

**REPORT ON THE ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)
CONTINENTAL SEMINAR HELD AT CROSSROADS HOTEL, LILONGWE,
MALAWI, 10 – 12 MAY, 2010**

1. INTRODUCTION:

The Association of African Central Banks (AACB) continental seminar was held at the Crossroads Hotel, Lilongwe, Malawi from May 10 to 12, 2010. Deliberations coalesced around the theme “Lessons Africa should learn from the International Financial Crisis: Mechanisms for Prevention and the Coordination of Responses”.

The meeting, which was officially opened by the Minister of Finance, Hon Ken Kandodo MP, was attended by participants from 21 Central Banks, representatives of international and regional organizations, commercial banks and government officials. The keynote address was delivered by the Governor of the Central Bank of Zambia, Dr. Caleb Fundanga.

2. OPENING SESSION

**2.1 REMARKS BY MR. SAMUEL MEANGO, EXECUTIVE SECRETARY OF
THE ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)**

- On behalf of the Chairman of the AACB Bureau, Governor Central Bank of Congo, the Executive Secretary of the AACB, Mr Samuel Meango, thanked the Malawian authorities for accepting to host the inter-continental seminar.
- Acknowledged the commitment of Malawian authorities as evidenced by the presence of the Ministers of Finance and Development Planning and Cooperation.
- Congratulated His Excellency the President of the Malawi Republic, Dr. Bingu Wa Mutharika on the appointment to the Chairmanship of the African Union and on the recent wedding.
- Thanked Governor of the Reserve Bank of Malawi, Dr. Perks Ligoya and his entire staff for the excellent coordination of the Seminar.
- Reiterated the significance of the workshop to reinforcing price and financial stability and efforts towards establishment of a single currency and monetary union in line with Article 2 of the AACB.
- Acknowledged the Seminar’s diverse participation against a backdrop of an international financial crisis as key to rich and vibrant discussions.

**2.2 REMARKS BY DR. PERKS LIGOYA, CHAIRMAN OF THE SOUTHERN
SUB-REGION OF THE AACB AND GOVERNOR OF THE RESERVE BANK
OF MALAWI**

- Expressed gratitude to the AACB and Ministry of Finance for letting Malawi host the 2010 Seminar.
- Noted the timeliness and relevance of the seminar theme as key to providing meaningful interventions and future responses.
- Reiterated and acknowledged the continental trust on Malawi with respect to the stewardship of the African Union and the AACB Southern Sub-regional grouping.
- Invited the Minister of Finance to officially inaugurate the Seminar.

2.3 REMARKS BY HONOURABLE KEN KANDODO MP, MINISTER OF FINANCE

- Officially opened the AACB 2010 inter-continental seminar.
- Welcomed all delegates to Malawi on behalf of Government and the Reserve Bank of Malawi.
- Wished participants a successful stay and seminar.
- Reiterated the relevance of the seminar theme and cited cross-cutting effects of the international global crisis.
- Underscored the need for better regulation and increased dialogue on cross-cutting issues to identify meaningful responses.
- Thanked all speakers, AACB secretariat and delegates for utilizing the opportunity to share knowledge and experiences.

2.4 RESPONSE BY DELEGATES REPRESENTATIVE FROM EGYPT

- Thanked the organizers for choosing a relevant theme.
- Expressed appreciation to AACB and Malawian staff for the excellent coordination.
- Noted that the seminar would offer an opportunity for meaningful discussions that would foster cooperation and support development momentum.

3. PRESENTATIONS ON THE INTERNATIONAL FINANCIAL CRISIS, ITS CAUSES AND IMPLICATIONS

3.1 KEY NOTE ADDRESS

FISCAL, MONETARY AND SUPERVISORY POLICIES IN THE WAKE OF THE GLOBAL FINANCIAL CRISIS

PRESENTER: GOVERNOR CALEB M. FUNDANGA

Implications of the Global Financial Crisis on Fiscal Policy in Africa

The unfolding challenges for Africa include the need

- to enhance domestic and regional demand to build on recent episodes of high economic growth.

