ASSOCIATION DES BANQUES CENTRALES AFRICAINES ASSOCIATION OF AFRICAN CENTRAL BANKS

ABCA / AACB

Annex 1

ASSOCIATION OF AFRICAN

CENTRAL BANKS (AACB)

MEETING OF THE BUREAU

(Dakar, Senegal, 23 February 2017)

2017 SYMPOSIUM ON THE THEME :

«MONETARY INTEGRATION PROSPECTS IN AFRICA: LESSONS FROM THE EXPERIENCE OF THE EUROPEAN MONETARY AND FINANCIAL INTEGRATION **»**

(Pretoria, South Africa, 15 August 2017)

REPORT

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1. INTRODUCTION

1.1. The Association of African Central Banks (AACB) held its annual Symposium on 15 August 2017 in Pretoria, South Africa, prior to the 40^{th} ordinary meeting of the Assembly of Governors held on 16 August 2017. The theme of the Symposium was "*Monetary Integration Prospects in Africa: Lessons from the Experience of the European Monetary and Financial Integration*".

1.2. More than two hundred (200) participants, including Governors and senior management of thirty-five (35) central banks as well as high level officials of regional and international organisations participated exchanged views, on European and African experiences in monetary integration.

1.3. The proceedings took the form of presentations by resource persons, panel discussions, followed by comments and questions from participants. This report presents a synthesis of the speeches made during the opening ceremony, the presentations by the resource persons, the statements by the panelists as well as discussions from the participants.

2. OPENING CEREMONY

2.1. The opening ceremony was marked by the presence of His Excellency Mr. Jacob Geleyihlekisa Zuma, President of the Republic of South Africa. The opening speech by the President Zuma was preceded by three addresses made by Mr. Lesetja Kganyago, Governor of the South African Reserve Bank (SARB), AACB Vice-Chairman, Mr. Thomas Kwesi Quartey, Vice-Chairman of the African Union Commission (AUC) and Mr. Godwin I. Emefiele, Governor of the Central Bank of Nigeria (CBN), Chairman of the AACB.

2.2. In his address, the Governor of the SARB warmly welcomed all the participants. He indicated that Africa has made progress in developing the building blocs of economic integrationmainly at the regional level. He highlighted examples of regional cooperation arrangements, including the West African Monetary Zone (WAMZ) and the West African Monetary Institute (WAMI). The WAMZ's objectives are inter alia, the promotion of trade, harmonisation of legislation, statistics and payment systems, as well as macroeconomic convergence.

2.3. The East African Community (EAC) have introduced the East Africa Payment System (EAPS). This system has enhanced the efficiency and safety of payments and settlements within the Community. It has facilitated cross border transactions boosting intra-regional trade among the East African countries.

2.4. In the Southern part of the Continent, central banks have launched the SADC Integrated Regional Electronic Settlement System (SIRESS).

2.5. Mr. Kganyago expressed hope that the development of these initiatives will lay a solid foundation for facilitating trade and investment in Africa, and will pave the way for the implementation of the integration agenda on the continent. However, notwithstanding the various above mentioned regional cooperation initiatives, Africa has still a long way to go to achieve monetary and financial integration. It is for that reason that it is necessary to learn from lessons of other countries and regions. Those lessons are not only about what works, but also about pitfalls that we should avoid.

2.6. The second address was by Mr. Thomas Kwesi Quartey, Vice-Chairman of the AUC. On behalf of the AUC Chairman Mr. Moussa Faki Mahamat, Mr. Quartey expressed gratitude to the central banks for constantly associating the AUC to their work. He indicated that the AUC has always valued and will continue to attach importance to the work of AACB. Beyond the traditional objectives of the central banks, the work of the

AACB offers is vital to the promotion of economic and monetary integration on the Continent. The theme selected for the Symposium is a good example of this interest in this regard.

2.7. The AUC Vice-Chair indicated that the issue of integration is today a priority for the African Union and for the AACB. In this regard, he expressed gratitude the collaboration between AUC and AACB, within the framework of the development of the joint strategy for the establishment of the African Central Bank (ACB). He underscored that the symposium provided an opportunity to learn from the European experience. He noted that lessons should be learnt from the failures in Europe, including those related to the recent crises. These crises have demonstrated the importance of fiscal discipline and the need to reinforce surveillance, in order to ensure public finance stability, by complying with the convergence criteria in the Regional Economic Communities (RECs).

2.8. Mr. Quartey, recalled some of the political decisions taken at the continental level, inter alia, the Addis Ababa initiatives in 1963, with the adoption of the Organisation of African Unity (OAU) Charter, the Abuja Treaty establishing the African Economic Community in 1991, the Syrte Declaration establishing the African Union in 2001 and the adoption of Agenda 2063 in 2013 in Addis Ababa. He indicated that in all these cases the establishment of an African Central Bank was very much at the fore of the African integration project. In view of these ambitions, the Vice-Chairperson of the AUC expressed the wish that the work of the Symposium led to concrete proposals to take the integration process further in Africa.

2.9. The third speech was made by the Governor of the Central Bank of Nigeria, Mr. Godwin I. Emefiele. The AACB Chairman considered himself honoured by the presence of His Excellency Mr. Jacob Zuma at the AACB Symposium. The presence of the President of the Republic at this event is a source of inspiration and motivation for the AACB. Mr. Emefiele expressed gratitude to the President of the Republic, the Government and the South African people for accepting to host the work and for the quality of the organisation of the Symposium.

2.10. Reverting to the theme of the Symposium, Mr. Emefiele noted the progress made in Europe in eEurope, relating to the consequences of the international financial crisis and, more recently to that of Brexit. Based on these experiences, the Governor of the Central Bank of Nigeria called for more vigilance on macroeconomic convergence. He mentioned that no African country succeeded in meeting the convergence criteria, due to unfavorable international economic environment and internal socio-political difficulties. He mentioned that arrangements should also be made to better coordinate monetary and fiscal policies as well as fight against illicit financial flows on the continent.

