ASSOCIATION DES BANQUES CENTRALES AFRICAINES — ASSOCIATION OF AFRICAN CENTRAL BANKS

Annex 5

ASSOCIATION OF AFRICAN

CENTRAL BANKS (AACB)

39th ORDINARY MEETING

OF THE ASSEMBLY OF GOVERNORS

(Abuja, Nigeria, 19 August 2016)

REPORT OF THE SURVEY ON MONETARY POLICY FRAMEWORKS

OF AACB MEMBER CENTRAL BANKS

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Table of contents

SUMMARY

At its 38th ordinary session held on 14 August 2015 in Malabo, Equatorial Guinea, the Assembly of Governors instructed the AACB Secretariat to conduct a survey on the monetary policy frameworks of member central banks and present a report at the next AACB Assembly of Governors, scheduled for August 2016. This survey, which is a follow-up on the recommendations of the 2015 continental seminar, held from 13 to 15 May 2015 in Nairobi, Kenya, is intended to provide further knowledge of African central banks and could serve as a basis for an improved harmonization of the monetary policy frameworks, with a view to creating an African Central Bank (ACB).

The survey was conducted by the AACB Secretariat on the basis of a questionnaire submitted to the 39 central banks (CB) members of AACB, for the period from 27 April to 1 July 2016. At the end of this period, 25 Central Banks transmitted their responses, i.e. a response rate of 64.1%. SPSS Statistical software was used for data processing.

The survey findings reveal that, at the institutional level, the Board of Governors and the Monetary Policy Committee (MPC) are the main monetary policy decision-making entities of central banks members of the AACB (96.0% of CB) and 76.0% of them have been established by law or through a legal framework. These Decision-making entities generally comprise 4 to 18 members, appointed by the Board of Governors of the Bank through internal arrangements (36.0% of CB) or by the Governor, who is appointed by Presidential Decree or the Government (36.0% of CB). They are primarily mandated to define the monetary and credit policy as well as its implementing instruments (72.0% of CB).

In this respect and at the operational level, the central banks often select a target based on the monetary policy regime and, in this regard, define tools for the conduct of an effective monetary policy. The survey findings show that 48.0% of central banks adopt monetary aggregates targeting while 24.0% practice inflation targeting and 12.0% use inflation targeting lite.

The central banks members of the AACB are striving to attain various targets, in particular;

- international reserves by central banks which primarily adopt monetary aggregates targeting (28.0% of CB) and exchange rate targeting (8.0% of CB);
- the weighted average rate of the interbank market generally selected by central banks with an inflation targeting regime (12.0% of CB), monetary policy with an implicit nominal anchor regime (4.0%) or inflation targeting lite (12.0 % of CB).

The survey findings further reveal that the monetary and credit management system of central banks has market-based mechanisms and indirect instruments used to regulate liquidity, in particular the interest rates and reserve requirements system. The interest rate policy is largely based on key central bank policy rates. The central bank interest rates are steered within the framework of the active management of bank liquidity, by using the central bank intervention windows for two main operations: market operations and standing facilities.

The market operations, performed by almost all central banks, is primarily based on the open market, which essentially seeks to regulate bank liquidity, through the injection or withdrawal of liquidity depending on the economic situation. The main operations are, in particular:

- liquidity injection or withdrawal operations through bidding or auction (96.0% of CB) or outright purchases or sales;
- sale or purchase of central bank bills or securities (25.0% of CB), with varying frequencies and maturity levels;

– operations involving government bonds (17.3% of the 23 CB concerned), performed in the form of auctions.

With regard to standing facilities, it was noted that all the 25 central banks grant facilities to eligible counterparties, often on their own initiative. These consist in standing lending and deposit facilities. Resources are allocated through these permanent bank branches through repurchasing procedures, intra-day advances, Lombard loans and emergency facilities. Some central banks (36.0% of the 25 CB) provide deposit facilities that are often very short-term operations, to eligible counterparties.

Market operations and facilities provided by central banks are generally guaranteed by eligible collaterals, namely public and private securities as well as central bank bills.

The reserve requirements system itself is used by 96.0% of the 25 CB as a monetary policy tool, in order to create or enlarge the banks' liquidity shortage. The survey findings reveal that the required reserves are held on average on a semi-monthly (33.3% of CB), monthly (33.3% of CB) or weekly (16.7% of CB) basis. The reserve requirements base depends on several elements including deposits (84.0% of CB). The reserve requirements ratios applicable to banks vary according to the central banks concerned.

Besides, as part of their communication policy, some central banks publish decisions taken at the end of their meeting, or forecasts of macroeconomic variables. All the 25 central banks that sent their responses to the questionnaire submitted to them, acknowledged that at the end of their meetings, they provide the market and the public with information on recent economic developments, the summary of official reports or the key factors that motivate the decisions of the monetary policy deciding entities, etc.

Moreover, the majority of the 25 above-mentioned central banks draw up economic forecasts (64.0% of CB) and inflation forecasts (76.0% of CB), although only 40.0% of them are required to do so, pursuant to the regulation. About half of the central banks (48.0%) publish these forecasts in various documents (reports, economic outlook and background notes, bulletins, etc.) while only a few central banks publish their liquidity forecasts (16.0% of CB).

INTRODUCTION

At the end of the deliberations of the 2015 Continental Seminar, held from 13 to 15 May 2015 in Nairobi, Kenya, a recommendation was made for the conduct of a survey on the monetary policy frameworks of central banks members of the Association of African Central Banks (ABCA).

