Central bank governance and financial stability: issues of potential relevance to Africa

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1. Introduction

The recent global financial crisis has raised new questions about the role of central banks in maintaining financial stability. How would such a role influence the governance of central banks? Given the difficulty of even defining financial stability, much work remains to be done in designing effective central bank structures for making financial stability operational. This note discusses the main challenges and considers issues that could be of particular relevance to Africa.

2. Reform of financial stability arrangements

There is broad agreement that prudential policy should have a macroprudential dimension if it is to ensure financial stability. The idea is to look beyond the risk position of individual institutions to risks affecting the system as a whole. There are many reasons why such risks are not simply an aggregation of individual risks. One is externalities: interconnections among financial intermediaries and among markets create common exposures that could threaten the whole system (contagion). Another reason is network effects, in which the failure of even a small institution could trigger a cascading effect through the whole system. Common exposures or uniform responses to shocks could magnify such effects. A third reason is procyclicality, which refers to the tendency of the financial system to amplify macroeconomic or global financial shocks.

In a number of countries, the debate on how best to remedy deficiencies in existing financial stability arrangements has been intense over the past few years, with competing proposals being offered by existing agencies with a direct or indirect mandate for financial stability as well as by the financial industry, elected officials and academia. The focus of the debate has been on how to ensure a smoother functioning of the financial system and avoid further episodes of widespread financial distress. Although reform proposals span a variety of arrangements (discussed below), there is broad agreement that the development of a macroprudential policy framework will constitute an essential element in ensuring financial stability and that central banks will play a key role in that process.

Central banks are well placed to assume greater responsibilities for macroprudential oversight:

- The conduct of monetary policy provides central banks with a macroeconomic focus and an understanding of linkages among financial markets, institutions and infrastructures. This gives them a comparative advantage in the exercise of a macroprudential function.

[1] The author wishes to thank David Archer, Anne Mackenzie, Dubravko Mihaljek and Philip Turner for comments, and Emir Emiray and Emese Kuruc for research assistance.

- They have an inherent interest in preventing financial instability given that it can affect economic activity, price stability and the monetary transmission mechanism.
- They are the ultimate source of liquidity (bank reserves) for the economy, and appropriate liquidity provision is crucial to financial stability.

In some countries, central banks are also being given a more prominent role in microprudential supervision. In the United States, for example, the Federal Reserve is now the microprudential supervisor for all systemically important firms (including non-banks). In the United Kingdom, a number of supervisory responsibilities of the existing microprudential supervisor, the Financial Services Authority, will be transferred to the Bank of England in 2012.

The rationale for such an enhanced role for central banks in both macro- and microprudential oversight is that there are synergies between the two functions. Such synergies relate to:

- Cross-fertilisation: microprudential policy is improved by access to information about macroeconomic and financial conditions and about the interconnections between institutions; and macroprudential policy is improved by access to information on the risks faced by individual institutions.
- Reliance on information from the macro- and microprudential policy functions for lender of last resort intervention.
- The need for a close coordination of macroprudential and monetary policies in view of the importance of information on the dynamic behaviour of the financial system for the effectiveness of monetary policy and vice versa (Mishkin (2011)).

Putting both monetary and prudential functions under the central bank's roof has a number of advantages: direct access to information on institutions; more thorough monitoring of markets and the macroeconomy; and faster decision-making. Yet, developing a macroprudential perspective while not losing sight of the key monetary policy function is not an easy task.

3. Issues raised by the reform of financial stability arrangements

Many central bankers regard the maintenance of financial stability as an entirely normal part of their existing policy responsibilities. Even so, it does create some hard choices.