2.11. The AACB Chairman praised the high quality of the participants at the Symposium and wished that the deepening of the reflections would lead to proposals that can help towards the establishment of an African Central Bank. The Governor ended his address by expressing his profound gratitude to the AACB member central banks for their support which he had received during his term that will end after the Assembly of Governors' ordinary meeting.

2.12. Following the three speeches, the opening address was delivered by the President of the Republic of South Africa, His Excellency Mr. Jacob G. Zuma. The President addressed words of gratitude and welcome to the Governors and representatives of regional and international institutions present at the meeting. He added that it was a great honour and pleasure to welcome them to South Africa.

2.13. The President of the Republic indicated that monetary integration is an important step in the economic integration process of the African continent.

2.14. The President Zuma recalled that the Abuja Treaty, signed in 1991, committed Member States of the African Union to harmonise their economic, monetary, financial and payment policies, in support of economic integration on the continent. While the progress to date has not been in line with expectations, the different regions of the continent remain committed to the aspirations as set out in the Abuja Treaty. Furthermore, Agenda 2063 strongly promotes economic integration across the continent. It is premised on the view that a prosperous Africa is based on inclusive growth, sustainable development, good governance and strong focus on regional integration.

2.15. President Zuma underscored the important role central banks have to play in promoting inter-continental trade, linking the payment systems across the continent, developing a well-functioning and efficient banking system, promoting cross-border banking and capital flows. He recalled that, apart from improving integration, these objectives also underpin sustainable and inclusive economic development and will contribute to the eradication of poverty on the continent.

2.16. He recognized that the efforts across the continent directed at meeting the convergence criteria has been below expectations, owing to the negative impact of international developments on economic performances. Therefore, a redoubling of efforts is required to put the growth and inflation trajectory back on track as well as alleviating budget deficits and other structural constraints in African countries. President Zuma also called upon the central bank Governors to pursue the effort in order to reinforce financial markets resilience.

2.17. The President of the Republic, stated that Africa must learn from other regions in the pursuit of integrating the continent. Europe can provide some useful lessons in this regard. Africa should also consider the experiences of other regions, like Asia and Latin America, among others. President Zuma was pleased to note that the South African Reserve Bank will assume the Presidency of the Association in 2018. He added that South Africa, as the only African country in the G20, remains committed to ensuring that African interests are well represented in international deliberations and agreements. In this regard, he wished that South Africa be informed of any issues of interest to Africa that warrant special attention in the G20 or other international fora that South Africa engages in. President Zuma wished the participants successful deliberations and expressed confidence in the quality of the conclusions that will culminate from the exchange of ideas. Finally, he declared the 2017 Symposium of the Association of African Central Banks open.

3. KEYNOTE ADDRESS

3.1. The theme of the Symposium was introduced by Dr Andreas Dombret, Member of the Executive Board of the Deutsche Bundesbank. Dr Dombret recalled that monetary unions are not many in the world. According to him, many people outside of Africa are not sufficiently aware of Africa's quite rich experience with economic and monetary integration. As for the euro zone, it derives from the decision taken by several countries which previously had their own currencies that they abandoned in favour of the euro. Given most African countries have their own currencies, Dr Dombret considered that the monetary integration process in the euro area would provide useful lessons for monetary integration prospects in Africa.

3.2. In order to analyze these lessons, Dr Dombret reviewed the difficulties not yet resolved in the euro area. In this regard, he highlighted the asymmetries, structural differences of the euro area economies and the absence of macroeconomic convergence. These asymmetries are imbalances that exist for a longer time or that build up slowly over time. They may be differences in economic development, which can be seen in infrastructure, institutions, and political and economic philosophies.

3.3. Although almost all member states in the euro area are experiencing an economic upturn by now, economic cycles are not synchronous. Unemployment rates are highly divergent, standing at over 22 percent in Greece and below 7 percent in Ireland. So even 25 years after initiating a treaty of European integration, and after 18 years of sharing a common currency, persistant divergences still exist among countries and asymmetries continue to be major difficulties in monetary unions.

3.4. Dr Dombret underscored the implications of the asymmetries. He considered that in a monetary union the exchange rate cannot be used as a means of countering imbalances and economic shocks. Without nominal exchange rate flexibility, economies need to adjust through adjustments of the real exchange rate, taking into account the volume of foreign trade and domestic price trends, which is much more painful in practice. From that perspective, in a monetary union the community may ultimately bear the consequences for the imbalances that have emerged at the level of sovereign member states. This has been an unequivocal lesson from the crisis in the euro area.

3.5. The asymmetries became imbalances and a problem for the entire monetary union. Then, a mistrust overburdened regional financing, the economy, and especially fiscal cushioning powers. The crisis showed that the euro area was not fully protected against spillovers and contagion, and that Europe had underestimated the ways in which economic and structural asymmetries transgress borders and challenge European institutions. By way of illustration, Dr Dombret noted a temporary net flow of workers from countries hit hard by the crisis to countries with stronger economies. Moreover, capital flows have also aggravated imbalances, by turning out to be volatile, especially with respect to countries struck by crisis, where pro-cyclical behaviour with respect to savings and indebtedness prevailed.

3.6. Dr Dombret noted that because economic burdens could not be solely absorbed within their geographical boundaries, the entire community was found to be ultimately accountable for the imbalances. This situation showed that there was, and still is, a mismatch between instruments and responsibilities within the Euro area.

3.7. To resolve this problem, mechanisms were established to contain liquidity shortages and provide a decisive monetary policy response. However, immediate crisis response mechanisms tend to favor short-term containment over longer-term effectiveness. Furthermore, an important next step was to tackle amplifiers and aggravators of the crisis. It should be noted that banks were involved in government lending, which fed into the so-called sovereign debt-bank nexus. This culminated in the unhealthy relationship between governments and their banks, whereby banks lend on a large scale and without capital charge to their home countries, while governments find they must support struggling banks in order to prevent an immediate crisis. Apart from this vicious circle described, the bank crisis amplified adverse developments through various channels like bank overall mistrust, contagion effects as well as large scale sales of financial assets.

