Discussion of “Macroprudential regulation in Africa in the context of the Covid-19 pandemic” by C. P. Chandrasekhar

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UNCTAD-ECLAC Experts Workshop on:

Financial stability, macroprudential regulation and international capital flows

Santiago / online

15 April 2021

BANCO CENTRAL
DE LA REPÚBLICA ARGENTINA

Outline

1 | **What the paper does & main takeaways**

2 | **Looking at some key issues**

3 | **Points for further work**

Note: all views are the discussant’s own and do not necessarily represent those of the Central Bank of Argentina

Highly relevant study for EMDEs: looks at actual experience of selected African countries in implementing capital flow management (CFM) / macroprudential measures (MPMs) from 1990s onwards

Focus on

- Ethiopia, Ghana, Kenya, Nigeria, South Africa and Zambia (Morocco in previous version)
- Evolution of financial liberalization
- Changes in pattern and volume of cross-border flows
- Vulnerabilities
- Policy response: CFMs / MPMs.

1. Development levels, **commodity export dependence** and risk perceptions limit flow of capital to African countries (except for Nigeria, South Africa)

2. **Investor reticence**, openness per se did not trigger inflows

3. Larger economies**, increased vulnerability** (even visible in others: Ghana, Ethiopia)

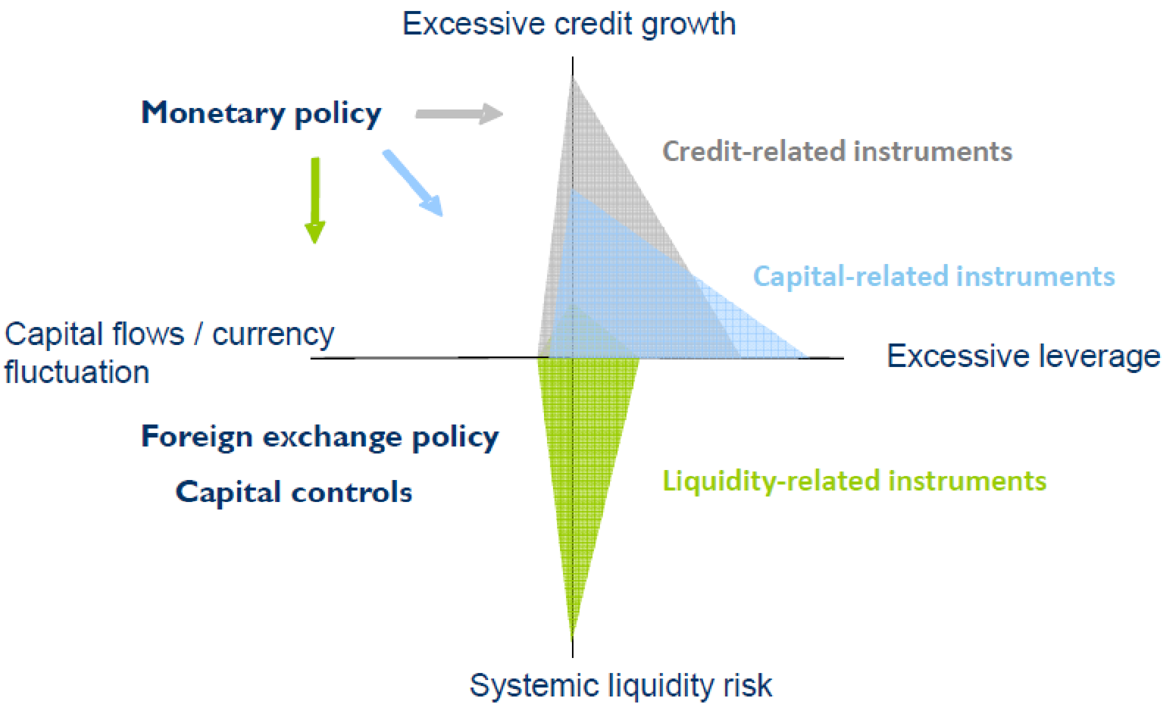
4. **Periods of stress elicit macropru response and FX controls** (rather than primary control on inflows). **Reactive stance.**

5. **Path dependence**: reticence to unwind liberalisation, caution when dismantling controls

CFMs and MPMs

- MPMs: limit systemic risk, endogenous and interconnected
- CFMs can serve macroprudential purpose
- Blurry distinction
- **Taming credit cycle vs building resilience** (cycle or trend in underveloped systems?)

