Financial Integration in Africa:

Benefits and Safeguards

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Global and regional financial integration can be beneficial.

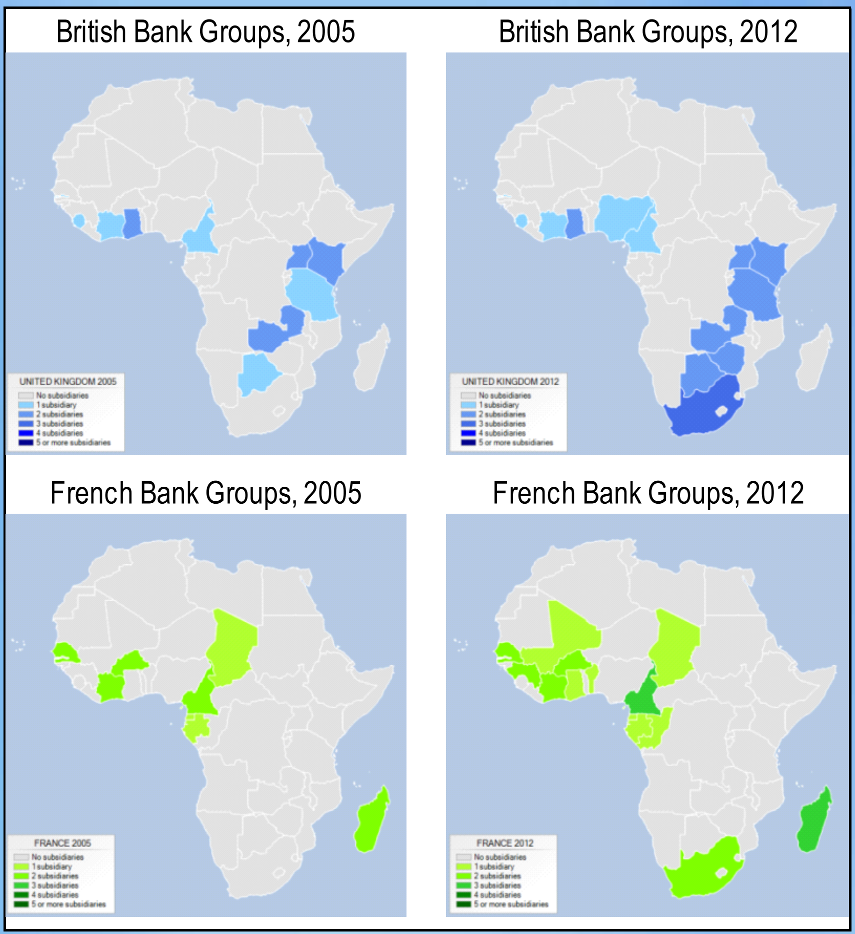
- Global integration: The region needs to safely use foreign saving.
  - SSA needs significantly more private and public capital (infrastructure) than it can afford with its own saving.
  - SSA faces significant demands to provide for health and education of a rapidly growing working-age population.
  - Returns on human and physical capital could be high and foreign investment could be mutually beneficial, especially from countries with wealthy aging populations.
- Regional integration: Larger markets, more efficient allocation of capital.
  - Most SSA markets are small, with little competition, and limited economies of scale.
  - Pooling saving and insurance premiums allow a better allocation of risk and scarce financial resources.
  - Managerial capacity in the continent remains low.

