Association des Banques Centrales Africaines — Association of African Central Banks

Annex 1

ASSOCIATION OF AFRICAN

CENTRAL BANKS (AACB)

34th ORDINARY MEETING OF

THE ASSEMBLY OF GOVERNORS

(Dakar, Senegal, August 20, 2010)

DRAFT REPORT ON THE 2009 SYMPOSIUM

ON

« FORMULATION OF THE MONETARY POLICY IN AFRICA : RELEVANCE OF INFLATION TARGETING »

(Kinshasa, DR Congo, 20 August, 2009)

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1. INTRODUCTION

1.1. As a prelude to the 33rd ordinary meeting of the Assembly of Governors, scheduled to take place on 21 August, 2009, the Association of African Central Banks (AACB) organized a symposium on 20 August, 2009 in Kinshasa, Democratic Republic of Congo (DRC) on the theme: «*Formulation of the monetary policy in Africa : the relevance of inflation targeting*».

2. OPENING CEREMONY

2.1. The highlight of the opening ceremony was the four addresses delivered respectively by Mr. Jean-Claude Masangu Mulongo, Governor of the Banque Centrale du Congo and Vice Chairman of the AACB, Mr. François Kanimba, Governor of the National Bank of Rwanda and Chairman of the AACB, Dr. Maxwell Mkwezalamba, Commissioner for Economic Affairs at the Africa Union Commission (AUC), and His Excellency Mr. Athanase Matenda Kyelu, Minister of Finance of the DRC, who officially opened the proceedings.

2.2. Governor Jean Claude Masangu Mulongo started his address by welcoming all the participants to the meeting. He thanked the Association for giving the Banque Centrale du Congo and the People of Congo the honour to host its annual meetings. He underlined the relevance of the symposium's theme stating in substance that inflation targeting can contribute to low inflation and price stability, fostering thereby economic and monetary integration. Governor Jean Claude Masangu Mulongo, before concluding his address, made a wish for success in the proceedings of the 33rd ordinary meeting of the Assembly of Governors, as well as in the debates and discussions of the participants in the symposium in the hope that these would contribute effectively and efficiently in accelerating the monetary and economic integration of the African continent.

2.3. Governor Kanimba, the incumbent Chairman of the AACB, expressed the Association's gratitude to the guests present at the opening ceremony of the symposium proceedings. He noted that organizing this important meeting in Kinshasa was an irrefutable sign of the support given by the highest authorities in the DRC to the AACB, and an encouragement to its work for Africa's economic and monetary integration. The Chairman underlined the relevance of holding the symposium just ahead of the ordinary meeting of the AACB Assembly of Governors, and added that there was a need to open this brainstorming framework to other institutions, as this would enrich the debates and ensure maximum outcomes from the proceedings.

2.4. On the formulation of monetary policy, Governor Kanimba said the fact that most African central banks adopted monetary aggregate targeting between the 80's and 90's, in the wake of economic and financial reforms backed by the Bretton Woods institutions, was a significant contribution to macro-economic stability. And this was encouraged further by the substantial increase in the foreign capital flows that went into several African countries.

2.5. But he remarked also that because African economies had limited absorption capacity and the banks could not recycle resources and adapt their maturity to the requirements of financing investment, the foreign capital flows turned into cash surpluses, despite the huge needs to finance development, inducing the risk of accelerating inflation. In this context, he recommended for central banks to engage in the sterilization of liquidity.

2.6. On the theme of the symposium, Governor Kanimba underlined that the continuing change in the global economic environment, marked by the rapid development of financial markets, highlights the inflexible and limited nature of a monetary policy framework that is based solely on targeting monetary aggregates. It also points to the need to make use of a broader range of macro-economic indicators. It is in this respect that a growing number of central banks are adopting inflation targeting as a monetary policy framework.

