Njuguna Ndung'u: The vision of the Monetary Affairs Committee of the East African Community

Address by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the 10th meeting of the East African Community Monetary Affairs Committee (MAC), Kenya School of Monetary Studies, Nairobi, 24 May 2007.

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Mr. Emmanuel Tumusiime-Mutebile, Governor, Bank of Uganda;
Mr. Francois Kanimba, Governor, National Banque du Rwanda;
Mr. Juma Reli, Deputy Governor, Bank of Tanzania;
Mr. Leonard Sentore, Vice Governor, Banque de la République du Burundi;
Mrs. Jacinta W. Mwatela, Deputy Governor, Central Bank of Kenya;
Distinguished Delegates;
Ladies and Gentlemen:

On behalf of the Central Bank of Kenya, and on my own behalf, I take this first opportunity to warmly welcome each and every one of you to Nairobi, Kenya, and to the Kenya School of Monetary Studies (KSMS), in particular. I wish to particularly welcome and thank Governor Francois Kanimba of the Banque Nationale du Rwanda and Vice Governor Leonard Sentore of the Banque Nationale du Burundi, and their respective delegates, who are attending this meeting for the first time.

Ladies and gentlemen,

To begin with, let me say that I am greatly honoured to attend and chair this meeting for the first time. I will therefore be falling back on the institutional memory of my brother Governors who have been here long before me and who have a greater wealth of experience and an edge on monetary integration matters than I have.

Fellow Governors, Distinguished Participants,

You will agree with me that the coming on board of our two partner states of Rwanda and Burundi will foster the achievement of a large, powerful integrated East African **economic bloc**. This will of course be in accordance with Articles 6(2) and 44 of the Abuja Treaty that recognizes that achievement of the objectives of harmonisation of monetary, financial and payment systems and boosting intra-community trade in Africa would be predicated on, among others, the strengthening integration efforts of the regional economic community and enhance monetary cooperation among member states for the eventual establishment of a Monetary Union in Africa. We look forward to sharing our experiences in Kenya, Uganda and Tanzania with Rwanda and Burundi in the next two days.

Fellow Governors, Ladies and Gentlemen,

The Committee of Experts have utilised their energies and minds for three solid days to discuss agenda issues before our meeting as Governors. They have considered the background including Governors' previous decisions and made observations and recommendations for our consideration and action. I wish to thank them for a job well done.

I need not over-emphasise the importance of this meeting. As you are aware, the vision of the Monetary Affairs Committee (MAC) of the East African Community is to have a Monetary Union as a precursor to a political federation.

Full implementation of the EAC convergence criteria and finalisation of harmonisation cannot be done without sufficient empirical studies to support our decisions. In view of this, I am glad to note that a number of studies are currently being undertaken by all the partner states to inform our decisions. I therefore urge you all to deliberate on the findings of these studies and the progress made so far by the respective partner states in achieving the convergence indicators. Assessing how far we have gone in meeting the requirements of the convergence criteria is important as it will help us deliberate on areas where we still lag behind and also seek solutions on how to move ahead to create one strong economic and political block.

Fellow Governors, Distinguished Participants,

Before I conclude my remarks, allow me to highlight a few challenges which we have to address and resolve in order to make monetary and fiscal policy harmonisation in the region successful.

1. First, there is need to minimise slippages and inconsistencies in the performances of member countries regarding attainment of the stipulated macroeconomic targets. The report of the Committee of Experts before us indicates that slippages and inconsistencies still exist in the performance and attainment of the stipulated convergence criteria. A major militating factor across virtually all our countries is expansionary fiscal policies that complicate implementation of monetary policies in our central banks. We therefore need to advise and advocate for greater Fiscal Rectitude and Discipline. We should urge and persuade the respective Treasuries to contain their financing gap within sustainable levels and to emphasise more on efficiency and productivity of the public sector.

   For our respective central banks, the challenge is to remain focused on our primary goal of maintaining low, stable and predictable inflation, in addition to improving efficiency in monetary management and the requisite infrastructure for transmission of monetary policy actions.

   We need to work on ensuring stability of the financial systems. One way of addressing this problem is to strengthen the supervision of the banking sector, particularly with a view to reducing the level of non-performing assets in the books of commercial banks. It is incumbent upon us to ensure that appropriate institutions, technical capacity and legal frameworks exist to support the process. We have to take steps to promote effective competition in banking sector by setting appropriate minimum conditions by way of legislation on capital and technical capacity, and adherence to industry standards to ensure that individual banking institutions offer meaningful competition. Related to this is the challenge to deepen and broaden the financial markets and improve the efficiency and effectiveness of the payment systems.

2. Second, currently there seem to be differences in computing macroeconomic convergence indicators, such as inflation, thus making it difficult to compare performance across countries. It is therefore incumbent upon us to come up with standard definitions of these variables to allow a more accurate comparison of performance. Of course, this harmonisation will be possible once methodologies and data bases used are also harmonised.

3. Third, whereas full convertibility of our currencies is a critical element towards the establishment of a single currency, very few of our currencies are convertible even within the existing regional economic communities. We are therefore faced with a big challenge of how we can promote the convertibility of our currencies amidst low volume of cross border trade and investment flows which in turn requires adoption of a regional approach to structural reforms. The key areas of reforms are tariff reduction and harmonisation, legal and regulatory reform, payment systems modernization and rationalisation, financial sector reorganisation, investment incentives, tax system harmonisation and labour market reforms.

4. Finally, the issue of political commitment is yet another key concern in our continuing endeavour towards a Monetary Union. I have in mind the need to give political issues relating to regional integration the requisite weight. We need to draw firm timetables for the pending reforms and the establishment of the required

institutions. Above all, we need political will and commitment to evolve national macroeconomic policies that are consistent with the requirement for regional integration. One important issue that is negatively perceived is the impact of tariff reduction and removing non-tariff barriers. The negative perception has prevented some member countries from moving forward. We need to allay such fears and help members to move forward.

Fellow Governors, Ladies and Gentlemen, before I conclude please allow me to pose a few questions for the 10th Meeting of this Committee. What is it that we set out to achieve at our inception? What have we achieved so far? What have been the challenges? What remains to be done? And how do we move forward? I believe that these are critical questions that we should ponder over in the next two days.

In the meantime, I urge you please to spare time to visit our beautiful city and sample what Nairobi has to offer.

Thank you for your kind listening.