FACULTY OF COMMERCE

DEPARTMENT OF BANKING

PROJECT TITLE:

An evaluation of the effectiveness of Central Bank independence on economic development in third world countries. Case of Zimbabwe (1998-2008)

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ABSTRACT

Central banks are instrumental to shaping and implementing monetary policy in both industrial and developing countries. They affect exchange rates, interest rates, and the success of private banks within their home country. Today, the world economy is becoming more globalized with the passing of each day, so international financial flows are very important to both developing and developed countries. Central banks, when allowed a degree of independence in policymaking, aid in formulating monetary policy that promotes economic stability within their respective countries, and create an atmosphere friendly for foreign investment. Central bank independence (CBI) has become an important matter in recent times as many countries have sought to improve the CBI with an expectation of better economic performance. As central banks are created by government legislation, there is some kind of a relationship between the central bank and the government. Indeed, it may not be possible to completely separate them; the debate today is about the appropriate degree of separation. Various studies have since sought to prove a relationship between CBI and different macroeconomic variables such as inflation, economic growth and per capita growth. This research seeks to explore the independence of central banks in third world countries particularly Zimbabwe with respect to the formulation of monetary policy. This project analyses from various perspectives the advantages and disadvantages of CBI and aims to discuss the theoretical and empirical arguments in favor of autonomy. It investigates the determinants of independence, and, ultimately tries to decide whether or not an independent central bank is, in practice, desirable.