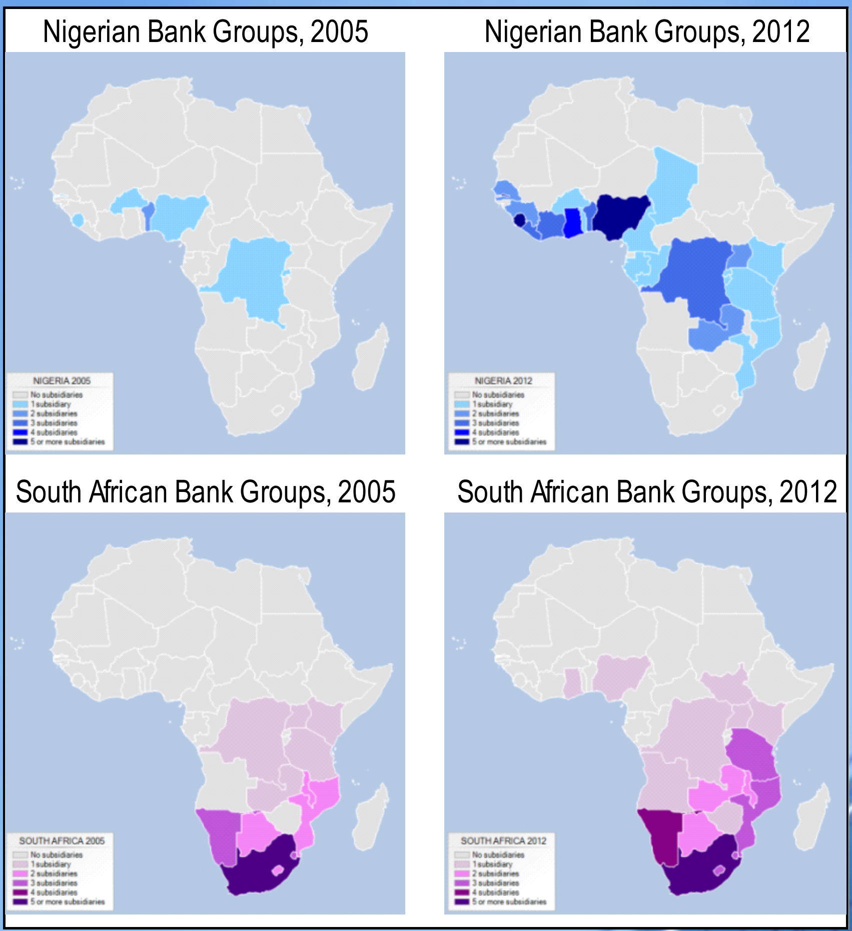
But financial integration needs to be done right.

- A safe and sound financial integration that avoids financial crises, excessive risk taking, fraud, and macroeconomic disruptions, requires:
  - Macroeconomic policy frameworks that are resilient to capital flow movements.
  - Prudential systems that can properly manage the cross border risks at the institutional and system wide level.
  - Resolution systems at the institution and systemic level that can contain the damage in case of stress.
- Financial integration in Africa poses more challenges than traditional cross border relations with European banks.

