

Central Banking and Sustainable Development in Sub-Saharan Africa

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Topic and Structure

- Central banking and economic development
 - Theory and policy instruments
 - History of today's advanced economies
 - Africa today (Ethiopia, Kenya, Nigeria, South Africa and Zambia)
 - Comparison to other BIRCS and Asian economies

What are the challenges?

- Financing development (supplying credit for SMEs and long-term credit for manufacturing industries and critical infrastructure)
- Developing financial markets (money, exchange, bond and equity)
- Enhancing financial inclusion
- Achieving more sustainable development and greening the financial system (pursuing the general goals of the 2030 Agenda for Sustainable Development and the Paris Climate Accord)

Why Central Banks?

- Central banks, through their regulatory oversight over money, credit and the financial system, are in a powerful position to support overall economic development
- Many central banks of today's advanced economies have played an active developmental role
- Central banks in developing countries often well-staffed and well-equipped

Central Banking and Economic Development in Theory and Policy

1. Macroeconomic stability
2. Financial development
3. Mitigation of financial market failure
4. Fostering green finance and sustainable development

Central Banking and Economic Development in Theory

2. Financial development

- Financial intermediaries emerge to mitigate market failure, improve availability of information on firms, affect the allocation of credit, stimulate capital markets, provide liquidity and financial contracts, in turn influencing savings and investment decisions, and ultimately contributing to growth
- Financial inclusion translates to growth by enabling saving and borrowing
- Policy instruments:
 - Financial market and payment system development
 - Promotion of financial literacy and education, basic bank accounts, and branch networks

Central Banking and Economic Development in Theory

3. Mitigation of financial market failure

- Criticism of efficient markets through theory of market failure
- Where information is incomplete or asymmetric, markets are not efficient, hence there is scope for an efficiency-enhancing role for the government
 - Financial regulation
 - Financial repression
 - Policy instruments: interest rate ceilings and floors
 - Credit allocation
 - Policy instruments: preferential rediscounting lines, differential reserve requirements, portfolio restrictions

Central Banking and Economic Development in Theory

4. Fostering green finance and sustainable development
 - How are climate change and central banking related?
 - Environmental factors may affect conventional goals of central banking
 - Central banks may play an active promotional role in enhancing green finance and sustainability
 - Policy instruments: green financial, micro- and macroprudential regulation, development of green markets, green credit allocation, supportive green central banking initiatives

Central Banking and Economic Development in Advanced Economies

- Bank of England
 - Credit allocation and industrial finance (from 1920s)
- Banque de France
 - Promotion of regional banking (1900)
 - Credit allocation and the promotion of export industries (1945-1970s)
- Federal Reserve System
 - Promotion of mortgages and lending for housing (1930s-1960s)
- Bank of Japan
 - Preferential rediscounting of export credit (1960s)
 - Financial market development (1970s)
- Bank of Korea
 - Credit allocation and industrial finance (1950s – 1980s)
 - From financial market repression to development (1950s – 1980s)

Central Banking in Africa from the 1950s until today

- High degree of cross-country variance, but some general trends
- 1950s
 - Currency boards, open, fixed exchange rate regimes under colonial rule
- 1960s
 - High degree of regulation and control of credit
- 1980s
 - Towards more open and liberalised financial systems
- Today
 - Primary focus on low inflation, contribution to growth seen in price stability

National Bank of Ethiopia

Mandate:

- Price stability
- Rapid economic development

Monetary Policy Regime:

'Monetary aggregate targeting'

Financial Inclusion: 34.8%

Account ownership at a financial institution or with a mobile-money-service provider (% of population aged 15+), 2017

Financial Development: --

Domestic credit provided by financial sector (% of GDP), 2016

Developmental Policy Initiatives:

- Directly financing the government
- Financial Repression / Financial market failure mitigation: implementation of minimum and maximum deposit rates for financial institutions
- Financial inclusion: coordination and implementation of National Financial Inclusion Strategy overseen by NBE
- No green finance initiatives

Central Bank of Kenya

Mandate:

- Price stability
- Financial stability
 - Support government policy
 - Growth, employment

Monetary Policy Regime:

‘Other’

Financial Inclusion: 81.6%

Financial Development: 42.8%

Developmental Policy Initiatives

- Financial Development: modernisation of the National Payment System, launch of an online portal in order to provide information on costs of credit
- Financial Repression / Financial market failure mitigation: introduction of lending and deposit interest rate ceilings through an amendment to the Banking Act by the parliament (CBK has been vocal in condemning this policy)
- Green finance: Kenya Bankers Association and Nairobi Securities Exchange, together with other international institutions, launched Kenya’s first green bond programme

Central Bank of Nigeria

Mandate:

- Price stability
- Promotion of “sound” financial system
- Advice to government

Monetary Policy Regime:
'Monetary aggregate targeting'

Financial Inclusion: 39.7%

Financial Development: 26.6%

Developmental Policy Initiatives

- Credit allocation: CBN operates 11 development finance schemes, including agricultural and SME credit schemes, dedicated funds to support the development of micro, small and medium enterprises
- Financial inclusion: Nigerian National Financial Inclusion Strategy (NFIS), aims at promoting consumer financial education, insurance and overall access to financial services, Entrepreneurship Development Centres to educate and support capacity building
- Green finance: private sector-led, as well as CBN-supported initiatives

South African Reserve Bank

Mandate:

- Price stability
 - Sustainable growth

Monetary Policy Regime:
'Inflation targeting'

Financial Inclusion: 69.2%

Financial development:
176.7%

Developmental policy initiatives:

- No developmental policy initiatives
- Green Finance initiatives are private sector-led
 - In 2015, the Bank Association of South Africa issued principles for managing environmental and social risks
 - In 2017, the Johannesburg Stock Exchange issued green bond listing requirements

Bank of Zambia

Mandate:

- Price stability
- Financial stability
 - Economic development

Monetary Policy Regime: 'Other'

Financial Inclusion: 45.9%

Financial development: 26.9%

Developmental policy initiatives:

- Financial development: modernising the National Payment System, introducing electronic interbank clearinghouses, bond deposits and interbank settlement systems
- Financial inclusion: part of the BoZ's 'Strategic Plan for the period 2016-2019', strengthening of financial education through financial literacy campaigns, promotion of electronic payment methods
- No green finance initiatives

Developmental Central Banking today in BRICS and Asian Economies

- Banco Central do Brasil
 - Green prudential and macroprudential policy
 - E&S risk management regulation
- Reserve Bank of India
 - Priority Sector Lending Programme
- People's Bank of China
 - At international forefront at greening financial system
- Bangladesh Bank
 - Policy Guidelines for Green Banking
 - Guidelines on Environmental Risk Management
 - Preferential refinancing lines for green credit
- Bank Indonesia
 - Green lending guidelines
 - Framework and regulation for green bond issuance
- State Bank of Vietnam
 - Directive on Promoting Green Credit Growth

Conclusions

- Economic theory offers insight into how activist role of central banking may contribute to economic development
- Most of today's advanced economies have in the past relied on their central banks during periods of strong economic growth and development
- Five African central banks: strong focus on price stability, developmental objectives secondary, some financial inclusion initiatives, greening finance not a central issue
- In comparison: Many Asian and BRICS central banks today with activist stance towards the promotion of green finance and more sustainable development