

**AACB CONTINENTAL SEMINAR ON « CHALLENGES TO THE DESIGN
AND IMPLEMENTATION OF MACROPRUDENTIAL POLICY
INSTRUMENTS IN AFRICA »**

Douala, 7 - 9 May 2012

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CONCLUSIONS AND RECOMMENDATIONS OF THE SÉMINAR

1. INTRODUCTION

1.1. The AACB continental seminar organized in Douala, from 7 – 9 May 2012, was attended by 49 (forty nine) delegates from (...) member central banks and from some regional, pan-African and international organizations.

2. CONDUCT OF THE SEMINAR

2.1. In their introductory remarks, three delegates underscored the challenges involved in implementing macro-prudential supervision in Africa.

2.2. Mr. Miguel DIJKMAN, a Senior Specialist of the financial sector from the World Bank, introduced the them, « macro-prudential supervision: justification, state of play and prospects ».

2.3. Macro-prudential supervision seeks to mitigate the two dimensions of systemic risks namely : the time dimension to prevent the emergence of « too important to fail» institutions and limit linkages and, the cross-functional dimension that aims in the main to achieve anticyclical financial regulation to moderate the financial cycle. Decision-makers need practical instruments as a matter of urgency to control systemic risks. The analytical framework and the results thereof must be meaningful to decision-makers. Such framework must take account not only of financial reliability indicators, but also the financial position of households, companies, the macro-economic environment and financial outlook, cover the non-bank aspects of the financial system (capital markets, infrastructure, non-bank financial institutions).

2.3. Mr. Singh RAJU, Lead Economist for Cameroon at the World Bank, presented a paper on the financial sector and its characteristics under the sub-theme, “ *Pillars and conditions for macro-prudential policy efficiency: the relevance of macro-prudential regulation, its scope and the actions to be undertaken to be more resilient* ”.

2.4. By way of policy recommendations to be implemented, the speaker identified the following points: (1) the macro-prudential supervision should be implemented to integrate risks from the behaviour of actors in the financial system and in this regard, action must be taken targeting more the rule rather than discretion in the implementation and greater independence of supervisors.

2.5. Mr. Dzombala Michel, Director of Studies and Financial Stability, BEAC presented a paper on the sub-theme "*Central Banks and macro-prudential policy: harmonization of monetary policy and macro-prudential policy*".

2.6. He emphasized that monetary policy remains the best framework to achieve the objective of monetary stability. Monetary stability is a necessary but not sufficient to ensure financial stability.

2.7. In the face of the challenges to implement macro-prudential policy, the speaker made the following recommendations:

- Determine precisely the objective of financial stability
- Develop a relevant analytical framework identifying key indicators of financial stability, depending on the situation of each country, in order to better understand the interactions between monetary and macro-prudential policy
- Increased requirements for empowerment and communication
- Developing the right tools
- Develop a close relationship with the institutions in charge of micro-prudential supervision

2.8. Dr. Alieu Ceesay of WAMA has issued a paper entitled: "Role of cooperation between agencies in the macro-prudential supervision." He articulated his remarks around three points:

- design, function of agencies and scope of macro prudential supervision;
- need for cooperation between agencies in macro prudential supervision;
- some cases of cooperation at national, regional and global level

2.9. To be effective, the development of regulation and supervision of systemic risk must have:

- a strong and comprehensive legal framework that allows for warning and early intervention to prevent crisis (preventive measures) and that also allow for a quick response from the authorities which avoids risks of systemic contagion;
- practical ways to manage the restructuring of a financial institution of systemic importance without interrupting its activities and to provide financial services to the economy (possibility to restrict activities that generate systemic risk or manage an orderly bankruptcy without any impediment);
- a framework that effectively coordinates the actions of various players (bank supervisors, financial and insurance markets, Central Bank, Government).

3. SUB-REGIONAL EXPÉRIENCES

3.1. The experiences of various sub-regions in terms of implementation of macro-prudential policy were presented.

3.2. The experience of North Africa was presented by the Bank of Algeria underscoring the fact that macro-prudential analysis in his context is primarily to:

- Supervise the evolution of indicators of each bank or financial institution
- Supervise the evolution of each indicator at system level - financial institutions are excluded from systemic analysis
- Develop and analyze the evolution of indicators of financial robustness;
- Implement and analyze the outcomes of bank stress tests;
- Take part in the development of a financial crisis scenario.

