

EXCHANGE RATE REGIMES IN SUB-SAHARAN AFRICA: EXPERIENCES AND LESSONS

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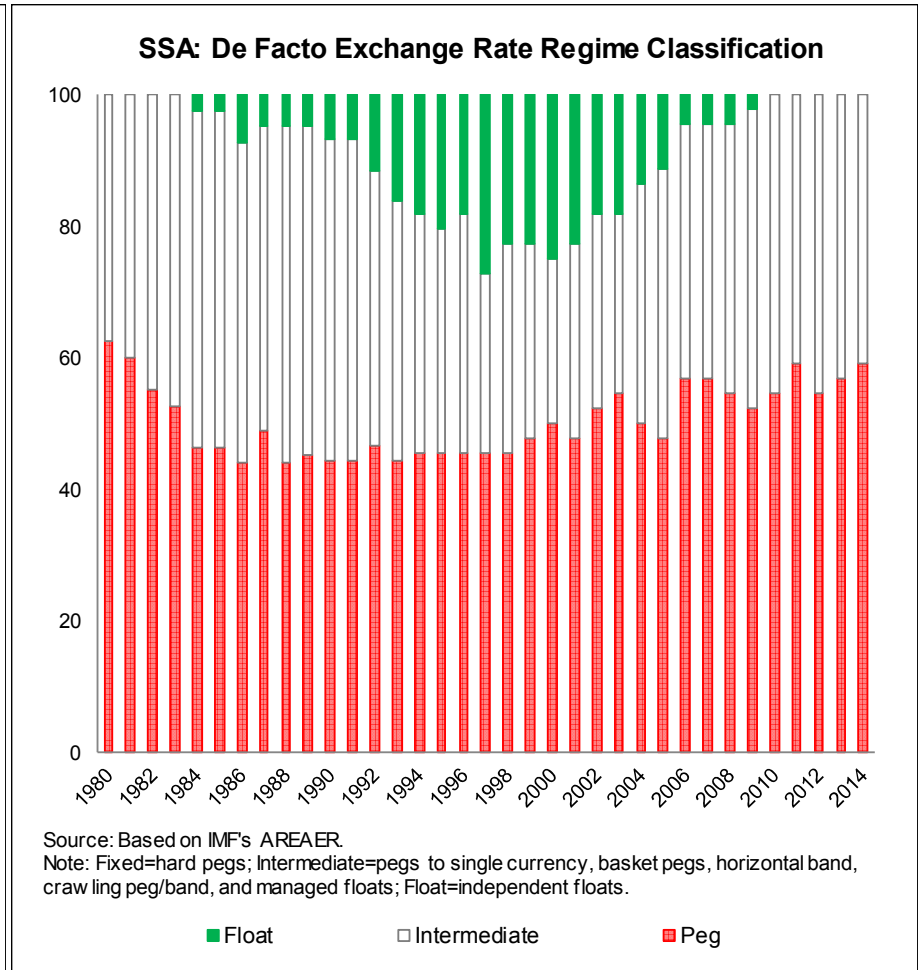
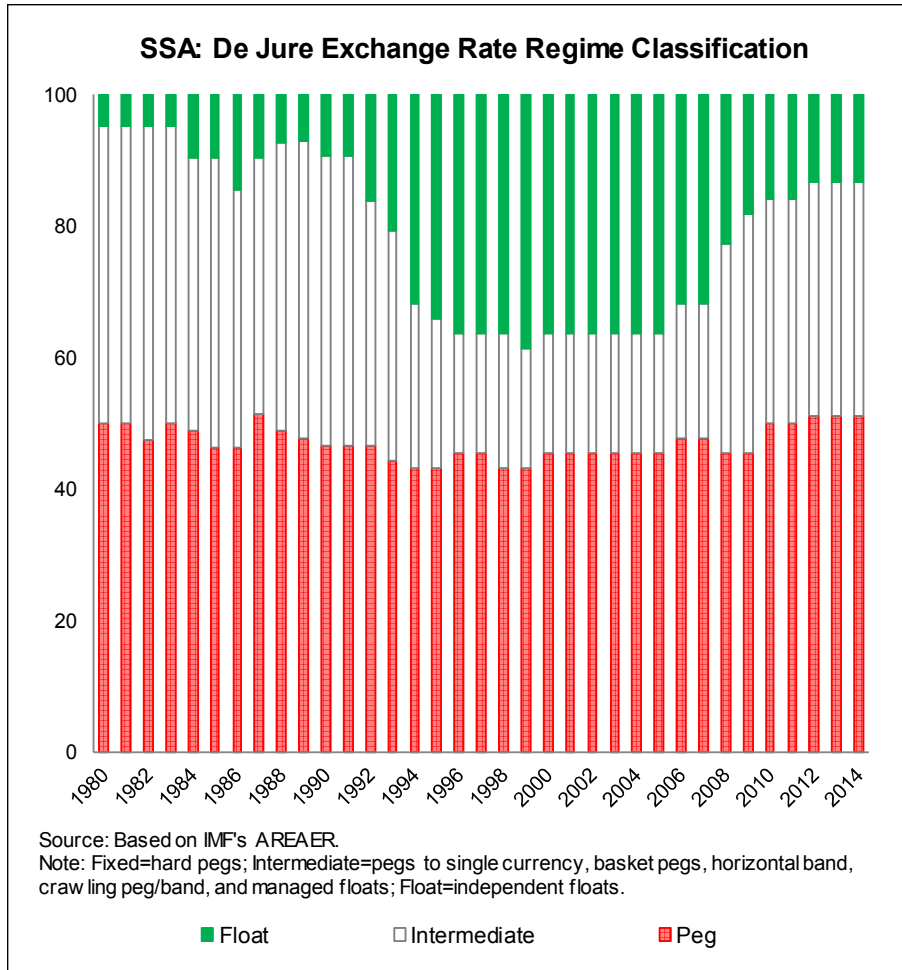
Annual Meetings Association of African Central Banks
2017 SYMPOSIUM
Monetary Integration Prospects in Africa