- for significant infrastructure investment in the transportation, energy, education and health sectors and sustaining investments in the food sector to streamline food security.
- to ensure that fiscal interventions don't translate into unsustainable fiscal deficits and external debt burdens.
- to exploit economies of scale from an integrated regional market.

Implications of the Global Financial Crisis on Monetary Policy in Africa

On the monetary front, to minimize risks of investments in Africa, there is need to

- Safeguard macroeconomic stability.
- Maintain low inflation and relatively stable exchange rates.
- Revise interest rates consciously to attract foreign investments.
- Enhance efforts to accelerate integration.
- Enhance harmonization of policy with the fiscal authorities.

Implications of the Global Financial Crisis on Supervisory Policies in Africa

There is need for significant changes to financial sector regulation and supervision by,

- Establishing sovereign credit ratings.
- Complimenting micro-prudential regulation with macro-prudential regulation.
- Adopting innovative financial products to bridge exclusion of rural sectors.

3.2 THE ROLE OF GLOBALISATION, BANK SUPERVISION AND FISCAL AND MONETARY POLICIES IN THE INTERNATIONAL FINANCIAL CRISIS

PRESENTER: DR. WILSON T. BANDA , AFRICAN EXPERT

The Role of Globalization

- Increased realization of linkages point to the need to identify and maximize opportunities that arise from operating in such a globalised environment.
- Globalization entails concerted efforts as well as more information sharing for the continent.

The Role of Supervision

- Harmonize supervisory standards through initiatives like Bank Supervision Application (BSA) project within the SADC sub-region.
- Migrate to risk-based supervision.
- Examine the complexity of banking products and transactions, comparing traditional to new products.
- Ensure that Banks embrace best governance structures and practices.

- Adequate information disclosures.

The Role of Monetary Policy

- Review monetary policy frameworks.
- Review monetary policy objectives in various central banks' statutes.
- Review the role of monetary policy in precipitating the current crisis.

The Role of Fiscal Policy

- Ensure that fiscal stimulus doesn't compromise pro-poor and development investments.
- Run low fiscal deficits to counter similar shocks in the future.
- Apply efforts aimed at reducing unemployment.
- Enhance public and private sector partnerships.

3.3 REFORMS TO THE INTERNATIONAL FINANCIAL REGULATORY ARCHITECTURE

PRESENTER: MR MAITLAND MACFARLAN - IMF RESIDENT REPRESENTATIVE

Status of Regulation in the Pre-Crisis Era (core weaknesses)

- Market-based and less or largely not enforced public regulation.
- Existing regulation tended to amplify economic downturns and upturns.
- Inadequate detection of systemic risks due largely to focus on micro-surveillance.
- Pattern of 'Too important' and/or "Too-interconnected" to fail.
- Lack of transparency and information gaps in financial instruments and operations.

Reform Issues and Proposals to be incorporated into the new financial architecture

- Augmenting the scope and quality of regulation with particular emphasis to systemic risks and complementarity of macro and micro supervision.
- Resolving pro-cyclicality patterns in regulation, developing better capital requirements, adopting countercyclical measures and forward-looking loan loss provisioning.
- Increasing attention to risks posed by "Too-important-to-fail" institutions through an examination of size, substitutability and interconnectedness and implementing financial disincentives and/or curtailing some activities of the banks.
- Reforming supervisory structures with due attention to proper mapping of mandates.
- Increasing international cooperation to mitigate cross-border risks.

- Establishing clear counterparties, improved data collection and information sharing.
- Improving performance of the rating agencies.
- Introducing new taxes or related measures aimed at explicitly mitigating systemic risks.

3.4 FACTORS FOR AFRICA'S RESISTANCE TO THE DIRECT EFFECTS OF THE FINANCIAL CRISIS

PRESENTER: PROFESSOR BEN OMAR NDIAYE

Three main contributory factors to Africa's resilience to the financial crisis

- Structural (or natural) resilience factors.
- Economic (economic policy) resilience factors.
- International community intervention.

Enhancement and Preventive Measures

At national level;

- Pursue structural reform programmes in order to sustain economic growth prospects.
- Design appropriate fiscal policies.
- Relax monetary policy in countries that have just taken the path of disinflation and a restrictive monetary policy for countries that are still experiencing high inflation rates.