Macroprudential policy instruments and CFMs

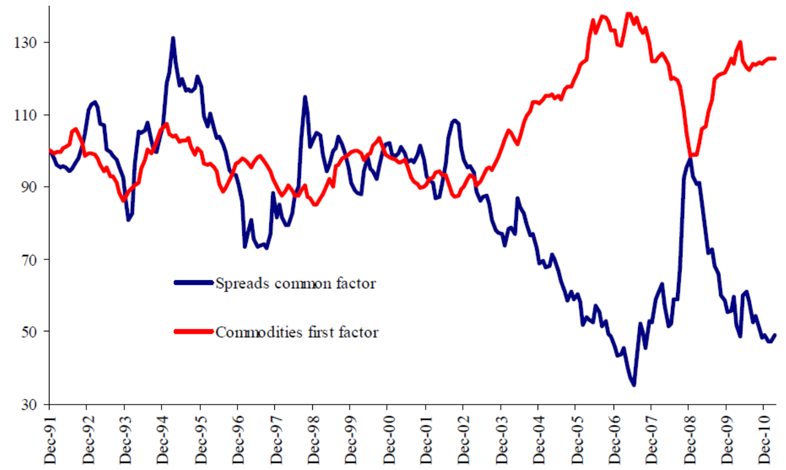


Source: own elaboration based on Lim et al. (2011)

Commodity prices and capital flows

- Relevant for FDI, but also for portfolio flows
- Self-reinforcing dynamics: positive correlation between commodity prices and financial conditions
- Common across developing economies (Bastourre, Carrera, Ibarlucia & Sardi, 2012)

Figure 9. Association between spreads common factor and the first common factor of commodity prices (indices Dec-91=100)



“Hidden” FX mismatches

- Nigeria: from “guidelines” to FX-related MPMs
  - Cf the Argentine experience with FX-based measures

Vulnerabilities recognized only in crisis or near-crisis times

- Importance of
  - **building buffers and using** them
  - **keeping FX related MPMs** over time

FX intervention and MPMs

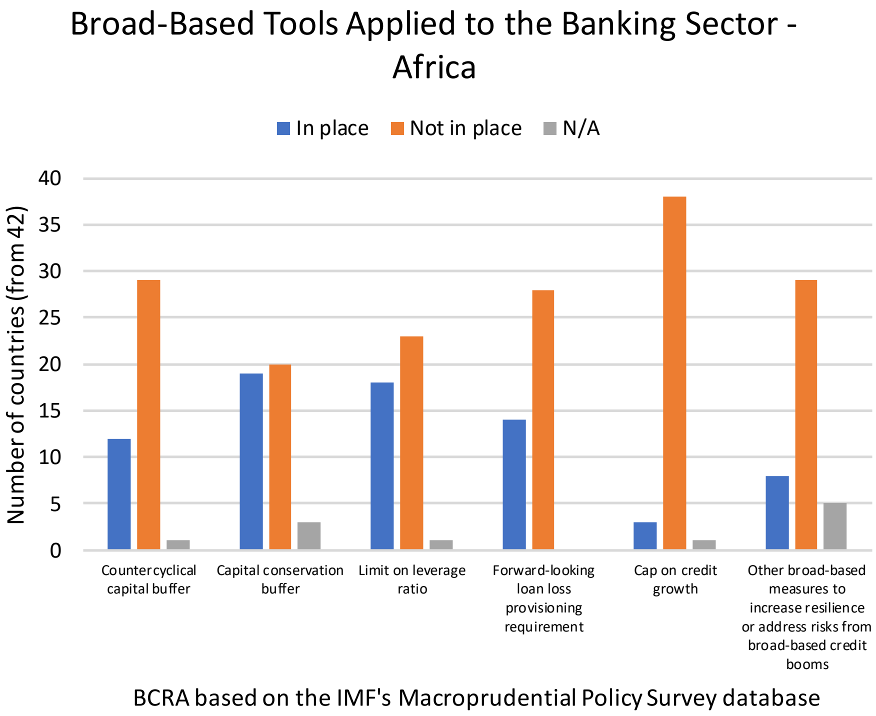
- South Africa: increasing liberalization, no return to capital controls