2.7. Governor Kanimba noted however that the success of this mechanism depends on several factors. These include making public the mid-term inflation targets, institutional commitment to maintain price stability, and a stable financial system. He further listed the factors that can undermine the efficiency of inflation targeting, especially the low influence of central banks on external shocks and the ineffectiveness of the monetary policy transmission mechanism.

2.8. To conclude, Governor Kanimba invited the participants to place an emphasis, during their discussions, on the prerequisites for success in inflation targeting in order to identify the conditions under which African central banks can adopt this framework.

2.9. Dr. Maxwell Mkwezalamba saluted the efforts of the DRC President to consolidate peace and reinforce the cooperation and integration of regional economies for poverty reduction and accelerated development. He also encouraged African countries, under the auspices of the African Union, to reinforce cooperation between them and eradicate conflicts so that they can achieve speedy and sustainable development.

2.10. The Commissioner remarked that the Commission and the AACB worked closely together within the framework of economic and monetary integration, as attested by the imminent launch of a joint study on the strategy for the establishment of the African Central Bank (ACB). He also underlined the pertinence of the theme of the symposium, noting that Africa witnessed a resurgence of inflation pressures in 2008, and the need to better integrate the control of inflation in economic policies.

2.11. The last address, in this series of addresses, was by His Excellency Mr. Athanase Matenda Kyelu, Minister of Finance in the DRC, who, on behalf of the Head of State, welcomed the participants to the proceedings of the 33rd Ordinary Meeting of the Assembly of Governors of the AACB. He indicated that Africa's economic integration was an ambitious project to achieve the vision of those who fought for the independence of African countries and would enable the continent, in view of its immense natural resource potential, to play a significant role in global governance.

2.12. To that end, the Minister of Finance called for the suppression of monetary barriers to permit the factors of economic growth to play out fully and put all States in a position to contribute in tackling the challenges to Africa's development. He noted the major role of African Central Bank Governors to whom Heads of State and Government, through the African Union, have entrusted the ambitious programme of Africa's monetary cooperation, and urged them to devote themselves fully to this mission.

2.13. In this regard, the Minister remarked that Africa's diverse economic structures should be seen as an opportunity, not an obstacle. While he did not lose sight of the difficulties in implementing the AMCP, the Minister shared his optimism that with the competencies of Africa's central banks, the challenge to institute a single currency by 2021 shall be met.

2.14. To conclude, he wished the participants a pleasant and fulfilling stay in the DRC and, on behalf of His Excellency Joseph Kabila Kabange, declared open the proceedings of the 33rd Meeting of Governors of the AACB.

2.15. After the address by the Minister, there was a vote of thanks, patronized by the Governor of the Bank of Tanzania, on behalf of all the Central Banks present in Kinshasa.

2.16. The proceeding of the symposium were organized in two plenary sessions that dealt, on one hand, with theoretical presentations and, on the other, with the practical experiences of the respective AACB sub-regions.

3. FIRST PLENARY SESSION: REVIEWING THE THEORETICAL ASPECTS OF INFLATION TARGETING

3.1. This session, chaired by Mr. Jean-Claude Masangu Mulongo, Governor of the Banque Centrale du Congo, with Mr. *Sanusi Lamido Sanusi, Governor of the Central Bank of Nigeria,* serving as moderator, focused on five sub-themes.

3.2. **<u>Sub-theme 1</u>: «Inflation determinants in Africa»**; presented by *Mr. David Dunn, Senior Economist, African Department, IMF and Mr. François Kabuya Kalala, Professor at the Université de Kinshasa.*

3.2.1. Based on available data, the presentation by ***Mr. Dunn*** indicated, in line with Milton Friedman's theory, that the majority of African countries show a sufficiently strong relation between the increase in money supply and inflation, as well as a correlation between mild inflation and strong economic growth. Except in the DRC, Angola and Zimbabwe, the increase in money supply had an effect on inflation in African countries during the period from 1976 to 2006. But a break in the relation between the evolution of money supply and that of prices is observable after internal or external shocks tied to factors such as:

(i) The cost of holding money: an expansion of money supply after a relatively long period of disinflation, where monetary aggregates are controlled, does not necessarily generate inflation. This phenomenon was observed especially in Ghana between January 2001 and August 2007.