At international level;

- Improve market supervision by strengthening co-operation among national authorities and enhancing the supervision of large International Finance Companies.
- Improve regulation by requesting the International Monetary Fund (IMF) and the Financial Stability Forum to make recommendations to minimize the cyclic effects of finance.
- Enhance the capacity of international financial institutions to assist distressed economies.

3.5 IMPLICATIONS OF FINANCIAL REGULATORY REFORMS FOR AFRICAN COUNTRIES

PRESENTER: ABDUL B. KAMARA

Status of Regulatory Framework in Africa

- Most countries have improved the regulatory and supervisory frameworks.
- Africa needs to push reform agenda further.
Proposals for reform include:

- Strengthening the quality of regulatory capital, widening the risk coverage, limiting leverage and introducing liquidity requirements.
- Introducing measures to reduce pro-cyclicality in the regulatory system.
- Expanding the regulatory perimeter to capture all systemically important financial institutions.
- Improving cross-functional and cross-border regulation and cooperation.

Strengthening Basel II

- Financial crisis exposed relative inadequacy of the current micro-prudential regulatory framework.
- There is need to strengthen prudential focus on individual institutions.
- Financial crisis has intensified the adequacy of Basel II, particularly its reliance on external ratings and banks internal models.
- Nonetheless, regulatory authorities in many countries remain committed to implement the Basel II framework.

Reasons hampering implementation of Basel II

- Lack of critical capacity and dearth of relevant information.
- The composition and distribution of credit to the real economy was affected.

How to move forward

- Africa must consolidate its gains from improved financial regulation and supervision and macroeconomic management.
- Constraints to the implementation of Basel II need to be addressed.
- Innovative ways of curbing and reversing the procyclical nature of Basel II are required.
- Countries with significant presence of international banks need to pay special attention to the widening of the regulatory perimeter.

3.6 TOWARDS AN AFRICAN ROADMAP FOR THE IMPLEMENTATION OF THE BASEL CORE PRINCIPLES AND CAPITAL FRAMEWORK

PRESENTER: MR. MICHAEL FUCHS - WORLD BANK RESIDENT REPRESENTATIVE

- Focused on feasibility of adopting a realistic supervision approach for Low Income Countries (LICs).
- Proposed adoption of 'Basel Core Principles (BCP) for effective banking supervision as opposed to adopting BASEL II.
- LICs BASEL II challenges included data unavailability for advanced approaches, incompatibility of proposed models, skills or resources gaps and less sophisticated systems to support migration.

- Merits of adopting the BCPs included flexibility in treatment of issues, a firm foundation for risk based assessments and incorporation of the components of BASEL I, II and III.
- Capacity constraints identified in the implementation of BCPs include lack of interpretation skills by the community at large, regulatory background, appropriateness of reform agenda, time available for assessments and importance of self assessments.
- The paper advocated for more time to be devoted to the initiative and focused rigorous self assessment.

4. COUNTRY AND REGIONAL EXPERIENCES ON THE MANAGEMENT OF THE CRISIS

4.1

NIGERIA

Contributing factors to partial resilience

Broad Banking sector consolidation (2004-2009) with focus on:

- Recapitalization of Banks.
- Minimum reliance on public sector funds.
- Adoption of Risk-based supervision.
- Electronic Financial Analysis and Surveillance System (E-FASS).
- Enforcement of stringent corporate governance.

Impact of the International Financial Crisis

Real Sector

- High costs of production and obtaining capital.
- De-industrialization and increased unemployment.

Fiscal Sector

- Decline in oil revenue.

External and Trade Sectors

- Depletion of external reserves and Exchange rate depreciation.
- Reduced capital flows (FDI, ODA, portfolio investments and remittances).
- Loss of competitiveness.

Financial Sector

- Withdrawal of foreign investors on the stock exchange.
- Sharp decline in share indices and market capitalization.
- Decline in trade and credit lines from foreign banks.
- Widening of interest rate spreads.

- Credit contraction and counterparty exposure.

Country Responses to the Crisis

- Established a Presidential Steering Committee on the Crisis.
- Supported the banking system with liquidity injections.
- Monetary policy easing.
- Dismissed Chief Executive Officers of banks following a Special Audit.

