

# **AFRICA'S MONETARY POLICY FRAMEWORKS IN A CHANGING FINANCIAL LANDSCAPE:**

## **THE BCEAO EXPERIENCE**

**AACB Continental Seminar, May 2015**

# PRESENTATION PLAN

- 1 – BCEAO's changing monetary policy implementation framework from  
a historical perspective**
- 2 – BCEAO's current monetary policy implementation framework**
- 3 – BCEAO's monetary policy implementation challenges and  
prospects**

# I. BCEAO's changing monetary policy framework: a historical perspective (1/2)

## Four major phases of change in the BCEAO monetary policy framework

	<p><u>2<sup>nd</sup> phase</u>: 1975 to 1989</p> <p><u>Background</u>:</p> <ul style="list-style-type: none"><li>- Micro-economic management of bank financing did not produce expected outcomes</li></ul> <p><u>Monetary policy framework</u></p> <ul style="list-style-type: none"><li>- The objective was to adjust liquidity in the economy to changing economic conditions and development needs, and to promote the financing of productive activities and infrastructure;</li><li>- Direct instruments for controlling macro-economic financing of the economy (BCEAO competitive ceilings by country, preferential rates, prior authorization of credit, etc.)</li></ul>
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# I. BCEAO's changing monetary policy framework: a historical perspective (2/2)

3rd phase: 1989 – 2010

Background:

- liberalization of economies
- incompatibility of administrative procedures for monetary regulation;
- Actions to diversify sources of financing and deepen the financial system

Monetary policy framework

- Progressive change towards prioritization of price stability;
- Implementation of a monetary targeting framework that evolved into a framework for integrating all inflation-related risks;
- Indirect instrument: interest rates and compulsory reserves;
- Operational target: interbank rate;
- reinforcement of bank surveillance

4th phase: since 2010

Background:

- Significant reforms to:
  - \* adapt BCEAO and WAMU institutional architecture to changes in the missions of central banks;
  - \* improve monetary policy effectiveness to create the enabling conditions for financing the economies in the Union;
  - \* consolidate banking and financial system stability in the zone to deepen the changing financial landscape and gradual integration of economies into the international finance system.

## II. BCEAO's monetary policy implementation framework (1/6)

### Institutional framework and environment

Pegging of the CFA Franc to the Euro at a fixed rate: challenges issuing currency with foreign currency reserves coverage no less than 20%

The Monetary Policy Committee defines monetary policy: defining the operational objective, instruments and terms for amendment of the instruments

The Governor implements the monetary policy.

### Financial landscape

#### Relatively advanced sub-regional financial integration:

- \* about 80% of transactions on the interbank market are transborder transactions
- \* over 50% of outstanding government securities are held by residents of countries other than those of the issuing State

#### Development of market infrastructure

- \* Creation of a real time gross settlement (RTGS) system and an incentive payment system
- \* Establishment of an electronic platform for automating refinancing operations, subscription to outflows from third country nationals (TCN) and interbank transactions.

## II. BCEAO's monetary policy implementation framework (2/6)

### Financial landscape (cont'd)

#### Deepening of the financial system:


#### Progressive integration of States into the international finance system

\* Two countries in the Union (Côte d'Ivoire and Senegal) issued Eurobonds on international markets in 2014 and 2015. This trend is likely to continue.

## II. BCEAO's monetary policy implementation framework (3/6)

### Strategic framework for monetary policy

Takes into account:

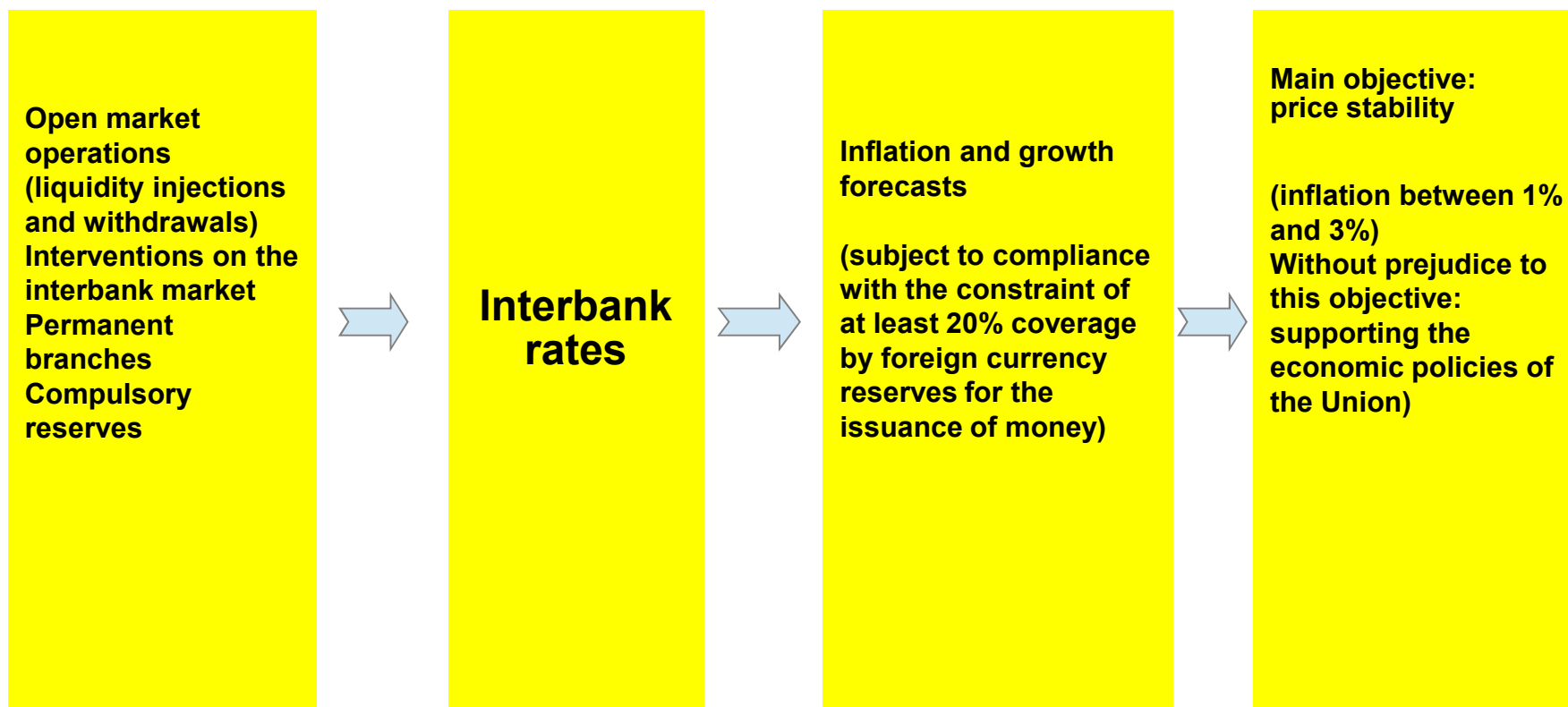
- **The changing financial landscape's impact on transmission channels:** relationships between monetary aggregates and inflation are stable but weak;
- **Objective of monetary policy:** price stability and, without prejudice to this objective, support economic policies in the Union to consolidate and sustain economic growth

Built on the principles of:

- **Flexibility and prospectiveness**, adaptability to several situations (benchmark: best practices on the international market, mindful of the internal constraints);
- **Transparency** in information on market stakeholders.

## II. BCEAO's monetary policy implementation framework (4/6)

### Strategic framework for monetary policy (cont'd)





## II. BCEAO's monetary policy implementation framework (5/6)

### Strategic framework for monetary policy (cont'd)

#### Some constraints limiting effectiveness of monetary policy and actions conducted

<p>Shallow and segmented interbank market, the first link of monetary flows:</p> <ul style="list-style-type: none"> <li>- 70% of transactions are inter-group transactions</li> <li>- liquidity rich banks do not generally recycle their liquidity outside their group</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment of an electronic platform for negotiation between credit institutions</li> <li>• Establishment of a regulatory framework for repos to strengthen the security of transactions on the interbank market</li> </ul>
<p>Sluggish secondary market for public securities</p>	<ul style="list-style-type: none"> <li>• Creation of a network for Specialists in Treasury Bonds</li> <li>• Establishment of <b>Agence UMOA-Titres</b> (WAMU Agency for Securities), aimed at helping States mobilize resources at lower cost to ensure public securities are the reference on the regional financial market</li> </ul>
<p>Mortgage market still at an embryonic stage</p>	<p>Creation of WAEMU Regional Mortgage Refinancing Fund (CRRH-UEMOA)</p>