Thus, at its 38th ordinary session held on 14 August 2015 in Malabo, Equatorial Guinea, the Assembly of Governors directed the AACB Secretariat to conduct a survey on the monetary policy frameworks of member central banks and present a report at the next AACB Assembly of Governors, scheduled for August 2016. The survey is meant to provide a better knowledge of African central banks which would serve as a basis for the enhanced harmonization of monetary policy frameworks of member central banks, with a view to creating an African Central Bank (ACB).

To implement this directive, the AACB Secretariat prepared a questionnaire (attached in annex 1), which was submitted to the 39 central banks (CB) members of the AACB during the period 27 April to 1st July 2016.

The purpose of the questionnaire was to gather information from competent Services of the various central banks and was to be returned to the AACB Secretariat. At the end of the above-mentioned period, 25 central banks transmitted their responses, i.e. a response rate of 64.1%. However, the disparities between the regions is worth noting (cf. table 1 of annex 2). The highest rates of response were registered in the Southern Africa (90.9%), North Africa (66.7%) and Central Africa (66.7%) sub-regions.

Moreover, difficulties were encountered during the conduct of the survey, due, in particular, to the late transmission of the questionnaires by some central banks and the missing responses on some items.

This report, presenting the findings of the above-mentioned survey, is organized in three main parts:

I- Decision-making entities in African central banks members of the AACB;

II- Monetary policy implementation in these central banks;

III- Monetary policy communication.

I DECISION-MAKING ENTITIES IN CENTRAL BANKS

According to the survey findings, the decision-making entities in central banks members of the AACB differ from one country (or region) to another, depending on the composition and the method used to appoint the managers.

1.1 Composition and mission of decision-making entities

At the institutional level, the survey findings reveal that the Board of Governors and the Monetary Policy Committee (MPC) are the main monetary policy decision-making entities of AACB member central banks, with 48.0% of central banks for each Entity.

These entities are not all statutory. In fact, 76.0% of central banks (19) have acknowledged that their decision-making entity is established by law or a legal framework and 8.0% (2)[1] which stated that it is not statutory. There is need to specify that 91.7% of Boards of Governors (11 central banks out of 12) have a legal status against 58.3% (7 out of 12) for the MPC.

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[1]/It should be noted that 4 central banks did not answer this question.

The majority of central banks state that the decision-making entities are primarily mandated to define the monetary and credit policy as well as its implementing instruments (72.0% of CB). They generally comprise between 4 to 18 members. About half of them (48.0%) have 7 to 9 members (12 CB) while 20.0% (5) of decision-making entities comprise between 10 to 12 members.

Table 1 below shows that the decision-making entities are essentially composed of:

- a Governor, Vice-Governors (1 or 2) and internal members (44.0% or 11 CB);
- the latter are complemented by external members (28.0% or 7 CB).

Table 1: Allocation of membership of decision-making entities (in %)

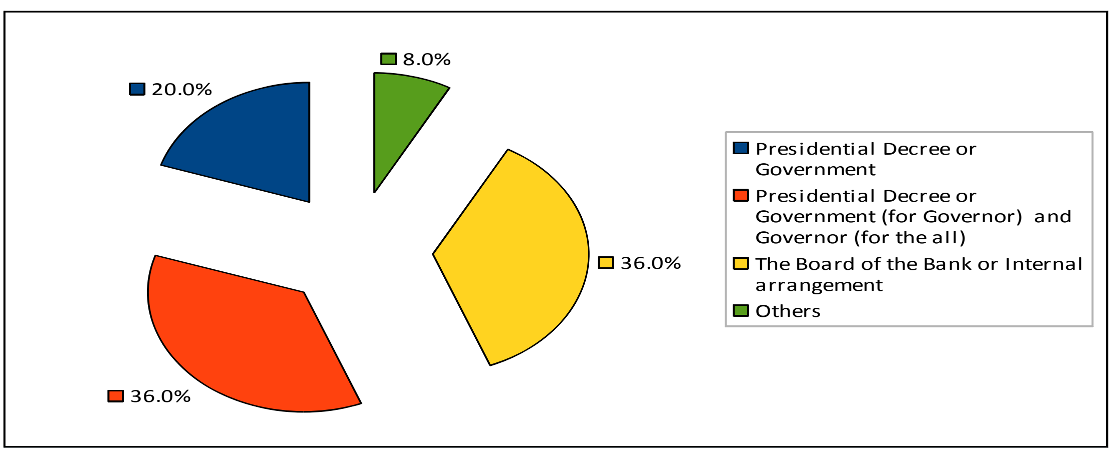
Decision making entity	Composition of the decision-making entity						Total
	Governor and Deputy Governors	Governor, Deputy Governors and internal members	Governor, Deputy Governors, internal and external members	Governor, Deputy Governors and external members	Others	Undetermined	
Board of Directors	4.0	24.0	8.0	12.0			**48.0**
Monetary Policy Committee (MPC)		20.0	16.0	4.0	4.0	4.0	**48.0**
Others			4.0				**4.0**
Total	**4.0**	**44.0**	**28.0**	**16.0**	**4.0**	**4.0**	**100.0**

Source : Survey

1.2 Appointment and meeting of members of decision-making entites

Figure 1 shows that members of the decision-making entities are often appointed by the Board of Governors of the Bank through internal arrangements (36.0% of CB) or by the Governor, who is appointed by Presidential Decree or the Government (36.0% of CB). In some central banks (20.0%), the President of the Republic or the Government appoints members of the decision-making entity.