4.2

EGYPT

Contributing factors to partial resilience

- Moderate integration into international markets.
- Sustained and wide-ranging reforms since 2004.
- Strong fundamentals that provided latitude for appropriate policy responses.

Impact of the International Financial Crisis

Real Sector

- Economic growth fell substantially.
- Inflation slowed down due to reduced economic activity.

External Sector

- Net international reserves started to decline.

Financial Sector

- Loss of confidence.
- Stock market registered negative growth.
- Foreign investors' participation on the Treasury Bills and Stock markets waned.

Country Responses to the Crisis

- Enhanced coordination of fiscal and monetary authorities.
- Provided a stimulus package to boost investment.
- Improved public and private sectors coordination.
- Accommodative fiscal policy
- Guaranteed local banks' facilities and instituted reporting commitments by overseas banks.
- A policy of quantitative easing through interest rate cuts.
- Exchange rate allowed to freely respond to dynamics.

4.3

GHANA

Factors for partial resistance

- Strong growth for over seven years before the crisis.
- Strong macroeconomic fundamentals.

- Declining inflation and stable currency.
- Increased foreign capital injection from donors.
- Slow incidence of poverty.

Impact of the international financial crisis

Financial Sector

- Liquidity dried up.
- Higher borrowing costs.
- Stock market was affected.
- Loss of confidence.

Real Sector

- Slowdown in economic growth.
- Inflation increased.

External Sector

- Exchange rate depreciated.
- current account balance worsened.
- remittances declined.

Fiscal Sector

- Fiscal deficit worsened.

Country policy responses

- Tightened monetary policy.
- Prudent public expenditure management.
- Strict adherence to public procurement rules.
- Efficient and effective revenue mobilization.

4.4	CEMAC & BEAC
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Impact of the international financial crisis

- CEMAC relatively immune to the first round Effects.
- Real economic activity.
- Most economic sectors affected except the financial sector.
- Decline in oil revenues leading to increased government indebtedness.
- Weak demand for exports .
- Deterioration of the current account imbalance.

Policy responses

- Convened a meeting of regional Finance Ministers aimed at coordinating fiscal initiatives.
- Monetary easing largely through reduction in interest rates.
- Established regional Treasury Bills market.

Factors that contributed to partial resilience

- Rigorous regulatory and supervisory framework.
- Non-unregulated institutions.
- Closed capital account.
- No sophisticated financial products.
- Prudent external policies.

Impact of the Global Financial Crisis

- Reduction in oil prices.
- Widening of the current account deficit.
- Worsening of the fiscal imbalance.

Country Response to the Crisis

- Huge external debt reduction.
- Regulatory framework improvement (introduction of financial standards).
- Rebuilding market confidence and transparency.
- Ensure financial stability and reinforce prudential norms.

Impact of the financial and economic crisis

External sector

- Decline in exports.
- FDI also declined.
- Reduction in foreign exchange reserves and foreign exchange depreciation.

Real Sector

- Slowdown in economic activity.
- Inflation accelerated.

Fiscal and Monetary Sectors

- Erosion of fiscal space and widening of budget deficits.
- Deterioration in banks' financial soundness indicators.

Country Policy Responses

- Tightening of fiscal and monetary policies.
- Constraint on fiscal policy space.
- Efforts to maintain stable economic fundamentals, diversify economy, reinforce banking supervision.
- Strengthening monetary and economic integration on sub regional level.
- Strong coordination between fiscal and monetary policies.

Impact of crisis on WAEMU member countries

- Real GDP shrunk.
- Budget deficits widened.
- Exports declined and tourism and remittances adversely affected.
- Credit availability to the private sector slowed.
- General loss of confidence in the markets.

Policy support measures during crisis

Community Level:

- Implementation of recovery plans in staple food production.
- Implementation of relief programs aimed at offsetting energy deficits.
- Government support for reconciliation of internal arrears.
- Bailing out of affected firms.
- Expansionary fiscal policies.
- Strengthening of dialogue and meetings with authorities in the banking sector.
- Providing the banking sector with optimal liquidity.
- Flexible monetary policy.