i. Difficulty of specifying mandate and policy instruments

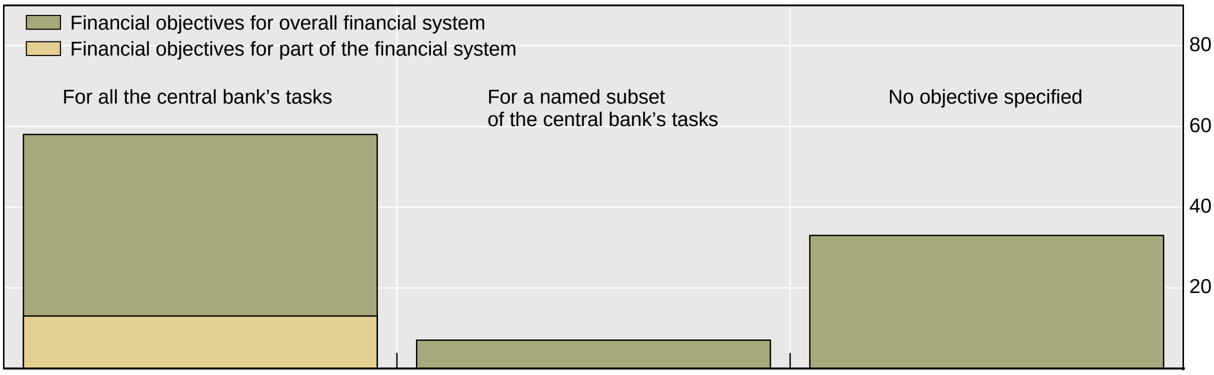
An immediate concern relates to the difficulty of specifying the central bank's mandate in the area of financial stability. Survey evidence shows that an overwhelming majority of central banks consider that they have full or shared responsibility for financial stability oversight and policy (BIS (2009)), but their mandates are rarely explicit because the concept is difficult to define. In about one third of central bank laws, a financial stability objective is not mentioned at all (Graph 1). In many other cases, it is mentioned in connection with a microprudential task, such as supervising financial institutions, ensuring the safe functioning of key components of the financial infrastructure (payment and settlement systems, in particular) or, exceptionally, intervening as lender of last resort. Where they exist at all, financial stability objectives are often more vague than monetary policy objectives. Price stability can be measured, whereas financial stability cannot.

Graph 1

Financial stability objectives in central bank laws

Percentage of central bank laws that mention "stability" or a synonym

At end-2010



Note: Based on review of 97 central bank laws and statues.

Source: BIS.

A major concern of the report of a study group headed by Stefan Ingves, Governor of Sveriges Riksbank (hereafter referred to as the Ingves Report), was that a poorly defined mandate creates significant challenges. An immediate challenge is that without a reasonably precise mandate, policymakers cannot know which actions are desired of them and which are not. Another is that the lack of a clear mandate prevents policymakers from being able to understand society's priorities when circumstances call for actions that conflict with other elements of policy. Yet another is that policymakers might not be held accountable for actions for which they should be accountable, and they might be held accountable for goals for which they are neither clearly responsible nor equipped to achieve. And the lack of a clear mandate makes it nearly impossible for the public to be able to predict the direction of policy actions under different scenarios, creating the risk of a mismatch between the central bank's intentions and the public's expectations.

Moreover, macroprudential policy does not yet encompass a dedicated set of policy instruments. Until recently, the conventional wisdom was that if monetary policies ensured price stability over a sufficiently long time horizon, then financial stability would be ensured over an even longer time horizon. In fact, financial stability was treated as almost a by-product of monetary stability. This is no longer thought to be the case. It is now accepted that such a narrow focus on price stability might on occasion create, or exacerbate, financial imbalances that lead to sharp and destabilising corrections.

Given that monetary policy settings are not sufficient to ensure the twin objectives of monetary and financial stability, additional tools are required to help ensure financial stability. The central bank's lender of last resort function during a crisis is clearly one such tool, but instruments that do not have macro stability as their primary purpose may nonetheless serve a preventive objective. For example, many supervisory regulations designed for the "micro" purpose of preserving the soundness of individual banks or their borrowers could also serve a macroprudential purpose.

Table 1

Macroprudential instruments by vulnerability and financial system component

<table>
<tr><th colspan="2" rowspan="3"></th><th colspan="5">Financial system component</th></tr>
<tr><th colspan="2">Bank or deposit-taker</th><th rowspan="2">Non-bank investor</th><th rowspan="2">Securities market</th><th rowspan="2">Financial infra-structure</th></tr>
<tr><th>Balance sheet[1]</th><th>Lending contract</th></tr>
<tr><td rowspan="3">Vulnerability</td><td>Leverage</td><td>• capital ratio
• risk weights
• provisioning
• profit distribution restrictions
• credit growth cap</td><td>• LTV cap
• debt service/ income cap
• maturity cap</td><td></td><td>• margin/ haircut limit</td><td></td></tr>
<tr><td>Liquidity or market risk</td><td>• liquidity / reserve requirements
• FX lending restriction
• currency mismatch limit
• open FX position limit</td><td>• valuation rules (eg MMMFs)</td><td>• local currency or FX reserve require-ments</td><td>• central bank balance sheet operations</td><td>• exchange trading</td></tr>
<tr><td>Interconnect-edness</td><td>• concentration limits
• systemic capital surcharge
• subsidiarisation</td><td></td><td></td><td></td><td>• central counter-parties (CCP)</td></tr>
</table>

[1] Capital and other balance sheet requirements also apply to insurers and pension funds, but we restrict our attention here to the types of institutions most relevant for credit intermediation.