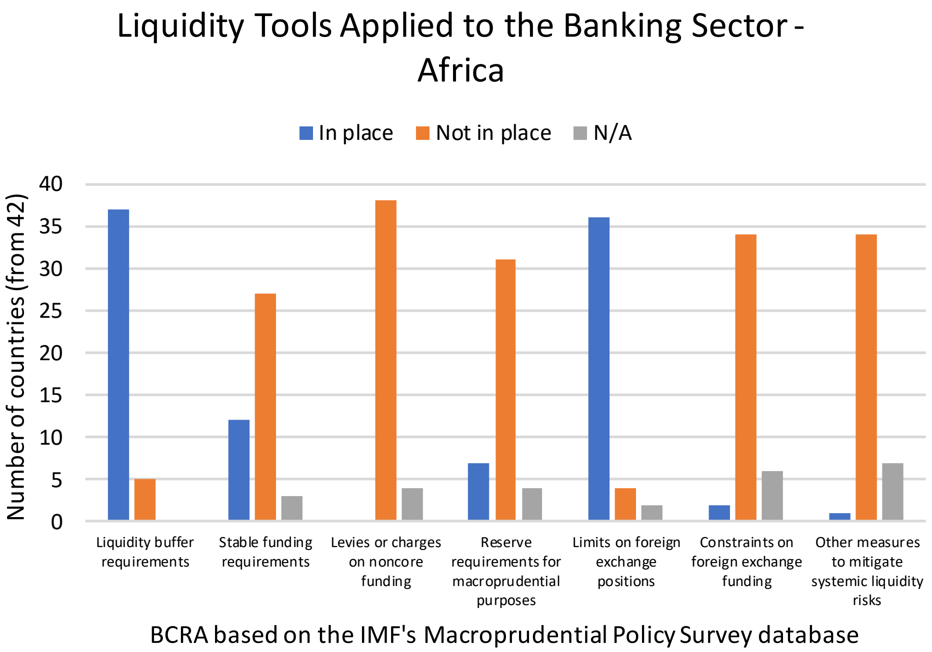
Flow stability?

- Ethiopia: export-led growth, low capital account openness success case?

Sequence is essential

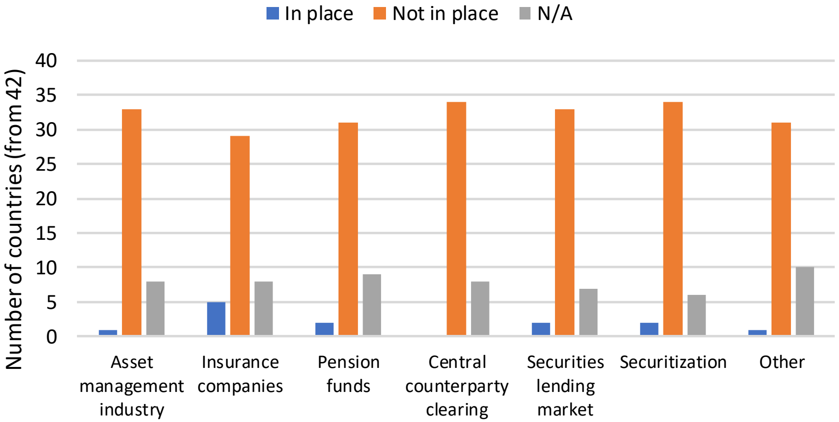
- **Tradeoff: financial development / stability**
  - Look at financial sector development / credit cycle
- Look at volatility/growth – counterfactuals? Higher/lower liberalisation vis-a-vis financial sector develoment & real growth
- **Covid-19 experience**
  - What relationship with DSSI
  - Procyclical financial conditions
  - Policy response?
- **FDI, debt flows (official, MDBs):** role of China & other creditors
- **Broader set of MPMs and FX related measures** (more systematic approach)