August 15, 2017

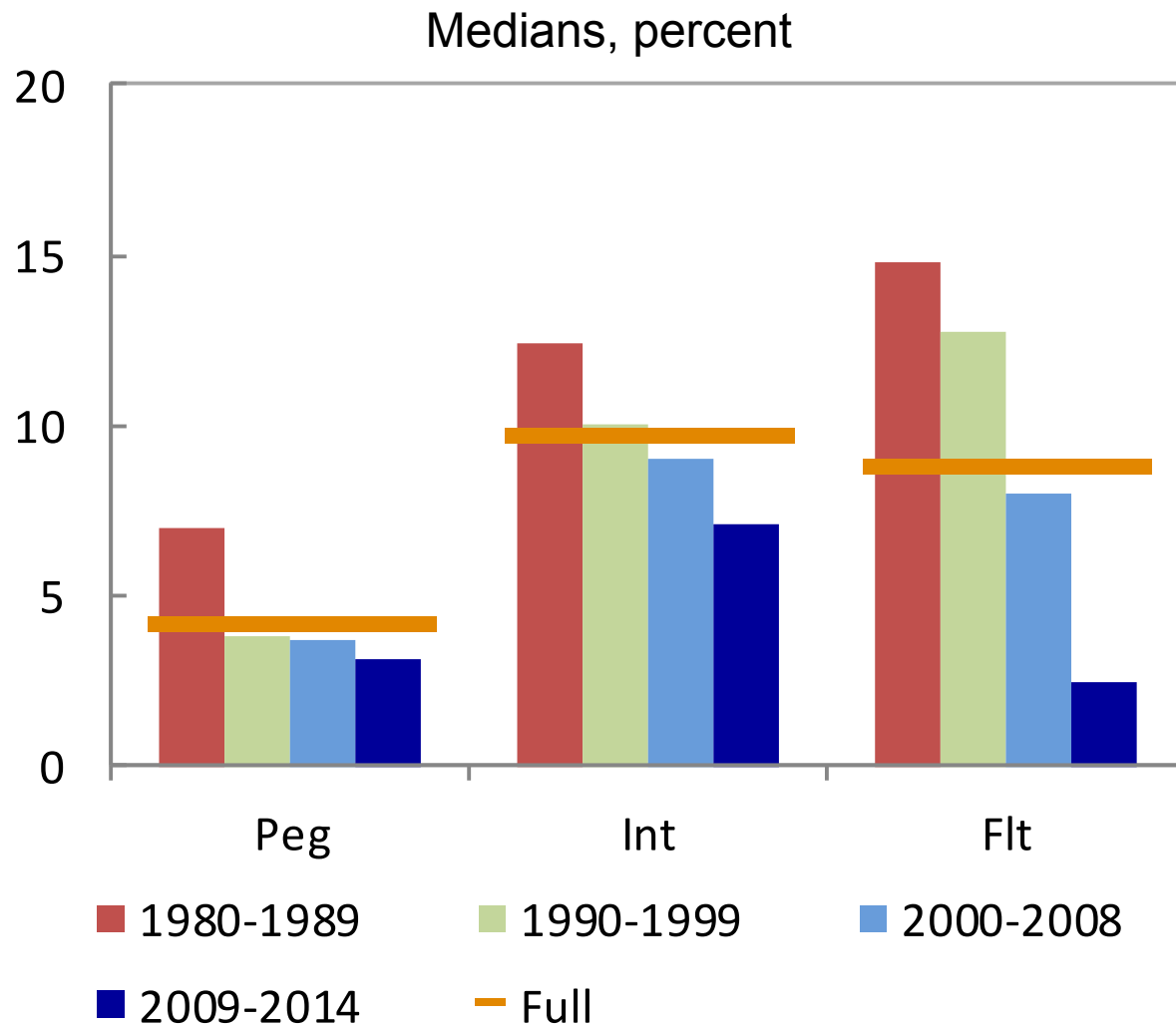
Motivation

- Exchange rate policy as a tool to meet macroeconomic challenges and particular circumstances
- Literature including IMF studies
 - ▣ From bipolar to more flexibility to more nuanced message