3.3. The Central Bank of Nigeria and BCEAO presented the West African experience.

3.4. The Nigerian financial sector has been hard hit by many crises that spread widely due to problems of corporate governance and insufficiency of equity capital. To tackle it, the CBN took steps that were institutional and adopted a risk-based supervision approach, etc.. However, many challenges in the implementation of macro-prudential policy were highlighted, including weak corporate governance in the financial sector, frail government institutions and environmental vicissitudes that make timely risk assessment difficult for players of the financial sector. To overcome this, some possible recommendations were made including institutional capacity building, especially by increasing the ability for supervisors to act independently.

3.5. BCEAO has put the stability of the banking and financial system of WAMU and the safety of payment systems as one of its core missions. It has created a body to oversee financial stability and its main missions are to ensure permanent supervision, especially at macro-prudential level.

3.6. Through WAMU's Financial Stability Board, created in 2010, it adopted a set of macro-prudential indicators on solvency risks, market concentration, liquidity as well as operational and macro-economic risks.

3.7. It has done a lot of work to improve on its supervision instruments:

- Work aimed at extending the collection of economic and financial statistics at share prices;
- Work on the drawing up of a real risk map, which should contribute to fine-tuning appropriate instruments for the implementation of macro-prudential policy in the Union.

3.8. . BEAC and the Central Bank of Congo presented the experience of Central Africa. This presentation laid emphasis on the reviving the process and constraints in the implementation of macro-prudential supervision in CEMAC.

3.9. The process steps included:

- Creation of a Financial Stability Board in Central Africa (UMAC-FSB)
- Participation of the Governor of BEAC in meetings of the Regional Advisory Group for Sub-Saharan Africa's Financial Stability Board
- Creation of a technical taskforce charged with drafting the roadmap of the Financial Stability Board of Central Africa
- the establishment of financial robustness indicators of the banking system in CEMAC by the Central Africa Banking Commission (COBAC).

3.10. Difficulties encountered can be summarized into two major constraints:

- Lack of coordination between monetary policy and macro-prudential policy;
- Imperfections of the financial market in the CEMAC zone characterized by a lack of dynamism in the interbank market, narrowness.

3.11. The Central Bank of Congo is currently setting up a framework for macro-prudential policy. The new framework law of the Central Bank of Congo (BCC), clearly entrusts the BCC with the mission of contributing to financial stability. The establishment of a Financial Stability Unit is envisaged at the central bank and it will be followed by a national financial stability board.

3.12. The Bank of Uganda presented the East African experience. This paper focused mainly on challenges faced. After the creation in 2010 of a financial stability board whose work is based primarily on the findings of resilience tests of the banking sector, work is underway to conduct tests for broader integration of the financial sector. The main challenges faced concern analysis (development of macro-economic models that include the financial sector), capacity building in terms of human resources (capacity to develop financial models, conduct stress tests, etc.), have high frequency data.

4. WORKSHOPS

4.1 After presentations in plenary sessions, and following papers on the experiences of various sub-regions of AACB, delegates were split into three workshops to discuss the following topics:

1. How to promote the conditions for efficient macro-prudential policy in Africa?
2. Scope, tools and institutional framework for efficient macro-prudential supervision in Africa
3. How to ensure complementarity between monetary policy and macro-prudential supervision?

4.2. Work of these workshops focused on the scope of macro-prudential supervision, the need to have a supervisors' coordination framework capable of quickly identifying financial stability risks, and to act in coordination to implement policies.

4.3. Given that data come from various sources that are not all under the control of the Central Bank, it is necessary for each country to have a National Financial Stability Board with a legal framework that outlines its mandate and functions. This committee shall be chaired by the Central Bank given the technical and human resources it generally and in view of their seniority.

5. RECOMMENDATIONS

5.1. Key recommendations of the workshops are as follows:

- recommend the establishment of a financial stability board in each country;
- strengthen supervision of systemic institutions;

- define the concept of systemic financial institution depending on the structure of the local financial system;
- establish efficient high-frequency data collection mechanisms to develop supervision indicators;
- develop suitable capacity building program in this new field;
- conduct resilience tests as an early warning tool;
- broaden the scope of data coverage beyond the financial sector to include businesses and households;
- develop macro-prudential policy instruments according to the temporal or cross-cutting nature of systemic risk;
- mainstream into the formulation of monetary policy decisions, interactions with macro prudential policy and vice versa to avoid conflicting objectives.

6. CONCLUSIONS

6.1. Participants noted the need to have a coherent analytical framework to design and implement macro-prudential policy. This framework must be supported by the development of statistics to enable the development of African economies.

6.2. They underscored the need to move towards greater coordination between monetary policy decisions and financial stability. The establishment of the Financial Stability Board should therefore not only serve to coordinate responses to already proven crises but above all, to first ensure better risk identification, to better supervise them by information sharing to efficiently prevent disruptions that may affect the financial system.

Done in Douala on 9 May 2012