Figure 1: Procedure for appointing members of decision-making entities (%)



Source Survey

Moreover, the frequency of meetings of decision-making entities varies from one central bank to another. While in some central banks meetings are held 4 times a year (48.0% of CB), others hold their meetings every 2 months (24.0%), every month (12.0% of CB) or every 6 weeks (8.0% of CB).

Most of these meetings are scheduled (84.0% of central banks) and half of the central banks publish them beforehand. They are held[2] for one, two and three day(s) for respectively 28.0%, 20.0% and 8.0% of central banks. For 52.0% of central banks, decisions are taken during meetings by consensus while 32.0% of them take their decisions by a simple majority vote, with a casting vote for the Governor, in the event of a tie.

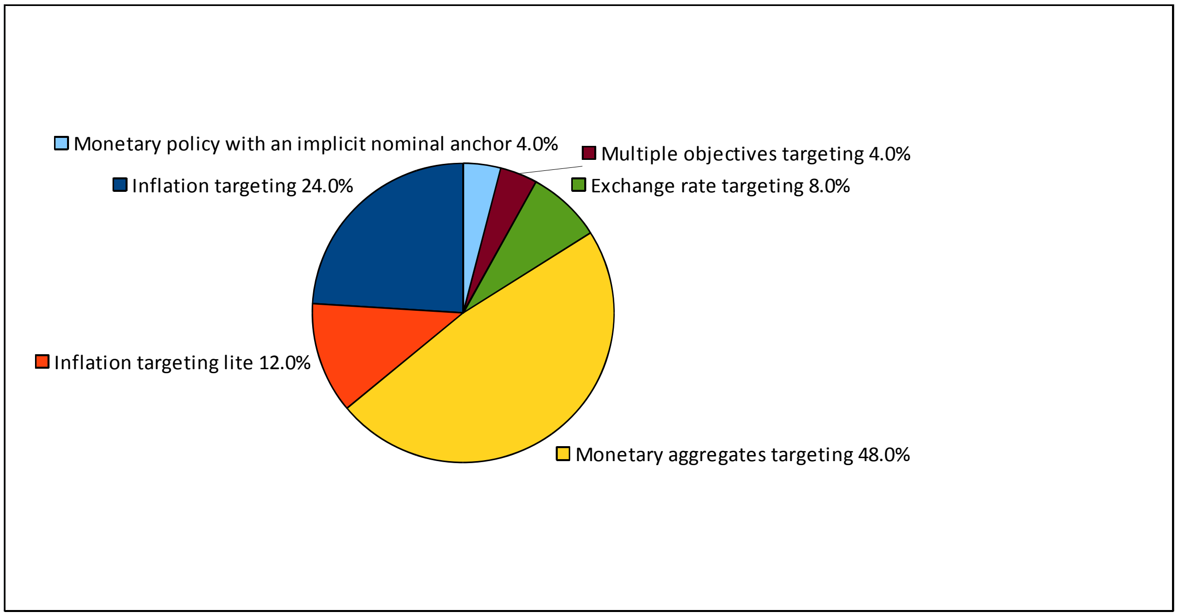
II MONETARY POLICY IMPLEMENTATION

The monetary policy is implemented through instruments selected by the central banks, on the basis of the monetary policy regime.

2.1 Monetary policy regimes

The survey findings reveal that several monetary policy regimes are used by central banks (cf. figure 2). They show that 48.0% of central banks adopt monetary aggregates targeting while 24.0% use inflation targeting and 12.0% inflation targeting lite. The definitions of these different monetary policy regimes are provided in annex 1.

Figure 2: Monetary policy regimes (%)



Source: Survey

[2]/About half of the central banks (44.0%) did not answer this question.

2.2 Monetary policy implementation instruments

At the operational level, central banks often choose an operational target based on the monetary policy regime and, in this regard, define instruments for the conduct of an effective monetary policy.

2.2.1 Operational targets of central banks

Central banks, with the exception of those that did not fill this section (8.0% or 2 BC), seek to attain the various targets that can relate to (cf. table 2):

- the level (average) of official reserves (36.0% of CB);
- monetary aggregates, in particular money supply, the monetary base or their growth rate (20.0% of CB);
- the weighted average rate on the interbank market (28.0% of CB);
- the two-week rate of return of certificates issued by the central bank (4.0% of CB);
- the repo rate (4.0%).

The targets are selected on the basis of the monetary policy regime adopted by the central bank (cf. table 2).

Table 2: Operational targets according to the monetary policy regimes and regions

operational targets	Monetary policy regimes	Sub-region	Proportion of CB (%)
Monetary base Or money supply	Monetary aggregates targeting	Southern Africa	8.0
		Central Africa	8.0
		North Africa	4.0
Sub-total Monetary base Or money supply			**20.0**
Repo rate	Inflation targeting	Southern Africa	4.0
Sub- total Repo rate			**4.0**
International (or official) reserves	Monetary aggregates targeting	Southern Africa	8.0
		East Africa	8.0
		West Africa	8.0
		North Africa	4.0
	Exchange rate targeting	Southern Africa	8.0
Sub-total International (or official) reserves			**36.0**
Central bank certificate yield	Inflation targeting	Southern Africa	4.0
Sub-total Central bank certifcate yield			**4.0**
Interbank money rate	Inflation targeting	East Africa	4.0
		West Africa	4.0
		North Africa	4.0
	Inflation target lite	East Africa	12.0
	Monetary policy with an implicit nominal anchor	North Africa	4.0
Sub-total Interbank money rate			**28.0**
ND	Inflation targeting	Southern Africa	4.0
	Multi currency system	Southern Africa	4.0
Sub-total ND			**8.0**
Total			**100.0**

Source : Survey

ND : Not Determined

According to table 2, international reserves are selected as operational targets by central banks that primarily use monetary aggregates targeting (28.0% of CB) and exchange rate targeting (8.0% of CB). However, the weighted average rate on the interbank market is very often selected as operational target by central banks with an inflation targeting regime (12.0% of CB) or inflation targeting lite (12.0 % of CB).