(ii) Financial sector deepening: a strong expansion of bank deposits and an accumulation of savings after a deepening of the financial sector may induce a considerable drop in the speed of money circulation. For that reason, the supply of money may increase considerably without inducing a major risk of inflation, as observed in Tanzania between May 2005 and September 2006.

(iii) The impact of export commodity prices on exchange rate fluctuations: trials conducted in Zambia, which is a copper producing country, show that a depression of export commodity prices has a negative impact on the exchange rate, and induces an increase in the supply of money as well as pressure on domestic prices. On the other hand, an increase in prices translates generally into an appreciation in the exchange rate, a moderate increase in money supply and a drop in inflation. But these relations were not established clearly in Nigeria, a country that produces crude oil.

(iv) The in-flow of capital: a massive in-flow of capital can cause pressures on domestic prices through an increase in money supply when these resources finance current consumption.

(v) Food and energy crises like those that occurred in the first semester of 2008.

(vi) The global economic crisis: the drying up of domestic liquidity resulting from this crisis induces massive injections that generate inflation pressure.

3.2.2. Prior to his presentation, **Professor Kalala** underlined that the theme of the symposium was a relevant and timely one, as shown especially by the negative effects of inflation on growth and the public's purchasing power, as well as the recent trends in inflation and growth observed in sub-Saharan Africa.

3.2.3. The rest of the presentation maintained that inflation, meaning a general increase in price levels, can be considered from the monetary angle or from the structural angle, based on whether the causes are real, monetary or sociological.

3.2.4. Empirical analyses show that there is a predominance of negative supply shocks that cause inflation, especially those tied to climatic conditions. Some cases in point are Mali, Senegal and Burkina Faso. On the demand side, gaps in production constitute a smaller determinant of inflation than the gap between the quantity of money supplied and the quantity of money demanded.

3.2.5. One reason for fighting inflation is its high cost. Inflation causes household poverty and affects the profit margins of business enterprises. Moreover, the cost of reducing inflation increases with the level of the problem. Inflation lasts longer where credible policies for curbing it are lacking.

3.2.6. To fight more effectively against inflation, African countries have to adopt rigorous managerial discipline and encourage the independence of central banks. An anti-inflation monetary policy that is not sufficiently backed by budgetary adjustments may lack credibility. This makes it necessary to have more credible inflation control policies and strict observance of AMCP primary convergence criteria.

3.3. **Sub-theme 2: «Control of inflation and targeting policies: exchange rates, money supply and prices»**, presented by *Mr. Michel Normandin, Professor at HEC Montreal, Institute of Applied Economics*

3.3.1. This presentation showed that a monetary policy targeting inflation can be an effective means of stabilizing the evolution of prices. It offers more advantages than targeting the growth of monetary aggregates. Indeed, targeting inflation helps to control inflation within a reasonable timeframe, since its results do not depend on a stable relation between the movements of money and prices, a relation which is observed only over long periods of time. Also, targeting inflation, instead of the exchange rate, can make it possible to control inflation over long horizons, since the former does not require implicit surrender of an independent domestic monetary policy.

3.3.2. Econometric studies indicate that targeting inflation in the developing countries helps significantly reduce the volatility of inflation, economic growth, the nominal exchange rate, interest rates and foreign exchange reserves. Measures to target inflation in the industrialized countries have secured only modest gains. In some developing countries, an inflation targeting policy can involve certain challenges. These may be tied to the relatively high level of inflation in the developing countries, as compared to the industrialized nations, as well as to exchange rate pass-throughs to domestic prices.

