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FINANCIAL STABILITY IN CENTRAL AFRICA

BANQUE DES ÉTATS DE L'AFRIQUE CENTRALE
Direction générale des Études, Finances et Relations internationales

The Bank of Central African States (Banque des États de l'Afrique Centrale – BEAC) organised on 21 July 2009 in Libreville an international symposium titled "Financial stability in Central Africa". The introductory speech was given by Blaise Louembe, Minister of Economy, Finance, Budget, Investment Programming and Privatization, Gabon.

It was chaired by Philibert Andzembe, Governor of the BEAC.

The symposium provided an opportunity for a broad exchange of views between all the players of the sub-region involved in preserving financial stability. Moreover it brought together central bank Governors, representatives of member countries, international institutions and the banking profession, as well as leading academics.

The seminar was divided into four main sessions and a closing panel. The presentations covered the four following topics:

- Monetary policy and financial stability;
- Financial stability and prudential regulation;
- Financial sector supervision and the macroprudential approach;
- Organisation of the financial stability supervision function.

This paper sums up the different panel discussions and the recommendations that emerged from the debate following each session.

1| Monetary policy and financial stability

This panel was chaired by Bruno Cabrillac, Director of the Economics and International and European Relations Directorate of the Banque de France. The main presentation was given by Bernard Laurens, Deputy Division Chief of the Africa Regional Division of the IMF's Monetary and Capital Markets Department. Comments were then made by Jean-Claude Masangu Mulongo, Governor of the central bank of the Democratic Republic of Congo, René Mbappou Edjenguele, Director General for Research, Finance and International of the BEAC and Désiré Avom, Professor at the University of Yaoundé II.

Discussions revealed that between 1970 and 1990 a broad consensus emerged that central banks should be independent when conducting monetary policy, with the primary objective of price stability. For the CEMAC, another aspect of the BEAC's monetary policy should also be noted, namely the importance of ensuring that money and credit dynamics foster economic development.

In this respect, central banks have made progress in keeping inflation under control, but have fallen behind in financial stability matters. For instance, between 1990 and 2000 the mechanisms aimed at ensuring a better balance between monetary and financial stability were reviewed. For the BEAC, this decade was characterised by major reforms such as the creation of a money market, the establishment of the monetary programming exercise and the flexible interest rate policy. In addition, the Central African Banking Commission was set up.

Speakers also stressed that recurrent financial crises in recent years have highlighted the need to strengthen the role of central banks in the area of financial supervision. This would have a number of advantages such as better information flows and economies of scale in the prevention and management of systemic risks. It should, however, be noted that this new function could entail the risk of a conflict of interest due in particular to: i) a possible easing of monetary policy, with a view to facilitating the resolution of financial crisis or preventing difficulties and/or ii) the calling into question of the independence and credibility of central banks.

Ultimately, the speakers agreed that the initiatives of Western central banks have taught us the four main lessons: i) the importance of coordination and dialogue between stakeholders in financial stability; ii) the need to strengthen micro-prudential supervision; iii) the necessity to review the existing financial policy tools with a view to ensuring a better balance between monetary and financial stability; and lastly, iv) the need to strengthen payment systems and conduct sectoral analyses in order to identify potential systemic risks.

2| Financial stability and prudential regulation

This panel was chaired by Nabil Jijakli, Head of the Secretariat of the Financial Stability Committee at the Bank van België/Banque Nationale de Belgique. Discussions centred on the presentation by Jean-Philippe Svonoros of the Financial Stability Institute of the BIS. Comments were made by Idriss Ahmed Idriss, Secretary General of the Central African Banking Commission, Jean-Claude Ngbwa, Secretary General of the Inter-African Conference on Insurance Markets (CIMA) and Alexandre Gandou, Chairman of the Central African Financial market Supervisory Board (COSUMAF).

Discussions on this topic highlighted the need to not only make adjustments to prudential regulation but also carry out reforms in the area of financial supervision in order to limit the impact of the financial crisis on economic activity going forward. Moreover, in the light of business cycle developments and the high cost of managing financial crises, measures to better identify and prevent systemic risks must be taken. This is especially important given that size is not the sole criterion for assessing the systemic importance of an institution: both smaller and larger institutions may generate contagion effects. Consequently, the following steps should be taken: i) implement an overall framework to foster better macro-prudential supervision of the financial sector; ii) better calibrate prudential tools with respect to the macroeconomic environment; iii) strengthen good governance principles and external audits; iv) implement regulations to ensure better liquidity management and limit leverage. Lastly, it was suggested that national authorities, in particular finance ministries, should be involved in the financial stability process.

However, changes to regulation must not hamper financial innovation.

To sum up, the following was proposed:

- implement an overall consultation framework that would bring together all the supervisors and countries, within which the central bank would play a prominent role;
- take account of current international discussions on: i) identifying sources of vulnerability of financial systems; ii) defining tools for macro-prudential supervision and iii) dividing up roles between institutions for maintaining financial stability;
- move towards a macro-prudential approach to supervision in order to: i) cover all segments of the financial system; ii) limit the pro-cyclical effects of financial systems, the adverse interactions between regulations, the negative feedback loop between financial markets and the real economy, and perverse incentives created by regulation; and iii) prevent systemic risk.