 - ▣ Tradeoffs of exchange rate regimes among goals
 - ▣ No “single prescription”
- Recent Sub-Saharan Africa Regional Economic Outlook Chapter

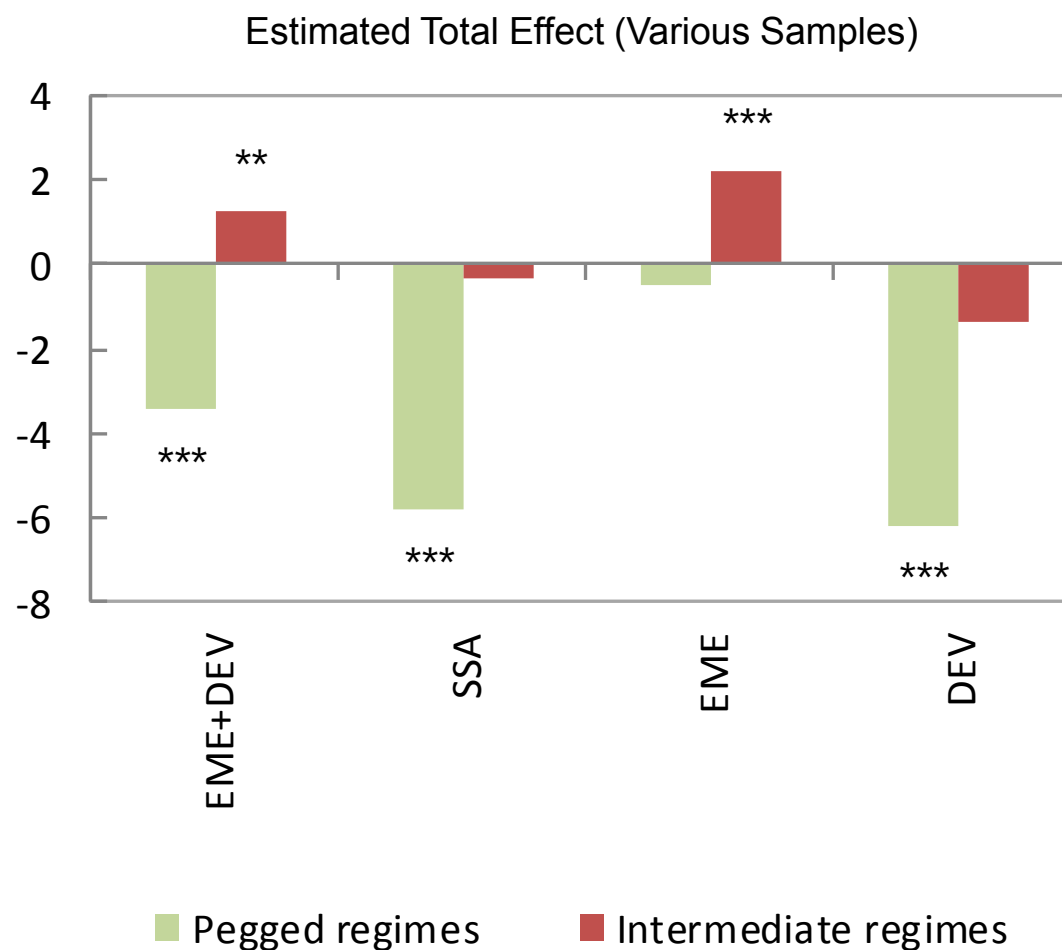
Trend: Considerable variation across time, with pegs dominating