3.8. According to Dr Dombret, the lesson to be learnt from the crisis is that the health of the euro area very much depends on sound banks. A sound banking system that is equipped with adequate levels of capital and which is correctly incentivised make crises a lot less likely. A major consequence of the crisis has been the establishment of a banking union with changes in rules and institutions governing euro area banks. These reforms have had the greatest impact as compared to the previous reforms the euro area has experienced. Furthermore, even though the European banking system is still recovering from severe shocks, larger capital cushions have been built up and there is much greater emphasis on risk management today.

3.9. Dr Dombret noted that despite the establishment of a banking union with rules and institutions, asymmetries and structural differences will remain a potential source for imbalances in the future. Therefore, the solution could be the transfer of more responsibility to the EU level or filling the gaps in national responsibilities. He underscored that straightening out the relationships between individual countries and the monetary union should not be the sole focus, and the euro zone needs to continue its work towards strengthening market functioning and market discipline. In this regard, Europe is still struggling to make markets and banks a reliable cushion in times of economic distress.

3.10. In terms of reform perspective, Dr Dombret indicated that the structural flows affecting the European project may be valuable lessons for further economic and monetary integration in Africa. However, two obstacles should be considered. The first one is that Europe is not in a green field where reforms can be implemented without constraints. In Europe, it is well-known in advance that monetary policy would not become a cure-all and that problems such as budgetary slippage were likely to emerge. But in that context, legal provisions have lacked reliable enforcement. Therefore, an important lesson to draw from the euro area experience is that common rules need to be credible at all times. The second obstacle is that green field for reforms does not exist because actual consensus on reform options is not clear. The obstacle does not only relate to the long-term path of the union, but to crisis resolution options as well. This is because all these issues interfere with the economic and political sphere of national states, which without surprise, want to retain their influence. Thus, whatever institutional compromise is aimed at the European level, it will face delicate national economic doctrines. For example, the EU as a centralised entity that could mitigate imbalances would require a common understanding of good economic policy. Therefore, the challenge is not only about bridging gaps in economic matters, but also about bridging gaps in ideas and political attitude.

3.11. To conclude, Dr Dombret indicated that monetary integration is easy to explain, but difficult to preserve. It usually comes with additional necessities, for each participating country and for the community as a whole. After recalling the structural and reform challenges underscored during his address, he noted that even though the European project is not yet a political union, it is to a great extent a political project. Its' worth can hardly be measured in economic terms alone. He emphasized that economists have frequently been surprised at the determination of integration supporters. In all parts of Europe, the union is not only seen as part of the problem, but usually also as part of the solution, in relation with the demonstrations in support of Europe amidst a wave of euro-scepticism. In this respect, the monetary union contributes to a search for common solutions as an automatic reponse to political isolation. The European Union compels to seek common solutions instead of separate policies. Dr Dombret wondered, being in Pretoria, what role the drive towards common solutions could play in Africa in the future. To answer the question, he indicated that it does not make structural challenges any easier. But, if a currency union is not just a number of steps but a journey, he finds it very comforting to see the determination and a strong will of all those who are engaged in that journey. Dr Dombret expressed the wish that the Symposium will become a memorable milestone in the path of monetary integration in Africa.

4. FIRST SESSION: MONETARY INTEGRATION: THE EUROPEAN AND AFRICAN EXPERIENCE

4.1. This first session was chaired by Mr Ipumbu Shiimi, Governor of the Bank of Namibia. The sub-theme "Monetary Integration: The European and African Experience" was discussed in two presentations, one by Mr Gilles Noblet, Assistant Director General of International and European Relations of the European Central Bank (ECB) and the other by Mr Abebe Selassie, Director of the IMF Africa Department. The presentations were followed by the intervention of two panelists, Mr Ibrahim Stevens, Vice-Governor of the Bank of Sierra Leone and Professor Benno Ndulu, Governor of the Bank of Tanzania.

4.2. By way of introduction, Mr Shiimi pointed out that over 10 years after its creation, the Euro zone is still a model of successful integration, despite the fact that some experts predicted the failure of this monetary integration, given the diversity of the economies concerned. He called on participants to analyze the characteristics of the Euro zone, by focusing on the mechanisms of shock management and learning lessons from the difficulties it encountered in recent years.

4.3. Mr Gilles Noblet of the ECB made the first presentation. He reviewed the key stages of the creation of the Euro zone. He analyzed the institutional structure of the ECB and highlighted the role played by this central bank in the resolution of the crisis in Europe. Finally, he recalled the key lessons learnt for an improved monetary integration.

4.4. Mr Noblet recalled that the construction of the economic and monetary union in Europe dates back to the Treaty of Maastricht (1992), which constitutes its legal basis, after the abolition of all restrictions on the flow of capital in July 1990. The treaty of Maastricht imposed a stringent timetable on each State before the introduction of the single currency, by defining nominal convergence criteria and identifying the institutions to be established to facilitate the functioning of the single central bank. The monetary policy is centralized at the supranational level and is geared towards price stability. On the other hand, the fiscal, economic and financial policies are the responsibility of Member States, with the coordination of supranational institutions.

4.5. The creation of a European Monetary Institute in January 1994 set the stage for the establishment of the single central bank in 1999 (ECB). This stage was characterized by the irrevocable fixing of the exchange rates of national currencies among them, and the exchange rate between national currencies and the single currency. The ECB is responsible for the monetary policy. In January 2002, the single currency was introduced in all the countries of the Euro zone (bank notes and coins).

4.6. Mr Noblet further noted that the euro was not adopted by all European States. Some were exempted while others were given special status. Thus, the ECB and all central banks of countries that did not adopt the euro form the European system of central banks (ESCB) which is responsible for coordination across Europe. Article 130 of the Treaty of Maastricht imposes on both the ECB and the other central banks, members of the ESCB, not to accept instructions from other European Union organizations or governments of Member States.

4.7. With regard to ECB's role in the resolution of the recent financial crisis, Mr Noblet explained that the situation was characterized by the reduced efficiency of traditional monetary policy tools, in particular, during the first phase of the crisis, from 2007 to 2009. The interest rate channel was not functioning, as the difficulties in interbank lending and borrowing resulted in a dry-up of the interbank market, an increase in interest rates and a decrease in credit to the private sector. This situation was compounded by the reticence of the financial sector to take risks.

