

# **Sub-Saharan African Financial Systems and The Global Financial Crisis**

## *Impact, Risks, and Policy Priorities*

## **Regional Economic Outlook**

May 2009

Disclaimer: The views expressed herein are those of the author(s) and should not be attributed to the IMF, its Executive Board, or its management.





# Focus on Financial Systems

- How has the global crisis affected financial systems and markets in sub-Saharan Africa?
- What risks does the global crisis pose for financial systems in the region?
- What can be done to minimize dislocations from the global crisis and to continue developing the region's financial systems?



# Key Messages

- Important effects on stock, currency, and debt markets.
- Banking systems in SSA have been quite resilient, but no country is immune.
- Spillovers to the real economy could transmit stress to financial systems.
- Priorities will need to be reordered to minimize contagion and to strengthen crisis resolution tools.
- Governments should continue to push for longer-term reform to reinforce and diversify their financial systems.



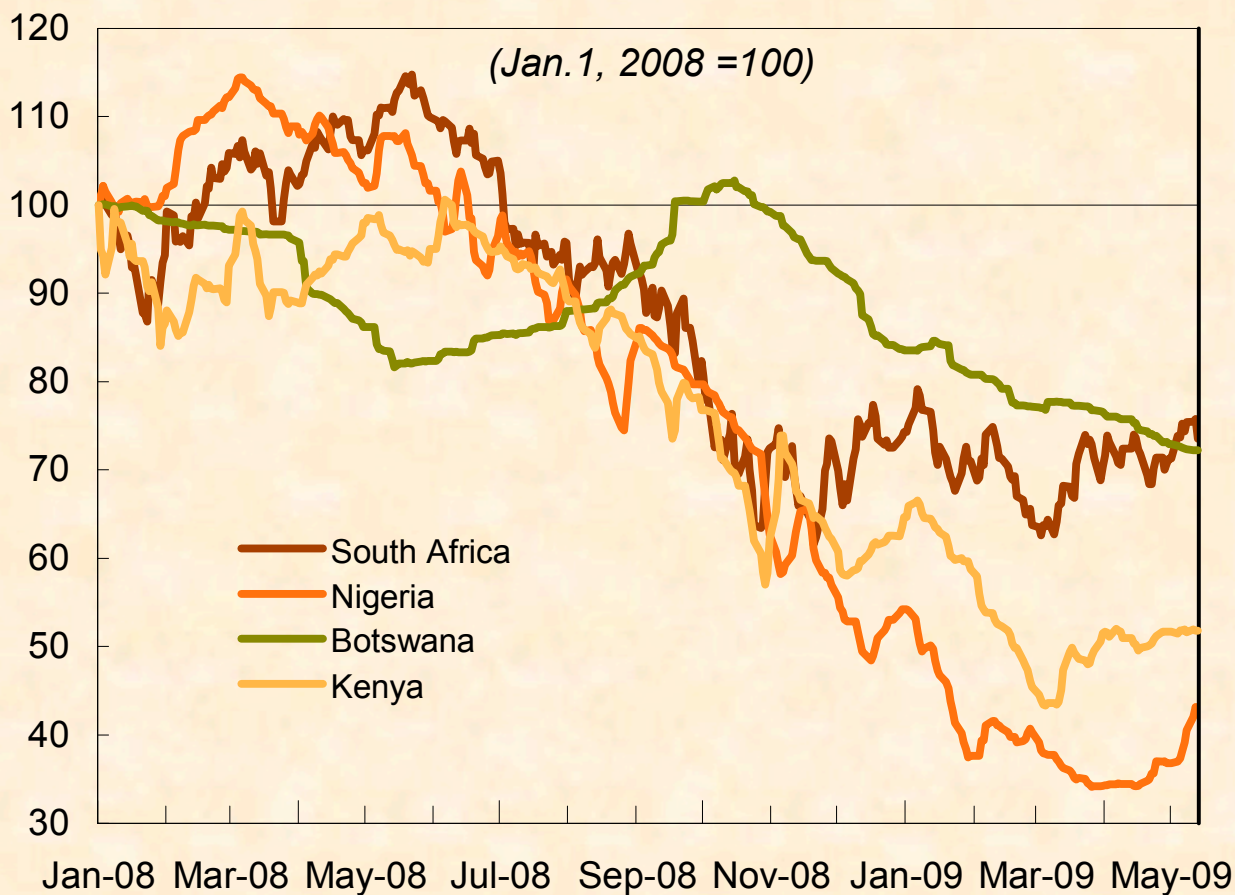


# Two Main Channels of Transmission

- Lower inflows from abroad: with effects on equity, currency, and debt markets;
- Spillovers into the real economy (second round effects): response of foreign banks, tighter credit conditions, trade finance.

