capital Bank. The probe exposed severe capital deficits, poor corporate governance, massive non-performing loans, and insider dealings, triggering wider financial sector clean-ups and subsequent legal actions against culpable directors. The critical assessment that Bank of Ghana investigations into Ghana's banking crisis revealed that the Bank of Ghana faced internal supervisory challenges and lapses. Independent probes and investigative reports highlighted that some regulatory officials showed weak oversight or potential complicity in how certain distressed institutions operated and obtained licenses prior to the 2018–2019 financial clean-up. The Bank of Ghana stated it would not shield individuals whose actions or inactions contributed to the collapse of financial institutions during the banking sector clean-up. Culpable persons face administrative, civil, and criminal prosecution under Ghanaian law. This study revealed that Bank of Ghana did pursue administrative and civil action against such persons and also liaised with relevant investigative and prosecutorial agencies of the State to take appropriate action as needed. From the above narrative, one could deduce that there were conduct and integrity failures on the part of some staff from supervisory and regulatory department which impacted negatively on regulatory and supervisory independence.

VI. DISCUSSION OF FINDINGS

The research evaluated the independence of the Bank of Ghana by assessing constitutional/legal, operational, functional, instrument, personnel, budgetary, regulatory and supervisory. The analytical assessments and policy reviews on the Bank of Ghana highlighted that the central bank's autonomy faces institutional, legal, and operational challenges. These gaps complicate the bank's primary mandate of price stability amid heavy fiscal and quasi-fiscal pressure.

First, the dual mandate under the Bank of Ghana (Amendment) Act, 2016 (Act 918) requires the central bank to pursue price stability while simultaneously supporting government economic policy and growth. The study argue that this creates goal conflicts and exposes monetary policy to political pressures, though defenders view growth as a secondary outcome derived from macro stability

The study revealed that under the Bank of Ghana (Amendment) Act 2016 (Act 918), price stability is designated as the primary objective of the central bank, while economic growth and development are framed as key secondary mandates pursued without prejudice to the primary goal. The study also highlighted the primary ambiguity in the Bank of Ghana (Amendment) Act, 2016 (Act 918) lies in the operational friction between its rigid hierarchical wording ("without prejudice to") and the practical overlap of monetary tools. While price stability is legally supreme, economic growth and government policy support are mandated simultaneously, creating a gray area over how Section 3(2) states that secondary goals must not compromise the primary price stability goal, yet it fails to define quantifiable thresholds where supporting growth can legally override short-term inflationary tightening strictly the bank should subordinate growth during severe economic downturns. The Bank of Ghana faces tension between aggressive inflation targeting and political expectations to finance or stimulate national economic development. The premise that price stability and economic growth are mutually exclusive is incorrect. In Ghana, price stability and economic growth are viewed as complementary rather than conflicting. The Bank of Ghana targets price stability precisely to create a predictable environment that fosters long-term investment, business planning, and sustainable economic expansion.

The study revealed that Bank of Ghana adopted inflation targeting in May 2007, utilizing its statutory operational independence under the Bank of Ghana Act, 2002 (Act 612) to pursue price stability as its primary objective through the Monetary Policy Committee, despite the foundational laws stating broad economic goals rather than naming the specific framework. The study showed that Bank of Ghana has experienced mixed results since formally adopting inflation targeting in 2007. While the framework successfully improved policy transparency, accountability, and communication, it struggled to consistently keep headline inflation within the targeted band (8% ± 2%) due to fiscal dominance, currency depreciation, and supply-side shocks

The Bank of Ghana balances a constitutional mandate for economic development under the 1992 Constitution with a statutory primary objective of price stability defined by the Bank of Ghana Act 2002 (Act 612), as amended. The current wording of the Bank of Ghana independence framework is legally ambiguous because it blurs the lines between the

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ultimate objectives of economic policy and the independent use of policy tools. This lack of precise legal separation creates the risk of policy friction between the central bank and the government. This vagueness creates structural friction, leaving room for fiscal and monetary authorities to pursue conflicting objectives that can destabilize the national economy. The study found that the ambiguous mandates and direct central bank deficit financing allowed extensive quasi-fiscal operations in Ghana—such as the Domestic Gold Purchase Programme (DGPP)—which strained the Bank of Ghana's balance sheet, depleted international reserves, and fueled severe cedi depreciation during economic downturns