3.3.3. The chances of success in targeting inflation will increase when: (i) the inflation targeted is related closely to the prices of goods and services on the market; (ii) the mid-point of the target is positive but low at a level that revolves around 2%; (iii) the target range is relatively broad (between 1% and 3%); (iv) institutional commitments make price stability the first objective of the central bank; (v) there is a legislative framework that encourages the independence of the central bank; (vi) the monetary policy is transparent; and (vii) the value or the range of the inflation target is made public.

3.4. **<u>Sub-theme 3</u>: «A review of institutional and economic prerequisites for inflation targeting»;** presented by *Mr. Hubert Kempf, Head of Mission, Direction de la Recherche, Banque de France; Professor at the Université Paris-1 Panthéon-Sorbonne*

3.4.1. The presentation by Mr. Kempf indicated that the reasons for targeting inflation lie in the post-Bretton Woods context that witnessed the disappearance of inflation bias. A growing number of countries are now targeting inflation. Of the 27 countries that have already done so, 14 are emerging countries and 13 are developed countries. Over sixty countries now set an inflation target, but still do not implement a strategy for targeting inflation.

3.4.2. In principle, the inflation targeting strategies of the developed economies are identical to those of the emerging countries. However, differences appear when it comes to delivering the strategy, based on the institutional and economic environment.

3.4.3. There are certain requirements that must be met before implementing measures to target inflation. These include an explicit institutional commitment to achieve a given inflation target, the independence of the central bank and its transparency to the public, and budgetary discipline that excludes monetary financing. Another requirement is to have a statistical mechanism that permits the monitoring of a stable and significant price index.

3.4.4. When it comes to choosing instruments for monetary policy, there may be a conflict between inflation targeting and exchange rate management, especially within the dollarization context. It is an established fact that targeting inflation can help reduce the effects of terms of trade shocks.

3.5. **<u>Sub-theme 4</u>: «Regime of exchange rate and targeting inflation»**, presented by Professor Mohamed Ben Omar Ndiaye, *Director General, West African Monetary Agency (WAMA).*

3.5.1. The presentation by Professor Ndiaye gave: (i) a brief overview of the typology of exchange rate regimes in force; (ii) an analysis of the implications of the exchange rate regime on macro-economic policy; (iii) an analysis of the implications of the exchange rate regime on the effectiveness of targeting inflation; and (iv) recommendations for economic policies.

3.5.2. The presenter outlined the three types of exchange rate regimes that exist, including pure exchange rate regimes, intermediate exchange rate regimes and monetary anchor policies.

3.5.3. Looking at the implications of the exchange rate regime for macro-economic policy, he observed that the works of Mundell tell us there is incompatibility between perfect capital mobility, stable exchange rates and economic policies, especially autonomous monetary policies. They, in this regard, recommend that flexible exchange rate systems be used where mobility of international capital is low, for in such a case the interest rates present a comparative advantage for securing internal balance. On the other hand, the fixed exchange rate is appropriate to use when the movements of international capital are very sensitive to interest rates, as these latter are used to secure internal balance. Nevertheless, the basic assumption, in particular on perfect mobility of capital, is not always borne out by the facts. It is necessary therefore to take into consideration the economic context of each country and the economic variables that have been chosen.

3.5.4. On the effects that the exchange rate regime has on inflation targeting, study findings suggest that a flexible exchange rate regime is compatible with the framework for targeting inflation. Keeping inflation down is difficult with two nominal anchors, such as the exchange rate band and the inflation target.

3.5.5. Within the ECOWAS framework, monetary policy in most of the Member States still focuses on the surveillance in monetary aggregates fluctuations. For all Member States to adopt inflation targeting, certain challenges need to be addressed, particularly the harmonization of exchange rate regimes and inflation rates, the independence of central banks and the production of appropriate statistical indicators.