# Sharp Drop in Stock Markets

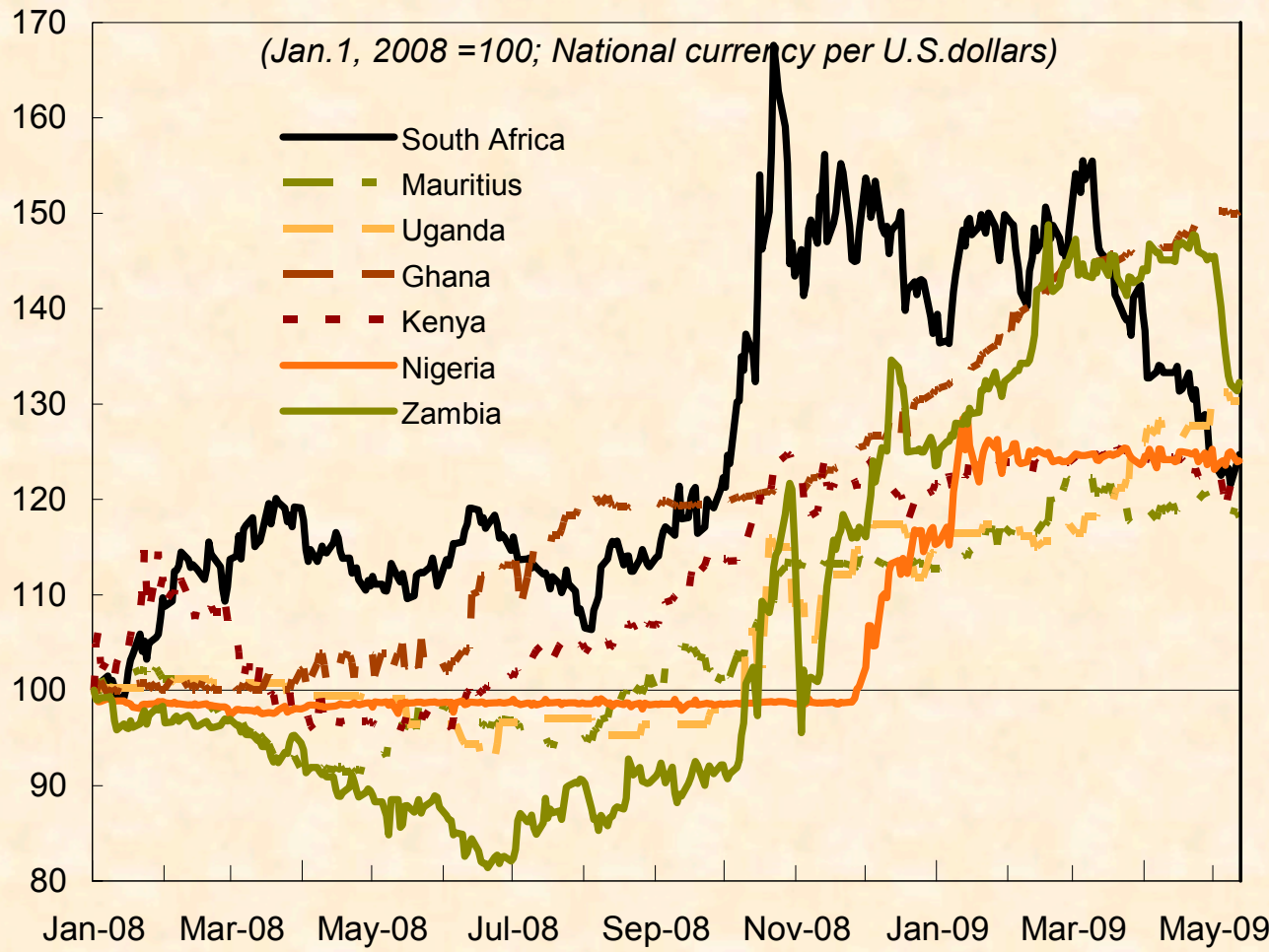
**Selected Africa: Stock Market Index**





# Pressures on Currency Markets

## Selected Africa: Exchange Rates







# Less Access to Global Markets

## Sub-Saharan Africa: Issuance of International Bonds, 2004-08 (millions of U.S. dollars)

|              | 2004  | 2005  | 2006  | 2007   | 2008  |
|--------------|-------|-------|-------|--------|-------|
| Total        | 1,697 | 2,681 | 4,899 | 12,319 | 1,533 |
| Gabon        | 0     | 0     | 0     | 1,000  | 0     |
| Ghana        | 0     | 0     | 0     | 950    | 0     |
| Nigeria      | 0     | 0     | 0     | 525    | 0     |
| Seychelles   | 0     | 0     | 200   | 30     | 0     |
| South Africa | 1,697 | 2,681 | 4,699 | 9,814  | 1,533 |

Source: IMF, 2009, *Global Financial Stability Review* (April).





# Relative Resilience of Banking Systems

- Limited (though increasing) integration with global financial markets
- Minimal exposure to complex financial instruments
- Relatively high bank liquidity
- Limited reliance on foreign funding
- Low leverage in financial institutions





# Modest Contagion to Local Subsidiaries of Foreign Banks

- More cautious lending policies to satisfy regulations and scarce capital in home country.
- Little or no dependence on funding from parents.
- Stable deposit base.
- No unusual capital transfers to parents.



# Tighter Credit Conditions

- Lending criteria are stricter
- Banks focus on high-quality core clients.
- Lending margins have widened
- Thin markets: crowding out concerns



# Less Favorable Conditions for Financing Trade

- Costs (interest costs, confirmation charges) have increased.
- It generally takes longer to close deals.
- In some countries, letters of credit must now be fully cash collateralized.
- But trade has not been disrupted.



