

Central Bank Operations

Algeria

Calibrating Open Market Operations

At the urgent request of the Banque d'Algérie METAC reviewed the current practice of calibrating open market operations during 2-4 July. The mission supported the integration of the new liquidity forecasting framework that was delivered by the 2022 Technical Assistance mission, into the calibration of the weekly liquidity operations. The mission was hands-on in nature and improved and adjusted the existing procedures.

Operationalizing an In-House Credit Assessment System

This follow-up mission during 7-10 July is part of a project that assists the Banque d'Algérie in improving their calculation of credit rating and haircuts to support the BA in their objective to protect the central bank balance sheets when accepting collateral in liquidity-providing operations. The project reached a first major milestone with the implementation of an automated internal rating tool for non-financial corporations. The rating methodology will be implemented across the local branches of the Banque d'Algérie where the automated rating will be supplemented with the relevant expert judgement. Initially, the rating will be used internally to calculate haircuts applicable to credit claims when mobilized for central bank liquidity provision operations.

Djibouti

Improving Foreign Reserve Management

At the request of the Banque Centrale of Djibouti (BCD), METAC provided a technical assistance mission during 6-16 May aimed at improving BCD's foreign reserve management. The BCD currently operates in a challenging environment with declining foreign reserves, resulting in currency board coverage ratio below 100 percent. The mission proposed that the BCD immediately adopt a comprehensive framework for the management of foreign exchange reserves, as it is currently subject to a high concentration of credit risk. The mission provided detailed documentation for an Investment Policy, Investment Strategy, and Investment Guidelines, calibrated to the BCD context. This includes limited investment in Shariah-compliant products to enable the remuneration of the required reserves of Islamic banks.

Introducing Reserve Requirements

METAC provided remote follow-up technical assistance for the implementation of the reserve requirement (RR). The BCD is committed to introducing an RR soon. This mission addressed the outstanding recommendations and assisted the BCD with practical implementation. This includes finalizing the draft regulation, preparing technical documents to support decisions on the parameters and properties of the RR, as well as providing guidance for outreach and communication with the banking sector.

Iraq

Framework for Domestic Liquidity Management

METAC assisted the Central Bank of Iraq (CBI) from 28 November till 3 December 2024 in developing a consistent operational framework for domestic liquidity management under an exchange rate peg. The

mission focused on adjusting the implementation and parameters of the currently used monetary policy instruments to fully contribute to achieving the monetary policy objectives. The mission also provided hands-on training to establish a high-frequency monitoring of central bank liquidity, as required by the Policy Coordination Instrument. METAC will continue to follow-up with CBI on the implementation of the central bank liquidity monitoring. Once this target is met, Technical Assistance on liquidity forecasting can be provided.

Jordan

Monetary Operations and Liquidity Forecasting

In February, METAC continued its support to Central Bank of Jordan (CBJ) to implement quantitative MCM tools for central bank liquidity forecasting and fitting the demand curve for central bank liquidity. The CBJ also sought guidance on enhancing the size and efficiency of the interbank market while maintaining the exchange rate peg as the nominal anchor. The mission proposed two monetary policy implementation options to achieve this: a parsimonious floor system or a return to a mid-corridor system. In both scenarios, the MCM tools will aid the decision-making process to calibrate the appropriate size of open market operations.

Libya

Improving Foreign Reserve Management

At the request of the Central Bank of Libya (CBL), METAC provided an off-site mission in Tunis during 24-28 June on enhancing the CBL's foreign reserve management and bringing it in line with international best practices. The mission team concentrated on structural features of a reserve management framework to incorporate economics and financial logic into the existing framework. Furthermore, the mission team stressed the importance of completing the CBL's foreign exchange management documentation with a Foreign Reserve Strategy to strengthen the link between the CBL's monetary policy objectives and foreign reserve management.

Morocco

Assist the transition to a more flexible exchange rate regime

A joint Monetary and Capital Markets Department and METAC team delivered a technical assistance mission to the Bank Al-Maghrib (BAM) to provide guidance on the next phase in the gradual transition to a more flexible exchange rate regime. The mission had a virtual component (during 16-20 September) followed by an in-person part in Rabat, Morocco (14-18 October). First, the mission team evaluated the key components required for the development of foreign exchange (FX) hedging markets, highlighting legal, fiscal, economic, and certification challenges. Second, it proposed an alternative methodology for the reference rate and an FX intervention strategy for the next phase towards a more flexible exchange rate regime. Finally, the mission assessed banks', large importers/exporters', and SMEs' preparedness for higher exchange rate flexibility.

Strengthening Liquidity Management

The Bank Al Maghrib (BAM) requested METAC assistance in i) assessing its existing framework for monitoring and forecasting liquidity; and ii) analyzing its monetary policy implementation framework's adequacy for adopting inflation targeting. The mission from 27 January to 6 February 2025 assessed that

the BAM has in place a well-structured monetary policy implementation framework suitable for a full-fledged inflation targeting policy regime. Further, the BAM has a well-articulated liquidity monitoring and forecasting framework in place but could benefit from a more integrated and consistent approach based on the mission's recommendations. The BAM's liquidity injection framework is solid and designed for a system with a reasonably high reserve requirement and full averaging. However, currently absent a reserve requirement with averaging, adjustments are needed in line with guidance provided by the mission.