Financial integration: Global actors remain important

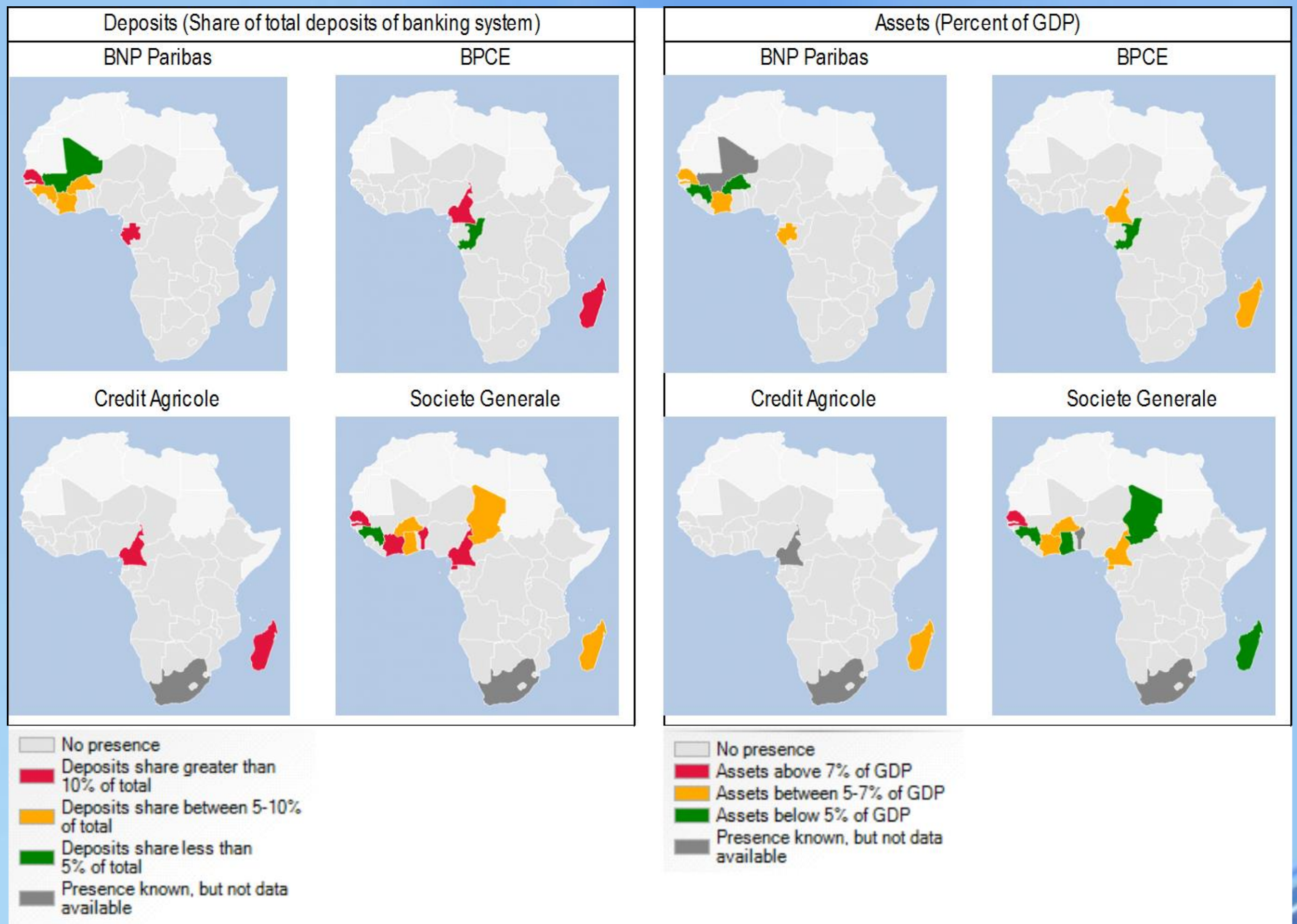
Banking groups from Europe and the region operate in many SSA countries.





