Comments on: Macroprudential Regulation in African in the Context of the Covid-19 pandemic" and "Capital Flows and Capital Controls: the African Experience" by C.P. Chandrasekhar

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- Very interesting reports, which show the peculiar nature of Africa: nascent integration into international capital markets; adoption of more floating exchange rate regimes and market-based monetary policies (though also some evidence that it is not working and strong interventions in FX markets and recent capital controls); at the same time very strong dependence on commodities and lack of diversified export structures; of course, substantial variegation in Africa

- Will base my comments on what I thought were the most salient aspects and complement them with insights from a recent report on exchange rate determination in Africa for European Investment Bank; not familiar with specific regulations adopted so will focus my comments on general macro-dynamics; more familiar with experiences of Ghana, Uganda, Kenya, Malawi, Zambia, and Sierra Leone.

- Cepal report finds that overall portfolio flows still not that high; a few exceptions; substantive variegation; South Africa, Nigeria, Egypt, Ghana (Uganda) in one pocket; Zambia and Kenya intermediate; a lot of them very low integration; confirmed in our EIB report where we find no impact of portfolio flows on exchange rate and varying significance of other investments; Cepal report shows that other investment is the most volatile category which is also confirmed in our econometric estimation

- Need to differentiate clearly between foreign investments onshore and engagement with international investors offshore and of course local currency and foreign currency issuances; vulnerability to international capital movements can also come offshore; a lot of African economies offshore issuers; Eurobond markets; Onshore involvement quite limited to a few countries (Ghana; Nigeria; Uganda; Egypt; South Africa)
    - Foreign investments in domestic currency bond markets make exchange rate linchpin and might explain focus on FX controls highlighted in the Cepal report; might also exacerbates procyclicality of foreign exchange availability in line with fragile export structures;
    - Some form of taxes to reduce profitability of very short-term flows might be good idea; our results show that withholding taxes can influence short-term non-resident investor decisions
    - Though lengthening of maturity no panacea as long as non-resident investors funded offshore (new forms of external vulnerability/original sin redux)

- Other traditional source of risk (also reflected in existing capital controls/macro-prudential measures) are currency mismatches arising from cross-border banking flows; two issues
    - Funding models of banks themselves: locally funded banks much more stable; very difficult in Africa (not savings rate but limited reflux into banking system); exacerbated by decline in correspondent banking; these are macro-prudential measures but local funding ratios crucial; avoid cross-border funding by local banks (see Korea)

    - Avoid fx denominated assets and liabilities in domestic economy (avoid domestic currency substitution)

- Cepal report shows that low degree of financial integration partly related to existing capital account regulations, but also due to lack of interest of investor community; generally still quite substantial degree of capital account regulations (liberalized: Nigeria, South Africa, Ghana, and Uganda); my impression is rather characterised by outflow controls (fx scarcity) rather than measures to deal with large bouts of portfolio inflows; cost-benefit analysis of African policy makers vis-à-vis capital flows more towards benefits (maybe except Kenya); bop constraint so strong that they are happy about access to international capital markets even if the costs are high
    - Xr appreciation not so much of a concern to African policy makers (commodities priced in dollars; little diversified export base)
    - Regulations which maintain fx in economy crucial; Cepal report mentions requirements to repatriate export receipts which are crucial in this context; it also mentions the idea of swap agreements though these might be undermined if all countries subject to the same shocks

- Cepal report also indicates that once liberalized very difficult to go back; macro prudential and fx controls rather than capital controls; fx controls to regulate access to scarce foreign exchange; path dependency

- Big question in Africa is how large corporations are behaving; FDI as portfolio investment? Profit remittances; carry trade through intercompany accounts

Specific comments:

- Important to measure capital flows % GDP
- Need clearer definition of net vs. gross flows and which capital flows are included
- RHS on reserves chart?