Broad-Based Tools Applied to the Banking Sector - Africa
In place
Not in place
N/A
Number of countries (from 42)
0
5
10
15
20
25
30
35
40
Countercyclical capital buffer
Capital conservation buffer
Limit on leverage ratio
Forward-looking loan loss provisioning requirement
Cap on credit growth
Other broad-based measures to increase resilience or address risks from broad-based credit booms
BCRA based on the IMF's Macroprudential Policy Survey database


Liquidity Tools Applied to the Banking Sector - Africa
In place
Not in place
N/A
Number of countries (from 42)
0
5
10
15
20
25
30
35
40
Liquidity buffer requirements
Stable funding requirements
Levies or charges on noncore funding
Reserve requirements for macroprudential purposes
Limits on foreign exchange positions
Constraints on foreign exchange funding
Other measures to mitigate systemic liquidity risks
BCRA based on the IMF's Macroprudential Policy Survey database

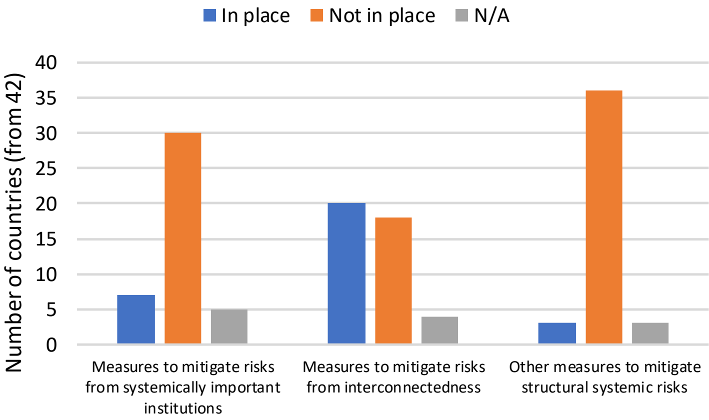
MPMs in Africa (2018)

Tools to Address Systemic Liquidity Risk and Fire Sale Risk in the Nonbank Sector

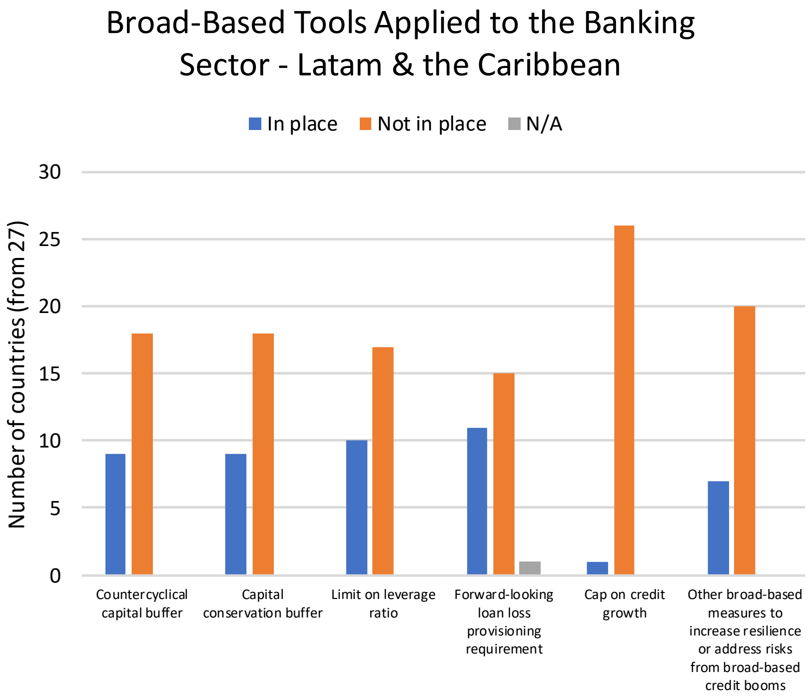


BCRA based on the IMF's Macroprudential Policy Survey database

Tools to Address Risks from Systemically Important Institutions and Interconnectedness within the Financial System - Africa