## II. BCEAO's monetary policy implementation framework (6/6)

### Strategic framework for monetary policy (cont'd)

#### Measures for an improved strategic framework, suited to the changing landscape

Pillar 1: Improving availability of statistics

-Establishing systems to collect a wide range of data (real sector, finance and currency, etc.)

-Pillar 2: Establishing models for macroeconomic planning and impact analysis

### III. BCEAO's monetary policy implementation challenges and prospects (1/6)

#### BCEAO priorities

- Seeking ways to permanently adapt its monetary policy rules and fine-tune its strategic framework to respond to the external and internal constraints in its environment;
- Continue deepening the Union's financial system so that this sector plays a more active catalytic role in development;
- Preserve financial stability, a vital condition for the smooth functioning of monetary policy transmission mechanisms and the effectiveness of financial intermediation in the zone.

### III. BCEAO's monetary policy implementation challenges and prospects (2/6)

#### Challenges tied to the international environment

##### 1/ Globalization, recurrent financial crises and the challenge of financial stability

Increasing integration of countries into the international financial system

=> Accelerating financial innovation and challenges to financial stability, with consequences on the ability of monetary policy to achieve its objectives.

=> Loss of autonomy in implementing economic policies in a context of increasing volumes and volatility of capital flows to the emerging and developing countries.

### III. BCEAO's monetary policy implementation challenges and prospects (3/6)

#### Challenges tied to the international environment

##### 1/ Globalization, recurring financial crises and the challenge of financial stability

##### Adapting the prudential policy framework to international standards

Several projects:

- Reviewing the prudential system by migrating towards Basel II and III;
- Integrating international financial reporting standards (IFRS) in bank accounting;
- Conducting stress tests on the banking system in 2013 and 2014;
- Developing and monitoring Financial Soundness Indicators (FSIs);
- Establishing a Deposit Guarantee Fund in the WAMU;
- Establishing a Financial Stability Fund.

### III. BCEAO's monetary policy implementation challenges and prospects (4/6)

#### Challenges tied to the international environment

2/ Monetary integration projects at sub-regional level (ECOWAS) and the continental level

=> Harmonization of the rules governing the monetary policy environment;

=> Consolidation of the macro-economic framework, including public finance

### III. BCEAO's monetary policy implementation challenges and prospects (5/6)

#### Challenges specific to the WAEMU context

##### 1/ The expansion of pan-African banking groups

- 1/3 of the number of credit institutions in activity
- 50% of total assets of credit institutions
- Intensifying competition and stimulation of the interbank market
- But also the advent of new risks: Risks of contamination and group strategy that might mitigate the effectiveness of monetary policy transmission channels (integrated liquidity management can render them less sensitive to the monetary policy impulses of a single Central Bank)

##### A/ Signing of cooperation agreements with supervisors of the home countries (Nigeria, Morocco, CEMAC zone, etc.) of these groups' parent companies

##### B/ Organization of supervisors' teams for groups from the Union.

# III. BCEAO's monetary policy implementation challenges and prospects (6/6)

## Challenges specific to the WAEMU context

### 2/ Changing economic and financial environment

- Deepening of the Union's financial system
  - development of microfinance institutions;
  - development of mobile based financial services

=> innovations that have implications on the interpretation of monetary aggregates and an impact on monetary policy transmission channels

### A/ Pursuit of actions to diversify the financial landscape, vital for the reinforcement of transmission channels

### B/ Collection and analysis of a wide range of data on the financial system.



**THANK YOU FOR YOUR KIND ATTENTION**



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