Source: CGFS (2010).

Discussions about which instruments would be best suited to macroprudential policy are at an early stage (see CGFS (2010), Galati and Moessner (2011) and Moreno (2011)). A number of instruments could potentially be used for macroprudential purposes (Table 1). However, policymakers are not entirely sure about how they should be used, and there is much uncertainty about their effectiveness in ensuring financial stability (Blanchard (2011)). Nor are the possible interactions between different instruments well understood. Having several instruments of unproven effectiveness runs the risk of misuse.

Many broad policy questions remain to be resolved and policy risks assessed. For example, is the aim of macroprudential policy to make the banks more resilient or to moderate cyclical movements in asset prices? Could constraints imposed under macroprudential policy run the risk of overregulation and protectionism (with the additional risk that this would pose to innovation and growth)?

ii. Challenges to policymaking autonomy

A further issue is whether new powers for financial stability policy could undermine autonomy in monetary policy decisions. Many central banks have been able to set monetary policy independently of short-term political pressures because monetary policy objectives are sufficiently easy to specify; because the outcome of policy actions is readily observable relative to mandated objectives; and because coordination with fiscal policy is generally conducted at arm's length. However, monetary policy and financial stability objectives will sometimes conflict. The addition of a less clearly defined macroprudential mandate, and the possibility of a more activist use of regulatory levers, may challenge this understanding. The practical difficulty of implementing macroprudential policy and of measuring success at doing so may lead politicians to want to exercise greater day-to-day influence over policymaking. Indeed, some would see the concentration of several public policy functions in one institution as running counter to the checks and balances of an open society.

The central bank could also face greater lobbying from interest groups. Financial stability policy decisions are more likely to be seen as directly affecting particular interest groups than decisions on monetary policy. The financial services and real estate industries, for example, might lobby hard against any tightening of prudential standards. Emergency lending actions, in the form of sharp reductions in policy rates or emergency rescue operations, could also benefit certain financial actors at the expense of others.

iii. Potential loss of policy focus

Another concern is that adding new policy functions could increase the risks of management distraction. The intellectual frameworks and the skills necessary to conduct monetary, macro- and microprudential policies differ substantially. In several countries, concerns about undermining the effectiveness and credibility of the monetary policy process have played a significant role in keeping the central bank narrowly focused on a price stability objective. Such a focus would be more difficult to preserve with the addition of a new overlapping mandate.

iv. Possible weakening of accountability

Ensuring accountability for financial stability policy will prove particularly challenging for central banks. As noted above, objectives and actions cannot be specified for financial policy with the same degree of precision as they can for monetary policy. They may also involve conflict with other policy objectives. The evaluation of the central bank's effectiveness in meeting such objectives will necessarily be imprecise – and this could weaken accountability.

v. Challenge of coordinating policy actions

Financial stability policy has many dimensions: policy development, rule-making, supervision and emergency intervention. Any central bank responsibility for these dimensions will by necessity be shared with other government agencies. Thus, the overlapping interests of those agencies, and their interaction with government decision-makers, must be managed. Effective coordination mechanisms are particularly important for crisis management but they are also relevant to crisis prevention. Assigning a focal role to the central bank in macroprudential policy would require the creation of decision-making structures that provide for the internally coordinated calibration of monetary, macro- and microprudential settings. The central bank's analysis and actions would have to be coordinated with those of other agencies.

4. Looking for an appropriate institutional arrangement

Several possible configurations for the assignment of policy functions among responsible agencies could be considered, each calling for different governance arrangements. The Ingves Report identified four main configurations for preventive macroprudential policy assignments among responsible agencies, each of which has advantages and disadvantages with respect to the issues identified earlier.

i. Macroprudential policy as a shared responsibility

One approach is to form a macroprudential or systemic risk council to coordinate the work of the various agencies responsible for financial stability. This is an approach that has been adopted in the European Union and the United States (see Appendix Table 1, which summarises the arrangements adopted in selected countries). The fact that macroprudential policy will require both macro- and microeconomic analytical inputs, and will be implemented primarily through monetary and microprudential policy instruments, suggests that coordination of decision-making by otherwise separate and independent agencies would be a natural approach.

A crucial issue is whether such a council is simply a vehicle for joint analysis and peer pressure or a decision-making body in its own right. In other words, the question is whether the agencies represented on the council retain autonomy over their sphere of interest or whether the council can direct policy actions by member (and even non-member) agencies.