3.5.6. The recommendations from this presentation were as follows: while the challenges exist, the inflation targeting technique could be very useful for developing countries, considering the difficulties faced by the majority of central banks in these economies to curb inflation pressure. In this regard, emphasis should be placed on the preconditions for instituting successful policies to target inflation. These include a stable public finance situation, a solid banking system, truly independent central banks and the adoption of an exchange rate regime that is stable, yet adjustable, or of a managed float system, which may result from the former. Inflation targeting should not involve the targeting of other nominal variables. Cooperation between banks, non-banking financial institutions and the control authorities needs to be reinforced.

3.5.7. Several questions were asked and comments made after the presentations. The majority of the questions were on the prerequisites for inflation targeting, and specifically on the elements for assessing institutional quality, the adequate number of prerequisites to meet before planning to target inflation, how possible it is for Africa to adopt inflation targeting and institute a common anti-inflation policy, and the targeting strategy to recommend for institutions with different levels of development. The questions also touched on the appropriateness of targeting inflation in a context where monetary policy is subordinated to budgetary policy, or in the case of a post-conflict country, or a country without reliable macro-economic data.

3.5.8. Some other questions were on the level of inflation deemed reasonable for the various groups of countries, the measures for addressing other macro-economic objectives when targeting inflation, and when to target inflation instead of curbing it, especially when the level is very high.

3.5.9. The comments were on the need to have a stable financial sector, which is a precondition for a successful inflation targeting policy, and the fact that inflation remains low in the developed countries despite the massive injections of liquidity observed.

3.5.10. The presenters' responses can be summarized as follows:

3.5.11. It is crucial to meet the institutional requirements prior to implementing the targeting strategy. Indeed, unless there is an efficient statistical mechanism and a good communication policy, accountability will not be achieved. Besides, the independence of the Central Bank has to be guaranteed to ensure that this institution implements the policy envisaged and achieves set targets. Its actions have also to demonstrate transparency. In this regard, it is premature to envisage a common anti-inflation policy for Africa, taking into consideration the current environment on the continent. The emphasis should be placed instead on ensuring compliance with AMCP convergence criteria.

3.5.12. The best inflation measure should be on the index for most volatile products and on all the macro-economic information available. When inflation is very high, it creates an unstable economic environment which is detrimental for economic growth. Some empirical studies in this regard have shown that low inflation (between 2% and 5%) is compatible with strong economic growth. But a near-zero inflation rate does not hold good prospect either, for it can induce deflation. Considering the particular conditions of most of the countries on the continent, an inflation rate around 5% would be appropriate.

3.5.13. The strategies adopted by the United States of America and Europe to curb the impact of the economic and financial crisis have been somewhat different. Europe, which has always had a low inflation rate, injected considerable sums of money into economies while the United States invested mainly in financial assets.

3.5.14. When implementing inflation targeting measures, it is necessary to identify indicators that can provide information on the other macro-economic objectives.

3.5.15. The relation between inflation targeting and the quality of financial markets makes it necessary to do more research on the experience of the developed countries. It has been observed that when inflation declines in the advanced economies, the propensity of financial agents to take risks goes on the rise.

3.5.16. On the whole, inflation targeting may play a useful role in African economies. To adopt and implement this monetary policy framework with success, certain prerequisites have to be met. Choosing economic variables that are adapted to the specific requirements of the economy is more important than the type of exchange rate regime that is chosen.

4. <u>SECOND PLENARY SESSION</u>: SHARING EXPERIENCE IN INFLATION TARGETING AND CONTROL

4.1. This session was chaired by Mr. Q. A. Motshidisi, Deputy Governor of the Bank of Botswana, with Professor Njuguna S. Ndung'u, Governor of the Central Bank of Kenya, serving as the moderator. There were six presentations during the session. Two of the presentations, by the Bank of Ghana and the Bank of Mauritius, focused on the experiences of these institutions in inflation targeting. The other four presentations, by the Central Bank of Nigeria, the Banque Centrale du Congo, the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) and the Banque des Etats de l'Afrique Centrale (BEAC), were on the inflation control experiences of these central banks.

