Making Finance Work for Africa

#MFW4AWebinarSeries and the Development and Economic Growth Research Programme (DEGRP) at ODI present

Sub-Saharan Africa’s interbank markets: progress, barriers and policy implications

01 April 2021

OUR WEBINAR WILL START SHORTLY …
Today’s session is scheduled to last 1 hour including Q&A

To ensure the highest quality of experience, all participants will be muted.

QUESTIONS can be submitted via the “Q&A”

For Live questions / Comments. Click on “Raise Hand” icon to speak
(Lower Hand and mute after)

Slides and a recording of this presentation will be circulated to registered participants after the webinar - They will also be available on MFW4A.ORG.

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Common platform for the harmonization and facilitation of financial sector development and knowledge sharing in Africa
#MFW4A/EIB WEBINAR SERIES

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Sub-Saharan Africa’s Interbank Markets

Progress, barriers and policy implications

Sherillyn Raga – Senior Research Officer, ODI
Judith Tyson – Research Fellow, ODI & DEGRP Finance Lead

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### State of play in interbank markets (1)

**Benefits**
- Accessible liquidity for banks
- Diversified funding source during shocks
- Increased lending at efficient rates
- Lower financial constraints for households, firms
- Market discipline & financial soundness
- Development of other financial market segments
- Increased production & macro-financial stability

**Barriers**
- Market segmentation
  - Differential interbank pricing, access to funds favours large & foreign banks
- High levels of perceived risks
  - Low level market confidence from: information asymmetry, price stickiness, underdeveloped financial markets

**Interbank market development in SSA**
- Small in scale
- Largely overnight transactions
- Dependence on customer, government deposits
- Large banks as hubs
- Low trading with smaller banks
- Limited collateralised transactions
- Ongoing: supporting central bank policy
Key Impacts

- Small banks charged higher rates than their peers
- Favourable rates between banks of similar size & ownership; although some large banks charge low premium
- Deposit-lending rate spreads remain high

- Evidence of peer monitoring (based on financial soundness indicators) in Kenya, Uganda & Malawi, but impact is weak for large/systemically important banks

- Retail rates high despite MP easing & declines in market rates, due to high buffer provisioning
- Deviation between MP & interbank rates amid liquidity shortages among small banks & policy uncertainty
- Some (weak) evidence of MP transmission via interbank rates in lowering lending rates

Financial stability risks
(systemically important institutions/interbank hubs)
Policy challenge ➔
Balance further deepening with financial stability

What are the risks?
- Transmit & amplify financial shocks
- Clustering make ‘hub’ banks pivotal to systemic risk
- Clustering intensifies during market stress

What policy can help mitigate risks?
- Collateralised transactions
- Macroprudential surveillance of ‘hub’ banks
- Central bank liquidity facilities
- Reserve requirements
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Send us your questions using the chat and / or question and answer features. If you want to ask your question directly, please click on the “Raise Hand” button or send a message to the organizers.

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