THE NEW WORLD OF BANKS, GOVERNMENTS, REGULATION AND SUPERVISION – VIEWPOINTS FROM AFRICAN CENTRAL BANKERS

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Ongoing Developments in African Finance & Banking

- Financial sector reform over past two decades:
  - Elimination of direct state control over finance
  - Market-based monetary / exchange rate policy
  - Development of financial & capital markets
  - Privatisation and liberalisation
  - Modernisation of regulatory and supervisory frameworks
- An integral part of broader macroeconomic & structural reforms

- Results
  - Financial deepening and broadening (institutions, products, markets)
  - Capital inflows and FDI in banking sector
  - Enhanced financial sector efficiency
  - Improved incentives for savings & investment
  - Enhanced soundness & stability of financial institutions
  - Higher and more consistent GDP growth

BANKING REGULATION AND SUPERVISION

- Nature of finance makes regulation and supervision essential:
  - Information asymmetry & misaligned incentives
  - Knock-on (systemic) risks of banking failure
  - Macroeconomic role of banking
- Key objectives
  - Protection of depositors
  - Systemic stability
  - Consumer protection

- Main components
  - Capital adequacy
  - Risk management, e.g.
    - Asset/liability maturity mismatch
    - Forex exposure
    - Large exposures
    - Off balance sheet exposures & contingent liabilities
  - Management quality, fit-and-proper, systems, DRP etc.

Ongoing Global Developments – G20

- Regulatory failings contributed to recent crisis
    - Regulatory gaps
        - Regulated vs. unregulated institutions
        - Agency responsibilities
    - Insufficient capital
    - Pro-cyclical capital
    - Institution-based
    - Weak risk assessment

- Proposed regulatory reforms
    - Extend reach of regulation (e.g. hedge funds & rating agencies)
    - Higher capital requirements
    - Counter-cyclical capital requirements
    - Macro-prudential supervision (the big picture)
    - Review risk-rating methodology under Basel II
    - Improved co-ordination between regulators, both nationally and internationally

Impact of the Global Crisis

- No Africa banking sector crises – except Nigeria
- No known institutional problems outside Nigeria
- Limited exposure to balance sheet problems
  - Little or no direct exposure to toxic assets
  - Limited reliance on wholesale funding
- Good quality regulation and well capitalised
- But still an impact:
  - Constrained access to global capital markets
  - Risk aversion in lending

Impact of Regulatory and Supervisory Changes

- Survey commissioned by African Development Bank and GTZ, of selected African Central Banks in Eastern & Southern Africa, focusing on:
  - Impact of changing international supervisory environment
  - New challenges – macro-prudential supervision
  - Role of Governments
  - Adequacy of voice
  - Cross-border supervisory issues
  - Capital account liberalisation

The Changing International Regulatory Framework

- Basel II is being adopted in Africa:
  - but slowly, due to resource constraints & data requirements
  - not obligatory – but pressure
  - immediate challenge is full compliance with Basel Core Principles
- Basel II already complex; Africa faces major challenges in moving beyond standardised approach:
  - demands on models, data & regulators very challenging
  - no credit rating agencies outside of Nigeria and South Africa
- Major concerns for Africa stemming from global regulatory changes:
  - higher risk weights internationally will reduce lending to Africa
  - more complex regulatory regime (e.g. counter-cyclical capital requirements) would make Basel II adoption even more challenging
- Higher capital requirements for African banks not a major concern - most regulators already apply capital requirements in excess of Basel I
- South Africa alone can easily cope - much more advanced

The Role of Government in Financial Markets

- *Is there a risk that financial market failures and increased role for governments in OECD banking systems might lead to reaction against liberalisation & privatisation?*

- No evidence for this:
  - Widespread appreciation by both policymakers and public of benefits of privatisation and liberalisation
  - Improved quality and quantity of financial services compared to old state-owned banks
  - Lack of financial sector stress means no new demands on governments
  - Concerns are more with limited access to finance

Adequacy of Voice?

- *Are the interests of (poor/small) African countries sufficiently represented in global for a where key decisions being made?*
- Only SA represented on BIS and Basel Committee
- SA consults regularly within SADC (14 countries), but much less beyond this
- C10 provides additional consultation forum
- SA financial system much more advanced than rest of continent – different issues
- Reliance on IMF to represent African viewpoints

Macro-Prudential Supervision

- FT: "a posh word for proactive regulation that tries to join up all the dots"
- Recognised to be important – but challenging
- Most CBs establishing macro-prudential supervisory units, but need assistance with:
  - Resources & Training
  - Guidance on stress-testing, indicators, trigger levels, and actions
  - Combining regulation and macroeconomic functions
  - Legislative reform
- Only SARB has fully-fledged financial stability department, distinct from bank regulation

Financial Globalisation and Capital Controls

- *Financial globalisation seen as contributing to global crisis; has drying up of capital inflows and surge in outflows contributed to scepticism and reconsideration of capital controls / slowing of liberalisation?*
- Some temporary controls on outflows (Nigeria, Zambia)
- Commitment to progressive liberalisation intact (SA, CMA)
- No indication of desire to reconsider abolition (Botswana, Zambia, Uganda)

Transnational Regulatory Issues

- *Complexity of international banking groups combined with national regulatory responsibilities seen as contributing to crisis – hence focus on cross-border supervision. How are African countries coping with this?*
- Cross-border banking in Africa growing in importance:
  - Inward FDI from Europe, US, etc.
  - Growth of African-domiciled regional banking groups (esp. SA, Nigeria)
- No major problems arising, although some small countries have limited capacity and/or are marginalised
- Legislation may inhibit information sharing and need updating
- Information sharing agreements between regulators are widespread, and work quite well; however smaller countries face problems in securing formal MoUs with larger countries
- Assisted by regional collaborative initiatives, e.g. SADC, East African Community

THANK YOU