

Njuguna Ndung'u: Financial market and payment system developments in East Africa

Remarks by Prof Njuguna Ndung'u, Governor of the Central Bank of Kenya, at the 17th Ordinary Meeting of the East African Community Monetary Affairs Committee (MAC), Nairobi, 16 May 2014.

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My Fellow Governors;

Deputy Secretary General, EAC Secretariat;

Delegates from the EAC Central Banks;

EAC Secretariat Officials Present;

IMF Officials Present;

Distinguished Guests;

Ladies and Gentlemen:

Good morning. It is a pleasure to welcome you to Nairobi for the 17th Ordinary Meeting of the East African Community Monetary Affairs Committee. It is an honor for me to host this important meeting that will deliberate on pertinent issues aimed at driving forward the EAC integration Agenda. We are also grateful to have the EAC central bank Governors grace the official launch of the East African Payments System (EAPS), later today. The launch of EAPS marks a key milestone in the EAC integration process and will improve the efficiency of the payments system in the region. This is one of the targeted quick wins by the EAC central banks.

Fellow Governors, we have managed the financial sector in a commendable manner since the onset of the financial crises in 2008, a period beset with structural shocks, both external and internal. Despite the challenges, the conduct of monetary policy in the region has continued to take effect, and is delivering expected results. We have in the recent past managed to coordinate among others, market expectations on inflation, which is a great boost to the credibility of central banks in discharging the principal mandate of price stability. This outcome partly reflects implementation of appropriate operational frameworks that have strengthened both the signaling of the policy stance and fining-tuning interbank liquidity management.

However, a few challenges, though no less important, still remain especially in the conduct of open market operations where interventions to stabilize interbank liquidity are at times misinterpreted by money market participants as an attempt to defend a particular level or direction of the value of the currency. It appears we have to strive even more to improve our communication on monetary policy operations in order to enhance the market's understanding of our use of available tools for monetary policy operations.

Reverting to the purpose of this meeting, we are here to: ***review progress on the implementation of the decisions of the 16th MAC Meeting held in Kampala on May 23, 2013; consider strategic objectives to operationalize the EAMU Protocol and update on IMF Technical Assistance in support of financial markets development in the transition to the East African Monetary Union (EAMU).***

As is usual at MAC meetings, the format will involve the presentation of a Report of our Technical Officials, followed by a discussion of the issues raised in the Report. Our technical staff have worked extremely hard over the last four days and produced a very comprehensive Report. I commend them for a job well done. Fellow Governors, I believe you

have already received a brief on the issues in the technical Report from your technical staff this morning.

Without wishing to pre-empt the discussions, I would like to briefly highlight the following issues which I think merit particular attention today. The various initiatives by MAC to enhance financial and monetary integration in the EAC region are now bearing fruits. We have made inroads in the harmonization of monetary policy frameworks, harmonization of macroeconomic statistics, improvement in the payments system and financial markets development. Delegates will recall that studies undertaken by MAC were used to inform the negotiation of the EAMU Protocol. This culminated in the adoption and signing of the EAMU Protocol on 30th November 2013 by the EAC Heads of State which sets the stage for the establishment of the EAC Monetary Union.

This notwithstanding, it is also important to acknowledge that much more needs to be done during the 10-year transition window beginning 2014 that the Summit provided for the establishment of the EAC Central Bank. More importantly, the EAC central banks need to harmonize their frameworks and policies in their core mandate areas, and enhance internal capacities. In this regard, we need to articulate strategic objectives and priorities under MAC geared towards operationalization of the EAMU Protocol.

Fellow Governors, allow me to commend the EAC Secretariat for their support in our activities as well as reaching out to Development Partners who have continued to support the EAMU process. In particular, I take cognizance of the invaluable support by the IMF in the EAC integration process. The Fund's continued partnership has been instrumental in the transformation and modernization of our economies at the national level as well as regionally.

To conclude, fellow Governors, I once again want to reiterate that it is a great privilege to host you in our beautiful city, Nairobi. I invite you to enjoy the beautiful sites in the country side and savor our local cuisines. With these few remarks, I look forward to fruitful engagement in discharging our mandate in this meeting.

Thank you.