The European Systemic Risk Board (ESRB), which became operational in early 2011, has no formal directive powers.[2] It operates under a peer review approach and is allowed to issue recommendations or warnings to a wide range of European supervisory agencies and to member states directly where systemic risks are deemed to be significant. The potential recipients of such recommendations or warnings may be invited by the governing body of the ESRB to present their views before final action. The same body will decide on the extent to which recommendations or warnings have been followed. However, publication of recommendations or warnings will be subject to majority decision by the governing body of the ESRB.

In the United States, the Financial Stability Oversight Council (FSOC), which was established in 2010, has formal decision-making powers and can designate institutions and financial services providers that would require heightened prudential standards, and make binding recommendations to primary supervisors with respect to heightened regulatory requirements.[3]

ii. Macroprudential policy as a responsibility of the central bank; separate microprudential regulators

A second approach, which exists in various incarnations in Japan, the Netherlands and Sweden, is to delegate responsibility for macroprudential policy primarily to the central bank while leaving responsibility for microprudential policy to other agencies. Such an approach is sometimes seen as an easier option in countries where there is already an institutional separation between monetary and microprudential functions. It may also be adopted where the sharing of responsibilities among several agencies is not appealing, either because of a

[2] www.esrb.europa.eu/home/html/index.en.html.

[3] www.treasury.gov/initiatives/Pages/FSOC-index.aspx.

concern that sharing could weaken focus, be a source of friction between agencies or simply be too cumbersome to manage.

The relationship of the central bank with microprudential authorities will depend on what the central bank's macroprudential function will entail. If it entails the central bank's "leaning against the wind" in executing monetary policy, the need for interaction with microprudential authorities will be limited. By contrast, if it involves regulatory measures, such as determining a macroprudential overlay on capital or liquidity requirements, much greater interaction will be needed. In essence, the central bank would then become the regulator and the microprudential agencies would become the policy implementers. This arrangement could trigger inter-agency rivalry and complicate the independence of the microprudential regulators with respect to their spheres of responsibility. But it is by no means rare for microprudential regulators to implement policy settings determined by others.

The choice of internal decision-making structures within the central bank will have important implications when it comes to dealing with potential conflicts and trade-offs. Where the same committee makes decisions on both monetary and financial stability policy, coordination costs will be reduced, allowing in principle for maximum synergies and more rapid reactions. If actions of the single decision-making body are subject to disclosure requirements, it would be important to clearly articulate the nature of the trade-offs and the reasons for specific choices in any given situation. Decision processes that are delegated to separate decision-making boards will presumably make trade-offs more evident, since each decision-making group will relatively quickly identify the other as a barrier to success. Especially where each decision stream is subject to disclosure requirements, this would probably make the existence of difficult choices more obvious to the public.

iii. Central bank as macro- and microprudential policy agency; separate financial product safety regulator

A third variant, which will be introduced in the United Kingdom, is to integrate macro- and microprudential policy within the central bank while maintaining a separate financial product safety regulator. Such a structure can be adopted on the basis of existing arrangements in which the central bank is already the microprudential supervisor, or it can be the result of a redesign of arrangements that brings microprudential supervision within the central bank.

A major potential advantage of assembling the main financial policy functions within the central bank is improved access to information and expertise.[4] However, potential advantage and actual gain are not necessarily the same. Even if functions are brought under one roof, silos of responsibility within the organisation could still fragment information and analysis. More generally, the differing intellectual frameworks implied by the various functions could inhibit communication. It would seem from experience that systemic analysis is less natural to the analysts typically employed in microprudential supervision (who tend to focus on balance sheet and institutional risk analysis). The limited attention given to financial factors in formal macroeconomic models also speaks to the large gaps between the training of macroeconomic and macroprudential analysts. Moreover, crossing divisional boundaries is not easy and may indeed be inappropriate in some instances (eg with respect to commercial secrets, yet-to-be-announced policy actions, etc). Whether these gaps can be bridged, and silos avoided, by bringing these functions together under forceful management is an open question.

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[4] Federal Reserve Board Chairman Ben Bernanke has stressed the value of the Federal Reserve's supervisory role for its other activities, including monetary policy, lender of last resort functions and crisis management (see www.federalreserve.gov/BoardDocs/RptCongress/supervision/supervision_report.pdf).