BCRA based on the IMF's Macroprudential Policy Survey database



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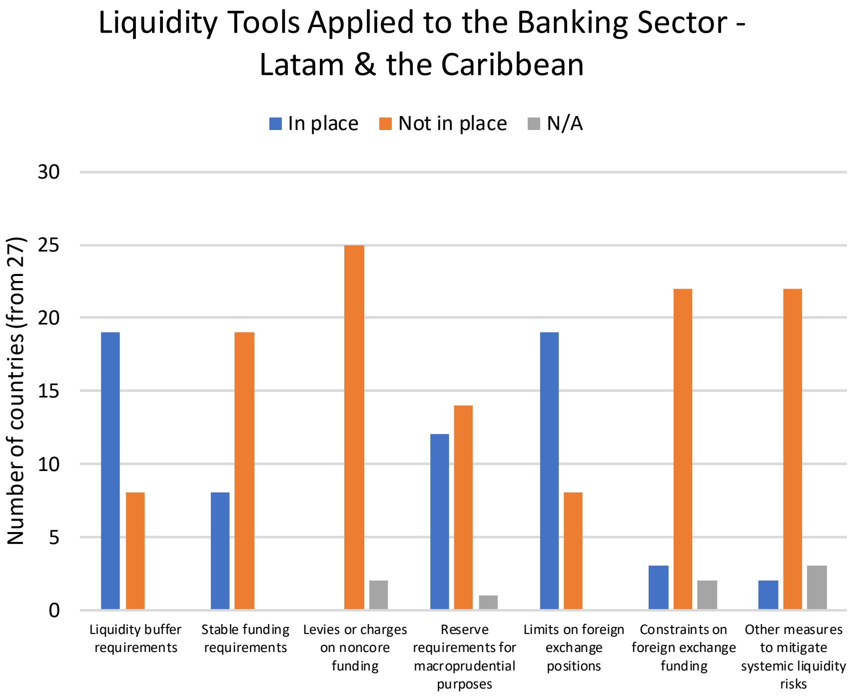
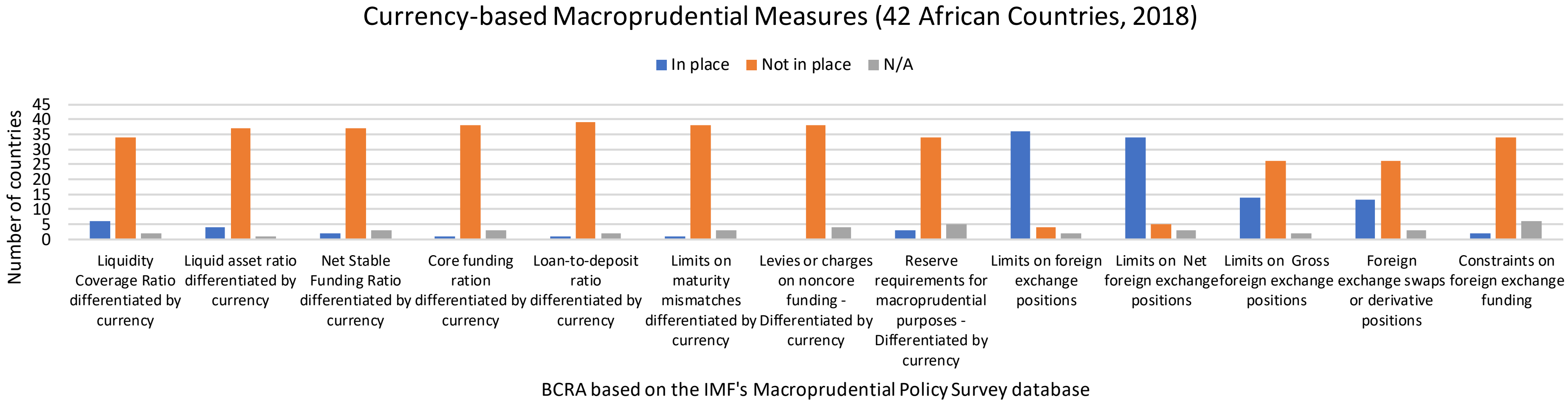
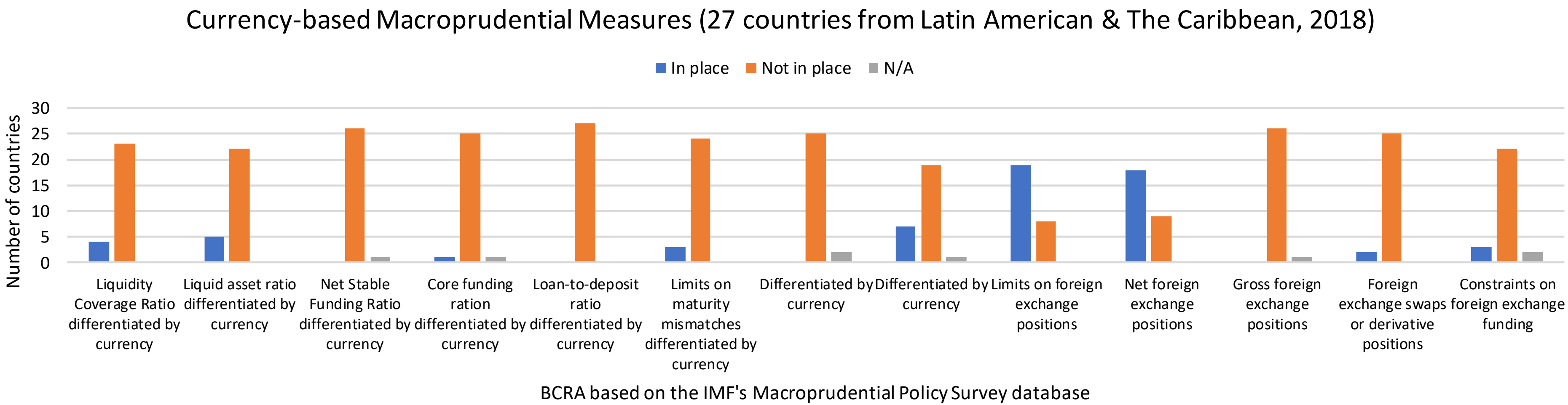