4.8. To deal with this situation, in addition to reducing the key policy interest rates to encourage the provision of credit and stabilize inflation, the ECB had to take non-conventional measures, aimed at complementing or substituting for the reduction of policy interest rates, taking into account the defects of the monetary policy transmission mechanism. These measures were meant to restore a stable inflation rate, eliminate the risks of systemic liquidity, improve the access to credit for households and businesses, and reduce the financial fragmentation in the Euro zone. They however led to other risks, including deflation, financial instability whose origin is based on macro-prudential considerations, the decline in the banks' profitability and the impossibility for the ECB to influence national fiscal policies. In these conditions, the monetary policy could not contribute effectively to the resolution of major economic challenges, in particular the improvement of the growth and productivity potential, as well as the reduction of structural unemployment.

4.9. There was need to consider structural reforms and fiscal adjustments and engage in the sharing of sovereignty between national authorities and supranational institutions. In the light of the European experience, Mr Noblet claimed that to strengthen the monetary union, there is need for a union of banking systems and a union of capital markets. The functioning of a monetary union requires a minimum amount of convergence of the economies concerned. The integration process is expected to be gradual and membership should be voluntary. He also insisted on the need to have an effective communication policy, conducted by the common central bank. The purpose of the communication must be to reassure the populations and national authorities about the common monetary policy guidelines (conference, speeches, evaluation and efficiency audit, statistical publications, briefing notes).

4.10. Among the key lessons learnt from the crisis in Europe, Mr Noblet insisted on the limits of governance of supranational institutions, in particular, their incapacity to ensure that the fiscal policy rules are observed. He pointed out that the rules are not sufficiently internalized at the national level. He also noted the breaches of market discipline through the accumulation of unsustainable financial imbalances, the non-existence of a crisis resolution mechanism that can provide financial support to countries and finally, the poor integration of policies of the financial sector.

4.11. Mr Noblet also stated that the 2015-2025 period will be devoted to the development and adoption of rules and reforms aimed at an improved functioning of the Euro zone. The vision is intended to overcome this centralized monetary policy situation exercised in parallel with the decentralized fiscal and financial policies. The architecture of the European Union is therefore under construction and reflections are under way. Reference documents such as the White Paper and other discussion papers of the European Union Commission were to be published in 2017. These reflections should result in the creation of a banking union and a union of the capital markets. This mechanism will be supported by legislations and the introduction of macro-prudential tools designed to support the single banking market and financial market.

4.12. The second presentation made by Mr Selassie, Director of the IMF Africa Department, was focused on relations between the exchange rate regime and the economic performances of States, with a view to monetary integration across the African continent. The Director of the IMF Africa Department examined the exchange rate in terms of its ability to be used in certain situations. His analysis was based on the results of studies carried out within his institution.

4.13. Mr Selassie stated that the inflation rate is lower in the countries of Sub-Saharan Africa whose currency is pegged to an international currency. He added that in these countries, trade integration is more important. In particular, bilateral trade is more fluid in the monetary unions. He however noted that economic growth is higher in countries with a flexible exchange rate regime, because these countries can use the exchange rate as an additional tool in specific circumstances.

4.14. The Director of the IMF Africa Department pointed out that the potential channels of transmission of the exchange rate effects differ systematically depending on the regime. No exchange rate regime is universal and perfect. Countries opt for the exchange rate regimes that best suit them. However, the latter must ensure that appropriate macroeconomic policies are implemented. The best possible choice depends on the circumstances. Mr Selassie urged African countries to provide clear answers to the question relating to the choice of exchange rate regime, prior to the introduction of the single currency in Africa.

4.15. Following these two presentations, the panelists' interventions were primarily focused on the pace of the changeover to the single currency in Africa. Some considered that the introduction of a common currency should be justified by discernible benefits, which are not clearly proven, since commercial and financial exchanges among the majority of African countries is non-existent. In this respect, they recommended initially focusing on strengthening the integration of the economies, in order to achieve a minimum level of commercial and financial exchanges before the introduction of a single currency.

4.16. Others considered that the single currency is a catalyzing feature of economic integration and urged African countries to learn from the experience of existing African monetary zones such as the West African Economic and Monetary Union (WAEMU) where the intra-community trade of goods and services are 40% higher than those in the non-monetary zones. In this respect, there is need to establish the African monetary union as soon as possible, in order to increase trade and accelerate economic integration. Besides, although the importance of fulfilling the convergence criteria was underscored in the light of the crises observed in Europe, emphasis was also laid on the political will, the ambition and choice of a pragmatic plan for the realization of economic and monetary integration in Africa.

4.17. Following the panelists' interventions, participants discussed the crises resolution mechanism set up in the euro zone, in particular, to deal with the difficulties of harmonizing public finance management in the various countries. They further expressed concerns relating to the introduction of a single currency for the entire African continent, even though there are still several hurdles to be overcome, in particular the level of political commitment in some States, the low volume of trade between African countries and the poor quality of existing infrastructure.

4.18. The Chairman of the session, Mr Ipumbu Shiimi, acknowledged the relevance of the various viewpoints, which he summarized, stating that the creation of the single currency is a catalyzing feature of economic integration, which puts into perspective the need to ensure economic convergence beforehand. However, the Governor indicated that there are steps to be followed to complete the monetary integration process. He further underscored the need for political will and the citizens' involvement in the discussions, to ensure that the latter have a better understanding of the fixed rules, in particular, the convergence criteria to be met. He focused on the supervisory framework and the courageous decision-making as well as the compromises to be sought between the exchange rate regimes in Africa, in order to accelerate the monetary integration process. To conclude, he recommended flexibility in the single currency creation process.

5. SECOND SESSION: COORDINATING AND MERGING MONETARY AND NON-MONETARY BLOCKS IN AFRICA FOR MONETARY INTEGRATION

5.1. The second session was chaired by Professor Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda. The sub-theme "Coordinating and merging monetary and non-monetary blocks in Africa for monetary integration" was presented by Dr. Keith Jefferis, former Deputy-Governor of the Bank of Botswana. His communication was followed by the interventions of three panelists, namely, Mr Jean Louis Kayembe wa Kayembe, representing the Governor of the Banque Centrale du Congo, Mr John Rwangonbwa, Governor of the National Bank of Rwanda and Mr Rene Kouassi, Director of Economic Affairs at the AUC.