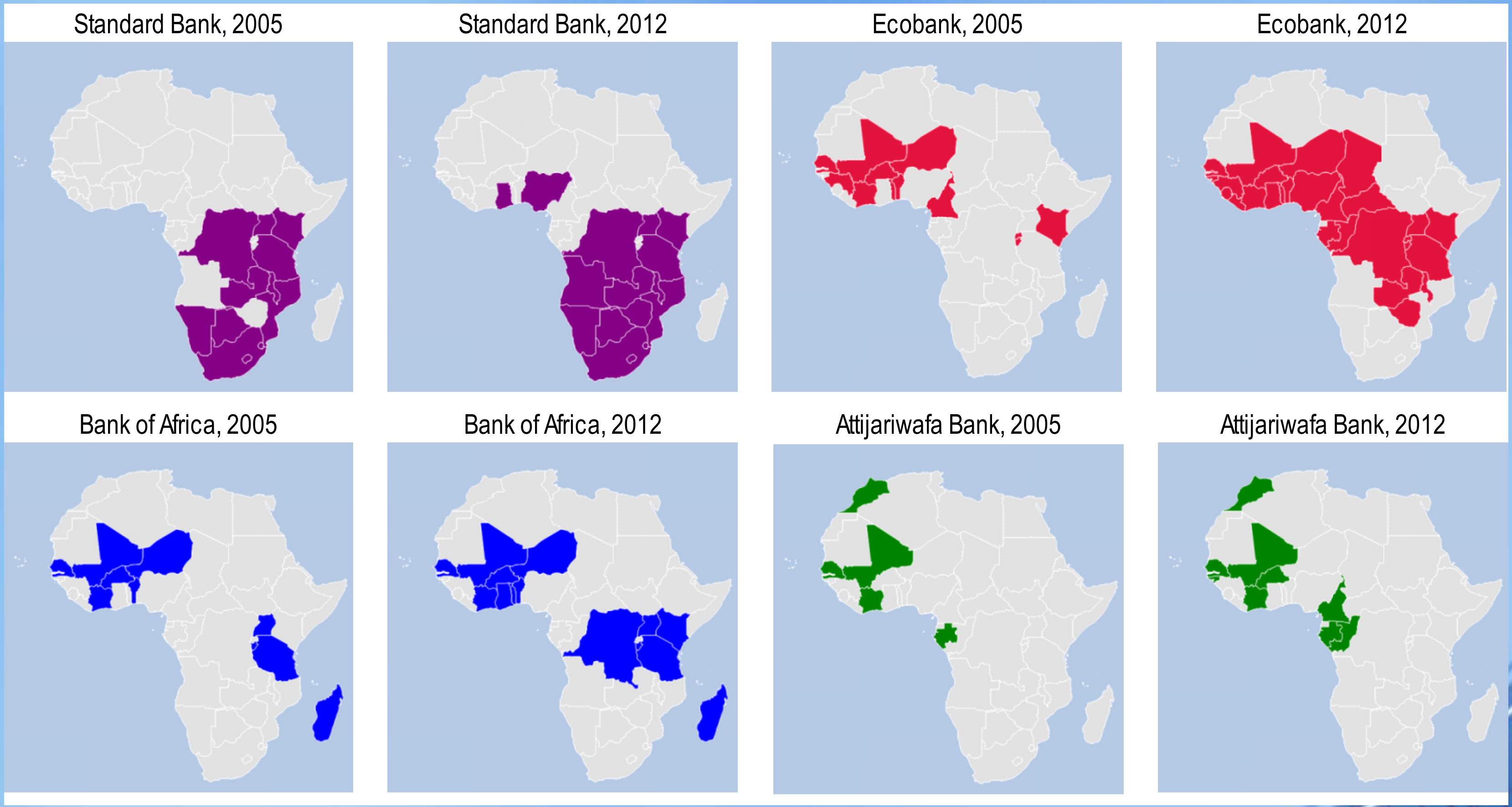
Financial integration: French Banks

Relevant, but declining footprint



Financial integration: Market based integration resulting from the rapid expansion of Pan-African banks

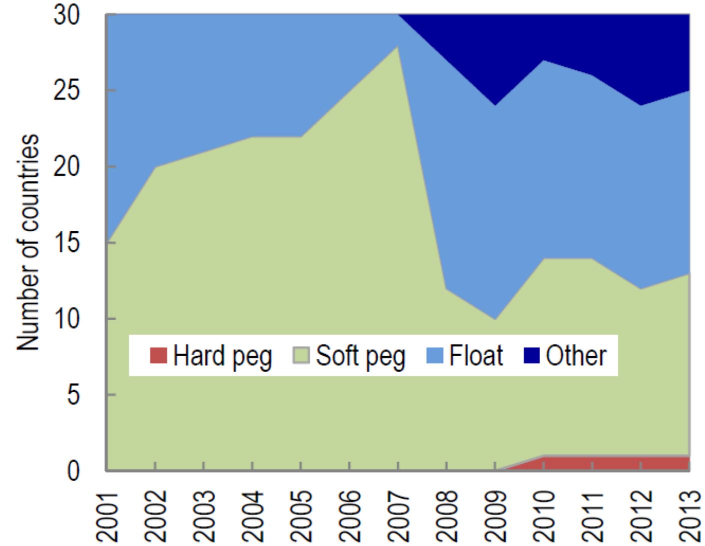
while some of the Pan-African banking groups are expanding rapidly.



Is sub-Saharan Africa prepared for financial integration? Making progress, but not quite there yet.