Second, the finding showed that the accommodation of government fiscal deficits by the Bank of Ghana (BoG) via heavy central bank financing created massive macroeconomic imbalances, that led to intense inflationary pressures and eventual debt distress, which necessitated strict corrective limits under recent IMF stabilization programs. More generally, previous governments undermined the independence of monetary policy by conducting an excessively profligate and hence unsustainable fiscal policy. Ghana experienced severe economic disruption and high inflation—peaking at over 170% in 1983 and severe spikes during recent macroeconomic crises—partly driven by fiscal deficits and central bank deficit financing. However, this historically falls short of technical "hyperinflation" (typically defined as exceeding 50% inflation *per month*), even though heavy money printing by the Bank of Ghana significantly stoked severe inflationary pressures. Historically, direct lending and heavy primary market purchases by the central bank funded persistent budget gaps. Monetizing budget deficits expanded the money supply, fueling severe inflation and cedi depreciation. The BoG also absorbed heavy quasi-fiscal costs and sterilization expenses to manage the resulting excess liquidity. Challenges surfaced after Ghana's fallout with the international community, which led to reliance on domestic lending. The BOG's inability to avert government's financing needs was attributed to lack of independence, absence of sanctions and inadequate parliamentary supervision. Deliberate steps were taken to correct these shortcomings by command of the law and were consequently embodied in the BOG Act 2002 Act 612 Amendment Act 2016 Act 918. The study showed that prompted by severe central bank financing of fiscal deficits and heavy losses, Ghana's parliament passed the Bank of Ghana Amendment Act 2025 Act 1185 on December 18, 2025. This legislation strictly caps monetary financing, sets automatic recapitalization rules for central bank losses, and aligns with International Monetary Fund governance requirements

Although there have been many academic debates on this issue, 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 the existence of large budget deficits. This is true for two related reasons. First, when deficits and public debt become unsustainable like in 2022, the incentive for the government was forced the central bank to monetize its deficit, thus eliminating public debt via inflation, increases substantially. Second, the larger the budget deficit and the accumulated debt, the more market participants become aware of the risk of monetization. The obvious form of fiscal dominance involves direct financing, such as central bank overdrafts or printing money to cover government budget deficits. The more subtle form occurs when monetary policy operations are co-opted to absorb excess liquidity or manage debt restructuring costs, weakening the Bank of Ghana balance sheet. Directly buying public debt to fund state spending is known as debt monetization. When a central bank creates new money to buy these government bonds, it expands the money supply. While this pays immediate bills, it often triggers severe inflation because more money chases the same amount of goods

Bank of Ghana Act 2002 Act 612 (Amendment) Act 2016 Act 918 placed explicit limit on central banking of government deficits. For instance, in 2019 and 2022, the Bank of Ghana was compelled to finance government debts of GHS 10 billion and GHS 45 billion, respectively, to support emergency expenditures. Many believed that this debt monetization fueled inflation and complicated BoG's inflation-targeting strategy. Fiscal dominance was, however, not limited to directly misused monetary policy. Bank of Ghana's lack of independence coupled with direct deficit financing or debt monetization had been a hindrance to the central bank's goal of creating a low inflation environment. This brought pitfall that compromised central bank independence: misguided monetary policy. Fiscal dominance occurs when government budget deficits and debt levels dictate monetary policy, forcing central banks to finance public shortfalls rather than manage inflation. In countries like Ghana, this dynamic undermines central bank autonomy, devalues local currencies, and disrupts broader macroeconomic stability. The study shows that addressing fiscal dominance and strictly enforcing deficit-financing limits within the Bank of Ghana Act 2002 Act 612 as Amended Act 2025 Act 1185 is crucial to safeguarding macroeconomic stability and preserving the operational independence of the central bank. In addition to Bank of Ghana Act 2002 Act 612 (Amended Act 2025 Act1185, Ghana government must urgently re-introduce Fiscal Responsibility Act 2018 Act 982 which was suspended during Covid 19 in 2020. In absence of the above, the government has to adopt the IMF for a zero-financing agreement under 2022 ECF program to curb the government borrowing from central bank to curb such practices.

Third, the findings revealed that Bank of Ghana's functional independence had fraughted been with persistent accommodation of fiscal deficits over the past three decades that threw the monetary policies overboard 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). The study further revealed that between 2019 and 2022, heavy central bank financing of fiscal deficits—effectively printing money to fund government expenditures—expanded Ghana's money supply and debt. When the Domestic Debt Exchange Programme (DDEP) was implemented in 2022/2023 to secure an International Monetary Fund bailout, the government restructured its debt, forcing the Bank of Ghana to absorb a massive impairment loss of over GH¢48 billion on

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marketable and non-marketable government instruments and COCOBOD loans. This wiped out the central bank's equity, resulting in a historic GH¢60.8 billion loss for 2022 and subsequent negative equity/capital deficiency The Bank of Ghana heavily financed government budget shortfalls, bypassing traditional borrowing limits during crises like the pandemic and global economic downturn. The accumulation of claims by Ghana's government and bodies like the Ghana Cocoa Board (COCOBOD) led to massive non-marketable and marketable debts owed to the Bank of Ghana, severely weakening the central bank's balance sheet and forcing extensive debt-to-equity conversions and structural fiscal reforms. The Government and Ministry of Finance are required to recapitalize BoG's balance sheet. The Ministry of Finance and Bank of Ghana are working on an MoU to plan for gradual recapitalization of the central bank to help it recover from the impact of the domestic debt restructuring. This will be done while respecting the fiscal commitments and debt targets under the program. Options to ensure consistency with the Fund-supported program parameters include recapitalization via budgetary or asset transfers, suspension of profit transfers, and/or use of any buffers that could be generated in program implementation. To strengthen the recovery of its net equity over time (IMF, 24/334/2024)

