

Njuguna Ndung’u: A successful regional integration in the East African community – the role of central banks

Remarks by Prof Njuguna Ndung’u, Governor of the Central Bank of Kenya, at the Bank of the Republic of Burundi’s Golden Jubilee Celebrations, Bujumbura, Burundi, 7 June 2014.

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His Excellency Honourable Pierre Nkurunziza, President of the Republic of Burundi;

Honourable Tabu Abdallah Manirakiza, Minister of Finance, Cooperation & Development, Republic of Burundi;

Mr. John Ciza, Governor, Bank of the Republic of Burundi;

Central Bank Governors and Deputy Governors Present;

Distinguished Guests;

Ladies and Gentlemen:

Good morning. I take this opportunity to thank Mr. John Ciza, Governor of Bank of Burundi for inviting me and my fellow Governors of the EAC Central Banks to the Golden Jubilee celebrations of the Bank of the Republic of Burundi. Indeed, I am honoured to join the Bank of Burundi and to speak during this auspicious celebration of the 50th anniversary of the Bank of Burundi. Today, while you are reflecting on the achievements of the Bank for the last 50 years, I am going to focus the way forward towards “*A Successful Regional Integration in the East African Community: The Role of Central Banks*”.

I am happy to note that Central Banks in the region have adopted a coordinated approach to monetary and financial policy formulation and implementation. Given that the structures of our economies are similar, this coordination has continued to enhance the effectiveness of policy as well as the convergence required.

Your Excellency, Ladies and Gentlemen, before going into the main theme of this topic, allow me to briefly highlight some of the key milestones the EAC Partner States have made in driving the integration agenda forward since commencement in July 2000. The EAC Partner States undertook to establish among themselves “a Customs Union, a Common Market, a Monetary Union and ultimately a Political Federation”. The Customs Union is already in place and implementation of the Common Market is ongoing. The signing of the Protocol establishing the East African Monetary Union by the Summit in November 2013 was a clear demonstration of the commitment of our EAC leaders in advancing the integration process.

Your Excellency, Ladies and Gentlemen, economic integration is a vital ingredient of the development and growth of the EAC economies. Elimination of border restrictions between Partner States to allow movement of people and goods will accord EAC economies larger markets; enhanced policy credibility across all spheres of economic management and better coordination and bargaining position in international institutions. Increased convertibility of regional currencies and subsequently, creation of a single currency area will also minimize exchange rate uncertainty and eliminate volatile swings in the exchange rate, reduce transaction costs and lower interest rates and inflation.

In addition, creation of larger markets in the EAC region will enable members to leverage their relative comparative advantages into one unified block of economic activity capable of offering more goods and services on the international market than its competitors.

Furthermore, bridging infrastructure gaps through joint regional infrastructure projects that target key regional transport corridors will support trade and investment in the region. Finally, integration will allow for free movement of goods and labour skills within the region in response to market demand.

However, regional integration comes with some challenges. We have learnt from EU the pitfalls of regional integration:

Firstly, integration of economies could lead to loss of national sovereignty. To illustrate this, EAC partner states may have to give up some of their sovereignty to supra-national institutions to be created such as the East African Central Bank (EACB), East African Assembly, the Commission on Financial Services, among others.

Secondly, Partner states may no longer be able to enact policies to meet their specific needs and interests if such policies are in conflict with regional initiatives. For instance, use of fiscal or monetary policy to pursue a specific country development agenda.

Thirdly, it may be difficult for national governments to create and implement policies based on their own particular needs. In this regard, fiscal rules could limit a country's ability to increase public debt to finance critical infrastructure projects or social safety nets. But one of the demonstrated challenges is the problem associated with the sovereign debt crisis in the Euro Zone. Dissimilarities in current debt levels and structure also pose a threat.

Finally, the distribution of benefits and costs may be unequal due to different levels of development, as EU has demonstrated. Therefore, the involvement of stakeholders is crucial for the success of regional integration initiatives.

Your Excellency, Ladies and Gentlemen, despite the challenges, experience has shown that the benefits from regional integration outweigh costs. Regional integration can promote peace, economic progress, structural change and growth with lasting benefits for the EAC region. Central Banks have a role to play to make these benefits a reality and improve the livelihoods of the East African people. Central Banks will be required to contribute to the development and prosperity of the EAC region through: achievement and maintenance of macroeconomic stability, especially price and financial stability; in addition, meeting the pre-requisites for the Monetary Union and creation of key institutions responsible for implementation of the EAMU roadmap; establishment of an efficient payment mechanism; and, through macro-prudential regulation of the financial system.

Your Excellency, Ladies and Gentlemen, the recent financial crisis has shown that although financial integration improves access to financial markets and the opportunities for risk diversification, it may also increase the scope for financial contagion effect across countries. In this regard, EAC Central Banks must ensure that financial stability arrangements keep pace with the degree of financial integration; strengthen supervisory capacity and financial sector resilience; and, ensure adequacy of capital and liquidity buffers. Ladies and Gentlemen, financial stability requires a concerted effort by key stakeholders. It is therefore important for EAC Central Banks to strengthen synergies with other financial sector players. But also we have seen the benefits of innovations in the financial sector for inclusive growth and reducing cost of doing business.

To conclude, *Your Excellency, Ladies and Gentlemen*, I once again want to reiterate that the benefits of regional integration outweigh the challenges and that EAC countries can overcome the challenges. The Central Banks in the region have a role to play in the transformation of the EAC economies. Consequently, the EAC Central banks have put their best foot forward to support the integration Agenda during the 10 year transition window to the establishment of the EAC Central Bank. To accomplish this, the EAC Central Banks will harmonize their macroeconomic frameworks and policies and enhance internal capacities within the region.

THANK YOU, YOUR EXCELLENCY,

THANK YOU, LADIES AND GENTLEMEN.