- Macroeconomic policy frameworks have improved but are not fully resilient to capital flows.
  - **Limited capital account liberalization**; Capital controls remain prevalent in a large number of countries.
  - **Fixed exchange rate regimes** helped control inflation, but may be more vulnerable to capital flow changes.
  - **Monetary regimes often weak.** Countries with flexible exchange rate regimes still strengthening monetary policy frameworks.
  - **Fiscal buffers** in home countries insufficient for large regional expansion

Figure 3.6. Sub-Saharan Africa: Exchange Rate Arrangements



Sources: IMF, Annual Report on Exchange Arrangements and Exchange Restrictions database.

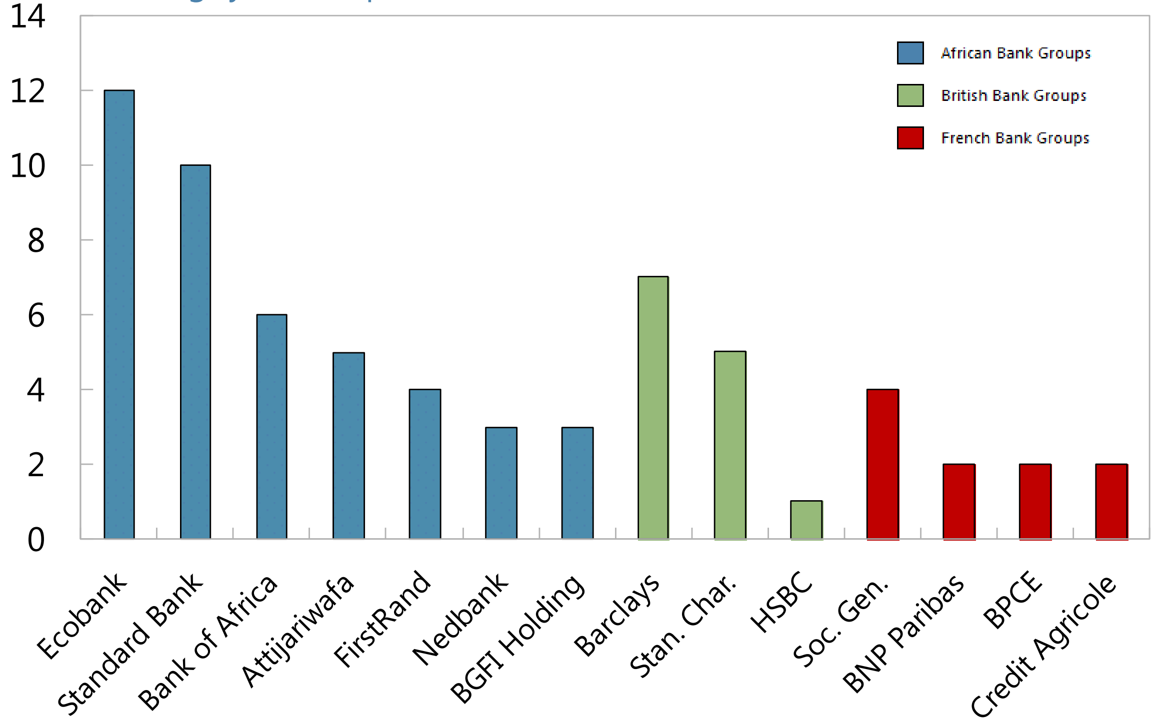
Notes: South Sudan is excluded due to data limitations. Countries that belong to CEMAC and WAEMU (14 countries) are also excluded. In 2008, 14 countries previously classified as managed floaters (soft peg) were reclassified as floaters.

Financial integration has outpaced improvements in prudential arrangements and macroeconomic policy frameworks:

Some of these banking groups are systemically important in the region, especially Ecobank, Standard Bank, Barclasy, and Bank of Africa.

