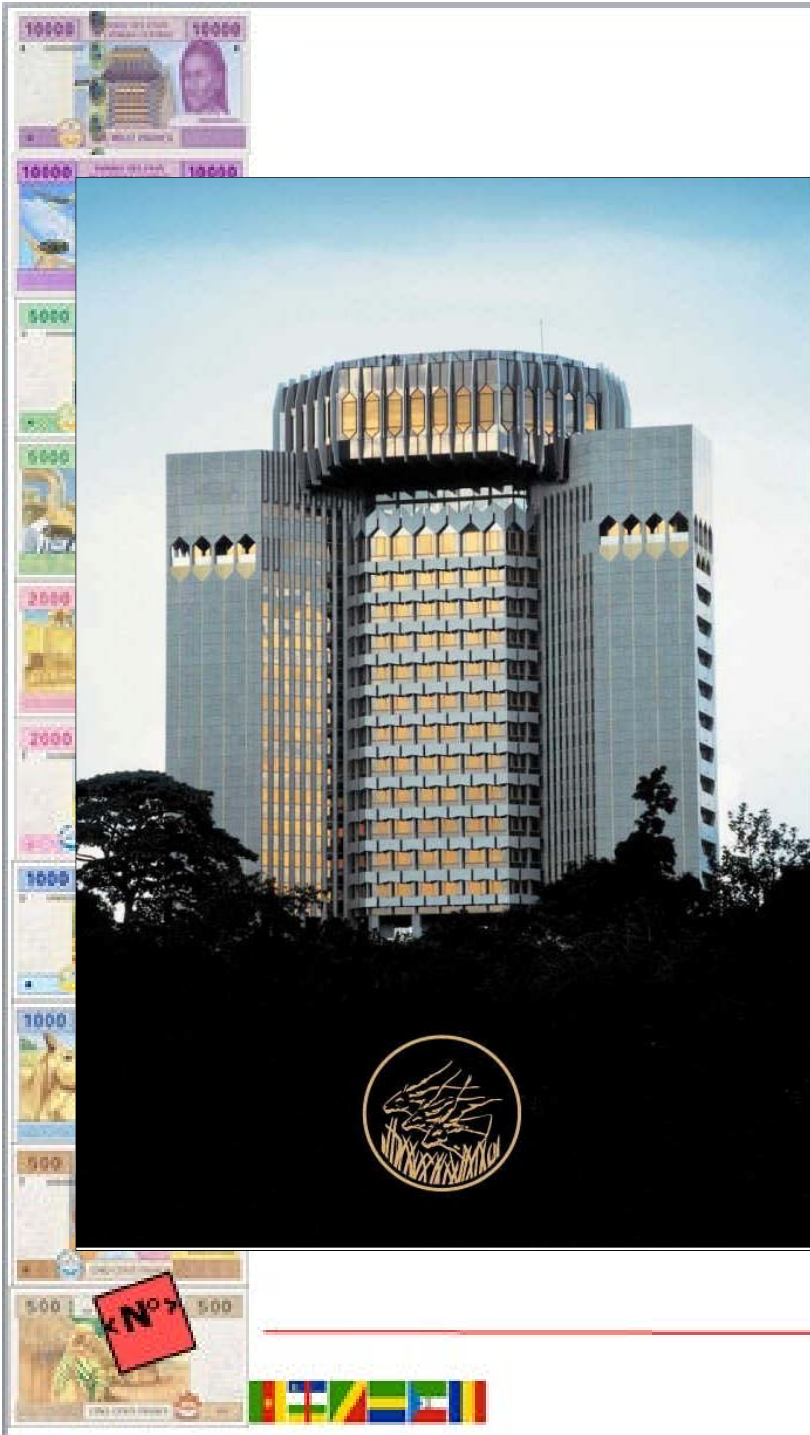


Continental Seminar of the Association of African Central Banks

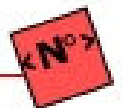
(Nairobi, 13 - 15 May 2015)

Monetary policy frameworks in a changing
financial landscape: the case of BEAC



PRESENTATION PLAN

- Introduction
- Overall context in CEMAC
- CEMAC in a changing financial landscape
 - At international level: lessons from financial crises
 - At sub-regional level: changes in the financial system
- Prospects for BEAC's monetary policy
 - BEAC's monetary policy and major challenges
 - Development of market tools
 - Development of the macro-prudential framework
- Conclusion

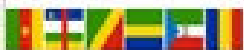


INTRODUCTION

- The existing monetary policy results from the reforms initiated in the 1990s after the economic and financial crisis.
- **Before this reform:** monetary policy focused on developing and using direct instruments to promote investment