4.2. **«Experience in inflation targeting:** the case of the Bank of Ghana», presented by *Mr. Millison NARH, Deputy Governor of the Bank of Ghana.*

4.2.1. The presentation by Mr. Narh indicated that a new law (Act 612) has been passed to institute the independence of the Bank of Ghana and set achievement of price stability as an ultimate goal of the monetary policy. It is in this respect that the Monetary Policy Committee (MPC) adopted inflation targeting as from 2003 along the major pillars of: (i) limiting the financing of public debt to 10% of the receipts mobilized the year before; (ii) developing econometric models to permit sound understanding of the transmission channels of monetary policy; (iii) enabling the central bank to calculate the consumption price index; (iv) assessing the key indicators of all sectors of the economy.

4.2.2. Inflation targeting was adopted for several reasons, such as the need to provide a better anchor for monetary policy, reduce inflationary expectations and thereby cut the cost of disinflation, and improve transparency in monetary policy. The other factors taken into consideration as well were the long-term consequences of implementing a short-term policy and the advantages of using tools for econometric modeling to reduce persistent inflation.

4.2.3. Operationalizing this framework has been translated into the followings: announcement of the inflation target on a given date, holding periodic press conferences for the MPC, coupled with press releases to explain the economic situation and the risks to face if the inflation target is not met, publishing regular reports on recent economic and financial development, as well as on inflation analysis and prospects for the years ahead.

4.2.4. The results that have been achieved include a reduction in inflation, in depreciation of the exchange rate as well as in the volatility of these two indicators. Also, the credibility of monetary policy in public opinion and the economy's robustness have been restored. Finally, the economy's capacity to withstand external shocks has increased and the financial system developed.

4.2.5. To implement inflation targeting measures, some tough challenges first had to be addressed, such as: (i) using budget policy to support monetary policy, which was the subject of a law aimed at reinforcing disinflation policy; (ii) controlling monetary policy transmission channels; (iii) the central bank's capacity to respond to external shocks that could sway inflation from its target and make public the reasons underlying the decisions on economic policy. Besides, there were some other challenges resulting from the global economic crisis.

4.3. **«Experience in inflation targeting: the case of the Bank of Mauritius»,** presented by Mr. Rundheersing Bheenick, Governor of the Bank of Mauritius.

4.3.1. Mauritius is a middle income country with an economy that relies heavily on sugar production. Internal or external shocks generally generate an increase in sugar subsidies and an increase in the prices of foodstuffs and petroleum products.

4.3.2. The Central Bank of Mauritius adopted inflation targeting measures in the wake of huge reforms that were aimed at reinforcing the banking sector. These reforms were marked especially by the adoption in 1988 of a new banking law.

4.3.3. Along with inflation targeting, Mauritius embarked on institutional changes, including the creation, by the «Bank of Mauritius Act 2004», of a Monetary Policy Committee that is responsible specifically for the formulation of monetary policy. A unit that prepares the meetings of the MPC has been set up in the Bank. This latter has also started calculating underlying inflation, and has put in place a communication programme to inform the public about decisions on monetary policy.

4.3.4. The monetary policy of the Bank of Mauritius is referred to as «inflation targeting lite» because of the relatively broad scope of the target range which is around 4%. The results of implementing this framework are generally satisfactory. Inflation, which has been maintained on average at a single digit over the past years, dropped from 9.1% in 2008 to 6.1% in 2009.

4.4. **«Experience in inflation control: the case of the Banque Centrale du Congo»**, presented by Mr. Kayembe wa Kayembe, Director General in charge of Monetary Policy and Banking Operations.

4.4.1. The paper presented by Mr. Kayembe wa Kayembe was in three parts: strategies, approaches and results.

4.4.2. Under strategy, the presenter indicated that the statutes of the Issuing Institute were revised in 2002. A major innovation has been the ban from issuing cash advances to the State that is placed on the Central Bank. The monetary policy was tightened at the end of 2001. To reach the ultimate goal of stabilising prices, operational objectives and mid-term objectives were set respectively on narrow base money and broad money including fixed-term deposits in local currency. A significant drop in monetary expansion was projected, in a voluntaristic manner, for year 2002.