Fourth, the findings revealed that Article 183 of the 1992 Constitution of Ghana and the Bank of Ghana Act, 2002 (Act 612) (as amended by Act 918) establish that a Bank of Ghana Governor holds a protected four-year term. They cannot be arbitrarily dismissed without explicit statutory grounds, clear legal due process, and adherence to specified removal conditions. Regardless of this provision, successive governments have often found ways to prematurely end the terms of governors appointed by previous administrations. This is frequently done through voluntary or forced resignations, with the argument that new governments prefer to work with officials of their own choosing, despite the constitutional provisions that state the Governor can only be removed under the same conditions as a Justice of the Superior Court, per Article 184 (4d) of the 1992 Constitution and Section 12 of the Bank of Ghana Amendment Act2016 Act918. However, over the past four years, two Governors and four deputy 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 184 (d) states that a Justice of the Superior Court of Judicature shall not be removed from office except for stated misbehaviors 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 was spent on these two Governors whose term of office ended abruptly? Were the due processes followed as stated in the Article 184 (d) 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 misbehavior 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 impacted negatively on the personal independence of Bank of Ghana. A high rate of turnover indicates lower personal independence (Cukierman ,1992). From the above, independent Bank of Ghana had not been insulated from the pressures of election cycles and short-term political goals, allowing them to adopt a long-term approach to monetary policy. While elected officials prioritized policies that boost short-term economic growth or employment, these have come at the expense of higher inflation in Ghana. Independent Bank of Ghana has not been focusing on achieving sustainable, long-term price stability without being swayed by temporary political concerns. This is critical because inflation control requires a long-term perspective, and policies that are effective in reducing inflation may take time to yield results.

The study further revealed that the Bank of Ghana's (BoG) independence often pointed to potential political influences in the appointment, tenure, and removal of the Governor and the Board of Directors. Regardless of Article 184 (4d) of the 1992 Ghana Constitution and Section 12 of Bank of Ghana (Amendment) Act 2016 Act 918 successive governments have often found ways to prematurely terminate the terms of governors appointed by previous administrations. This is frequently done through voluntary or forced resignations, with the argument that new governments prefer to work with officials of their own choosing, despite the constitutional provisions (Article 184 of 1992 Ghana's Constitution) that states the Governor can only be removed under the same conditions as a Justice of the Superior Court, per Article 184 (4d) of the 1992 Constitution and Section 12 of the Bank of Ghana Amendment Act. In contrast, countries like South Africa, Germany, and the United States have governors whose terms extend beyond the tenure of the sitting government, thus enhancing the independence of their central banks

Sixth, the findings showed considerable weaknesses and challenges in the Bank of Ghana's personnel independence include political influence in leadership appointments, broad grounds for removing top officials, and weak legal safeguards protecting fixed tenures from executive interference. Political appointments to central bank boards undermine institutional autonomy by creating conflicts of interest and reducing the credibility of monetary policy. Appointing active politicians or legislators to governing boards creates direct conflicts of interest with oversight duties.

When individuals with active political ties or loyalties serve as non-executive directors, monetary policy decisions risk being perceived as partisan rather than purely economic, undermining public trust and the credibility of the Bank of Ghana. The finding also revealed that under the Bank of Ghana Act 2002 Act 612, the President of Ghana appoints the central bank Governor, Deputy Governors, and governing board members. Also, the study showed that this direct

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executive appointment model created a structural risk of political interference and weakened institutional autonomy. Statutory provisions allowing the removal of central bank leaders contain broad or vaguely defined conditions, thus created risks of politically motivated dismissals. Political transitions frequently trigger intense friction over central bank autonomy. New administrations often leverage real or perceived partisan affiliations of legacy leadership to demand policy shifts or justify leadership overhauls, challenging institutional independence. Perceived political ties among the leadership of the Bank of Ghana—including top executives and board members—fuel public debate over whether the central bank's autonomy was compromised during major economic events like the 2017–2018 banking sector clean-up and the 2023 Domestic Debt Exchange Programme (DDEP). The study argued that such affiliations limited critical regulatory transparency, while officials maintain decisions followed statutory mandates to secure financial stability. 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. The study argued that political control over how leaders are chosen and fired at the Bank of Ghana weakened its true freedom. While the law gives the bank legal autonomy, executive power to appoint and remove top officials creates paths for political pressure and a gap between written rules and real-world practice

This has raised concerns that political considerations affected these appointments. Again, the Governor and the Board are appointed to serve a four-year term with the possibility of reappointment, and the Bank of Ghana Act 612 (and its Amendment Act 2016, Act 918) offers protection for the Governor's tenure. Regardless of this provision, successive governments have often found ways to prematurely end the terms of governors appointed by previous administrations. This is frequently done through voluntary or forced resignations, with the argument that new governments prefer to work with officials of their own choosing, despite the constitutional provisions that state the Governor can only be removed under the same conditions as a Justice of the Superior Court, per Article 184 (4d) of the 1992 Constitution and Section 12 of the Bank of Ghana Amendment Act. Government appointment of central bank leaders in Ghana balances statutory independence with democratic accountability. The President appoints the Governor, Deputy Governors, and non-executive directors under the Bank of Ghana Act 2002 Act 612 aligning institutional leadership with broader economic policy.