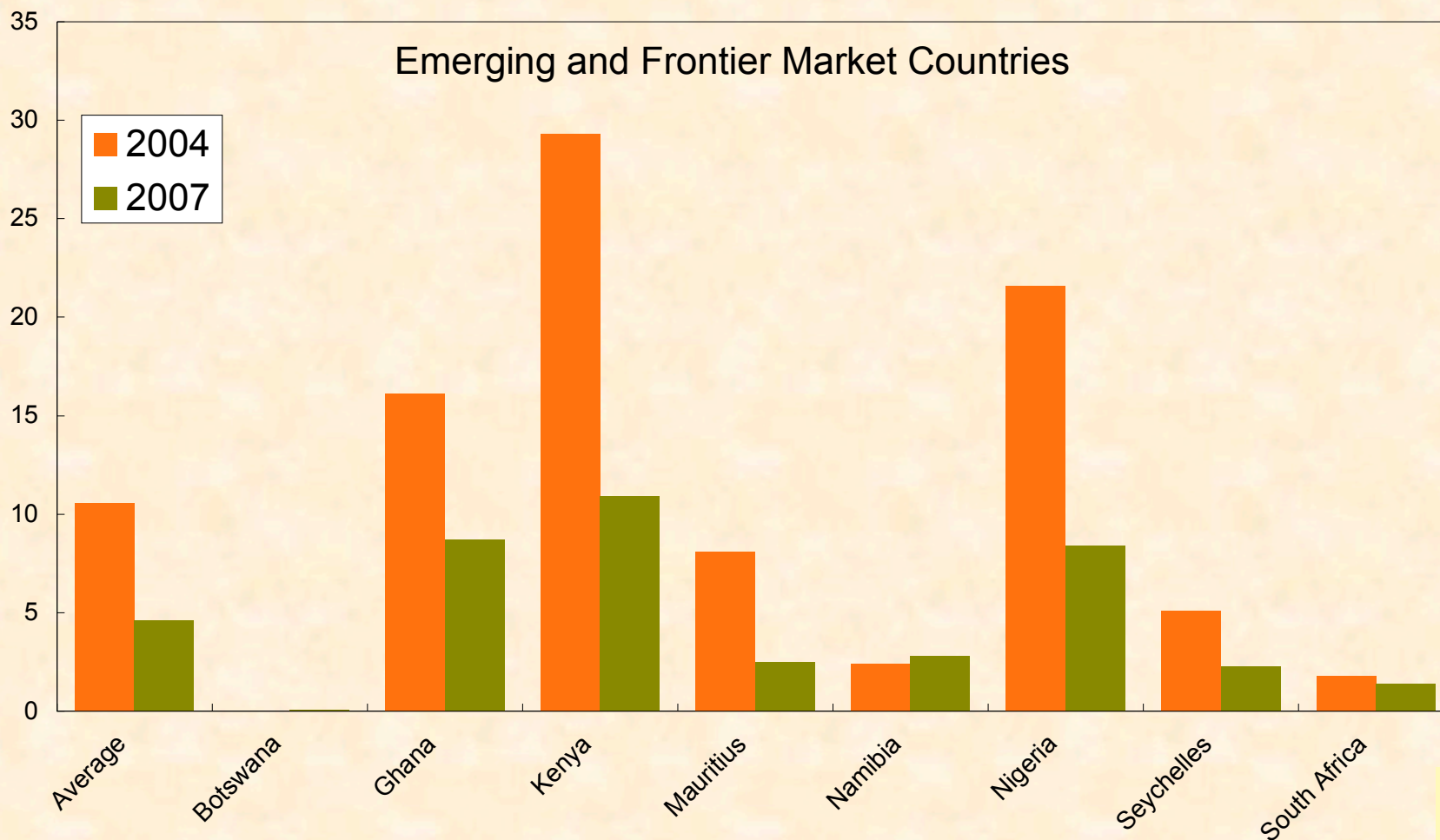


# Risks and Vulnerabilities

- Credit risks
- Contagion by deleveraging and rollover risks
- Credit retrenchment and lower funding
- Risk of flow reversals

# Credit Risk

**Sub-Saharan Africa: Nonperforming Loans, 2004 and 2007**  
*(Percent of gross loans)*





# Risk of Contagion by Deleveraging

## Three main risks

Parent banks might:

- be less willing to provide liquidity to their subsidiaries.
- try to repatriate capital.
- be unwilling or unable to inject additional needed capital into subsidiaries.

## Three mitigating factors

- Subsidiaries have been able to raise deposits locally.
- African bank operations represent a minimal share of parent banks' assets.
- There is an increasing amount of capital in the system.