At the geographic level, it is worth noting that the central banks of East Africa (Bank of Mauritius and the Bank of Uganda) and a Southern African bank (Bank of Zambia) have adopted the inflation targeting lite while other countries of Southern Africa (Bank of Namibia et Central Bank of Lesotho) have adopted exchange rate targeting.

2.2.2 Monetary policy instruments

The survey findings reveal that the monetary and credit management system of central banks has market-based mechanisms and indirect instruments used to regulate liquidity, in particular, the interest rates and reserve requirements system.

2.2.2.1 Interest rate policy

The interest rate policy is primarily based on the key central bank policy rates. All those questioned, with the exception of two central banks which did not fill this section, have one key policy rate (92.0% of 25 CB) or two policy rates (BCEAO). Depending on the central banks, it is referred to as:

- central Bank rate (32.0% of CB);
- monetary policy rate (20.0%);
- key repo rate (20.0%);
- discount rate (4.0%, Central Bank of Swaziland);
- marginal lending rate and minimum rate of submissions to tender call operations for the provision of liquidity (4,0%, BCEAO)[3] ;
- liquidity-absorbing operation rate (4.0%, Bank of Algeria);
- interest rate for tender operations (4.0%, BEAC)[4].

The central bank interest rates are steered within the framework of the active management of bank liquidity, by using the central bank intervention window for two main operations: market operations and standing facilities.

A) Market operations

The survey findings show that all the central banks that filled out this section (24 out of 25) have acknowledged performing market transactions. The latter is primarily based on the open market, which seeks to regulate bank liquidity, through the injection or withdrawal of liquidity depending on the economic situation. Table 3 presents the main transactions performed.

[3] Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO).

[4] Banque des Etats de l'Afrique Centrale (BEAC).

Table 3: Types of market operations depending on function and maturities

Main Operations	Types of Operations	Function	Frequency	Maturity	Method of princing	Proportion of central bank (%)
			Weekly	1-12 months	Multiple price auction	4.2
		Liquidity management	Monthly	1-14 days	Multiple price auction	4.2
			Not specified	1-12 months	Multiple price auction	4.2
	Auction	Liquidity management	According to market conditions	From 1 year	Multiple price auction	8.3
Central bank bills		Not specified	Monthly	1-14 days	Multiple price auction	4.2
Total Central bank bills						**25.0**
Liquidity withdrawal or injection	Outright purchase and sales	Not specified	Weekly	Not specified	Multiple price auction	4.2
	Auction		2 times the month	1-14 days	Multiple price auction	8.3
			Weekly	1-14 days	Multiple price auction	12.5
				7-84 jours	Multiple price auction	4.2
			Monthly	1 month	Multiple price auction	4.2
				1-12 months	Multiple price auction	4.2
			Not specified	1-14 days	Multiple price auction	8.3
				1-14 days	Multiple price auction	8.3
		Liquidity management		1-84 days	Multiple price auction	4.2
			Daily	Various maturities	Not specified	8.3
			According to market conditions	1-14 days	Multiple price auction	8.3
		Influence the short-term liquidity conditions in the interbank market	Weekly	1-14 days	Multiple price auction	20.8
			Daily	1-14 days	Multiple price auction	4.2
Total Liquidity withdrawal or injection						***100.0***
SWAPs	**Outright purchase and sales**	**Liquidity management**	**Daily**	**Not specified**	**Negotiable (not auction)**	**4.2**
			2 times the month	1-12 months	Multiple price auction	4.2
				1-12 months	Multiple price auction	4.2
Government securities (bills and bonds)	Auction	Facilitate the purchase and sale of government securities to finance the government budget	Weekly	1 month to 15 years	Multiple price auction	4.2
			Monthly	Various maturities	Multiple price auction	4.2
Total Government securities (bills and bonds)						***16.7***
Sale and purchase of foreign exchange	Auction	Liquidity management	Daily	1-14 days	Multiple price auction	4.2
Total Sale and purchase of foreign exchange						***4.2***

Source : Survey

a) Liquidity withdrawal or injection operations

Table 3 above reveals that all the 24 Central Banks that filled out this section perform liquidity withdrawal and injection operations. These generally consist in repurchase or reverse repurchase transactions through tendering or auction operations (96.0% of CB) or outright purchases or sales.

These operations are primarily intended to regulate bank liquidity (70.8% of CB) or influence the short-term liquidity conditions of the interbank market (25.0% of CB)[5].

According to central banks, these operations can be performed:

- weekly (41.7% of the CB) with maturities ranging from 1 to 14 days (33.3% of CB);
- daily (25.0% of CB) with maturities ranging from 1 to 14 days (12.5% of CB), from 1 to 84 days (4.2% of CB) or of different maturity levels (8.3% of CB);
- semi-monthly (8.3% of CB) with maturity of between 1 to 14 days;
- monthly (4.2% of CB) with a one-month maturity.

Other central banks (8.3% of CB) stated that some of the operations are not performed on a regular basis but according to market conditions.

Besides, most of these operations have multiple rates (91.7% of CB).

b) Transactions to sell or purchase Central Bank Bills and securities

Table 3 above shows that 25.0% of central banks issue or repurchase bills or securities from counterparties, in the form of bids, depending on the economic situation. These operations are in line with the bank liquidity regulation, and are meant to influence the short-term liquidity conditions of the interbank market.