Seventh, the critical assessments highlight that political interference and delayed regulatory action forced the Bank of Ghana into excessive regulatory forbearance, which stopped timely interventions in insolvent financial institutions. A lack of regulatory independence caused severe financial distress in Ghana between 2017 and 2019. Political interference and weak oversight stopped the Bank of Ghana from acting early. This led to the collapse of UT Bank and Capital Bank, plus the merger of seven other universal banks. Regulatory forbearances when there existed a time inconsistency between setting successful and appropriate regulatory action. Bank of Ghana as a regulator delayed the action of the recapitalization of the National Investment Bank that adversely impacted on the solvency. Why did not Bank of Ghana act promptly to resolve the NIB but acted on closing of 9 private domestic banks? The study revealed that delayed regulatory intervention and administrative oversight failures by the Bank of Ghana during the buildup to the financial sector crisis severely damaged public trust in its supervisory independence, allowing insolvent institutions to accumulate massive structural deficits before licenses were eventually revoked. Key factors in supervisory erosion included late detection, regulatory inertia, and governance deficits. Warning signs regarding undercapitalization and related-party transactions were flagged years prior to official actions. Failure to apply timely sanctions permitted distressed institutions to continue operating. Weak corporate oversight within both commercial banks and the central bank's monitoring framework compounded systemic risks. 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 Specialized 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. Regulatory capture in the Bank of Ghana framework manifested through political influence in licensing, powerful industry associations swaying prudential directives, and historical laxity in enforcing minimum capital rules for politically connected institutions. This led to lose application of regulatory rules, forbearance to regulatory infractions that resulted in poor application of supervision of distressed banks. The study highlighted that ineffective regulation, reactive rather than proactive supervision by the Bank of Ghana, and pervasive insider dealings severely undermined the financial health of indigenous banks leading up to the 2017–2018 banking sector 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

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forbearance and other regulatory gaps are currently the cause to insolvent of 5 local banks were inspired by high non-performing loans as well as capital deficient.

Eighth, high public debt levels compromised the Bank of Ghana's independence by forcing deficit monetization, thus created severe central bank financial losses, and blurred lines between fiscal and monetary policy. Large government borrowing needs lead to central bank financing of budget deficits when market auctions fail, violating core tenets of operational autonomy. Heavy exposure to government-related liabilities and debt restructuring operations generated massive financial losses for the central bank, undermining its financial self-sufficiency. Quasi-fiscal operations and direct financing mean a central bank prints money or spends funds on government projects. This practice harms public trust. People lose faith in the bank's power to control inflation because political leaders seem to control the money supply instead. Ghana's high public debt triggered a severe macro-financial dilemma. Heavy central bank financing of the fiscal deficit fueled surging inflation and massive debt-service costs. This forced a sharp trade-off between restoring price stability and maintaining financial sector stability during the domestic debt exchange program. Debt has increased, in Ghana and across sectors. Historically, high leverage has created stress in the financial system and put pressure on central banks to monetize debt (Reinhard and Rogoff 2009). At the current juncture, higher interest rates are needed to fight inflation and to anchor inflationary expectations. But higher market interest rates may also threaten debt sustainability and financial stability, if such higher rates materialize abruptly. Absent of sufficient buffers in the financial system to absorb losses, Bank of Ghana might fight inflation less vigorously than needed if they fear adverse consequences for financial stability (Brunnermeier 2016, Reis 2022a). Monetary policy may come under fiscal or financial dominance

Lastly, the critical assessment revealed that Ghana's financial system encompassed with four distinct sectors, with each sector having a separate regulator that resulted in regulatory arbitrages, overlaps and gaps. Ghana uses a traditional "silo" model where four independent agencies oversee distinct financial sectors: the Bank of Ghana handles banking, the National Insurance Commission manages insurance, the Securities and Exchange Commission governs capital markets, and the National Pensions Regulatory Authority supervises pensions. This model of financial regulatory architecture, however, presents challenges such as lack of coordination among regulators and sectoral arbitrage, among others. Ghana's financial regulatory architecture suffered from key structural weaknesses, notably siloed oversight, regulatory arbitrage, and poor coordination. The system relies on separate agencies operating independently without matching the modern convergence of financial services. Ghana's financial regulators (such as the Bank of Ghana) prioritize institutional strength over consumer safety. This focus leaves people exposed to bad treatment and unfair costs. The study revealed common consumer abuses such as unfair pricing practices, unconscionable loan terms, misrepresentation of risks associated with products, mis-selling, product pushing, poor handling of customer complaints, etc.