In the new arrangement considered for the United Kingdom, the various policy functions will be clearly separated. Microprudential oversight will be brought back to the central bank in the form of an operationally independent subsidiary of the Bank of England, the Prudential Regulation Authority. Macroprudental oversight will be under the responsibility of the Financial Policy Committee, which will be a subcommittee of the Court of Directors but will function along lines similar to those of the existing Monetary Policy Committee.[5] The legislation will also devolve responsibility for the regulation of business practices across the entire spectrum of financial services to a new specialist regulator, the Financial Conduct Authority. Coordination of the analysis and decisions of the dedicated decision-making bodies will be ensured in part by cross-membership of the top officials represented in the committees and authorities. However, given the diversity of organisational structures adopted for each main policy function, other mechanisms will be introduced to ensure a smooth interaction between them (see HM Treasury (2011)).

The prospective UK approach has already been largely adopted in France. Reforms introduced last year consolidate several regulators into an autonomous super-regulator, the Prudential Supervisory Authority (PSA), which is located within the Bank of France, is chaired by the Governor of the central bank and has an explicit mandate for financial stability. Measures were also taken to improve consumer protection under the Financial Markets Authority, which will remain independent but will work in close cooperation with the PSA.

iv. Separate macroprudential agency with distributed implementation

The last approach involves the creation of a specialist agency for the macroprudential function. A separate agency would probably have advantages over a shared responsibility model with respect to clear dedication to macroprudential issues, coordination and speed of action. However, it would raise questions with respect to implementation since the policy instruments used to implement macroprudential policy are usually assigned to other policy obectives or are under the control of other agencies. It would also raise issues with respect to the autonomy of the other agencies, as is the case with arrangements involving macroprudential councils. While it is conceivable that such an agency could be given authority to require action by microprudential supervisors, it would probably be less sensible to give it authority (even if partial) over interest rate settings. Interestingly, only one of the reform proposals identified by the Ingves Report considered the creation of a truly separate agency, but this proposal did not materialise in any final legislation.[6]

5. How is this relevant to Africa?

Before African central banks can contemplate more active involvement in financial stability, the value of reforming existing arrangements has to be carefully considered. As the previous discussion illustrated, reforming financial stability arrangements raises a complex set of issues, and a “one size fits all” approach is unlikely to be of much practical use.

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[5] Inter alia through the inclusion of external experts, publication of meeting records and responsibility for the Bank’s Financial Stability Report.

[6] The discussion draft of the US Senate Committee on Banking, Housing and Urban Affairs envisaged the creation of such an agency, the Agency for Financial Stability.

i. Level of development of financial systems

One consideration is the level of development of African financial systems. Macroprudential policy analysis focuses on externalities – systemic risks arising from common exposures and interlinkages among financial institutions and markets. Leverage can magnify such risks (Caruana (2010)).

In Africa, informal financial channels play an important role (see the paper by Hawkins in this volume). The small scale, simplicity and lack of leverage in such mechanisms may limit systemic risks. But financial markets that are thin or comparatively underdeveloped still pose risks. Most financial systems in Africa tend to be dominated by a limited number of banks; non-bank financial institutions (NBFIs) remain small; and markets for securities and interbank claims are in their infancy (see Quintyn and Taylor (2007) and Beck et al (forthcoming)). The risks of market participants trying to move in the same direction at the same time (herding) may be greater when markets are dominated by a few similar institutions. Market volatility is typically higher and financial assets are less reliable as collateral. The risks of market manipulation are also higher.[7]

In a number of higher-income African countries, NBFIs and financal markets are growing rapidly. They are also becoming more international. The past couple of decades have seen growing penetration of domestic banking markets by international banking groups and the emergence of a number of pan-African banking groups, which would increase the potential for cross-border financial contagion. As countries in Africa become more financially advanced, their financial stability considerations will become more like those in the industrial economies, and the governance-related issues discussed earlier in the context of European and North American countries will acquire greater relevance.

ii. Quality of supervisory arrangements

According to the assessment in Beck et al (forthcoming), most banking systems in Africa are stable and well capitalised thanks to banking sector reform and regulation. However, they also note that better rule-making has not been accompanied by a corresponding improvement in the quality of banking sector oversight. According to them, supervisory resources, including qualified staff and availability of analytical tools, are limited in most African countries. Many regulators are not independent of the Ministry of Finance or other government agencies, and legal frameworks often limit the corrective and remedial powers of supervisors to intervene in failing banks. Critically, supervisory processes focus on compliance with regulatory standards but are not set up to identify and manage the changing risks in the financial system. In addition, the ability to monitor risks on the institutional and systemic level is hampered by insufficient data and reporting processes. They emphasise that an upgrade of supervisory arrangements along the lines of Basel II would entail, both for banks and for regulators, human resource and infrastructure costs that would be beyond the means of many countries in Africa. They conclude that without a significant strengthening of supervisory capacity, the implementation of more complex supervisory arrangements would be built on shaky ground and would not provide an adequate framework to enhance financial stability.