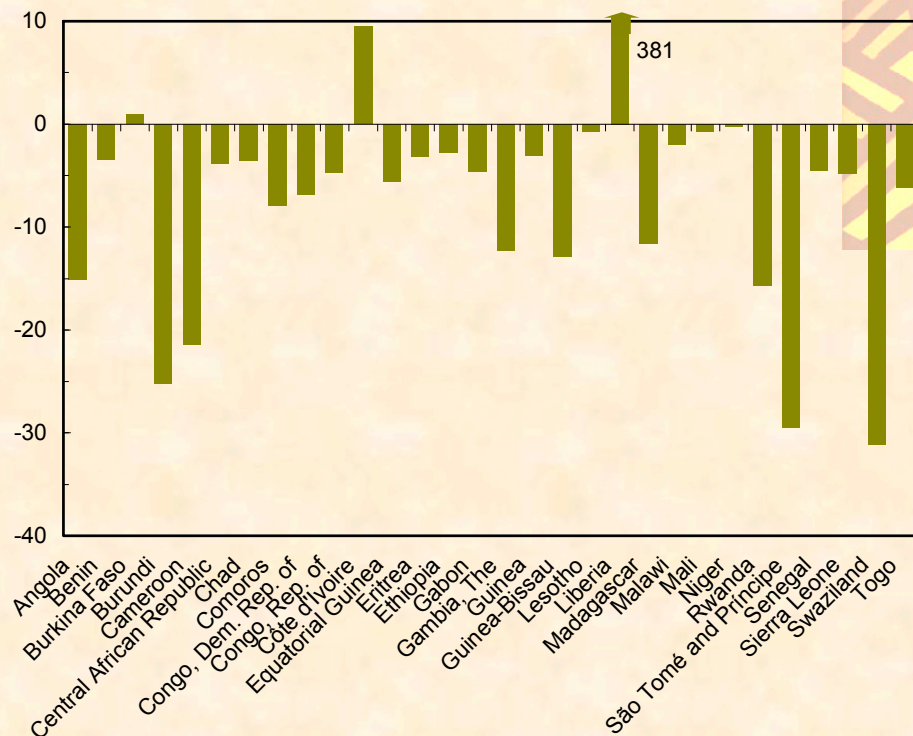
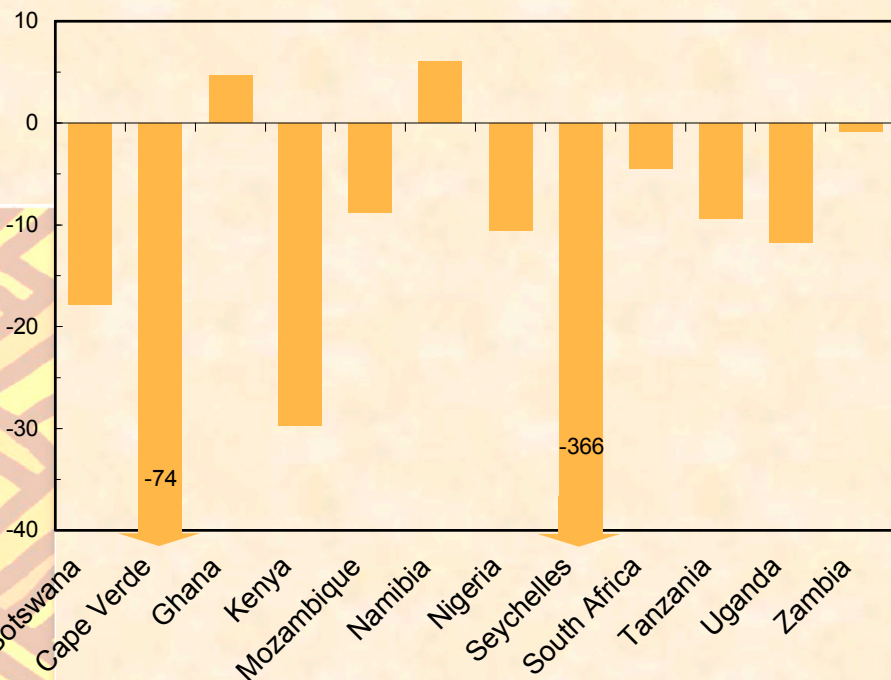




# Rollover Risks

Sub-Saharan Africa: Net Claims of BIS Reporting Banks,  
End-September 2008  
(Percent of GDP)

Emerging and Frontier Market Countries



Sources: Bank for International Settlements and International Monetary Fund.