5.2. In his presentation, Mr. Jefferis identified four monetary unions across the world, namely WAEMU (8 countries), Central Africa Economic and Monetary Community (CAEMC) (6 countries), the Euro zone (19 countries) and the Eastern Caribbean Currency Union (8 countries). He also mentioned the Common Monetary Area (CMA) of Southern Africa, which is more or less a monetary union with certain characteristics of a monetary union but without a common central bank or the same banking supervisor. Mr. Jefferis considered that only the experience of the euro zone can help define the stages followed for the creation of a monetary union according to the current configuration of the African continent, since the majority of African countries already have their own currency. It thus consists in developing a strategy for Africa to replace the existing national currencies by a single currency.

5.3. In the light of the European integration experience, the presenter recalled the key stages of an economic integration, namely (1) the creation of free trade areas, characterized by the elimination of tariffs applied to the trade of goods between Member States, (2) the creation of customs unions, by introducing a common external tariff to trade with third countries, (3) the creation of a Common Market providing for the free movement of labour and capital, and (4) the monetary union which is the final stage of economic integration. He argued that each stage must draw on the preceding stages which serve as pre-conditions.

5.4. For Africa, the Treaty of Abuja provided for the creation of five regional monetary blocks (Southern Africa, East Africa, West Africa, Central Africa and North Africa), built around the Regional Economic Communities (REC). The approach consists in the creation of regional monetary blocks, as a first stage, before proceeding with their merger in a second stage, with a view to establishing a common central bank and a single currency.

5.5. With regard to the merger of the monetary and non-monetary blocks within each REC, Mr. Jefferis mentioned two options:

- The non-member countries of the monetary blocks, taken individually, join the existing monetary blocks (WAEMU, CAEMC, CMA);
- Non-member countries of the existing blocks form distinct monetary blocks and merge with the already existing monetary blocks.

5.6. Mr. Jefferis further indicated that there is no single answer and that everything would depend on the circumstances. The question would arise as to whether WAEMU and CAEMC could accommodate large Member States like Nigeria and DRC and maintain a fixed exchange rate and external guarantee. Otherwise, new blocks will have to be formed in both West and Central Africa. New monetary unions will also be required in East Africa and North Africa. The Common Monetary Area of Southern Africa could accommodate new members, but this would have implications in terms of governance and trade provisions within the Southern Africa Customs Union, the Southern Africa Development Community and the Free Trade Area.

5.7. He called for the free and voluntary membership of a country to a monetary block to preserve the sovereignty of the States that are not yet prepared to give up a minimum of political sovereignty. He further recommended that monetary unions be free to accept or reject new members. The criteria for membership to the monetary blocks must be clearly defined and strictly observed; this would take into consideration the economic and political disparities in the construction of the monetary union.

5.8. At the technical level, Mr. Jefferis noted a few constraints. Indeed, the changeover to a single currency will require a gradual reduction of volatility of exchange rates of countries which will become members of the block. Besides, the policy interest rates must converge towards the same level, and this might also require the convergence of inflation rates. In this respect, the convergence process might be more complex for countries with different monetary regimes or different exchange rate regimes. The choice of the exchange rate regime for the monetary block will be decisive during the transition period.

5.9. On the whole, the merger of monetary blocks in Africa should be a long-term goal with variable geometry (countries in blocks evolving at their own pace) and the possibility of coexistence between monetary and non-monetary blocks. In the short and medium terms, the major challenge should be to successfully set up regional monetary blocks rather than merge them. Besides, for some countries, the challenge is to stabilize their national economies rather than join a monetary union.

5.10. Following this communication, the panelists discussed the economic disparities between African countries emphasizing the need to give priority to the observance of the different stages of economic integration. In their view, the customs union should precede the introduction of an African single currency and the pattern to be followed for Africa would consist in focusing on furthering economic convergence within the Economic Communities.

5.11. They, moreover recalled that the directions already set by the Abuja Treaty provide for the creation of the United States of Africa, aimed at turning the African Continent into an economic block. According to this approach, ECOWAS, COMESA and SADC have already set up customs unions and the single currency would be a real vehicle of economic integration within these communities. Thus, the establishment of institutions that would conduct the creation of a single currency could be a priority for Africa.

5.12. The panelists' interventions also highlighted that on the basis of lessons learnt from the European crisis, a readjustment of the African integration plan might be necessary. Actually, the institution of the single currency should fulfill pre-conditions which the Europeans might have neglected. The African countries will have to better define these pre-conditions and determine the priorities. Initially, it would be useful to define the strategy that would facilitate the involvement of policy-makers by placing them at the forefront. Then, the framework for fiscal policy surveillance should be strengthened and the most appropriate convergence criteria adopted. The response to the issue of merging monetary and non-monetary blocks would also be a prerequisite.

5.13. The summary of the discussions under this sub-theme presented by Professor Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, pointed out that African economic integration is a long term process. He stressed that a closer economic integration requires structural and economic changes and the lifting of tariff barriers. He added that in order to meet the challenges, these efforts must be perceptible within the RECs. He finally questioned the possibility for the monetary unions within the RECs to enable economic integration, a necessary step towards the monetary union.

6. THIRD SESSION: BANKING AND FINANCIAL REFORMS IN THE POST GLOBAL FINANCIAL CRISIS

6.1. The third session was chaired by Mr Godwin I. Emefiele, Governor of the Central Bank of Nigeria. To introduce the sub-theme of this sub-session entitled "Banking and financial reforms in the post global financial crisis: some lesson for Africa", presentations were made by Mr Cas Coovadia, Managing Director of the South Africa Banking Association and Mr Urjit Patel, Governor of the Reserve Bank of India.

