

Emmanuel Tumusiime-Mutebile: Challenges for sound banking systems in East Africa – a central banker’s perspective

Opening remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the 16th East African Community (EAC) Monetary Affairs Committee Meeting, Kampala, 23 May 2013.

* * *

Governors of EAC Central Banks

Secretary General of the EAC

Senior staff and technical officials

Ladies and gentlemen

Good morning

It is with great pleasure that I welcome you to Kampala for the 16th meeting of the East African Community Monetary Affairs Committee (MAC). It is also an honour for me to host this meeting. The purpose of the meeting is to assess the status of implementation of previous MAC decisions, and to consider any salient issues that may have emerged since our last meeting a year ago here in Kampala.

As is usual at the MAC meeting, the format will involve the presentation of a report of the technical officials of our five central banks, followed by a discussion of the issues raised in the report. The technical report will be presented by the current chairman of the technical officials, Dr Adam Mugume, of the Bank of Uganda. Our technical staff has worked extremely hard over the last three days to produce a very comprehensive and analytically rigorous report. I would like to thank them all for the very good job that they have done. Fellow Governors, you have already received a brief on the issues in the technical report from your own technical officials this morning.

Without wishing to pre-empt the discussions, I would like to highlight briefly the following issues which I think merit particular attention today.

First, financial stability is becoming an increasingly important area of responsibility for central banks in East Africa as elsewhere in the world. For the EAC, several trends in recent years have the potential to heighten vulnerability to financial instability. These trends include, inter alia, the rapid growth in the volume of short term portfolio capital flows, attracted often by favourable interest rate differentials. These capital flows are intermediated through our banking systems and could potentially expose banks to both liquidity and market risk. The volatility of these capital flows, which is often caused by events in the global financial markets, sometimes leads to highly disruptive movements in nominal exchange rates which policymakers cannot ignore. The importance of regional and international banks in our economies also poses risks unless we can put in place effective systems of consolidated supervision and mechanisms for resolving cross border banks in the event of a financial crisis, in a manner which avoids systemic disruption. We will hear a presentation on financial stability by officials of the IMF late this morning.

Secondly, during the transition to East African Monetary Union (EAMU), we need to strengthen coordination of macroeconomic policies among each of the partner states. This is especially important for monetary and exchange rate policies, which will have to become progressively more closely aligned as we move towards the irrevocable implementation of the EAMU. The macroeconomic convergence criteria, which will be enshrined in the EAMU Protocol, provide the framework for macroeconomic policy harmonisation.

Thirdly, I would like to emphasise the need to accelerate the integration of payment systems within the EAC. There are several ongoing initiatives in this field, among which is the

East African Payments Systems (EAPS). The EAPS project aims to interlink all the Real Time Gross Settlement Systems in the region to enable cross border transactions to be processed in an efficient manner, which is essential for boosting intra-regional trade.

Fellow Governors, before we begin our deliberations, I would like to make a few remarks about the lessons to be drawn from the ongoing crisis in the Euro zone. As central bankers we have naturally been keen observers of the unfolding events in the Euro zone, such as the recent bail out of Cyprus and its banking system. The problems of the Euro zone have direct relevance for the East African Community because the EAMU is analogous in many respects to the European Monetary Union. Hence it is imperative that we draw the right lessons from the euro zone crisis and avoid the mistakes made in the Euro area if we are to build a single currency in East Africa on sustainable foundations.

One of the key lessons which I draw from the Euro zone crisis is the need for a very robust institutional framework. This is especially relevant in two areas, that of fiscal policy and bank regulation. The euro zone crisis is simultaneously both a sovereign debt crisis and a crisis of fragile banking systems, both of which reflect, to some extent, institutional weaknesses in the Euro zone. This has prompted reforms in the Euro zone such as the Fiscal Compact and the ongoing efforts to create a Euro area wide banking union. The fiscal framework of the EAMU, including the rules for fiscal balances and public debt, is the responsibility of the EAC Ministers of Finance, but the responsibility for ensuring that our banking systems remain sound and are resilient to shocks lies with ourselves as central bankers.

Finally, fellow Governors, I once again want to reiterate that it is a great privilege to host you in our beautiful city, Kampala, the City of undulating hills. I invite you to enjoy the sites and savour the cuisine in this part of the world.