

Njuguna Ndung'u: East African Monetary Union

Opening remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, during the East African Legislative Assembly Workshop on the East African Monetary Union, Nairobi, 4 March 2010.

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***Honorable Chairperson of Communication, Trade and Investment Committee of East African Legislative Assembly, Hon. Dahilo;
Representative of the Clerk of EALA, Mr. Enock Musiime;
Honorable Members of Parliament from EALA;
Honorable Members of Parliament from Kenya, Uganda, Tanzania, Burundi, Rwanda;
Director of Planning and Infrastructure, EAC Secretariat, Mr. Phillip Wambugu and other officials from the EAC Secretariat;
Senior Government Officials from the EAC;
Distinguished Delegates;
Ladies and Gentlemen:***

I am privileged by this invitation to participate in this important Workshop on the East African Monetary Union being held here in Nairobi. On behalf of the Central Bank of Kenya and on my own behalf, I welcome you all to Nairobi, Kenya.

Honorable members of EALA and EAC National Assemblies, this workshop comes at a time when East Africans are anxious to appreciate the benefits from the East African Community Common Market. The protocol on its establishment was signed in November 2009. The EAC Common Market will ensure free movement of factors of people, services and capital across the five Partner States. Under the common market, goods will be freely traded when the region attains the status of a fully fledged Customs Union.

As the honorable members are aware, the EAC Common Market Protocol has provisions that will guide elimination of capital restrictions that continue to impede free flow of capital among the EAC Countries. The cardinal principal of free movement of capital ties with the next level of integration that is the East African Monetary Union.

In line with the regional integration as stipulated in the Treaty provision, the 6th Extraordinary Summit of EAC Heads of State held in Arusha, Tanzania on 20th August 2007 underscored the need to move expeditiously towards establishing a Monetary Union by 2012.

Following that Summit Directive, Governors of EAC Central Banks met in Kampala, Uganda in January 2008 to map out a strategic framework for fast tracking the establishment of an East African Monetary Union by 2012.

The meeting of Governors of Central Banks in Kampala decided on a comprehensive study of the East African Monetary Union whose major objectives were:

- i) To take stock of the current state of preparedness of the EAC Partner States for a Monetary Union. Among these was the economic convergence of member states;
- ii) To make proposals on the institutional framework and structure of the proposed East African Monetary Union;
- iii) To design a model protocol for the East African Monetary Union that would form the basis for the Monetary Union negotiations among the EAC Partner States;
- iv) To propose an institutional framework for the East African Monetary Institute which would precede and spearhead the creation of an East African Central Bank; and
- v) To propose a mechanism for the monitoring and enforcement of the macroeconomic convergence criteria among the EAC Partner States.

Honourable members, the Monetary Affairs Committee (MAC), that comprises Governors of EAC Central Banks considered the terms of reference for the Study that were approved by the Council of Ministers. The Monetary Affairs Committee through the EAC Secretariat engaged the services of the European Central Bank in 2009 to carry out the study through an internationally competitive bidding process.

As you may be aware honorable members, the Draft Final Report of the study on the establishment of the Monetary Union among the EAC Partner States was validated in a workshop held in Kampala, Uganda in January 2010. Subsequently, and after incorporating the comments of the validation workshop the Final Report was submitted and considered by the Joint Session of the Monetary Affairs Committee, Fiscal Affairs Committee, Capital Markets Insurance and Pensions Committee held in Arusha on March 1, 2010. In our meeting held on March 1, 2010, the EAC Central Bank Governors and Permanent Secretaries from the Ministries of Finance, Trade and EAC recommended to the Ministers of Finance that the Study report on the establishment of the EAC Monetary Union, together with all its annexes be adopted as one of the working documents for the East African Monetary Union negotiation process.

Honorable members, the Committee of Permanent Secretaries from the Ministries of Finance and Governors of the EAC Central Banks considered a draft road map for the establishment of the East African Monetary Union. The Committee noted the following issues under the draft road map that required detailed consideration; Legal, Institutional and Regulatory Framework; Operational Issues and Policy Direction on available options for establishing the East African Central Bank. It was recommended that a High Level Task Force (HLTF) be formed to negotiate the East African Monetary Union Protocol and review the draft road map.

The meeting recommended to kick start the process towards an East African Monetary Union by Commencing negotiations on the comprehensive protocol on the establishment of the East African Monetary Union. This protocol also features the Statute of the East African Monetary Institute and the East African Central Bank. The proposed Institute will carry out the preparatory work that will guide the region towards formation of an East African Monetary Union and its supporting institutions.

In order to give this process the necessary institutional momentum, our meeting recommended that a sectoral Council of Ministers responsible for Finance be formed to spearhead the East African Monetary Union process and proposed their terms of reference. This Sectoral Council of Ministers of Finance will provide policy guidance on the negotiations of the East African Monetary Union process.

I note from the programme of this workshop that members will be taken through the presentations on the prerequisites for the establishment of the East African Monetary Union; Legal and Institutional Framework for East African Monetary Union; Preparatory work for the establishment of a single currency and at the end of each presentation, there are plenary discussions. The recommendations that will come from the discussions in this workshop will inform the negotiation process.

I wish to remind honorable members that one of the benefits of a monetary union is to reduce the costs and risks of doing business across the national boundaries. Most of these costs are transactions related. With a single currency, the costs of having to transact in different currencies and the risk of adverse exchange rate movements that could impede intra-regional trade within the EAC Community will be removed.

Secondly, as banks continue covering the region, they will spread the financial services for traders but also bring all regulators on a common platform. A Monetary Union will make this more efficient.

Honorable members of Parliament, the gradual convergence of all the East African economies is critical while moving to a Monetary Union. Fiscal policy and fiscal rules are the most critical and crucial for economic convergence, and perhaps even more importantly, for

the credibility and sustainability of the Monetary Union. Monetary Policy will be driven by other decisions like exchange rate policy and reserves as well. One recent development, for example in Kenya is inflation measurement. Inflation will determine the direction of monetary policy in any country. But for EAC members, we have to compare ourselves when we use a common methodology. There are many such challenges and the central banks in the region are ready to tackle them in totality to develop more convergence.

Honorable members, as I conclude, I see enormous opportunities for East Africans as we move ahead. As East Africans, we need to tap and consolidate these opportunities. Certainly the way ahead will bring about legal and legislative reforms that need to be embraced in the road to a single currency.

I thank you honorable Chair for your kind attention and wish you fruitful deliberations over the next two days of your meeting.