BCRA based on the IMF's Macroprudential Policy Survey database

Currency-based MPMs in Africa…

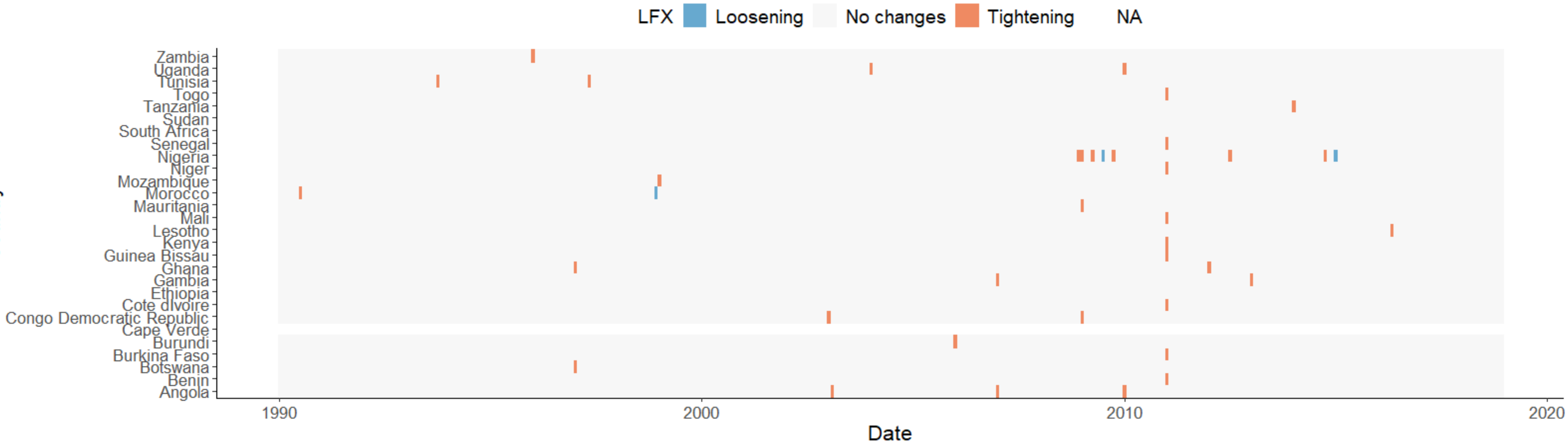


… and in Latin America



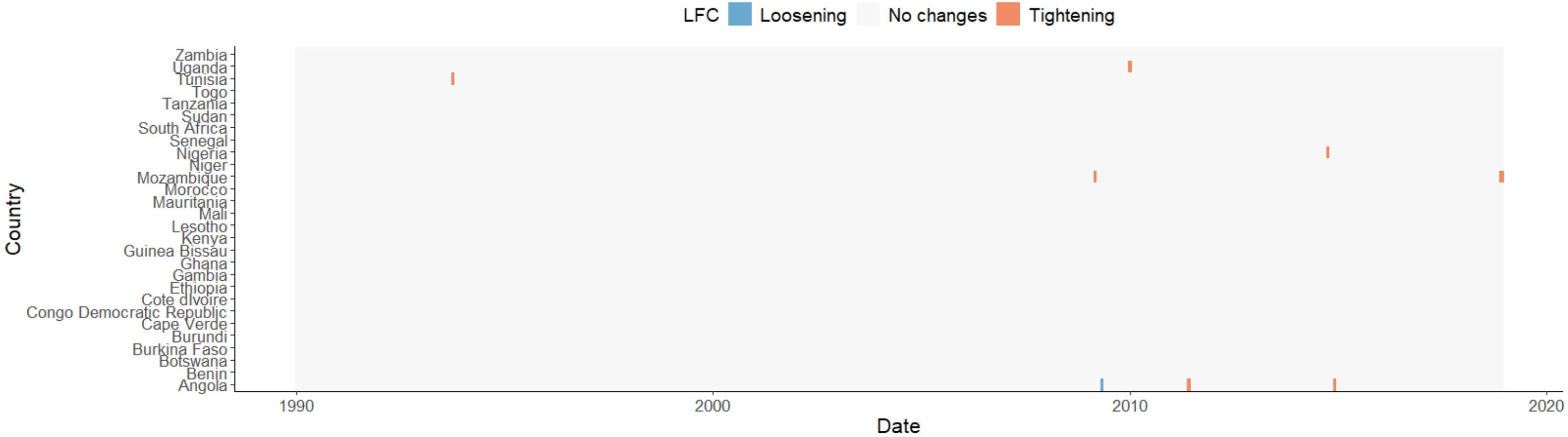
FX-based MPMs: tightening and loosening

Limits on net or gross open foreign exchange (FX) positions, limits on