VII. CONCLUSION

The study showed that Bank of Ghana's independence aligns with international best practices on paper through inflation targeting and operational frameworks, but faces major gaps driven by deficit financing, political pressures, and severe balance-sheet strains. The findings revealed that Bank of Ghana derives its operational independence from the 1992 Constitution of Ghana and the foundational Bank of Ghana Act, 2002 (Act 612), which was further strengthened by the Bank of Ghana (Amendment) Act, 2016 (Act 918). This legal framework establishes price stability as its primary objective while maintaining structured legislative oversight. The study highlighted ambiguities in the Bank of Ghana independence framework center on the blurred lines between legal autonomy and statutory obligations to support state fiscal policies. While the Bank of Ghana Act 2002 Act 612 grants operational freedom, structural overlaps with the government create friction. The study revealed the following key ambiguities and lapses, goal vs. operational independence, mandate conflict, fiscal financing gaps and personnel security vs. executive pressure. The Bank of Ghana Act 2002 Act 612 does not clearly separate the power to set ultimate economic goals from the power to choose policy tools, leaving room for conflict between the central bank and the government. The primary focus on price stability clashes with the secondary statutory requirement to actively support broader government economic policies and growth. Vague provisions regarding emergency deficit financing historically allowed heavy debt monetization during economic crises before stricter limits were enforced. Legal tenure protection for the governor and board coexists with informal political pressure or premature terminations during changes in administration.

From central bank independence perspective, Ghana needs to do more to ensure that 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. Political interference, deficit financing, and overlapping statutory goals have historically challenged the Bank of Ghana. Pressures to accommodate public sector spending weaken institutional credibility and complicate inflation control.

The study revealed that political interference in the Bank of Ghana compromised its leadership security and operational credibility by forcing the central bank to fund government budget gaps and absorb massive financial losses. Political pressure led the bank to rely heavily on printing

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money to cover state fiscal imbalances. When the executive branch heavily influences appointments and dismissals without rigid legal tenure protections, governors face intense pressure to monetize government deficits. This structural vulnerability distorts inflation-targeting and weakens public trust in market stability The study highlighted mechanisms of interference through executive discretion, fiscal dominance and erosion of credibility. The Ghanaian president holds direct power to appoint and replace top central bank leadership, creating implicit career incentives to align with short-term political goals rather than long-term monetary prudence. Political pressure historically forces the central bank into heavy deficit financing and debt monetization during budget crunches, swelling the money supply. Frequent stakeholder disputes and partisan posturing over the bank's audited financial losses or balance sheet management degrade market confidence Bank of Ghana's independence is indispensable for stability-oriented monetary and financial stability policies. The independence of the Bank of Ghana is vital because it shields monetary decisions from short-term political pressures. Autonomy allows the central bank to focus on long-term price and financial stability rather than accommodating government budget deficits, which helps control inflation and build public market trust. At the current juncture, independence may come under threat as risks to price and financial stability have increased. Legal frameworks that protect central bank independence are thus more important. Fiscal rules and macroprudential policy frameworks are important complements that mitigate the risk of fiscal and financial dominance. But legal frameworks are not sufficient. The study revealed a further challenge to BoG's functional independence is its role in financing the government's fiscal deficits, which undermined its monetary policy and inflation control. Excessive fiscal imbalances sometimes force the central bank to monetize government debt. For instance, in 2019 and 2022, the Bank of Ghana was compelled to finance government debts of GHS 10 billion and GHS 45 billion, respectively, to support emergency expenditures. Many believe that this debt monetization fueled inflation, which complicated BoG's inflation-targeting strategy.

Bank of Ghana's independence also requires a high degree of accountability and transparency. It requires structured policy evaluations based on Bank of Ghana's mandates, and good public communication. Independence allows central bank to act on behalf of the public – but it does not isolate central bank from the public discourse. Good communication of Bank of Ghana can be a balancing act. On the one hand, policy evaluation of a rather technical nature is needed to ensure accountability and transparency. On the other hand, good and coherent narratives are essential to explain policy objectives and policy action to the broader public. This requires a constant process of translation of different languages. This translation cannot rely on an established dictionary. Videos, barrier-free-language, listening events and policy panels are all part of the tools that we should use to assist that translation. We also need to invest more time and effort into engaging with students of economics, finance, and other social sciences. Good communication is particularly important in the field of financial stability. Macroprudential policy aims to build up resilience and is of a preventive nature. It needs to act prior to the build-up of vulnerabilities and risks to financial stability. Therefore, it is hard to observe its effectiveness: if the financial system continues to function well, this could be due to good luck or good policy. The outcome would be observationally equivalent. Building trust in the ability of Ministry of Finance and Bank of Ghana to address risks to financial stability takes time. Bank sector reforms of the past decade have not made the financial system more resilient. Whether risks have been pushed to other, less regulated parts of the financial system, and how the global financial system will weather the next storm, requires heightened attention.