They are performed on a monthly basis (8.3% of the BC), depending on market conditions (8.3% of CB) or on a weekly basis (4.2% of CB). These operations can have short maturities (1 to 14 days for 8.3% of CB), or relatively longer maturities (from 1 to 12 months for 8.3% of CB and over a year for 8.3% of CB).

Multiple rates are used for all these operations.

c) Operations involving government bonds

It involves the sale of securities (bills or bonds) by the States to finance their deficits or investments. These transactions are carried out by 17.3% of the 23 Central Banks that provided information on market operations.

The operations take the form of bidding, on a weekly (8.3% of CB), semi-monthly (4.2% of CB) or monthly (4.2% of CB) basis. Their maturities are generally longer, ranging from one to 12 months for bills and more than a year for Treasury bonds. They use multiple rates.

d) SWAP transactions

These consist in outright foreign currency sale and purchase transactions. They are marginal and are carried out by only one Central Bank (the Reserve Bank of Malawi). They are performed daily and are primarily meant to regulate bank liquidity. The rates used are negotiable.

5/ 4.0% of central banks did not fill this section.

B) Permanent facilities

With regard to standing facilities, central banks often take the initiative to grant facilities to eligible counterparties, in particular, standing lending and deposit facilities (cf. table 4).

The facilities granted to eligible counterparties by some central banks (52.0%) are generally limited by certain criteria, in particular the amount of FX deposit provided (a rebate is applied) or by the amount of reserves in required cash.

a) Standing lending facilities

The survey findings show that all the 25 central banks provide standing lending facilities to eligible counterparties. Resources are allocated through these permanent windows on the basis of repurchasing procedures, intra-day advances, Lombard loans and emergency facilities.

Repurchasing or marginal lending facilities

Table 4 shows that two-thirds of central banks acknowledge that they constantly provide supplementary liquidities to eligible counterparties, at their own initiative, in the form repurchasing of marginal lending facilities.

These intervention windows may operate for between one and seven days (64.0% of the 25 CB) on the one hand, and 3 to 12 months (4.0% of CB) on the other hand. They are backed by eligible collaterals with a residual duration of 5 to 20 years.

These operations shall bear the key policy rate of central banks raised by a few basis points of 20 to 1 000 bp (56.0% of CB). One central bank (BCEAO) applies the rates fixed at the level of the ceiling key policy rate.

The intra-day advances

Some central banks reveal that in addition to these operations, they are engaged in others (cf. table 4), notably intra-day advances (20.0% of CB). These are loans guaranteed by FX deposits, refundable the same day, granted to participants to enable them to meet a specific need for cash during the exchange day.

The rate applicable to the loans granted to banks on this permanent counter is free (8.0% of the BC) or corresponds to the key policy rate raised by a few basis points (4.0% of CB).

Table 4: Various types of facilities based on maturities

Type of facilities	Form	Maturity	Method of pricing	Proportion of CB (%)
Deposit standing facility	Unprecised	Unprecised	Unprecised	4.0
		7days	Unprecised	4.0
		Overnight	Unprecised	28.0
Total Deposit standing facility				***36.0***
Repurchase (or marginal loan facility)	Collateral	1-7 days	Key rate (maximum)	12.0
			Key rate + x bps	8.0
		Overnight	Key rate + x bps	40.0
	Collateral (residual term of 5 to 20 years)	3-12 months	Key rate (maximum)	4.0
	Repo	Overnight	Key rate + x bps	4.0
Total Repurchase (or marginal loan facility)				***68.0***
Intraday advance	Collateral	Within the day	Unprecised	8.0
			Key rate + x bps	4.0
			Free rates	8.0
Total Intraday advance				***20.0***
Lombard credit (credit against collateral)	Collateral	Within the day	Key rate + x bps	4.0
		Overnight	Key rate + x bps	4.0
Total Lombard credit				***8.0***
Emergency liquidity facility	Collateral	From 6 months	Key rate + x bps	4.0
Total Emergency liquidity facility				***4.0***

Source : Survey

Note: The cumulative proportions may exceed 100% because some central banks perform more than one operation.

Lombard loans (with pledged assets)

The Lombard loan is a lending facility which provides access to an advance on a current account against collateral in the form of deposit securities. The bank fixes the maximum advance rate for each marketable security, based on the creditworthiness of the counterparty and the corresponding security risk.

The survey findings show that three central banks (Central bank of Lesotho, Bank of Tanzania and Bank of Uganda) provide Lombard loans for a very short period (one-day maximum), to which they apply their key policy rate raised by a few basis points.

Emergency liquidity facilities

One central bank (Bank of Zambia) acknowledged providing emergency facilities to eligible counterparties. They have longer maturity periods (at least 6 months) and are collateralised.

The rates applied are higher than the key policy rate (raised by 10 basis points).

b) Standing deposit facilities

In addition to loan facilities, some central banks (36.0% of the 25 central banks) provide deposit facilities to eligible counterparties.

They are generally very short-term operations, with a one-day maturity (28.0% of CB) or 7-day maturity (4.0% of CB). The rates applied for these transactions are not specified.

c) Collaterals used

Overall, several collaterals are eligible for market operations (cf. table 5). The eligible collaterals are primarily government and private bonds both for market operations (29.2% of CB) and for facilities (50.0% of CB) granted to counterparties. Central bank bills are also used in abundance (16.7% and 29.2% respectively for the two types of operation).