4.4.3. The new orientation in monetary policy is being led in tandem with a re-definition of instruments, as attested by the adoption of the principle of flexible and positive real interest rates, the surrender of direct control instruments and the expansion of the base of required reserves applied to foreign currency deposits.

4.4.4. Important measures have also been taken on exchange rate policy. These include the liberalization of currency exchange regulation, the officialization of concomitant circulation of both the national currency and foreign currency, and the floating of the national currency against the US dollar after the 84% devaluation of the former in June 2001. At the institutional level, the reforms include the creation of the Monetary Policy Committee and the adoption of an operational framework and an analytical framework to guide the interventions of the BCC.

4.4.5. The restrictive monetary policy which is being applied within a floating currency exchange regime, has led to a huge drop in inflation. The inflation levels in 1994 and 2000 have been slashed by 1000 and 50 times respectively. The gaps between the currency exchange rate in the open market and that of the inter-bank market have almost been wiped out. By eradicating hyperinflation, the BCC has created the conditions for economic growth. The economic growth rate over the past years averages 6% against a population growth rate of 3% and a drop in activity which averaged about 5% between 1990 and 2000.

4.4.6. The experience of the BCC teaches us that the expansion of money is a factor of price stabilization. In the case of Congo, over 70% of inflation in the period under review resulted from monetary factors that originated from the budget. In the first semester of 2008, inflation was caused mainly by the food and oil crisis. Besides, significant inflation inertia still persists in Congo. This makes it highly necessary to have a prudent monetary policy.

4.5. **«Experience in inflation control: the case of the Bank of Nigeria»**, presented by *Mr. Sanusi Lamido Sanusi, Governor of the Central Bank of Nigeria.*

4.5.1. This paper focused on the evolution of inflation, the policies put in place to control it, and the challenges of inflation control.

4.5.2. Prior to his presentation, Governor Sanusi reminded the participants that a sharp increase in prices discourages saving and investment and considerably affects public purchasing power. He indicated that the highest levels of inflation in Nigeria were observed in the periods from 1987 to 1988 and from 1993 to 1995.

4.5.3. Inflation control policies rested on direct instruments until 1992. From this period, the monetary policy turned towards indirect control instruments, such as the open market policy. The transition towards inflation targeting will begin once the minimal conditions have been met.

4.5.4. For now, the challenges are to curb the budget deficit, coordinate the monetary and budget policies, to address the high cost of liquidity management, poor diversification of economic activities and the heavy dependency on the petroleum sector, which heightens the vulnerability to external shocks. The Governor noted especially that in recent years budgetary measures have played a key role in inflation control. Budget discipline has made it possible to reduce budget deficits and limit the financing of the public deficit to 5% of the GDP per year, as against the projections of 12.5%.

4.5.5. At the end of his presentation, the Governor briefly described the context in which measures were taken recently by the Central Bank of Nigeria to dismiss five primary bank managers.

4.6. «Experience in inflation control: the case of the BCEAO», presented by Mr. Ali Badjo Gamatie, Deputy Governor of the BCEAO

4.6.1. This paper focused on the analytical framework, the operational mechanism, the outcomes of monetary action and the prospects of implementing BCEAO monetary policy.

4.6.2. It presented the two phases of the operational framework. The first one seeks to develop an annual monetary programme by country and for the entire Union. This programme sets milestones for the evolution of monetary and credit aggregates compatible with the evolution trends envisaged for other macro-economic aggregates, so as to reach objectives on gross foreign assets under a 2% inflation rate ceiling. The second phase monitors the structural evolution of monetary and credit aggregates as well as the demand and supply factors that may constitute a risk for price stability.