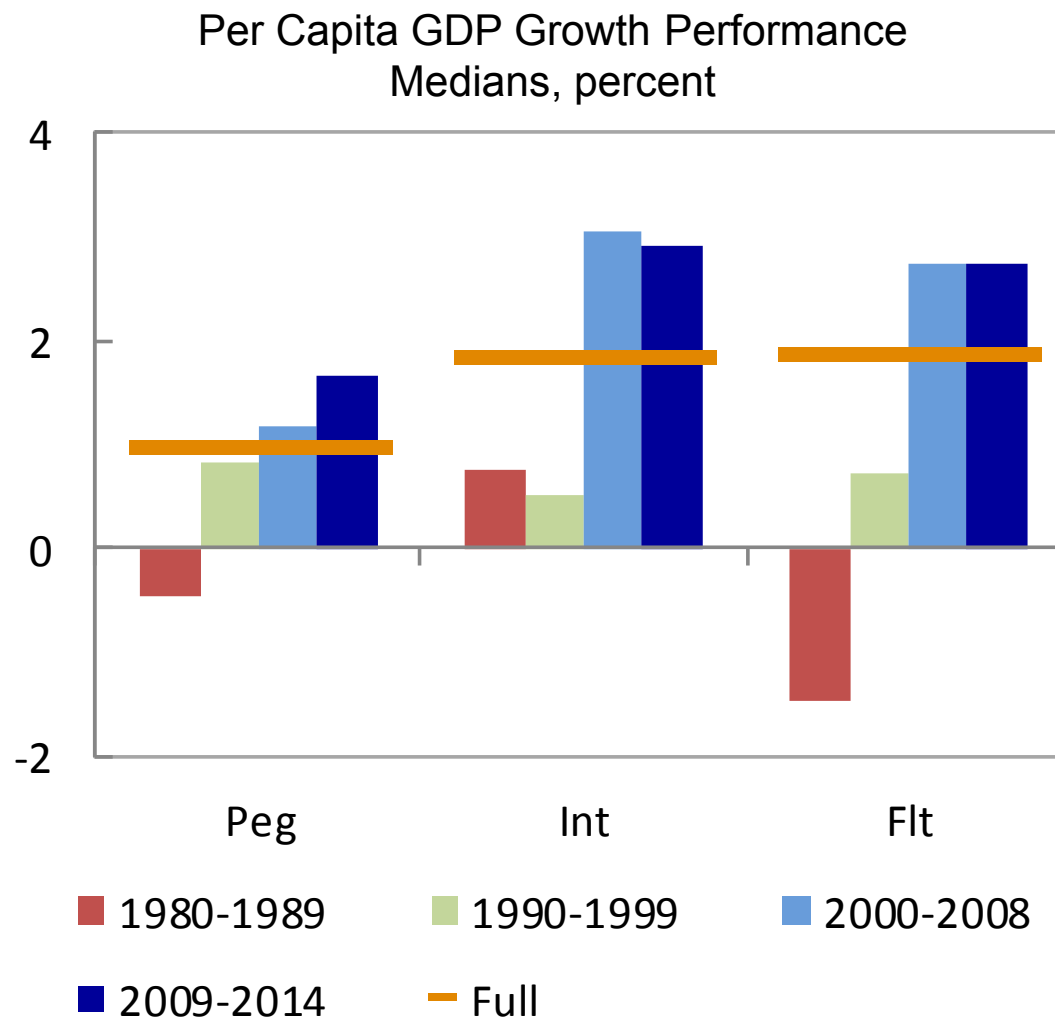
Stylized facts: Inflation is lowest in SSA countries with pegs