Table 5: Eligible collaterals for different types of operations

Types of guarantees	Market operations	Facilities
Central bank bills	16.7	29.2
Public and Private securities	29.2	50.0
Not specified	54.2	20.8
Total	**100.0**	**100.0**

Source : Survey

Moreover, 56.0% of the 25 Central Banks reveal that they have discretionary powers to expand or limit the collateral types

C) Other operations

The central banks can perform other operations, in particular, exchange transactions and discretionary operations.

Indeed, 52.0% of central banks stated that they are engaged in exchange transactions, including currency SWAP (20.0%).

Furthermore, the central banks may consider it appropriate to engage in operations, at their discretion, based on the economic situation. The survey findings reveal that about half (48.0%) of the 25 central banks that responded to the submitted questionnaire are engaged in operations, at their discretion. For central banks that provided further information, these operations relate to:

- liquidity withdrawal or injection operations (30.8% of the 13 CB concerned), maturity of 1 to 15 days (15.4% of the 13 CB) and 1 to 12 months (15.4% of the 13 CB);
- the issuance of central bank bills (15.4% of CB);
- SWAP exchange transactions (15.4% of CB) with a maturity of one to 12 months for 7.7 % of the 13 central banks;
- rediscount of government securities (7.7% of CB).

These operations are primarily intended to regulate bank liquidity (61.5% of the 13 CB concerned) in order to influence interbank market conditions. Most of these operations are performed according to market conditions.

The interest rates applied are primarily multiple (38.5% of the 12 CB), and these operations are performed in the form of bidding.

2.2.2.2 The reserve requirements system

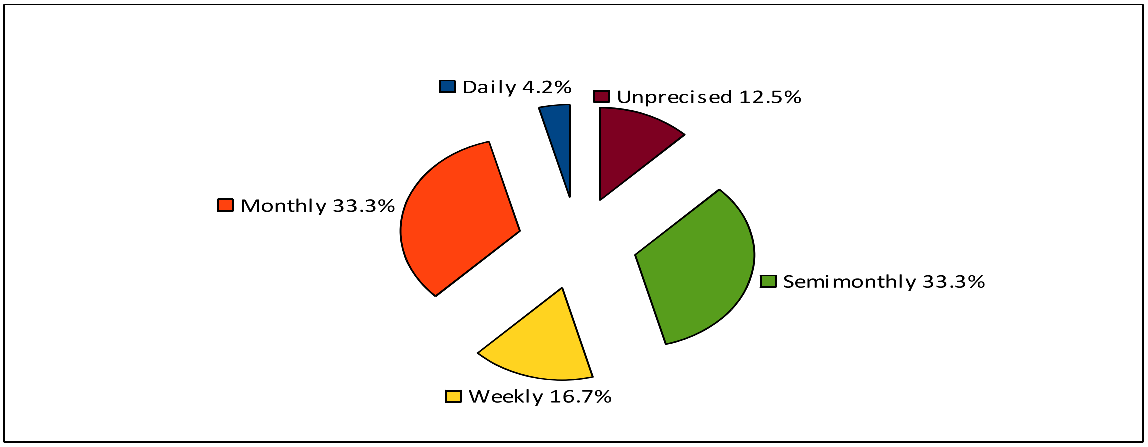
Required reserves (RR) are financial reserves that central banks require credit institutions to deposit with them. The reserve requirements system is used to create or enlarge a liquidity shortage in banks, so as to strengthen the capacity of central banks to intervene effectively as liquidity providers. This instrument is therefore meant to better improve the management of rates on the money market.

The majority of central banks (96.0% of the 25 CB) use the RR system as a monetary policy instrument. The required reserves are, according to figure 3, maintained by the banks on average for:

- a period of 14 or 15 days (semi-monthly) for 33.3% of CB. For central banks that provided precise details, the ending date is fixed on 6th and 21st of each month for 12.5% of them, Monday or Thursday after every fortnight for two CB (8.3%);
- a period of 28 or 30 (31) days (monthly) for 33.3% of CB. The maintenance period ends either in the middle of the month (14 or 15 of the month) for 16.7% of CB, 11th of each month (4.2%: BEAC) or the last day of the end of the month (4.2%: Banque Centrale de Madagascar). The other central banks did not give details regarding the end of the maintenance period;
- a one-week period (weekly) for 16.7% of CB, whose ending date is fixed on Sunday for half of these central banks (8.3%).

One central bank (Reserve Bank of Malawi) indicated that the RR are not provisioned on average but on a daily base.

Figure 3: Provision of minimum reserves according to periods



Source: Survey

In 84.0% of CB, the RR provisioning requirements are essentially based on the deposits alone. For other central banks, it is based either on liabilities (South Africa Reserve Bank)) or mixed (deposits and credit for a BC (BCEAO) and deposits and their maturity for two of them (BEAC and Banque Centrale du Congo).

The reserve requirements ratios applicable to the banks vary according to the central banks concerned. Those whose base depends on the deposits (20 CB) or commitments (1 CB), concern:

- between 5% and 10%[(6)] of the deposits for 33.3% of the 21 central banks concerned (20 CB);
- between 10 and 15% of the deposits for 33.3% of the CB concerned;
- between 1 and 5% of the deposits for 9.5% of CB;
- a minimum of 20% of the deposits for 9.5% of the CB;
- between 15 and 20% of the deposits for one central bank (4.8% of CB: Banque Centrale de la République de Guinée);
- 10% on the deposits of the private sector and 40% on those of the State for 4.8% of CB (1CB: Bank of Tanzania);
- 2.5% of the bank liabilities for 4.8% of CB (1 CB: South Africa Bank Reserve).