6.2. In his presentation, Mr Coovadia indicated that the global financial crisis was essentially confined to Europe and the United States of America (USA). In some of these countries, economic growth is still slow and interest rates are low. More than 5 thousand billion dollars have not been recovered and more than 5 million jobs were lost. To face up to the crisis, the countries directly affected made a massive cash injection to restore financial stability. In this connection, the banking and financial reforms were driven by recovery programs aimed at injecting resources into the economies. The European Union introduced the European Plan for Economic Revival, in order to restore confidence, stimulate demand and implement global fiscal stimulus. The United States introduced the Troubled Asset Relief Program (TARP) for an amount of 700 billion US dollars and a general expenditure plan of 1000 billion US dollars.

6.3. The Managing Director of the South Africa Banking Association argued that the impact of the financial crisis on the African economies was primarily economic, through the insufficiently diversified trade relations between the Continent and Europe and the United States. The African banks, globally, were not affected to the point of needing capital injection. The main reason why the banking sector in many African countries was not directly affected relates to the nature and weakness of their connection with the rest of the world.

6.4. The presenter indicated that the effects of the financial crisis demonstrated the globalization of the financial sector and has, at the level of regulatory structures and mechanisms, justified the creation of G20 and the Financial Stability Council as well as the implementation of Basel III, aimed at strengthening the resilience of banks to external shocks. He however urged the Basle Committee to evaluate the consequences of the application of new standards on the banks' performances, on financial stability and economic growth.

6.5. Mr Coovadia noted that the reforms led to a significant increase in the regulatory costs with an effect on costs and banking production. Moreover, the regulations did not take account of the development challenges with which developing countries are confronted and their implementation makes it more difficult and more expensive to undertake actions to address these challenges.

6.6. For the African countries, a major lesson is that there is need to continue improving the banking regulations to align them to the best practices. The African countries should also diversify their trade relations, in particular with Asia, and avoid over-dependence on the mining resources and agricultural raw materials because a decline in the European or American demand will result in economic recession.

6.7. In conclusion, Mr Coovadia pointed out that the causes of the financial crisis are to be found at the level of banks as well as that of regulators. In this respect, the regulators' response should not be an obstacle to the efficient functioning of banks and should take into account innovations such as Fintechs and robotics which are changing the state of the banking sector.

6.8. The second presentation was made by Mr Urjit Patel, Governor of the Reserve Bank of India. The presentation focused on the Indian experience in the management of the global financial crisis. He explained that during the initial phase of the crisis, the Indian financial markets were relatively isolated, because they are less exposed to risks associated with liquid assets. However, after the collapse of Lehman Brothers in September 2008, India was affected, through the financial flows, the real sector and especially the confidence of investors.

6.9. According to Mr Patel, the Indian economic growth had slowed down to reach its lowest level since 2003, the external current account deficit and the budget deficit had widened and inflation was maintained beyond two digits. With regard to the continuous deterioration of the economic situation, the central bank took monetary policy measures, in particular the increase in cash injections, the exchange rate adjustment and the decline in the policy interest rate, to restore economic growth. For its part, the Government supported the economic activity through fiscal stimulus plans.

6.10. These measures helped restore economic growth. However, inflation was high in relation with the surge in world prices, particularly that of oil. The current account deficit had widened, thus weakening the Rupee. The central bank had to take exceptional measures to limit the external current account deficit. These measures include providing foreign currencies (US dollars) to major oil-importing companies, increasing customs duties on gold imports, leading to over 20% decline in imports and raising the permissible ceiling for government securities on the international market, in order to enable the State to pursue its funding of infrastructure. These measures helped improve the balance of payments and stabilize the foreign exchange market in the second half of 2013.

6.11. In conclusion, the Governor of the Reserve Bank of India underscored the use of multiple tools to confront the effect of crises, including administrative measures to manage capital flows and stabilize the foreign exchange market.

6.12. Following the two presentations, the participants expressed concern about the impact of the application of Basle III provisions on emerging economies, such as India and South Africa. They wanted to seek guidance, in particular for banks of countries that have not yet implemented the Basle III agreements, taking into consideration the liquidity constraints which the banks of countries that have implemented it, are still experiencing. Responses to these points were lukewarm underscoring the need to undertake targeted studies on these issues. It was pointed out that the African banking system was integrated to the global economy and hence there was a need to apply international standards has become clear. However, the pace with which the standards are implemented needs to be adapted to the evolution of economic activity in each country.

6.13. Regarding the guidance to be given to banks of countries that have not yet adopted the Basle III agreements, emphasis was laid on the need for banks that would like to figure in the world financial system, to implement the recommendations resulting from these agreements. However, the countries wishing to implement them should assess their short and long term impact on the economy. Concerning India, a certain number of measures taken, helped to cover the cash flow problems, and so far, no problem has been recorded on the assets side, including the 10-year bonds.

6.14. The Chairman of the session stressed the importance of the banking and financial reforms in order to strengthen the banking structure and the resilience of our economies to shocks. He pointed out that these reforms should relate to the diversification of economies, the introduction of supervision based on standards in the regulations, the introduction of measures for corporate governance and the speedy interventions of regulators in the event of crisis.

7. FOURTH SESSION: SHARING EXPERIENCES IN MONETARY INTEGRATION PROSPECTS IN THE AFRICAN SUB-REGIONS

7.1. The fourth session was chaired by Mr. Lesetja Kganyago, Governor of the South African Reserve Bank (SARB). Experiences in monetary integration were presented respectively by Mr Dieudonné Evou Mekou, Deputy-Governor of the Banque des Etats de l'Afrique Centrale (BEAC), Mr Tiémoko Meyliet Koné, Governor of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) and Mr Majozi Sithole, Governor of the Central Bank of Swaziland.

7.2. The Deputy-Governor of the BEAC conveyed to participants the regrets of the Governor, Mr Abbas Mahamat Tolli, who could not take part in this important meeting because of timetable constraints. He furthermore drew attention to the similarities between the Central Africa Economic Community States (CAEMC) and the West African Economic and Monetary Union (WAEMU), since both zones share a monetary system based on the fixed parity with the euro and the free transferability of capital.

7.3. With regard to the CAEMC[1], the Deputy-Governor indicated that monetary cooperation between Member States, on the one hand, and between Member States and France, on the other hand, was established through the Conventions of 22nd and 23rd November 1972. This co-operation is structured around the BEAC. It stimulated the promotion of economic and financial integration of Member States, in particular, during the 70s to 80s.