POLICY RECOMMENDATIONS

The results of this study have provided some useful insights into the importance of central bank independence across operational, regulatory, functional and personnel dimensions directly enhances macroeconomic stability and financial sector soundness. Bank of Ghana must focus on tightening legal limits on deficit financing, securing fixed non-renewable tenures for leadership, and clarifying the mandate between price stability and government growth objectives

First, the study supports Ghana's broader institutional reform discussions—highlighted by recent Constitutional Review Committee proposals accepted by the government to extend the governor and deputy governors terms to five years—parallel ongoing statutory adjustments regarding central bank governance. While statutory changes like the Bank of Ghana Amendment Act alter board mandates and operational rules, tenure protections and removal criteria for leadership remain anchored under core legal frameworks. The personnel independence must cover governance and tenure protection by implementing fixed, non-renewable multi-year terms (such as non-coterminous 5 to 10-year terms) for the Governor and board members to prevent politically motivated dismissals or replacements upon changes in government. Short terms of office create high job uncertainty. This pressure makes Governors and deputy governors more likely to give in to short-sighted political demands to secure their positions or future appointments. Independence will therefore be enhanced if the officers have long, staggered terms of service. Legal independence for the Bank of Ghana can be achieved through five critical structural reforms**:** matching or exceeding the standard political cycle with longer terms for leadership, insulating appointments and dismissals from direct executive control, legally prioritizing price stability over other economic goals, granting sole monetary policy authority to the central bank, and heavily restricting or outright banning direct lending to the government.

Second, another recommendation is that Bank of Ghana must adopt robust governance practices ensures the central bank fulfills its core statutory objectives efficiently, preserves public resources, and builds institutional credibility. Good governance acts as the foundational pillar for operational autonomy and public trust. The core pillars of Bank of

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Ghana's governance must include clear mandate, resource efficiency and accountability. Bank of Ghana must focus on primary objectives like price stability and financial system safety. Prevent misuse of public funds through strict internal controls and transparent reporting and maintain regular reporting lines to legislative bodies and the public. Appointing the central bank governor and board members based on merit and expertise through transparent selection criteria and processes will enhance the institution's independence and credibility, thereby improving its capacity to maintain price stability (Dincer and Eichengreen 2014; IMF 2020). Having staggered terms for board members that exceed the terms of executive and legislative bodies will help minimize political influence and ensure consistent implementation of long-term price stability-oriented policies. Furthermore, the central bank board should have nonexecutive members who provide independent oversight of the central bank's management of policy decisions and day-to-day issues. Ideally, the number of nonexecutive members should exceed that of executive members for more robust board oversight (BIS 2009; Bossu and Rossi 2019).28 Improving governance also encompasses strengthening internal organization, including risk management and cybersecurity (Khan 2016; Khan and Malaika 2021), internal audit, human resource management, and strategic planning. Dividing the nomination and appointment of a central bank governor between independent administrative bodies and the executive branch can reduce political patronage, foster institutional balance, and enhance technical credibility within public governance frameworks.

The term should be longer than the election cycle of the body with the predominant role in selecting the governor. Dismissal should be only for breaches of qualification requirements, or misconduct; lack of performance could also be grounds if clearly defined in terms of the primary objective and specific targets. The latter could be ruled upon according to a suitable and independent judicial procedure and perhaps be with the consent of the legislature. Composition of the board should ensure a reasonably well-informed and balanced view but avoid conflicts of interest. Precisely what is reasonable depends in part on the role of the board (decision-making, monitoring, or purely advisory), and whether it is a single or multiple board structure. The highest-level board should include a majority of non-executive, non-government directors. Indeed, direct government representatives should be eliminated from a policy board and probably also from a monitoring board. If a government representative does participate in a policy board, it should at least be without the right to vote (though it might be with a limited, temporary veto power). As with the governor, nomination and appointment/confirmation should be by different bodies; terms should be longer than the election cycle of the main body in the appointment process and should be staggered; and dismissal of board members should occur only for breaches of qualification requirements and misconduct, and on performance grounds only if clearly defined. The latter could be ruled upon according to a suitable and independent judicial procedure and be with the other board members' prior consent. Having the Governor chair the Board of Directors is, up to a degree, logical when the Board also formulates monetary policy. The Governor is the "face" of monetary policy and having him/her chair the body responsible for monetary policy formulation allows the central bank to present a unified and clear guidance on its monetary policy stance to the markets.

In major economies like the UK and the US, central bank governors or chairs lead collective boards and work closely with deputy teams to drive collegial, consensus-driven monetary and management policies.

Collegial teams should embrace wide deliberation and solicit input from senior staff with appropriate expertise to help ensure that decisions have taken account of relevant factors and alternative considerations. Furthermore, The Bank of Ghana may utilize a board committee structure to support its main governing body, as outlined by the Bank of Ghana Governance Structure, alongside specialized groups like the Monetary Policy Committee established under the Bank of Ghana Act.