FX exposures and FX funding, and currency mismatch regulations.



BCRA based on the IMF's integrated Macroprudential Policy (iMaPP) Database, originally constructed by Alam et al. (2019)

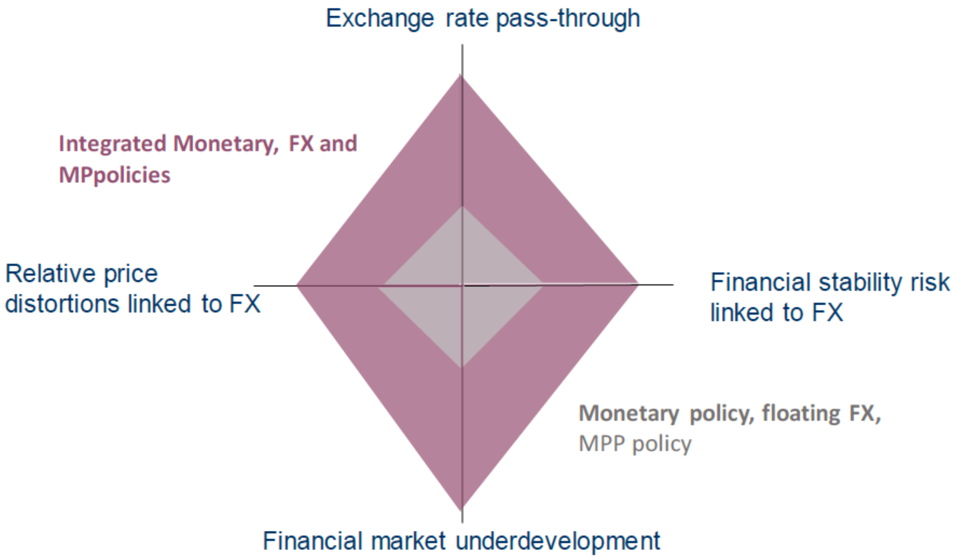
Limits on foreign currency (FC) lending, and rules or recommendations on FC loans.