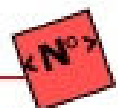
But

- The results in development were measured
- The deteriorating economic situation brought out the weaknesses in this monetary policy and the vulnerabilities of the financial system



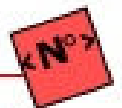
INTRODUCTION

- Reforms were initiated after this crisis, resulting in:
 - The introduction of monetary stability as an objective for the Central Bank;
 - The adoption of monetary programming as a tool for macroeconomic frameworks and setting monetary and credit objectives;
 - The adoption of new instruments (interest rates, compulsory reserves...);
 - The use of market mechanisms with the establishment in 1994 of the sub-regional monetary market.
 - The establishment of an independent entity to regulate and supervise the banking system



INTRODUCTION

- But since 1990, the context has changed:
 - Progressive growth in capital markets
 - Advent of new financial instruments
 - More stable macroeconomic situation, yet with challenges in economic development and poverty reduction
 - Expansion of the duties of Central Banks to include financial stability
- In this context, BEAC needed to review its monetary policy provisions



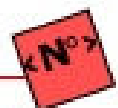
I OVERALL CONTEXT IN CEMAC: economic context

Monetary zone depends heavily on raw materials, especially oil

The oil sector represents:

- about 70% of exports from the CEMAC zone
- over 65% of budget receipts
- about 40% of CEMAC's GDP

→ CEMAC is vulnerable to international economic trends

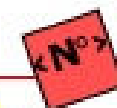


I OVERALL CONTEXT IN CEMAC: economic context

Evolution économique et perspectives

| | 2010 | 2011 | 2012 | 2013 | 2014 | 2015* |
|--|------|------|------|------|-------|-------|
| Taux de croissance réelle (%) | 4,8 | 4,1 | 6,0 | 1,6 | 4,4 | 4,2 |
| Solde courant en pourcentage du PIB | -6,0 | 0,2 | -0,4 | -5,8 | -10,0 | -20,0 |
| Réserves en mois d'importation | 6,9 | 8,1 | 7,6 | 7,6 | 6,7 | 5,6 |
| Solde global, base engagement, hors dons en % du PIB | 1,4 | 2,4 | -1,3 | -1,8 | -0,7 | -6,3 |
| M2/PIB | 18,8 | 19,5 | 21,0 | 22,6 | 23,4 | / |

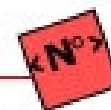
■ Source : BEAC



I Overall context in CEMAC: monetary context

The monetary context is governed by the mechanisms of the franc zone. These are based on four major principles:

- A *common currency*, the F CFA, pegged on the Euro at a fixed rate of 655.957 F CFA per 1 Euro since the 1st of January, 1999;
- *Unlimited convertibility* of FCFA into Euro guaranteed by the French Treasury;
- *Free movement of capital* between countries in the franc Zone;
- The *pooling of foreign currency reserves between CEMAC member states*.