Third, one key recommendation is that both Governor and Deputy Governors must go through a formal public appointment process involving open competition, ministerial recommendations, and Presidential approval. The key steps will include fair and open recruitment**,** formal recommendations by political leaders**,** and Presidential assent**.** Recruitment and selection process must include open competition and selection panel. Roles are advertised publicly, and candidates are assessed strictly on merit through a fair, open recruitment process. An independent selection panel made up of members from Ministry of Finance, Public Service Commission, Trade Union Congress and one of the reputable accounting firms for the interview and evaluation of qualified candidates to create a shortlist of suitable applicants for the position. The country's 1992 constitution must be amended to include the recruitment process where the Public Service Commission would be engaged to recruit and appoint the Governor and Deputy Governors like UK recruitment process of the governors and deputy governor to bring transparency and integrity rather than just promoting staff of research department with the Bank of Ghana as currently being practiced. The legal framework of the Bank of Ghana provides for operational autonomy under the 1992 Constitution and the Bank of Ghana Act, 2002 (Act 612), but statutory board composition allows a representative from the Ministry of Finance to participate directly in its governance. The statutory enforcement of a policy directive by government which may overrule the policy decisions of the central bank, is logically untenable for maintaining the independence of the bank. Such enforcement must be avoided, if it does not at least contain an arbitration clause that prescribes a public debate on the matters at issue between government and central bank. Bank of Ghana (Amendment Act 2025 Act 1158 also sets tighter eligibility criteria for board members for Bank of Ghana. Board changes under Act 1158 on tenure extension of governing board. Extends the term limits for members of the Bank of Ghana's governing board from 4 years to 5 years. The study further recommend that Bank of Ghana must implement rigorous criteria for Bank of Ghana board members helps prevent conflicts of

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interest and ensures strong professional competence. The central bank already utilizes legal frameworks like the Bank of Ghana Act, 2002 (Act 612) and Fit and Proper Person directives to evaluate leaders. Adjust operational terms and governance oversight to align with enhanced central bank autonomy. Mandates heightened risk and audit compliance requirements for board members supervising central bank operations. Improve board governance and structural frameworks, introducing stricter board eligibility requirements, enhanced audit oversight, and a formal recapitalization framework. This will be in line of central banking board governance best practices like UK and South Africa.

Fourth, another recommendation is that to prevent future monetization of government expenditures or accommodation of fiscal deficits there will be need to amend the 1992 Constitution to place the 45% of GDP debt-brake/cap. Adding an explicit debt ceiling or borrowing cap to Ghana's 1992 Constitution would elevate fiscal rules from easily changeable statutes to entrenched national limits, preventing simple parliamentary majorities from relaxing debt and deficit controls for short-term political expediency. Ordinary statutes and parliamentary amendments passed by a simple majority are easily modified or overridden by subsequent majorities through standard legislative repeal or amendment processes. This flexibility allows ruling governments to adjust laws or secure additional financing when their political priorities or legislative numbers change. Constitutional provisions require rigorous, multi-partisan consensus and referendums to change. A constitutional ceiling prevents the legislature from easily expanding overdraft limits or approving excessive monetary financing during economic crunches. The Bank of Ghana Amendment Act, 2025 (Act 1158) introduces legal caps on central bank financing and strict definitions for emergency lending, but the study argues that legislative loopholes and a majoritarian political culture could still enable the suspension of fiscal rules.

In August 2020, the Parliament of Ghana lawfully approved the suspension of fiscal rules under Section 3 of the Fiscal Responsibility Act, 2018 (Act 982), following a formal request by the Minister of Finance due to severe economic shocks and public health demands from the COVID-19 pandemic

The Bank of Ghana (Amendment) Act, 2025 was passed by Parliament on December 18, 2025, to restrict central bank financing of the government, enforce strict legal caps, and fulfill International Monetary Fund (IMF) requirements. Parliament holds no legislative mechanism or intent to "suspend" the operational law; rather, the majority and minority debate its provisions and financial outcomes. In parliamentary democracies like Ghana, a simple majority possesses the numerical capacity to amend, suspend, or repeal existing legislation, meaning no absolute procedural safeguard permanently prevents a ruling majority from altering an act if it commands the required votes. However, suspending or modifying the Bank of Ghana Amendment Bill / Act would still require following formal legislative processes, including tabling a motion, debates, and voting on the floor of Parliament. The study recommends that the only and lasting solution to the monetization of government expenditure will be that Ghana must enshrinement in the Ghana's constitutional "debt brake or debt cap" requiring structural budget balance over the economic cycle. Several countries have explicit public debt caps, debt limits, or balanced-budget/debt-brake rules enshrined directly in their national constitutions. Countries with constitutional debt caps or debt brakes include: Germany: The Basic Law contains a strict constitutional "debt brake" (*Schuldenbremse*) limiting structural federal budget deficits to 0.35% of GDP; Poland: The national constitution caps public debt at 60% of GDP**.**