4.6.3. The operational mechanism for money and credit management draws on interest rate policy, on the one hand, and on required reserves, on the other. Interest rate policy controls inter-bank rates, and thereby directs the evolution of internal credit. It is framed around the key Central Bank rate applicable to the main permanent refinancing facility, namely the annuity rate set at 4.25% since the 16^{th} of June, 2009. It also includes ordinary open market operations in the form of regional auctions, conducted by way of competitive bidding at variable rates. The system on required reserves, which has been working since October 1st, 1993, is designed to reinforce interest rate policy by making it possible for banks to be refinanced by the Issuing Institute.

4.6.4. The inflation rate of WAMU Member States, which is an outcome of monetary action by the BCEAO, is considerably better than the one recorded in the other countries in the sub-region. The annual average inflation rate in the WAMU for the period from 2001 to 2008 stood at 3.1%, as against 9.8% in Ghana and 12.9% in Nigeria.

4.6.5. The entry into force of WAMU and BCEAO Institutional Reform, scheduled for the end of 2009, is expected to lead the Central Bank to further concentrate its action in the years ahead on price stability. This reform actually sets an explicit objective on price stability for the BCEAO, increases its level of independence and further rationalizes its institutional mechanism, with the creation of a Monetary Policy Committee.

4.7. **«Experience in inflation control: the case of the BEAC»**, presented by Mr. René Mbappu Andjenguele, Director General for Studies, Finance and International Relations

4.7.1. This paper concentrated on the performances recorded on inflation in the CEMAC zone since 1988, the factors responsible for these performances, the risks of potential inflationary pressures, the key lessons learned and the areas for further reflection.

4.7.2. With regard to performances, the presenter indicated that the inflation rate in the CEMAC was generally low for the period from 1988 to 2008, except in 1994 when it reached its peak in the wake of the devaluation of the CFA Franc. Underlying inflation has been kept under 3% since 2002. The overall trend has been one of convergence in the inflation rates of Member States. The final goal of monetary policy in the zone is to maintain price stability through the use of traditional instruments, such as key interest rates and required reserves.

4.7.3. The factors responsible for inflation trends are, on the demand side, tied to the budget policy which contributes, through high unproductive government expenditure, about 20.7% to the increase in prices, while the creation of money by the banking system accounts for 5.4% of the increase. On the supply side, the gap in agricultural and market gardening production seems to be the main source of inflation in the zone and accounts for 61.4% of the overall figure. As for imported inflation, which accounts for 12.5% of inflation, it results from the low supply of manufactured products in the sub-region, the increase in the prices of refined petroleum products and the high profit margins of importers and distributors.

4.7.4. Potential risks of inflationary tensions exist due to bank liquidity surpluses. The banking system's reluctance to grant loans, coupled with low use of bank financing by governments, which is provoked by improvements in the revenue bases of said governments, have not accelerated the provision of credit by the lending institutions in this context of abundant liquidity. Hence, current thinking on the management of public liquidity is directed towards the type of incentives to put in place for States to invest their cash surpluses, as well as the challenge posed by the monetary policy of excess liquidity in the CEMAC banking system. In this process of thinking, emphasis is being given also to ways of controlling the determinants of inflation and of identifying monetary policy transmission channels.

5. CONCLUSION

5.1. At the end of the proceedings, the incumbent Chairman said that the symposium was an invaluable learning experience, for it had provided the space for rich debates, discussions and the sharing of ideas between African Central Bank Governors, academics and the representatives of institutions responsible for integration in Africa. These exchanges had made it possible to note that a common monetary policy in Africa is within reach. In this regard, the Chairman pointed out the advantages of targeting inflation, but also observed that the preconditions for optimal application of inflation targeting, including those tied to the management of public finances, the quality and reliability of economic statistics, the development of capital markets and the independence of Central Banks, are yet to be met in the majority of African countries. He urged the participants to pursue the implementation of the AMCP.