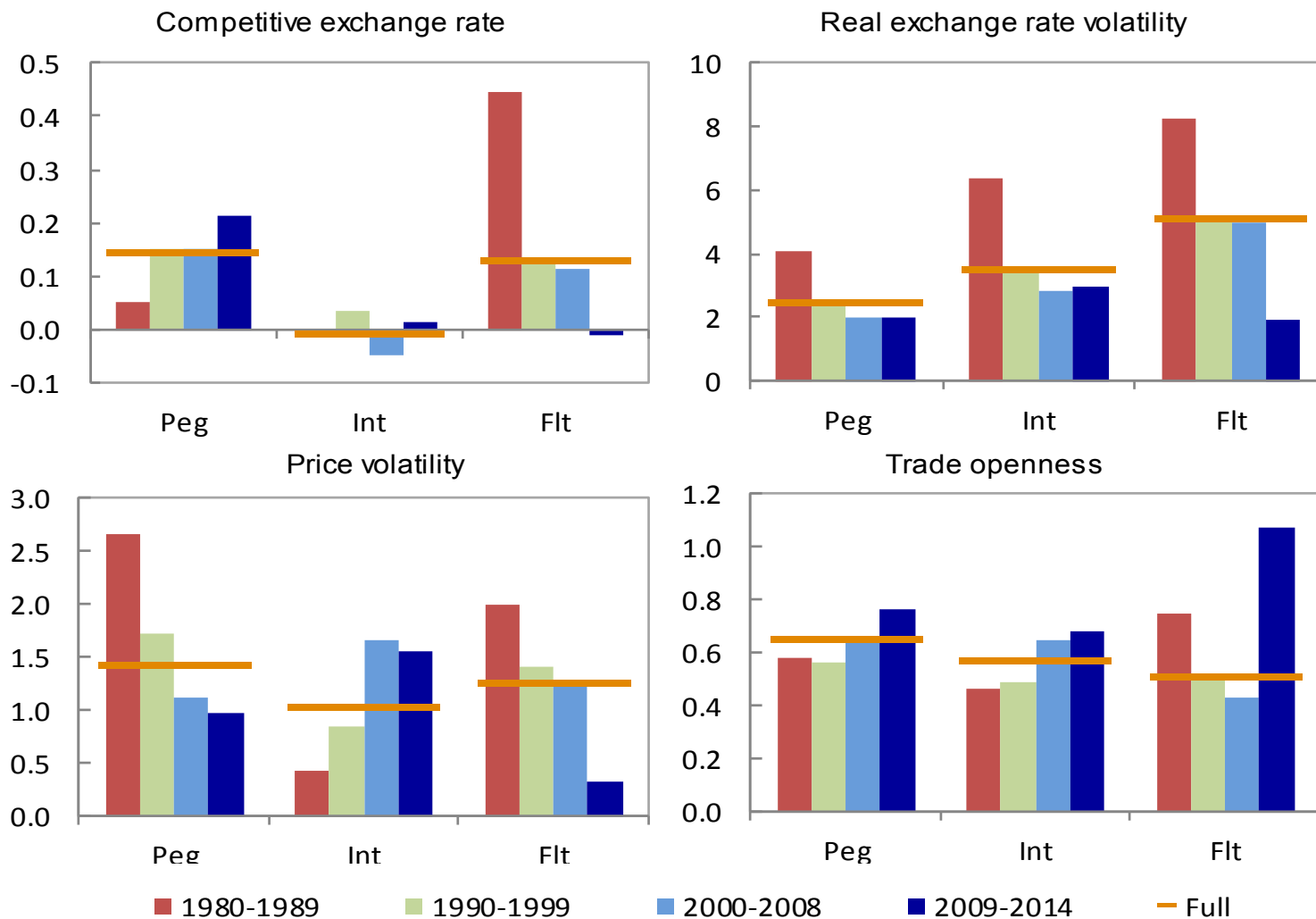
SSA countries with pegs still have the lowest inflation after controlling for other factors