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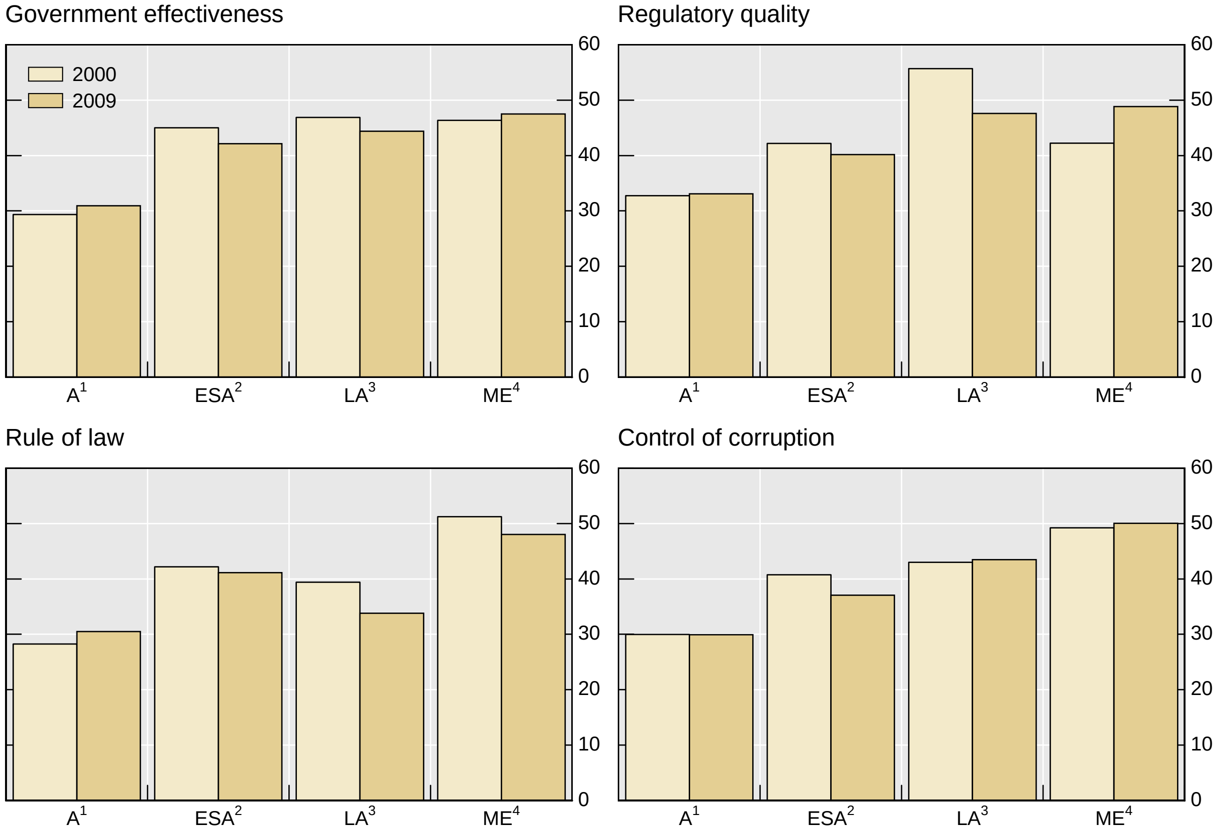
[7] For a discussion of the financial implications of "smallness", see BIS (1996), pp 16–18.

Graph 2

Governance indicators for selected regions

Y-axis represents average score for each region



Note: The World Governance Indicators comprise six measures of the quality of governance in more than 200 countries. Four of the measures are shown here.

[1] Africa. [2] East and South Asia. [3] Latin America. [4] Middle East.

Source: Brookings Institution, World Bank Institute, and Development Research Group of the World Bank.

Given this analysis, a first step would be to concentrate on the foundations of sound banking supervision rather than on developing more complex oversight schemes. Yet, as Barth et al (2006) note, the right institutional environment is an essential precondition for a strengthening of bank supervision.[8] The quality of governance arrangements seems to be of relevance to Africa given the readings provided by well known governance indicators (see Graph 2).