Contributing factors to partial resilience

- Recent episodes of macroeconomic gains.
- Limited integration to global financial markets.
- A generally closed capital account.

Impact of the International Financial Crisis

Real Sector

- A slowdown in economic growth.

External and Trade Sectors

- Loss of foreign exchange reserves against a backdrop of the food and fuel crisis.
- Reduced FDI, capital flows, remittances and weak demand for exports.
- Increased import bill and declining terms of trade.

Financial Sector

- Loss of confidence.
- Tight credit conditions both locally and internationally.
- Reduction in activity on the Stock Exchange

Country Responses to the Crisis

- Efforts to understand the transmission mechanism of the crisis.
- Broad regulatory and legislative reforms.
- Establishment of financial stability committees.

4.9

TANZANIA

Contributing factors to partial resilience

- Limited integration to global markets and minimal exposure to toxic instruments.
- High liquidity in the banking system and limited reliance on foreign funding.
- Low leverage in financial institutions.
- Strict banking and capital account controls and a well-capitalized banking sector.

Impact of the International Financial Crisis

Real Sector

- Economic growth dropped.
- A general slack in tourism activity.
- Foreign investors pulled out or postponed investment plans.

External and Trade Sectors

- Decline in demand for traditional export commodities.

Financial Sector

- Credit availability to the private sector was adversely affected.

5. OBSERVATIONS ON THE IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS

- Strong fundamentals, structural reforms and macroeconomic stability mitigated somewhat the effects of crisis.
- Africa was generally resilient to the direct effects of the global crisis due among others to limited integration to international financial markets, partial liberalization of capital accounts and absence of toxic assets.
- Most African countries were adversely affected by the second round effects of the crisis manifested in slowdown in economic activity, weak demand and price for exports, loss of international reserves, widening of both, fiscal and current account imbalances, declining capital flows, weak participation on the stock exchange, loss of confidence, tight credit conditions and reduction of remittances.

6. GENERALLY OBSERVED RESPONSES TO THE INTERNATIONAL FINANCIAL CRISIS

- Accommodative fiscal and monetary policies (e.g. fiscal stimulus packages and injection of liquidity).

- Establishment of high level steering committees to ascertain the effects of the crisis.
- Government guarantee schemes.
- Minimal intervention in exchange rate markets.
- Loan rescheduling and loss compensation schemes.
- Establishment of asset management schemes.
- Increased attention to financial stability analyses.
- Review of transmission mechanisms.

7. WORKSHOP PROCEEDINGS

Workshops examined on the following three main areas:

- a. Supervision and control tools for banking and financial systems: what early warning indicators.
- b. Importance of an institutional framework for an effective supervision and safeguard system: role of the various institutions concerned.
- c. Central bank support to states need to be within the framework of recovery plans and alignment with AMCP convergence criteria.

8. RECOMMENDATIONS FROM THE SEMINAR DISCUSSIONS

- Strong macroeconomic fundamentals are essential for crisis-preparedness and so countries must restore macro stability, confidence and rebuild growth.
- Coordination of fiscal and monetary policies is key hence the need for sustenance.
- Review of banking supervision and regulatory frameworks.
- Establishment of financial stability and financial intelligence units to intensify surveillance and oversight of the banking systems.
- Establishment of credit reference bureaux for reducing information asymmetry.
- Improve domestic resource mobilization in order to mitigate capital reversal flows.
- Complementing micro-prudential regulation with macro-prudential regulation.
- Shoring up foreign exchange reserves by among others formalizing the informal remittance channels through reduction in transactions costs and improvement of the payment systems.
- Instituting measures to reduce speculation in the foreign exchange market.
- Building capacity in macroeconomic management and surveillance of financial institutions.
- Increased dialogue and information sharing among AACB member states and other institutions.

- Support the organization of a workshop of an African Approach to Implementation of International Standards for Banking Supervision and BASEL capital framework in collaboration with the AfDB and MFW4A donor partners.
- Enhancing effective supervision without inhibiting financial innovation.
- More emphasis on regional integration efforts.
- Impetus for countries to accelerate reforms.

ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

LILONGWE, MALAWI

MAY 2010