The ratio is currently fixed at 5% for the central bank using deposits and short-term credits (BCEAO).

In addition, two out of the 24 central banks concerned (8.3% of CB: Banque d'Algérie and BEAC) with required reserves stated that RR are remunerated with an interest rate of 0.5% and 0.05% respectively. The free reserves are also remunerated in 3 central banks (12.5% of the CB concerned). Only one of these 3 central banks (Central Bank of Swaziland) provided the rate of remuneration, fixed at 270 basis points (bp) below the 3-month treasury bill yield.

The findings further show that 45.8% of the 24 central banks concerned acknowledged that banks are required to keep cash reserves.

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[6]/The upper threshold is not included in the range.

III- Monetary Policy Communication.

In the past, the central banks did not disclose information about the conduct of their monetary policy and their decisions were kept secret. Today, the requirement for transparency compels them to clearly and regularly communicate with economic actors (markets, public, etc.), to provide them with information on monetary policy. An essential prerequisite for the transparency of the central bank is therefore a successful communication policy.

In this connection, some make announcements either on the decisions taken at the end of their meetings, or on the forecasts of macroeconomic variables.

3.1 Announcement of monetary policy decisions

All the central banks (25 CB) that communicated their responses to the questionnaire submitted to them, state that they provide the market and the public with information about monetary policy decisions. For most central banks, these announcements are made after the meeting, the same day (64.0% of CB) or the day following the meeting (16.0% of CB). Others do so either 2 to 3 days after the meeting (4.0% of CB) or 2 to 4 times a year (8.0% of them).

Table 6: Announcement of monetary policy decisions according to the selected period

timing of announcement	Proportion of central bank (%)
2-3 days after the meeting	4.0
2 times in the year	4.0
Immediatly after the meeting	64.0
Each quarter	4.0
The day after the meeting	16.0
Not specified	8.0
Total	**100.0**

Source : Survey

The survey findings show that various channels of communication are used. The media (television, radio, etc.), the print press, Web sites, meetings with banks, etc. These announcements are made through reports and economic assessments (24.0% of CB), circulars and other documents (12.0% of CB), press releases and other decisions by the Governor (20.0% of CB), etc. [7]

The information published in these documents essentially concern recent economic developments, the summary of reports, the key factors that motivated the decisions of the monetary policy decision entities, etc.

Regarding this last point, the decisions taken and the underlying factors are often explained in communication media by 92.0% of the 25 central banks.

3.2 Forecast of macroeconomic variables and communication

Most of the 25 central banks that filled out the questionnaire prepare economic and inflation forecasts. About two-thirds of central banks (64.0%) make economic forecasts against 76.0% engaged in inflation forecasts.

7/ 44.0% of the 25 CB did not specify the communication media used.

However, all these central banks do not have a status and a legal mandate to make these forecasts. Only 40.0% said that they have the obligation to do so, in accordance with the regulation.

Regarding the publication of economic and inflation forecasts, about half of the central banks (48.0%) indicated that they publish them in various documents, in particular, reports (12.0% of CB), economic assessments or background notes (12.0% of CB) and bulletins (8.0%). Others also publish them in technical documents, such as economic reviews (8.0%) for example and on Web sites (8.0%).

In addition, a few central banks publish their liquidity forecasts (16.0% of CB) on a monthly, bi-annual or daily basis.

Concerning the dissemination of information on operations performed by the central banks, more than half (52.0%) acknowledged publishing information on the said operations. The announcements are made through reports (20.0% of CB) and Web sites (4.0%).[8]

In addition to the above-mentioned communication media, the central banks resort to other channels to disseminate information to the market and the public. These are:

- speeches, used by 44.0% of CB;
- interviews made by 20.0% of CB;
- the press (24.0%);
- Reuters and Bloomberg (12.0%).

Seminars, circulars and conferences as well as discussions during dinners are also used by some central banks as part of their communication policy.

[8]/Details on the other channels are not provided.

CONCLUSION

This survey highlights the existence of several monetary policy frameworks in central banks members of the AACB. At the institutional level, decisions are generally taken by a Board of Governors (48.0% of CB) or a Monetary Policy Committee (48.0% of CB) in central banks, in accordance with the legislation (76.0% of CB). These Entities essentially comprise 7 to 12 members (68.0% of CB), including the Governor and Vice-Governors. The members, mostly elected by the President of the Republic or the Government, are generally mandated to define the money and credit policy as well as its implementing instruments.

On the operational side, the central banks define their target according to the monetary policy regime. Overall, most central banks adopt the monetary aggregate targeting and inflation targeting regimes (48.0% and 24.0% respectively). As for the operational targets, the system most often adopted is the level of international or monetary reserves (36.0% of CB), followed by the weighted average interbank rate (28.0%) and the monetary aggregates (20.0%).

The survey findings further show that, with regard to monetary policy instruments, the money and credit management system of central banks in Africa is primarily based on the interest rate policy and the reserve requirements system. The interest rate policy is, for its part, based on the key policy rates of central banks, available to all of them. The operational target is steered by central banks within the framework of the bank liquidity regulation, primarily through market operations and permanent facilities.

Moreover, the central banks increasingly pursue a clear and regular communication policy, in connection with the requirement for transparency of their activities. To that end, they announce monetary policy decisions to the market and the public, after their meetings. These announcements are made through various channels, in particular reports, the media (television, radio, etc.), the print press, Web sites, meetings with banks, etc. Moreover, the majority of central banks prepare economic and inflation forecasts that some of them publish through reports and Websites.