If supervisory agencies have substantial influence over bank business and strategies, elected officials and supervisors may try to abuse that influence to force banks to divert the flow of credit to satisfy private rather broader interests. If they do, strengthening official oversight of banks without establishing proper governance arrangements might in fact reduce banking sector efficiency and stability. Barth et al (2006) note that an important step in promoting sound banking would be to introduce measures aimed at improving the ability of the private sector to monitor banks. The disclosure of reliable, comprehensive and timely

[8] In an empirical analysis of the relationship between governance, financial liberalisation and development in sub-Saharan Africa, Karikari (2010) suggests that the impact of liberalisation on development depends on the quality of institutions as measured by the Worldwide Governance Indicators (Graph 2).

information on banks' operations, along the lines of Basel II's Pillar 3 on market discipline, would help. The authors also urge strengthening the rights of private investors.

iii. Political economy

Another set of challenges will be faced by central banks that feel ready to develop a macroprudential framework. As noted above, the implementation of a macroprudential function could lead to a more activist use of policy tools, but their use by several distinct agencies could lead to coordination problems. Another challenge is that, rather than correcting inappropriate macroeconomic policies, governments may instead pressure the relevant authorities to use macro- and microprudential tools. This could open the door to arbitrary policy decisions, particularly in countries where transparency in policymaking is limited. It could even encourage rent-seeking behaviour in countries where the rule of law is not firmly established.

In countries where central bank autonomy is not yet well established, the introduction of a new financial stability mandate could create an additional pretext for political interference. This could threaten monetary policy autonomy. As is the case for banking supervision, it might be preferable to introduce solid governance arrangements for the central bank before trying to introduce more complex policymaking into the central bank's mandate.

iv. Monetary policy frameworks

Another element that could complicate the design of a macroprudential policy framework is the evolving environment within which monetary policy is conducted. A few countries have moved from exchange rate or monetary targeting to various forms of inflation targeting (see the paper by Vibe Christensen in this volume) and a number of countries are now considering moving in this direction. Such a transition involves an intricate set of governance, policy and technical issues. Introducing a macroprudential policy framework in such an evolving environment will inevitably be a challenging task.

6. What arrangements would be suitable?

On balance, the relatively simple and bank-centred nature of African financial systems and the shortage of qualified personnel would argue for the central bank playing an important role in maintaining financial stability. Often the central bank is one of the few institutions that have sufficient resources to attract employees with the type of skills required for working in macroeconomic analysis and banking supervision.

In a review of five stylised models of banking supervision in sub-Saharan Africa (SSA), Quintyn and Taylor (2007) found that two of the models were best suited to the circumstances of the sub-continent.[9] In one, a unified supervisory entity is linked to the central bank (in terms of infrastructure and logistics) but has a separate governance structure. In the other, supervision of deposit-taking institutions is housed in the central bank, and supervision of all NBFIs is housed in a separate agency. The authors argued that both models would preserve an important supervisory role for the central bank, which they deemed important given local circumstances.

[9] Both can be considered to be variants of options (ii) and (iii) in the typology of the Ingves Report.

There would be advantages to integrating the macro- and microprudential functions within the central bank, either with separate or unified internal decision-making structures. Such an integrated model would keep the most systemically important activities within the central bank, minimise regulatory gaps, allow for a more efficient coordination of policy functions, help ward off external pressure to engage in directed lending or forbearance, and take advantage of the central bank's physical and human resource infrastructure while allowing for an internal deployment of skilled staff.

But it could be argued that giving greater policymaking power to the central bank could lead to a greater risk of monolithic thinking (groupthink) and therefore to a greater risk of policy errors and public criticism. The adoption of one of the two supervision models just discussed would therefore need to be accompanied by some strengthening of the formal accountability mechanisms for the central bank. Disclosure of financial stability decisions and actions, and the reasons for them, would be essential – although some delay might be necessary if immediate disclosure risked triggering instability.

In view of the strong presence of international banking groups in many countries and the expanding web of intraregional banking relationships, particular thought would have to be given to coordination with outside regulators. Regional coordination is already being strengthened in the Central African and West African currency areas, with, for example, the recent establishment of a Comité de Stabilité Financière in the West African Economic and Monetary Union and discussions concerning the creation of a Forum de Stabilité Financière in the Economic Community of Central African States.

7. Concluding comments

The recent global financial crisis raised important questions about what the exact role of central banks should be in the area of financial stability. In a number of countries, new arrangements that attempt to deal with identified weaknesses are being introduced. The macroprudential dimension to supervision is also relevant to the rudimentary financial systems of many African countries given that thin financial markets dominated by a small number of banks also create systemic issues.

As African financial systems grow in complexity, countries in the region will face the same issues that have prompted a review of financial stability arrangements in other parts of the world. This could lead to calls for a reconfiguration of such arrangements, with the possibility of a stronger involvement of central banks in macroprudential oversight.