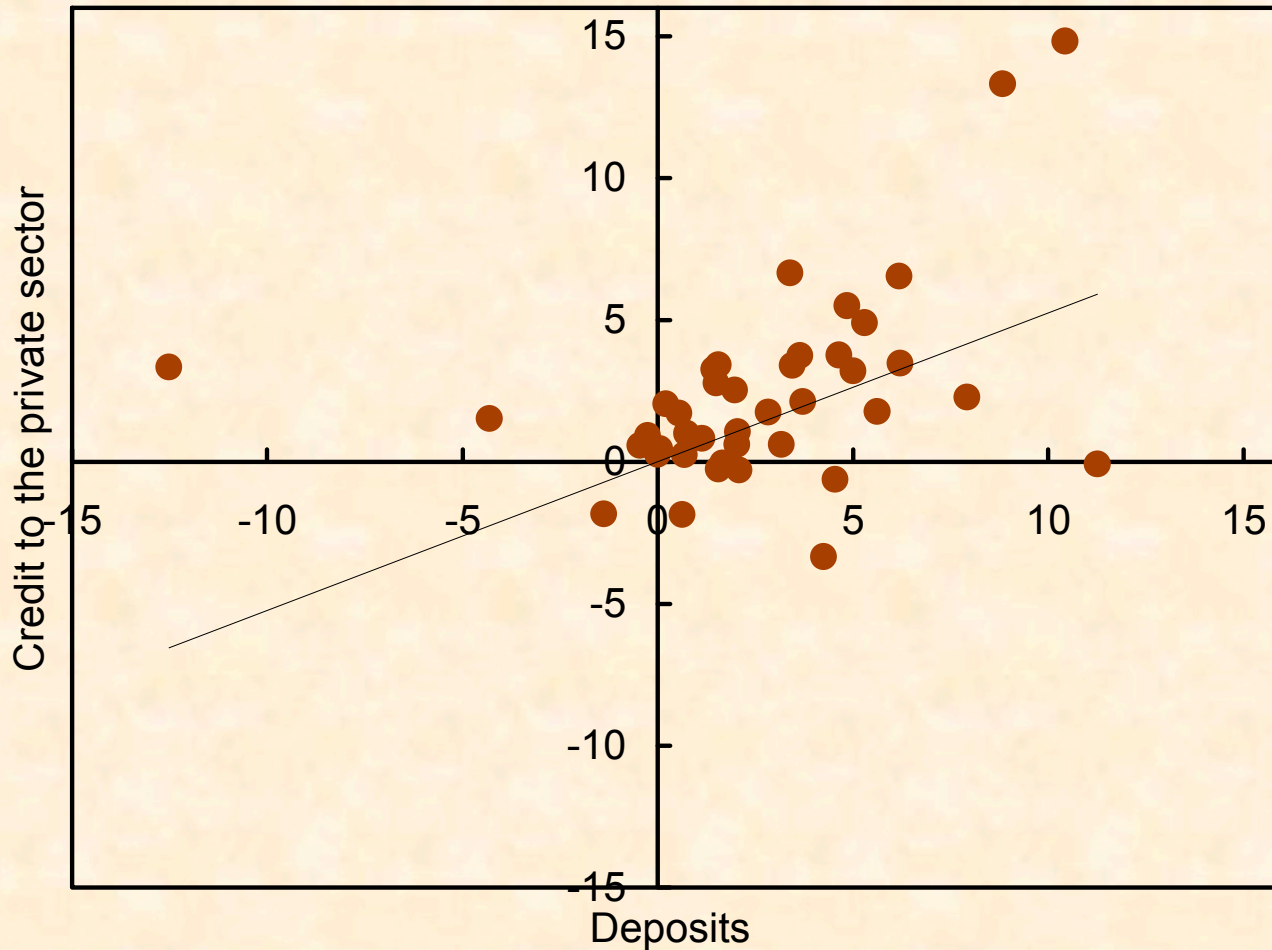
Note: "Net claims" is defined as BIS reporting banks' claims on minus liabilities to individual countries.





# Risk of Credit Retrenchment

SSA Bank Credit to the Private Sector and Deposits  
(Change from 2004 to 2007, percentage points of GDP)