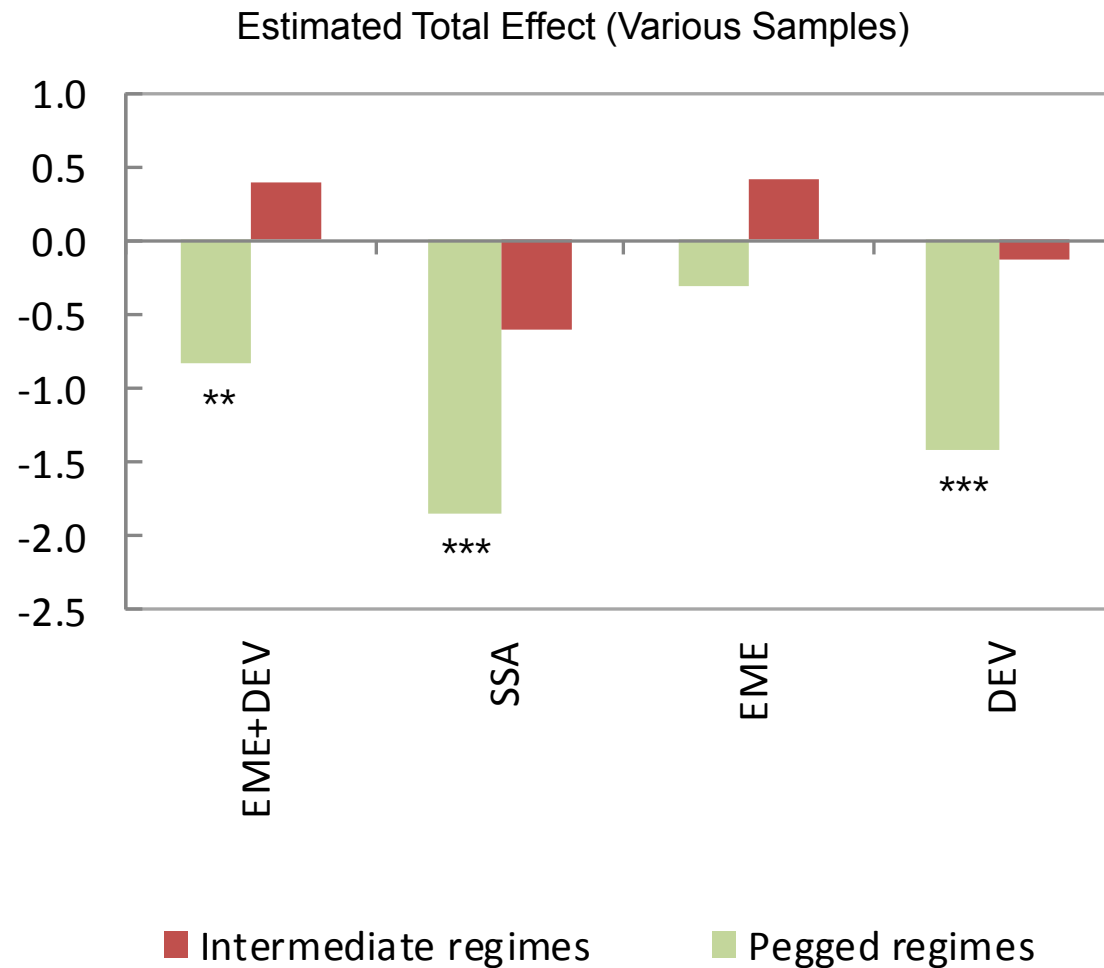
Stylized facts: Growth is higher under more flexible regimes