BCRA based on the IMF's integrated Macroprudential Policy (iMaPP) Database, originally constructed by Alam et al. (2019)

- For the whole project: **common exercise, meta-analysis** (eg: BIS CCA, 2017)

- **Integrated policy framework**, IMF institutional view review: alternative input



Source: Aguirre et al (2018)

Congratulations!

Democratic Republic of Congo	Outflow - Repatriation requirement Jul 2002**. Exporters of commercial mining products must repatriate 40% of export proceeds** within 15 days of receipt to their bank accounts in the Democratic Republic of the Congo. Tightened (Mar 2018). The repatriation requirement was increased to 60%, with the use of repatriated proceeds subject to certain restrictions. "In line with the Institutional View, the tightening of the repatriation requirement on export proceeds should complement needed macroeconomic policy adjustments and be scaled back as adjustment progresses and balance of payments..."
Ghana	OutflowL- Limit Feb 2014. **Cash withdrawals over the counter from foreign currency accounts (FCAs) and foreign exchange accounts (FEAs) were permitted only for travel outside Ghana, and cannot exceed US$10,000** or its equivalent in convertible foreign currency per travel. External transfers over US$10,000 a year from these accounts required documentation. Eased (Jun and Aug 2014). In June 2014, cash withdrawals over the counter from FCAs and FEAs up to a limit of US$1,000 or its equivalent per transaction in foreign currency were allowed. Such limit was eliminated in August 2014. A limit of US$10,000 withdrawal per travel and annual transfer without documentation remained in place. "Removal of this restriction would be consistent with the Fund’s Institutional View." (ECF 7th and 8th Reviews 2019)
Ghana	Outflow - Ban Feb 2014. **All undrawn foreign currency-denominated facilities must be converted to local currency.** However, existing fully drawn foreign currency-denominated facilities and loans to non-foreign exchange earners may run until expiration. Servicing of existing foreign currency-denominated loans to residents by resident banks must be in cedis converted at the average interbank foreign exchange rate prevailing on the day of conversion. Removed (Jun 2014). In June 2014, undrawn balances on foreign currency-denominated facilities were allowed to be drawn in the original currency. "Staff supports the further elimination of the remaining CFMs as balance of payments pressures recede ... The authorities introduced three CFMs in response to increasing external vulnerabilities in early 2014. They have since rolled back or eased them in line with the Fund’s Institutional View on capital flows." (Article IV 2017 and ECF 4th Review)
Ghana	Outflow - Surrender requirement Feb-14. **On receipt of export proceeds** (except for gold and cocoa export proceeds subject to surrender to the Bank of Ghana (BoG)), banks must within 5 working days **convert the proceeds to cedis** based on the average interbank foreign exchange rate prevailing on the day of conversion with a spread not exceeding 200 pips. Removed (Jun 2014), revised (Jul 2016). The 5-day surrender requirement for banks was reversed in June 2014. In July 2016, the surrender requirement for gold and cocoa exports was revised by allowing export proceeds to be sold to commercial banks instead of the BoG. The surrender requirement to the BoG now only covers proceeds from receivables-backed trade finance facilities in the cocoa sector.
Liberia	Outflow. Surrender/ repatriation requirement Dec 2016. **A 25% surrender requirement on remittances** was introduced. Suspended (Dec 2018), re-introduced (Feb 2019). In December 2018, the Central Bank of Liberia suspended the surrender requirement temporarily. The measure was re-introduced in February 2019. "Staff recommends that the authorities consider this as a temporary arrangement [to address extraordinary pressure on inflation and reserves]...Going forward, the mission recommends that all the foreign currency acquired through the surrender requirement be returned
	Outflow - Surrender/ repatriation requirement Aug 2014. A **requirement to surrender foreign currency through the interbank FX market** was introduced: 10%, 15%, or 20% of export proceeds, depending on whether the foreign currency was repatriated within 30 days, 60 days, or 90 days of the date on which the merchandise was shipped.