

## Louis Kasekende: Econometric analysis and policy changes in Africa

Opening remarks by Dr Louis Kasekende, Deputy Governor of the Bank of Uganda, at The Seventeenth Conference of the African Econometric Society, Kampala, 25 July 2012.

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Ladies and gentlemen,

Let me begin by welcoming everyone to this conference and, to those of you who have travelled from abroad, to Uganda.

The theme of the conference is "**Econometric Analysis and Policy Challenges in Africa**". It is a theme which is close to my own heart as a central banker, because I am frequently faced with having to make policy decisions in circumstances in which our knowledge of critical relationships in the economy – for example the relationships which underlie the monetary transmission mechanism – is somewhat rudimentary. In many cases, decisions must be taken even though there exist no strong empirical evidence drawn directly from our own economy to inform our assumptions about the economic relationships which are relevant to these decisions. Instead we have to fall back on what economic theory tells us about the nature of these relationships, supplemented in some cases by empirical evidence of similar relationships from other African countries, if such evidence exists.

Hence inevitably the expected outcomes of decisions are often clouded in uncertainty; of course in a probabilistic world outcomes are always uncertain, but the degree of uncertainty is probably greater in Africa than in many other parts of the world, because our economies have been the subject of much less rigorous empirical research than economies elsewhere. Clearly this is not a satisfactory basis for making decisions which affect the lives of millions of people. It is a problem which affects policymaking in many different areas of macro and micro economics, from monetary policy, to public finance, to agricultural policy.

Econometric analysis can make a valuable contribution to the understanding of the policy challenges in Africa because it is the key research tool available to economists for the testing of hypotheses against the data, for establishing causal relationships and for the measurement of relationships posited by economic theory. In the final analysis, if we want to strengthen our analysis of economic relationships, there is no substitution for taking theory to the data in a statistically rigorous manner. Econometrics is also a valuable tool for aiding economic forecasting, which is essential for policymaking in many areas.

Although there has been much progress over the last few years, supported in no small measure by the African Econometric Society, the volume of econometric research on all aspects of African economies is tiny by comparison with the empirical research on the economies of other regions of the world. I will highlight one topical example to illustrate this point.

Since the global financial crisis triggered recession in many parts of the world, the efficacy of fiscal policy as a countercyclical tool to stimulate aggregate demand has been at the forefront of the macroeconomic policy debate in many countries. Researchers, in both academia and international institutions, have responded by applying rigorous econometric techniques to the empirical analysis of the relationship between fiscal policy and output under different circumstances (the level of public debt, whether monetary policy is accommodative, etc). This research, which has generally provided evidence that fiscal policy has standard Keynesian effects in economies with negative output gaps, has undoubtedly advanced scientific knowledge in this area, and this advance in knowledge has begun to influence the policy debate in the Advanced countries.

Fiscal policy has also been used as a countercyclical tool in some African countries to offset the negative impact on domestic economies of the global economic crisis. However, in contrast to the advanced countries, there has as yet been virtually no empirical analysis conducted on African economies to guide policymakers charged with setting fiscal policy as to whether, and what circumstances, fiscal policy might have the intended impact on output. Fiscal policymakers have been forced to fall back on what economic theory tells them should happen, even though the theory itself provides no unequivocal answers.

What can we do to increase the volume of high quality empirical research on African economies? First, we need to strengthen the training of African economists at the post graduate level in econometric research techniques. The African Economic Research Consortium is making a valuable contribution to this endeavour and is giving incentives to African researchers to undertake and publish their research. Second, we need to make more resources available to fund research in African universities and research institutes. Third, we need to improve the quality and availability of economic data. There is no doubt that econometric analysis of African economies is severely hampered by the paucity of reliable data, especially high frequency economic data. As a result, estimating time series relationships is often very difficult. Data on some of the key variables in these relationships, such as GDP, are often lacking at the frequency which is required for estimation. Unfortunately, I think that national account statistics have not always been given the priority that they deserve by the statistical bureau in many African countries.

The quality and quantity of econometric research on African economies is, however, increasing. The quality and breadth of the papers which will be presented at this conference bears testimony to the tremendous strides which researchers on African economies are making, despite the difficulties that they face in terms of data and resources. The conference features sessions on a number of themes which are particularly pertinent to the most salient policy challenges facing the African continent.

Many of papers address issues which are critical to agricultural productivity, including the adoption and benefits of high yield seed varieties, the control of soil erosion, the benefits of dams and the impact of climate change. The modernisation of agriculture is probably the most pressing long term policy challenge facing Africa, because it holds the key to structural transformation, alleviating poverty and ensuring food security. As such it is very opportune that researchers have directed so much of their efforts to analysing different aspects of the topic.

The conference also features many papers which address the related challenges of human capital and household welfare; challenges which are also integral to long term development in Africa. Because of the application of econometric techniques to large scale household data sets, we are now acquiring a better understanding of the microeconomic factors which influence poverty, health, education and household incomes, all of which are issues which will be covered in papers to be presented at the conference.

Macroeconomics provides a third set of issues which are relevant to the policy challenges facing Africa and which feature prominently at this conference. As our economies become more diversified, sophisticated and integrated into the global economy, macroeconomic management will become more complex and challenging, and hence our need for high quality macroeconomic research will become even more critical. Papers to be presented at this conference address a number of important macroeconomic topics, including the determinants of growth, exchange rates and inflation, financial liberalisation, and the macroeconomic consequences of oil exports.

I would like to finish by briefly discussing the relationship between academic research and policymaking. Obviously, there are mutual benefits to be gained by researchers and policymakers from the former undertaking policy relevant research, but I think it is important that researchers maintain their academic independence at all costs. They should not be too close to policymakers, whether in governments or international institutions, or

dependent on them for financial resources. If they allow their academic independence to be eroded, researchers will eventually become reluctant to give policymakers messages that they do not want to hear. Moreover the economic research agenda should not be dictated by governments or international institutions; it should be determined by academics themselves. The utility of research findings to policymakers is not the only valid reason for undertaking research. These issues are relevant to academics all over the world but probably more pressing in Africa because the sources of funding for research on African economies are often much narrower than elsewhere.

I would like to wish you fruitful deliberations in the conference.