Stronger central bank involvement in this area could raise delicate issues of governance. Aside from the difficulties of specifying a mandate for financial stability and obtaining the tools necessary to implement it, central banks could face challenges to their decision-making arrangements and policymaking autonomy. Before central banks can contemplate a more active involvement in the area of financial stability, the net value of reforming existing arrangements would therefore have to be carefully considered.

Appendix Table 1

Selection of recently established inter-agency financial stability councils				
Country/region	**Name of council**	***Membership***	***Mandate (s)***	***Main powers***
European Union	European Systemic Risk Board (ESRB) Became operational in January 2011	**Number of members:** 33 voting, 28 non-voting (General Board) ***Chair:*** President of European Central Bank (ECB, for next 5 years) - must be a member of the ECB's General Council ***Other voting members:*** Governors of European System of Central Banks member banks (27), VP of ECB, member of European Commission, Chairs of European Supervisory Authorities (ESAs, 3) ***Non-voting members:*** President of Economic and Financial Committee, high level representatives of EU member state supervisory authorities (27)	Development of a macro-prudential framework Identification of systemic risks issuance of recommendations for action and warnings	Powers to require information from member agencies but no formal directive powers. Based on a peer review approach. Allowed to issue recommendations and warnings to ESAs, member states, individual member state agencies, or Europe wide, on an act-or-explain basis Addressees of recommendations and warnings may be invited to present their views before the adoption of recommendations and warnings However, publication of such recommendations and warnings is subject to majority voting of General Board Reporting to EU Parliament and ECOFIN Council
France	Financial Regulation and Systemic Risk Council (FRSRC) To be established	***Number of members***: 5 ***Chair:*** Minister for Finance (or his representative) ***Other members:*** Governor of the Banque de France (as President of the Prudential Supervisory Authority (PSA), Vice-President of the PSA), President of the Financial Markets Authority (or their representative), President of the Accounting Standards Authority	Foster cooperation and information exchange Consider French market/institution developments from a macro-prudential perspective Taking account of ESRB recommendations Coordinate with European/ international initiatives	Will be able to issue opinions and position statements with respect to European and international initiatives

Selection of recently established inter-agency financial stability councils (cont)				
Country/region	**Name of council**	**Membership**	**Mandate (s)**	**Main powers**
India	Financial Stability and Development Council (FSDC) December 2010	***Number of members:*** 8 to 9 voting members ***Chair:*** Minister for Finance ***Other members:*** Governor of the Reserve Bank of India (RBI) Finance Secretary and/or Secretary of Department of Economic Affairs Secretary of Department of Financial Services Chief Economic Advisor of Ministry of Finance Chairman of Securities and Exchange Board of India Chairman of Insurance Regulatory and Development Authority Chairman of Pension Fund Regulatory and Development Authority A sub-committee headed by the Governor of the RBI will replace the existing High Level Coordination Committee on Financial markets	Strengthen the mechanism for maintaining financial stability, financial sector development, and inter-regulatory coordination The council will be responsible for dealing with issues relating to: Financial stability Financial sector development Inter-regulatory coordination Financial literacy and inclusion Macroprudential supervision, including the functioning of large financial conglomerates Coordinating India’s interface with international financial bodies	Information not yet public

Selection of recently established inter-agency financial stability councils (cont)

Country/region	**Name of council**	**Membership**	**Mandate (s)**	**Main powers**
United States	Financial Stability Oversight Council (FSOC) Became operational in October 2010	**Total number of members:** 10 voting, 5 non-voting ***Chair:*** Secretary of the Treasury ***Other voting members:*** Chairman of Federal Reserve, Comptroller of Currency, Director of Bureau of Consumer Financial Protection, Chair of Securities and Exchange Commission, Chair of FDIC, Chair of CFTC, Director of Federal Housing Finance Agency, Chair of National Credit Union Administration Board, an independent member (with insurance expertise) ***Non-voting advisory members:*** Director of Office of Financial Research, Director of Federal Insurance Office, a state insurance commissioner, a state banking supervisor, a state securities commissioner	Identify financial risks Promote market discipline by eliminating expectations of government support Respond to emerging threats	Designate institutions and financial service providers as requiring heightened regulatory standards by the Federal Reserve Make recommendations to primary supervisors, including member agencies, with respect to heightened regulatory requirements; such recommendations requiring implementation, or explanation as to why not Call for information from members agencies or other agencies or direct from companies Advise Congress Annual report to Congress; Chair will testify on behalf of the Council. Each voting member will be required to affirm that the federal government is taking all reasonable steps to assure financial stability, or describe steps necessary. Reporting to Congress on particular topics, as appropriate

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