7.4. Following the banking crisis of the 1980s which was characterized by the bankruptcy of several banks, the monetary and financial integration process was reactivated in the 1990s, with a profound change in the existing institutional framework. Such progress led to the signing of the Convention of 16 October 1990, relating to the creation of the Central African Banking Commission (COBAC) and the Convention of 5 July 1996 governing the Central African Monetary Union (UMAC) whereby the signatory countries undertook to pool their foreign exchange reserves, institute solidarity, collective monetary autonomy as well as the liberalization of their money and capital market. The missions of Bodies and Specialized Institutions were reinforced to include issues relating to the convergence of economic policies, the harmonization of the common regulation in monetary, banking, financial and foreign exchange matters, the fight against money laundering and the financing of terrorism.

7.5. For the Deputy-Governor, monetary co-operation within the Central African Monetary Union is highly appreciated. As regards monetary policy, the BEAC strived, during this long period of co-operation, to improve the effectiveness of its interventions and provide its support to the economic policies implemented by States. While inflationary pressures intensified in most Sub-Saharan African countries with the decline in prices of raw materials, the common monetary policy, taking advantage of the stabilizing effects of the Franc Zone mechanisms helped contain inflation around the community standard of 3%, while the external coverage of the currency is still comfortable.

[1] Cameroon, Central African Republic, Congo, Gabon, Equatorial Guinea and Chad

7.6. Mr Mekou however mentioned the recent economic difficulties triggered by the decline in oil prices. To address the situation, the States were encouraged to contact the IMF, and the BEAC is taking an active part in the discussions with this institution. Moreover, these past two decades marked the progress of the nominal convergence within the Central African Monetary Union, as a result of the economic policy recommendations arising from the multilateral monitoring exercise. With the coming into force in 2017 of the revamped multilateral monitoring mechanism, the soundness and stability of the common currency were strengthened. At the beginning of the 2000s, the monitoring of the financial sector, by the Central African Banking Commission, was extended to include new areas such as the fight against money laundering, the financing of terrorism, the governance of credit institutions, the treatment of credit institutions in difficulty and transborder and consolidated banking supervision. Another important achievement in the financial sector was the establishment of an appropriate mechanism for the protection of savers through the creation in Central Africa, in 2011, of a Deposit Guarantee Fund.

7.7. The Deputy-Governor concluded by stating that monetary integration is effective in the CAEMC zone. On monetary matters, the Central African Monetary Union and the West African Monetary Union, the two oldest monetary unions in economic history, appear as models of advanced integration. Monetary integration is a unification process which requires flexibility and consensus in decision-making and the terms and conditions of their implementation. Finally, the creation and operation of a monetary zone result from the surrendering of part of a country's sovereignty to a supranational organization. Despite the progress, the monetary union generated only limited financial integration. This low level of financial integration is due to the deficiencies of economic integration, and to certain impediments inherent in the financial sphere, in particular the weaknesses of the regional interbank market, in a context marked by a permanent excess bank liquidity and the growing financing needs of the national economies, the limited development of the regional financial markets and the absence of regional mechanisms to support the financial institutions in difficulty.

7.8. The second intervention was that of the Governor of the BCEAO. He confirmed the similarities between the WAEMU and CAEMC zones and focused his intervention on issues specific to the WAEMU. He presented an overview of the integration process within the West African Monetary Union (WAMU). He then touched on the reform, in 2010, of the WAMU and the BCEAO before mentioning the performances registered by Member States because of their monetary union membership. The Governor concluded his intervention by identifying the challenges to be addressed by the Central Bank in connection with the conduct of the common monetary policy.

7.9. With regard to the integration process, the Governor of the BCEAO pointed out that African countries of the franc zone, following their independence, opted to exercise their monetary sovereignty jointly. The WAMU was created on 12 May 1962 through the signing of a Treaty between six States (Benin, Burkina, Côte d'Ivoire, Mauritania, Niger, Senegal). Its membership was later extended to Togo in 1963, Mali in 1984 and Guinea-Bissau in 1997, while Mauritania withdrew from it in 1972. The establishment of this monetary union was underpinned by the countries' desire to lay the foundation of a community with a common destiny, characterized by the adoption of a single currency, the African Financial Community (CFA) franc, whose issuing authority is their common institution, the BCEAO.

7.10. Today, the WAMU has 55 years of experience in monetary union and the management of a common central bank. Its operation is based on five major principles, namely (1) the centralization of foreign exchange reserves which reflects solidarity between Member States, (2) the implementation of a common monetary policy and a mutually accepted monetary discipline, (3) harmonization of monetary and banking legislations, (4) guarantee of the convertibility of the FCFA to the French franc, and later, to the euro and, finally, (5) the flow of capital within the Union.

7.11. In the light of the history and experience of monetary union throughout the world, Mr Koné pointed out that today, the WAMU is an example of a complete monetary integration between sovereign countries. He however considered it necessary to consolidate the achievements of the monetary co-operation and extend them to the other aspects of the economic policy. This need was felt during the economic crisis relating to the foreign debt of the 1980s. It was materialized by the Treaty establishing the West African Economic and Monetary Union (WAEMU), signed on 10 January 1994 in Dakar, marking a new stage in the monetary co-operation process. The signing of the WAEMU Constitutive Treaty aimed at providing monetary integration with a more solid foundation through a closer economic integration of the different national economic policies.

7.12. The originality of WAEMU thus lies in the prior existence of a common monetary policy, with autonomy of national fiscal policies. This duality implies constraints between the requirements of the monetary sector and those of the real sector, in particular. For this reason, the achievement of macroeconomic convergence is a condition to guarantee credibility and a solid economic base for the common currency.

7.13. Governor Koné pointed out that the functions of a common central bank to several developing countries, go beyond the traditional central bank occupation. He indicated that the BCEAO contributed to establishing several specialized agencies, entrusted with specific functions aimed at consolidating the bases of the monetary union. He mentioned, among others, the West African Development Bank (BOAD), responsible for financing major development projects, the WAMU Banking Commission, which supervises and regulates the banking structure, the Regional Public Savings and Capital Markets Council (CREPMF) which is the capital market regulating authority, and the WAMU-securities, which is an agency in support of the issuance and management of public securities. The Governor added that efforts and reforms are being pursued to maintain economic growth and consolidate economic integration. Financial inclusion and financial stability are also underway, in view of the entry into force of the Basle III provisions, as from 1st January 2018.