Fifth, one key recommendation is that Ghana must move towards the establishment of a dual-harmonized and autonomous regulatory system that would include the establishment of a prudential regulation authority and a market conduct authority. This will assist in taking on some duties for market behavior regulation in the banking, credit, securities, insurance, and pension sectors. This is intended to shift regulatory attention to consumer protection while reducing regulatory oversight from the BOG. Again, a financial sector prudential regulatory body under the authority of the Bank of Ghana should be formed to take over the prudential regulation tasks of the following regulatory institutions: supervision of banking for the banking sector and non-banking sector institutions; securities and exchange; and national pensions, among others. The study recommends the Twin Peaks model of financial regulation that splits oversight into two distinct, independent regulatory bodies: one for prudential regulation **(**safety and soundness**)** and another for market conduct and consumer protection. Twin peaks regulation could improve central bank independence by clarifying institutional mandates, reducing conflicts of interest, and separating micro-level conduct rules from macro-level monetary policy. Prudential regulation will focus on the solvency and safety and soundness of financial institutions. Prudential regulation will be justified on the grounds that consumers are not in a position to judge the safety and soundness financial institutions. This is particularly important when the post contract behavior of the institution determines the value of contracts, and when the institution may become riskier because of a change in its behavior after a long-term contract has been taken out by consumers as is the case with insurance contracts and bank deposits. Conduct of business regulation will focus on how financial firms conduct business with their customers. Conduct issues will include mandatory information disclosure, the honesty and integrity of financial service providers, the level and competence of firms supplying financial services and products, fair business practices and the way financial products are marketed.

Sixth, another recommendation is that protecting the Bank of Ghana's financial independence prevents indirect political control through funding rules or depleted capital. Safeguarding this autonomy involves clear legal frameworks, structured recapitalization, and separating monetary policy from quasi-fiscal burdens. Protecting the Bank of Ghana's financial and budgetary independence requires strictly

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limiting fiscal deficit monetization, enforcing automatic state recapitalization during losses, barring primary market government security purchases, and securing fixed, protected tenures for bank leadership to prevent political interference. To improve its budgetary and financial independence following heavy losses from domestic debt exchange program (DDEP) and stabilization policies, the Bank of Ghana must permanently halt unbudgeted quasi-fiscal activities, execute a strict recapitalization roadmap, and enforce legal caps on government borrowing. Bank of Ghana must rationalize monetary instruments by optimizing Open Market Operations (OMO) to minimize soaring interest expenses incurred from absorbing excess liquidity. Bank of Ghana must halt quasi-fiscal operations such as the Domestic Gold Purchase Programme (DGPP) fully to specialized state entities like the Ghana Gold Board (GoldBod), shielding the central bank balance sheet from commodity and operational risks. The Bank of Ghana (BoG) should secure budgetary independence by enforcing strict zero-financing limits on government deficits, implementing automatic recapitalization rules during losses, and adhering to transparent profit-retention frameworks. The board of directors must ensure operational safeguards through internal budgetary control. Maintain exclusive board-level authority over operational expenditures, staff management, and internal administrative budgets without external executive interference. The Board must enforce explicit, rule-based retained earnings and profit distribution policies to prevent fiscal pressures from stripping the bank's internal capital reserves. Budgetary independence is crucial for safeguarding BoG's ability to perform its monetary policy functions without compromise. A central bank with constrained finances may find its policy decisions influenced by fiscal authorities. Adequate capital, retained earnings, and well-defined profit distribution-rules ensure that BoG remains focused on its core objective—price stability. While BoG is government-owned, its financial independence is essential in maintaining its credibility and shielding it from political manipulation.

Seventh, the last but the least recommendation is that Bank of Ghana must ensure strict regulatory enforcement and supervisory focus target major banking problems. This approach ensures banks fix weak areas fast. It protects the whole financial system from big losses as well as focusing on Non-Performing Assets (NPAs) , ROA CAR, Basel 111 & IV, AML Act 2020 Act 1044 and general non-compliance. To help reduce this non-compliance, the BoG must intensify training, increase enforcement and regulation, and severely penalize non-compliance institutions.

Last recommendation is that Bank of Ghana must promote high standards of conduct and integrity in central bank supervisory and regulatory independence that requires strong institutional design, clear accountability frameworks, and rigorous ethical rules. Promoting high standards of conduct and strong institutional design at the Bank of Ghana protects public funds, prevents financial corruption, and ensures fair banking supervision without outside political interference. These safeguards build public trust and keep the national economy stable. Key methods include enforcing clear legal mandates, implementing strict conflict-of-interest codes, and maintaining open public transparency. To prevent banking crises, the Bank of Ghana can enhance staff integrity by enforcing strict ethical codes, executing independent internal audits, rotating supervisory personnel regularly to prevent undue familiarity with commercial banks, tying performance incentives to risk detection rather than volume, and empowering whistleblowers. Bank of Ghana requires standards and independence to safeguards public trust, stops corruption and balances power. Clear ethics and rules help the central bank fairly manage banks and protect people's savings. Strict internal rules and investigative units catch staff misconduct early and independence from outside pressure must match clear public reporting so power is not abused.

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