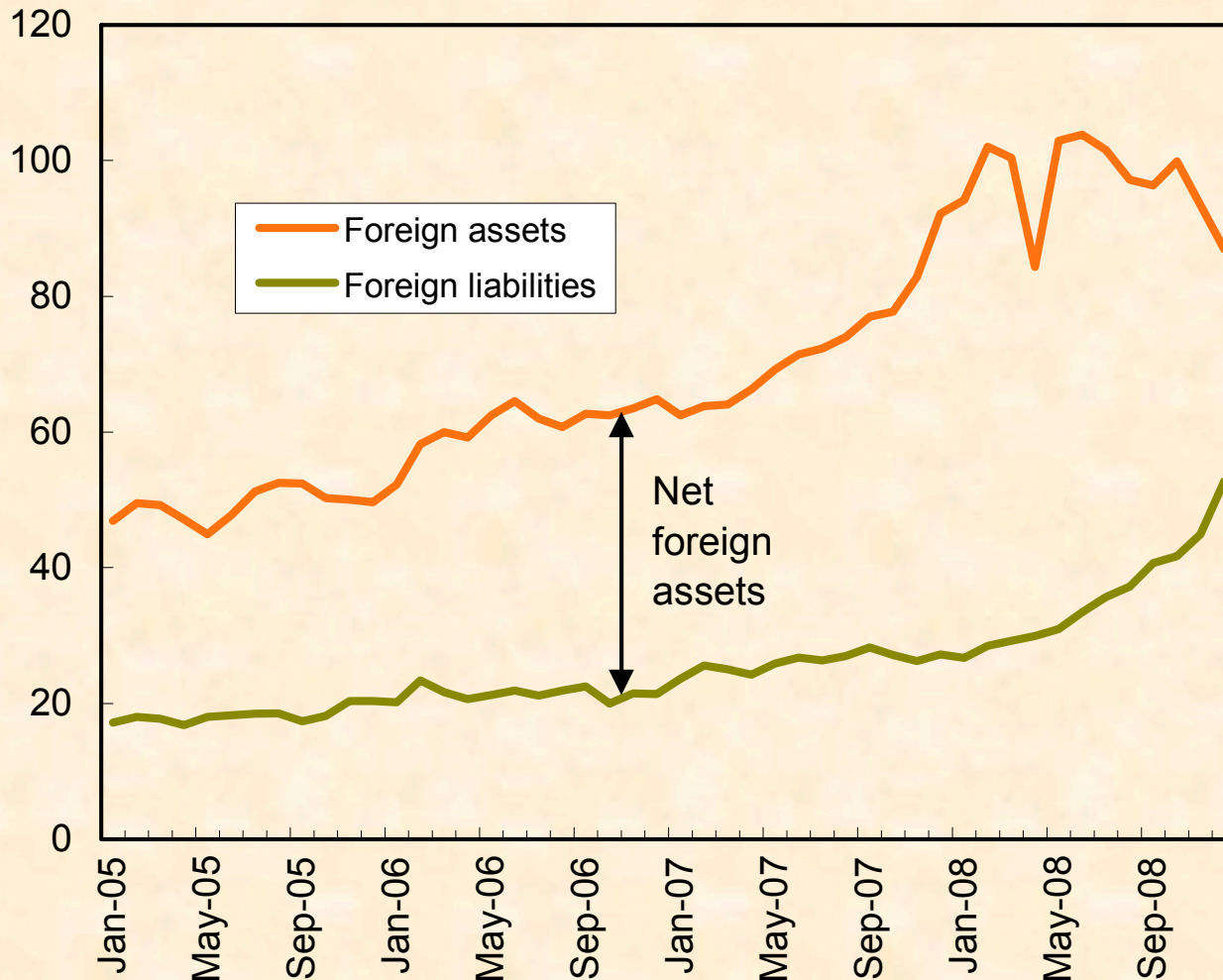


Sources: IMF, *International Financial Statistics*, and *World Economic Outlook*.



# Foreign Assets Provide Some Cushion

Total Foreign Assets and Foreign Liabilities of Deposit Money Banks in African Region, 2005-2008  
(Billions of US\$)







# Policy Priority, Short-Term: ***Minimize contagion***

## Preventive

- Intensify surveillance to detect risks.
- Ensure adequate liquidity.
- Encourage public confidence in markets and institutions.

## Crisis management

- Establish effective bank resolution mechanisms.
- Set up procedures for coordinating with other supervisory and monetary authorities.



# Policy Priority, Medium-Term: ***Reinforce financial systems***

- Strengthen supervision of financial systems and address regulatory gaps.
- Address weaknesses in the legal and financial infrastructure
- Develop capital markets.

Thank you