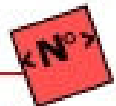


I) Overall context in CEMAC: structure of the financial system

The structure of the financial system as at 31/12/2014

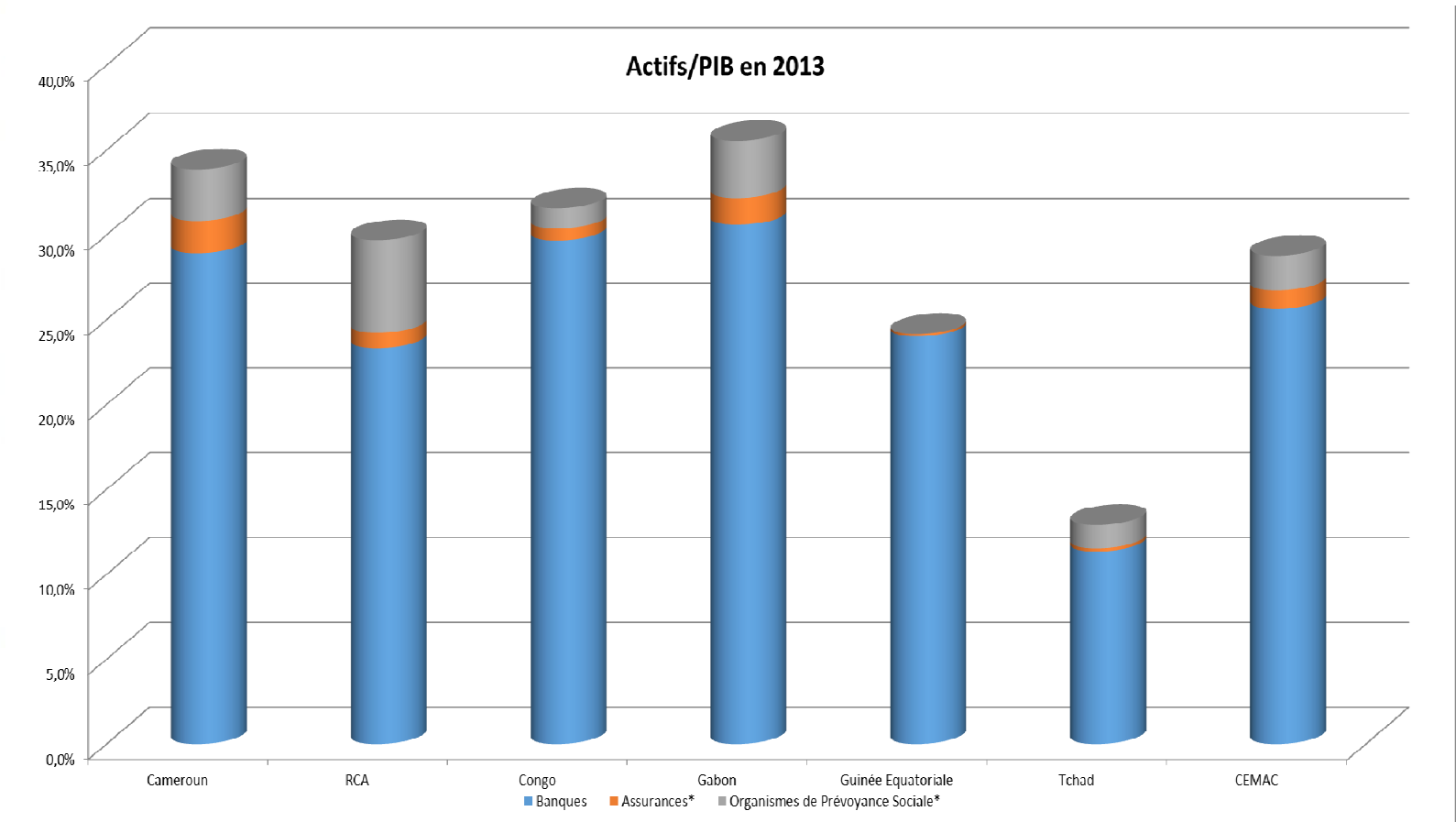
| | Banques | Etablissements financiers | Assurances | Organismes de Prévoyance Sociale |
|--------------------|-----------|---------------------------|------------|----------------------------------|
| Cameroun | 13 | 5 | 24 | 1 |
| RCA | 4 | 0 | 3 | 1 |
| Congo | 10 | 0 | 7 | 1 |
| Gabon | 10 | 2 | 9 | 2 |
| Guinée Equatoriale | 5 | 0 | 3 | 1 |
| Tchad | 8 | 0 | 3 | 1 |
| CEMAC | 50 | 7 | 49 | 7 |

Further, CEMAC has a sub-regional stock exchange, a national exchange and a market for tendering government securities under the aegis of the central bank



I) Overall context in CEMAC: structure of the financial system

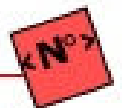
- A financial system dominated by the banking sector



I) Overall context in CEMAC: structure of the financial system

A financial system facing several challenges

- One of the lowest banking penetration rates: 8% (2013)
- Abundant excess liquidity
- Liquidity ratios above 100%: (158.6% in 2014)
- But low volume of loans:
 - Loan/deposit ratio around 76% in 2014
 - Loan/GDP ratio of 15% in 2014



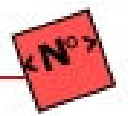
II. CEMAC IN THE CHANGING FINANCIAL SYSTEM

- At the international level: 2007-2008 financial crisis and the national debt crisis:
 - Impact on CEMAC:
 - Little impact on the financial system because it was not well developed and integrated in international capital markets
 - Real economy resilient, but affected via international trade and to a lesser extent by the drop in public capital flows.
- The experience of other countries and the memories of the crisis in the 1990s convinced CEMAC of the importance of financial stability issues



II. CEMAC IN THE CHANGING FINANCIAL SYSTEM

- Lessons learned from the two financial crises:
 - Monetary policy necessary, yet inadequate to guarantee financial stability, but role of Central Banks in the financial system is crucial
 - Need to develop a macro prudential approach
 - Reinforce macro prudential supervision
 - Importance of closely monitoring public finances



II. CEMAC IN THE CHANGING FINANCIAL SYSTEM

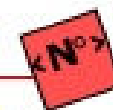
- At the sub-regional level

- Emergence and development of microfinance in the CEMAC countries;
- Since 2000, progressive growth of financial markets (regional stock exchange and national stock exchange);
- Modernization of means and systems of payment;
- Development of electronic banking and electronic money;
- Emergence of banking groups and specialized financial institutions;
- Phasing out of Central Banks' financial support to absorb public deficits;
- Institution, since November 2011, of the regional market on public securities tendered under the aegis of BEAC;
- The institution, only recently (March 2015), of the regional market of negotiable debt securities (TCN), on one hand, and of the regional interbank market of pledges (repo market), on the other.