Potential channels differ systematically by the exchange rate regime

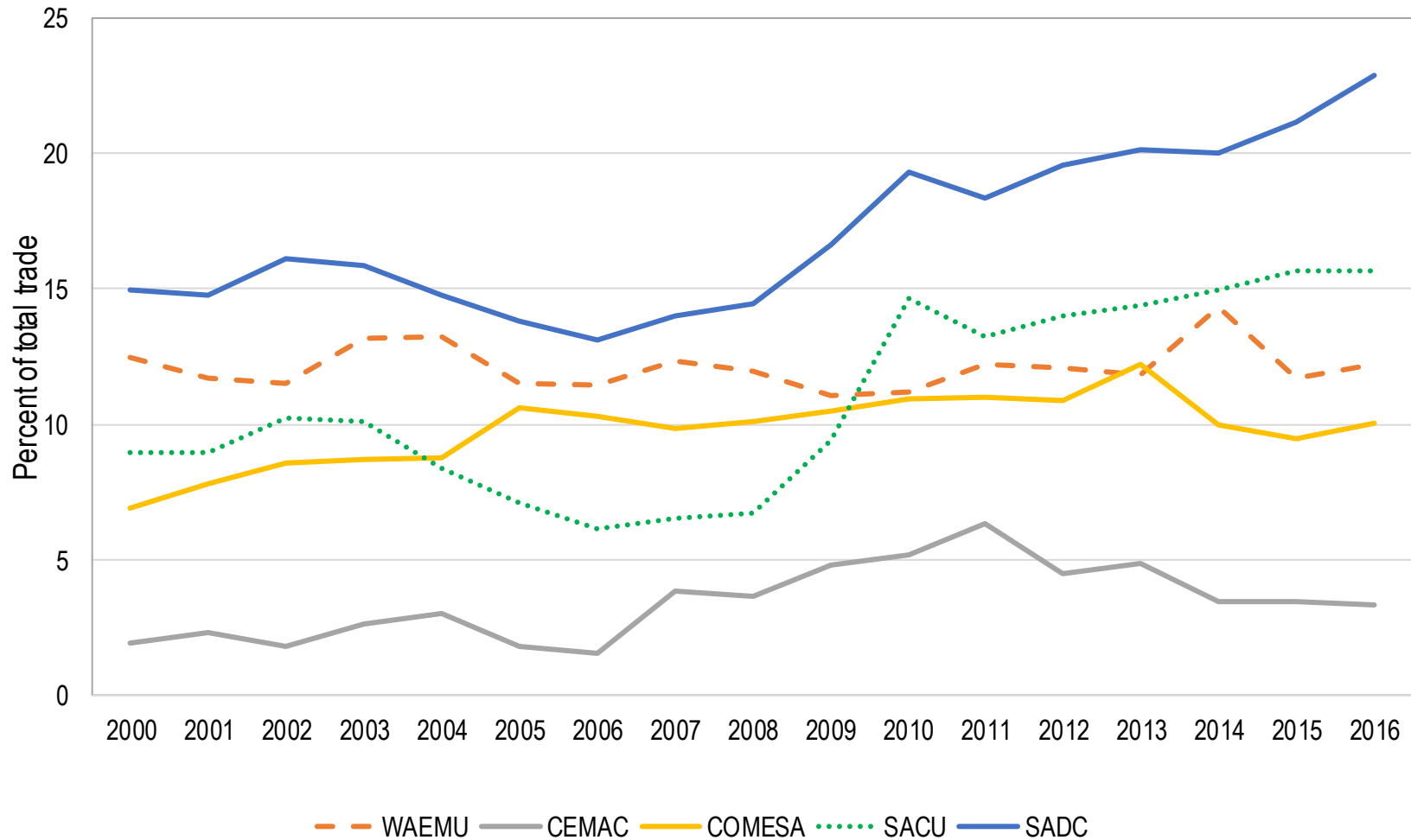


Intermediate regimes generally associated with higher growth, controlling for other factors