7.14. The Governor of the BCEAO further pointed out that successive reforms, the last of which came into effect in 2010, resulted in a gradual adaptation of the monetary policy. The last reform of 2010 completed the process of liberalization and upgrading initiated 20 years ago. This reform aimed to adapt the institutional architecture of the BCEAO and the WAMU to changes in the missions of central banks. It also aimed to improve the effectiveness of the monetary policy and create the conditions for an enhanced funding of the economies. To date, the monetary policy framework explicitly defines inflation as the key objective of the monetary policy. It establishes the Central Bank's autonomy, by eliminating direct financing to member States and sharing responsibilities regarding monetary policy, with the creation of a Monetary Policy Committee, in which each Member State is represented, and which meets once every quarter.

7.15. The BCEAO Governor considered as satisfactory the outcomes of several decades of management of the common currency, judging by the stabilization of inflation in the zone below 3%, and the economic growth rate that rose to over 6% since 2012. He added that the pooling of foreign exchange reserves allowed each State, taken individually and depending on the economic situation, to deal with various types of crises, without the collapse of their economies. Significant progress was made in the harmonization of legislations and the unification of economic zones, with the effective coming into force of the Customs Union since 1st January 2000 and the institution of a common external tariff. Likewise, important and decisive actions were undertaken to harmonize the statistics. They related to statistics on public finance, balance of payments, gross domestic product and prices.

7.16. Mr Koné indicated that there is still room for improvement. Indeed, the functioning of the monetary union requires a perfect coordination between the common monetary policy and the national fiscal policies. It also requires compliance with the rules of convergence, in order to consolidate the bases of the single currency. The Governor identified five major challenges to be addressed by the Central Bank in the conduct of monetary policy, namely (1) achieve and maintain strong growth in order to reduce poverty significantly, (2) have the adequate financial resources in terms of quality and quantity to ensure the financing of the Union's economies, (3) safeguard the independence of the Central Bank by reinforcing the credibility of the common monetary policy, (4) ensure the stability of the financial system and financial inclusion and, finally, (5) improve coordination between the national fiscal policies and the common monetary policy.

7.17. For Governor Koné, political will, the acceptance of the community spirit, the abandonment of national sovereignty and discipline are the essential conditions for the success of a monetary union. He was convinced that the WAMU experience could effectively motivate the construction of monetary integration across the African continent.

7.18. The third panelist, Governor of the Central Bank of Swaziland, Mr Majozi Sithole, presented the SADC experience. With regard to economic integration, the Governor confirmed the existence of a common external tariff and stated that trade between the different countries of the SADC increased considerably in recent years. The countries are pursuing negotiations to reach an agreement on the modalities of monetary integration.

7.19. Mr Sithole stated that the monetary union project was postponed to a later date, because priority was given to the fulfillment of the preconditions of the macroeconomic convergence objectives. He however expressed satisfaction with the integration of payment systems in the zone. Indeed, the system of compensation was extended to all the countries and the Rand, South-African currency, henceforth plays a leading role in the trade between SADC countries.

7.20. A monetary union regrouping 4 countries (South Africa, Namibia, Swaziland and Lesotho) was established in 1994, with the Rand as a common currency. However, a recent agreement authorizes the other countries to use their currency in their respective countries, with their pegging to the South African currency. There is no common central bank but the SARB conducts the offsetting operations and defines the overall monetary policy framework implemented by other central banks.

7.21. Following these presentations, participants expressed concern about the impact of the fixed parity between the CFA franc and the Euro, on the competitiveness of the economies of CAEMC and WAEMU zones. They also wondered what would become of the CFA franc in view of the creation of the African single currency. In response, the Governor of BCEAO pointed out that at the economic level, pegging the CFA franc to the Euro is justified by the immense share of the euro zone in WAEMU's commercial and financial exchanges.

7.22. Concerning the future of the CFA franc in view of the creation of the African single currency, the Governor of the BCEAO indicated that WAEMU is engaged in the single currency creation process within ECOWAS. The adopted approach consists in forming a monetary block composed of ECOWAS countries other than those that are members of WAEMU, namely the West African Monetary Zone (WAMZ). The WAMZ and WAEMU will be merged in the long term. Non-WAEMU member countries are engaged in a monetary unification process.

7.23. At the end of the discussions under this sub-theme, the Chairman of the session, the Governor of SARB, noted that after all these relevant analyses many questions still remain unanswered. He said that since the political ambition to create a monetary union continent-wide, has been declared, African countries must now focus on the challenges and overcome the obstacles. He urged participants to learn from the successes and difficulties observed in the euro zone, and to build on the achievements in the area of monetary integration in Africa, to refine the actions and measures to be implemented before the creation of the single central bank. He further explained that, in view of the diversity of the economies and the scope of the monetary zone under consideration in Africa, it is imperative to define a mechanism for the resolution of crises.

Some common ground derived from the discussions

1. The Governors considered that the success of monetary integration requires a minimum level of economic convergence. They insisted on the need to define relevant convergence criteria and design a mechanism to monitor the fulfillment of commitments made by the States as regards economic convergence.
2. There is a need to consider technical issues such as the choice of foreign exchange rates to be associated with the single currency, the kind of relations and arrangements which the African Central Bank will have with/agree on with the other central banks across the world, as well as the process to merge the monetary blocks.
3. Given the diversity of the economies on the continent, and in the light of the experience of Europe, the Governors deemed it necessary to define a mechanism for the resolution of crises related to the possible default of some States in the monetary integration process.
4. Many participants stressed the importance of political developments on the integration process on the continent. In this regard, real convergence (trade integration, capital and labour movements) requires that political commitments are given effect through effective policy implementation. The need for a banking and fiscal union preceding the establishment of a common central bank was also emphasised by participants at the meeting.

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