3| Need for a macro-prudential approach to financial sector supervision

This panel was chaired by Bernard Laurens. Comments by Chicot Eboue, Professor at University of Nancy 2, Abderrahim Bouazza of the Central Bank of Morocco and Jean-Claude Masangu Mulongo, were made on the main presentation given by Cyril Pouvelle, Deputy Head of the Macrofinance Division at the Banque de France.

In the discussions surrounding this panel, macro-prudential supervision was defined as aiming to detect the risks of instability to the financial system as a whole, in order to prevent systemic risk and its detrimental impact on the real economy. Participants stressed the fact that such supervision should be conducted both: i) upstream, in crisis prevention, in order notably to strengthen the prudential framework and ii) downstream, in crisis management, in order to guide the decisions of public authorities with regard to the bailing out of financial institutions. Moreover, participants judged that the need to implement a macro-prudential approach largely stemmed from the shortfalls of micro-prudential supervision, the economic costs of crises and the financial cost of implicit guarantees and emergency government interventions.

Lastly, discussions also focused on the role of the central bank as the main institution in charge of implementing macro-prudential supervision, as well as on developing relevant vulnerability indicators. Participants agreed on the need to strengthen micro-prudential tools and standards, using macroeconomic indicators associated with financial system soundness and macroprudential tools.

The main recommendations formulated stressed the need to:

- develop a conceptual framework for analysing the linkages between the real economy and the financial sector;

- set up within central banks a macro-prudential supervision function;

- foster cooperation between central banks and micro-prudential supervisors and make all players involved aware of their responsibilities;

- establish a system for exchanging information among stakeholders in financial stability.

4| Organisational aspects

This panel was chaired by Philippe-Henri Dacoury-Tabley, Governor of the BCEAO. Presentations were delivered by Cyril Pouvelle, Samba Thiam of the IMF's African Department and Benedict Belibi, Delegate General of the Central African Office (OMAC) set up to modernize the means of payment in the region, following the main presentation by Nabil Jijakli.

Discussions in this panel proposed three non-mutually exclusive models for financial supervision: i) a sectoral model, whereby supervision is conducted by specialised authorities in each financial sector; ii) an integrated model where supervision is carried out by a single regulator that supervises the different financial sectors and has full overall responsibility; and iii) an objective-based model in which a distinction is made between the objective of prudential supervision for all sectors, which is entrusted to one authority, and the objective of the supervision of financial markets and the transparency of institutions, which is the remit of another authority. Therefore, while the role assigned to central banks may vary across jurisdictions, their involvement is nevertheless essential, as is cooperation with other regulatory and supervisory bodies. For instance, the cooperation between the BEAC and the OMAC in the reform and management of payment instruments and systems shows the importance of true collaboration between central banks and the various regulatory authorities.

Following the discussions in this panel, these recommendations were endorsed, in particular in the area of cooperation and coordination between the different players. However, in view of the systemic importance of banks with foreign capital in Central and West Africa, it is also important to establish a dialogue with home country supervisors in order to reduce the risks of contagion and to clarify the responsibilities of the lenders of last resort for these institutions.

In conclusion, twelve recommendations were made with a view to promoting financial stability in the CEMAC and strengthening macro and micro-prudential arrangements. These recommendations were mainly aimed at the monetary and financial authorities and the supervisory bodies of the six member countries. They will act as a reference framework for setting up a financial stability committee in Central Africa.

The closing session was chaired by Philibert Andzembe.

Symposium on financial stability in Central Africa
Main recommendations

Areas of action	No	Recommended actions	Institutions responsible	Institutions concerned
Monetary policy and financial stability	1	Establish true coordination and dialogue between stakeholders in financial stability.	BEAC	COBAC, COSUMAF, CIMA, CMF, OMAC, CIPRES and States
	2	Foster information sharing.	BEAC	COBAC, COSUMAF, CIMA, CMF, OMAC, CIPRES and States
	3	Strengthen micro-prudential supervision.	BEAC, COBAC, COSUMAF, CIMA, CMF, OMAC and CIPRES	
	4	Review existing mechanisms, to strike a better balance between monetary and financial stability. Integrate the financial stability function into monetary policy making.	BEAC	
Financial stability and prudential regulation	5	Conduct sectoral studies to identify systemic risks.	BEAC, COBAC, COSUMAF, CIMA, CMF, OMAC, CIPRES and States	
	6	Implement an overall consultation framework bringing together all supervisors and countries, in which the BEAC would play a predominant role.	BEAC	COBAC, COSUMAF, CIMA, CMF, OMAC, CIPRES and States
	7	Take account of current international discussions on defining tools for macro-prudential supervision and dividing up roles between institutions for maintaining financial stability.	BEAC	COBAC, COSUMAF, CIMA, CMF, OMAC, CIPRES and States
	8	Move towards a macro-prudential approach to financial supervision.	BEAC	COBAC, CIMA, COSUMAF, CMF, OMAC, CIPRES and States
Macro-prudential approach to financial sector supervision	9	Develop a conceptual framework for analysing the linkages between the real economy and the financial sector.	BEAC	COBAC, COSUMAF, CIMA, CMF, OMAC, CIPRES and States
	10	Set up within central banks a macro-prudential function.	BEAC	
	11	Establish a dialogue with home country supervisors in order to reduce the risks of contagion.	BEAC, COBAC	
Organisational aspects	12	Clarify the responsibilities of the lenders of last resort for banks with foreign capital.	BEAC	COBAC