ANNEXES

SURVEY ON MONETARY POLICY FRAMEWORKS

Country :	
Name of Central Bank:	
I. Decision making entity	
1.1. Name and legal status	
1.2. Size and composition	
1.3. Appointment of members	
1.4. Major mandates	
1.5. Frequency and length of meetings	
1.6. Process of decision making and voting rights	
1.7. Pre-scheduling of meetings and its disclosure	
II. Monetary Policy regimes	
2.1. Inflation targeting	
2.2. Inflation targeting lite	
2.3. Price level targeting	
2.4. Monetary aggregates targeting	

2.5. Exchange rate targeting	
2.6. Multiple objectives targeting	
2.7. Monetary policy with an implicit but not an explicit nominal anchor	
III. Monetary policy implementation	
3.1. Key policy rate	
3.2. Operational target	
3.3. Instruments	
3.3.1. Standing facilities	
3.3.1.1. Form and maturity	
3.3.1.2. Pricing method	
3.3.1.3. Access limits	
3.3.1.4. Corridor width	
3.3.2. Reserve requirements	
3.3.2.1. Reserve ratios	
3.3.2.2. Averaging	
3.3.2.3. Carry over	
3.3.2.4. Maintenance period and ending date	
3.3.2.5. Remuneration	

3.3.2.6. Remuneration of excess reserves	
3.3.2.7. Reserves holdings	
3.3.3. Foreign exchange operations	
3.3.4. Market operations	
3.3.4.1. Main operations	
3.3.4.1.1. Functions	
3.3.4.1.2. Types of operations	
3.3.4.1.3. Maturity of operations	
3.3.4.1.4. Frequency of operations	
3.3.4.1.5. Pricing method	
3.3.4.2. Other discretionary operations	
3.3.4.2.1. Functions	
3.3.4.2.2. Types of operations	
3.3.4.2.3. Maturity of operations	
3.3.4.2.4. Frequency of operations	
3.3.4.2.5. Pricing methods	
3.3.4.3. Collateral	
3.3.4.3.1. Eligible collaterals for standing facility	

3.3.4.3.2. Eligible collaterals for open market operations	
3.3.4.3.3. Discretion of central bank to expand/limit collateral types	
IV. Monetary Policy Communication	
4.1. Announcement of policy decisions	
4.1.1. Timing and media of announcement	
4.1.2. Key content of policy announcement	
4.1.3. Explanation of the decision	
4.1.4. Associated documents	
4.2. Publication of minutes	
4.2.1. Timing and media of publication	
4.2.2. Content	
4.3. Economic / inflation forecasts	
4.3.1. Legal status and mandate of reporting	
4.3.2. Nature of disclosure (inflation report, periodic bulletin, background notes , quantitative analysis, etc.)	
4.3.3. Publication of liquidity forecast	
4.4. Dissemination of information on operations	
4.5. Other channels of communication (testimonies, press conferences, speeches, interviews, etc.)	

SOME DEFINITIONS

MONETARY POLICY REGIMES

- Inflation targeting is a monetary policy strategy adopted by central banks for maintaining prices at a certain level or within a specific range, by using methods such as interest rate changes, to help guide inflation to a targeted level or range.
- Inflation Targeting Lite (ITL) countries float their exchange rate and announce an inflation, but do not maintain the inflation target as the foremost policy objective. ITL can be viewed as a transitional regime aimed at buying time for the implementation of the structural reforms needed for a single credible nominal anchor.
- Price level targeting is similar to inflation targeting. However, where inflation targeting only looks forward (i.e. a 2% inflation target per year), price level targeting actually takes past years into account when conducting open market operations. So, if the price level rose by 2% in the previous year (from a theoretical base of 100 to 102), the price level would have to drop the next year in order to bring the price level back down to the 100 target level. This could mean more forceful action needs to be taken than would be required if inflation targeting were used.
- A monetary aggregates targeting strategy comprises three elements:
    1. Reliance on information conveyed by a monetary aggregate to conduct monetary policy;
    2. Announcement of targets for monetary aggregates, and
    3. Some accountability mechanism to prelude large and systemic deviations from the monetary targets.
- Exchange rate targeting: a monetary policy strategy aiming for a given exchange rate against another currency or group of currencies.
- Monetary policy with an implicit but not an explicit nominal anchor refers for example to implicit inflation targets like in the Taylor rule where an anticipated inflation is targeted, instead of an explicit target i.e. 2% for some central banks.

MONETARY POLICY IMPLEMENTATION

- Key policy rate: the specific interest rate that determines bank lending rates and the cost of credit for borrowers. For example, the two key interest rates in the United States are the discount rate and the Federal Funds rate.
- The operational target of monetary policy is an economic variable, which the central bank wants to control, and indeed can control to a very large extent on a day-by-day basis through the use of its monetary policy instruments. It is the variable the level of which the monetary policy decision making committee of the central bank actually decides upon in each of its meetings.
- A monetary policy instrument is a tool available to the central bank that can be used to reach its operational target. Central banks use three such tools, namely standing facilities, open market operations, and reserve requirements. For reserve requirements, if there is a reserve deficiency for a bank, a penalty could be applied or an augmentation of the amount of reserves required for the next reserve maintenance period. If the regulations allow a bank to catch up its reserve deficiency then this provision is a carry over provision.

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Annex 2:

Table 1: Response rate per region

Regions	The number of central banks that responded	The number of central banks in the region	Percentage of responses (%)
Central Africa	2	3	66.7
East Africa	6	11	54.5
North Africa	4	6	66.7
Southern Africa	10	11	90.9
West Africa	3	8	37.5
Total	25	39	64.1

Source : Survey