III. Prospects for BEAC's monetary policy

- In order to contribute significantly in modernizing CEMAC's economic and financial climate, BEAC, as from October 2009, initiated reform of its monetary policy mainly to achieve monetary stability.
- This huge effort is the second round of monetary reforms in the CEMAC zone, after those in the 1990s. It covers the:
 - Institutional;
 - Strategic;
 - Analytical; and
 - Operational
- frameworks



BEAC's monetary policy and main challenges

At the institutional and communication level

- Establishment of a Monetary Policy Committee (CPM) in 2008;
- Strengthening of the monetary policy decision making process, with the institution of a monetary policy technical committee, as an internal unit of BEAC, under the chairmanship of the Governor;
- Design and publication of the monetary policy report;
- Development and publication of the BEAC monetary policy report;
- Systematization of the Governor's press conference at the end of each CPM

■ At the strategic level:

- On-going research work to:
 - Revisit the theoretical basis for monetary policy;
 - Identify the channels for transmitting monetary policy;
 - Assess the relevance of monetary stability levels internally and externally:
 - external currency coverage ratio of 20%;
 - target inflation rate of 3%, following the sub-regional mechanism for monitoring multilateral economic policies.



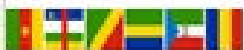
BEAC's monetary policy and main challenges

■ At the analytical level:

- Development and publication of indicators for monitoring and analysing the macroeconomic framework;
- Development of provisions to survey financial economic agents, on one hand, and non-financial economic agents, on the other;
- Establishment, on one hand, of inflation detection models and, on the other, of models for simulating the effects of monetary policy measures.

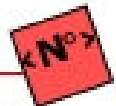
At the operational level

- Establishment of a new system for bank liquidity management, based on weekly forecasts of autonomous factors of bank liquidity (FALB) for the effective conduct of monetary policy in a context of developing capital markets;
- Streamlining of indirect monetary policy instruments and improvement of compulsory reserves systems
- Improvement of the legal and operational system for managing collateral and expanding the range of assets admitted as collateral for monetary policy operations on new financial instruments (BTA, OTA, State bonds issued by syndication, TCN, etc.) in a context of developing financial markets.



Development of market tools

- To improve the transmission of monetary impulses to the financial and real sphere, BEAC is constantly promoting capital markets.
- It also encourages the emergence of specialized financial institutions and thus promotes financial innovation.
- BEAC does this through several projects that are still going on, or that have resulted in:
 - Better supervision of the financial sector;
 - The institution of a regional stock exchange: Bourse des Valeurs Mobilière d'Afrique Centrale (BVMAC);
 - The promotion of modern means of payment;
 - The emergence of banking groups and specialized financial institutions;
 - The institution, since November 2011, of the regional market for government securities issued by tender under the aegis of BEAC;
 - The institution, only recently (March 2015), of the regional market of negotiable debt securities (TCN), on one hand, and of the regional interbank market for pledges (repo market), on the other..



Development of the macroprudential policy

At the institutional level

- The promotion of financial stability was included in the statutes of the Central Bank in 2010
- A Committee for Financial Stability in Central Africa (CSF-AC) was established in 2012
- The CSF-AC began to work in 2014

■ At the analytical level:

- The first indicators of financial stability have been defined
- The first analysis on the vulnerability of the financial system has been done.

■ At the operational level:

- The action plan setting out CSF-AC interventions has been prepared

→ The establishment of the macroprudential framework should take account of interactions with the monetary policy



CONCLUSION

- In a constantly changing environment, BEAC continues to face several challenges, such as:
 - Ensuring financial stability;
 - Promoting financial stability;
 - Supporting healthy and sustainable development of CEMAC economies.
- But to accomplish all these duties effectively, there is need to develop a financial system. To do so, efforts should be made to continue:
 - Promoting the development of capital markets;
 - Encouraging the emergence of specialized financial institutions;
 - Supporting the development of the microfinance sector; and
 - Facilitating access to financial services, and thus promoting financial inclusion.





THANK YOU FOR YOUR
KIND ATTENTION