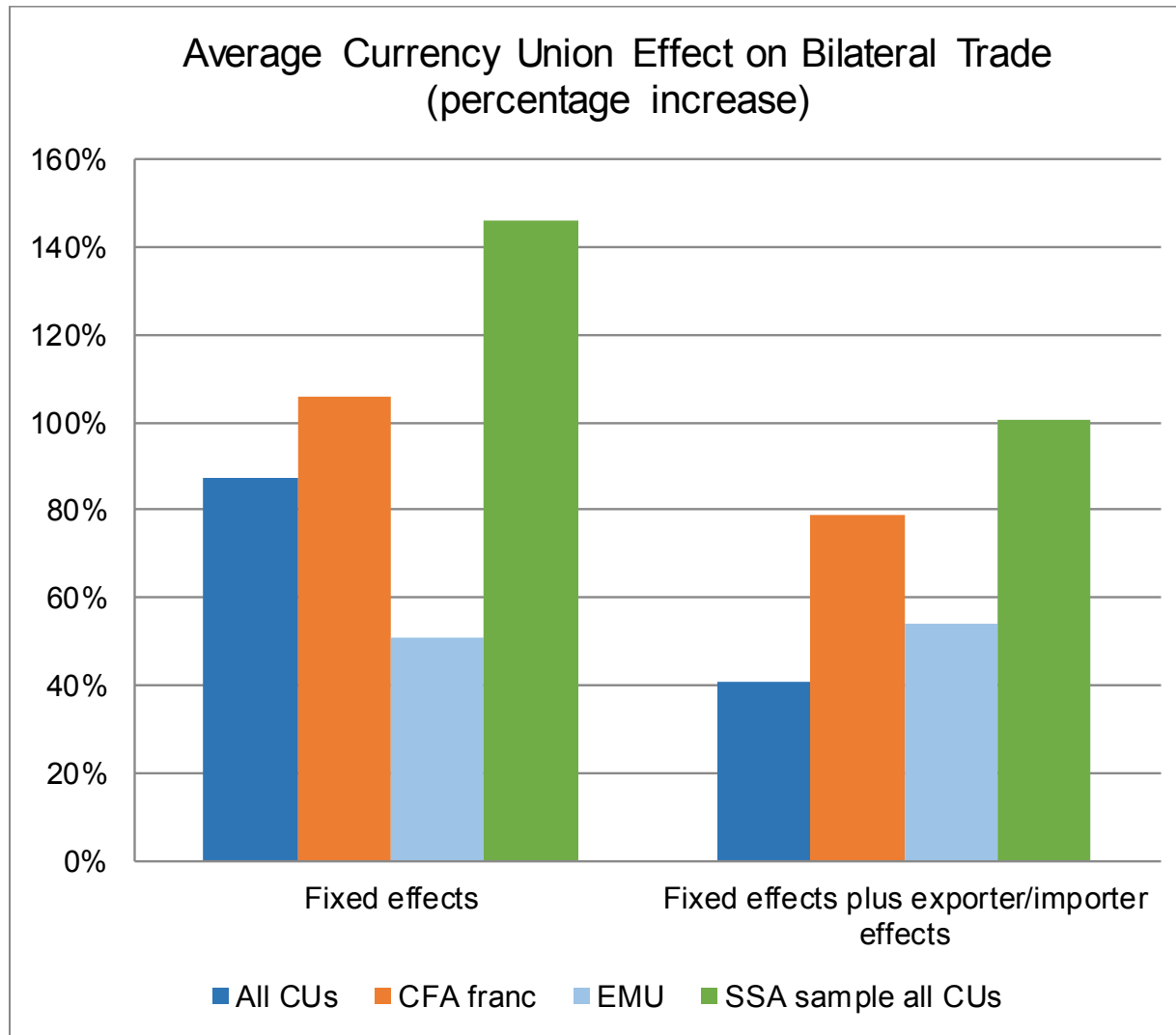


Trade integration in SSA has been increasing

Sub-Saharan Africa: Intra-regional Trade (Selected Regional Groups)



Currency unions are associated with higher bilateral trade



Conclusions

- No universally “right” exchange rate regime
- Optimal choice depends on country circumstances
- Broad “generalizations”
 - ▣ Pros and cons of pegging
 - ▣ Tradeoffs in choosing a relatively inflexible vs. relatively flexible regime
- Monetary integration- forward looking
 - ▣ Prerequisites
 - ▣ Requirements