Systemically Important Subsidiaries

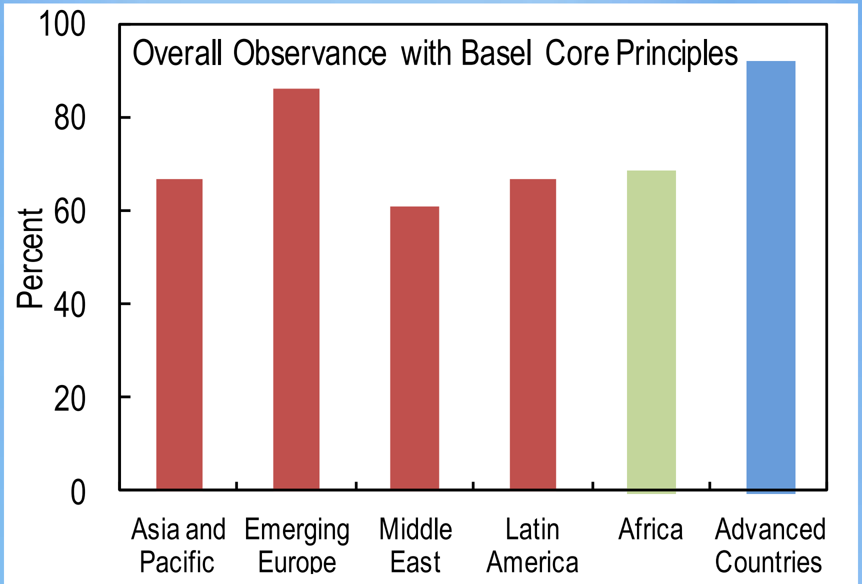
(Number of subsidiaries with deposit share exceeding 10 percent of the banking system deposits)

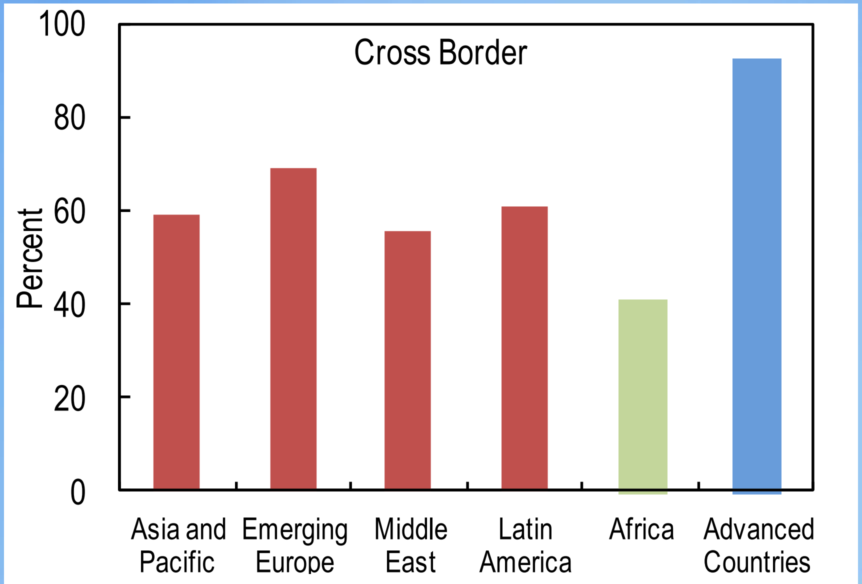


Sources: Annual Reports, BankScope, and IMF staff estimates.

Inadequate cross border consolidated supervision in the face of prevalent cross border banking activity is risky

Cross-border coordination and information sharing between home and host supervisors needs to improve.





What needs to be done to draw the full benefits from financial integration in sub-Saharan Africa?

- Continue to build more resilient macroeconomic policy frameworks and adequate buffers to withstand greater capital mobility.
- Improve cross border consolidated supervision.
- Review crisis management, put in place resolution frameworks for a systemic cross border bank.
- In the meantime, financial and capital account liberalization need to be carefully sequenced.

How can the Banque de France help?

- Setting an example in cross border supervision by:
  - Better coordination and information sharing with SSA supervisors.
  - tailoring sub-Sahara specific meetings of the supervisory colleges of French banks operating in SSA.
- Keep contributing staff for technical assistance in the areas of strengthening macroeconomic frameworks and prudential regulation and supervision.

THANK YOU!