

Njuguna Ndung’u: Establishing the policy, legal and institutional frameworks to support the creation of a single currency area

Remarks by Professor Njuguna Ndung’u, Governor of the Central Bank of Kenya, at the 18th Ordinary Monetary Affairs Committee Meeting, Arusha, 6 February 2015.

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My Fellow EAC Central Bank Governors;

Delegates from the EAC Central Banks;

EAC Secretariat Officials;

Distinguished Guests;

Ladies and Gentlemen:

Good morning. First of all, I would like to extend my sincere appreciation to the Governor and the entire management of the Bank of Tanzania for the excellent organization and hospitality extended to me and my team from Central Bank of Kenya.

Fellow Governors, we are meeting for the first time since the ratification of the East Africa Monetary Union (EAMU) Protocol by all the Partner States. This not only demonstrates the political will and commitment of our respective Governments but places a weighty responsibility on all stakeholders involved in implementation of the roadmap towards the single currency. In this regard, EAC central banks are expected to identify and deliver on activities within their mandate as well as collaborate with other stakeholders to ensure all the critical ingredients for a monetary union, as proposed in the EAMU Protocol, are well articulated and implemented.

Fellow Governors, the Extra-Ordinary MAC meeting held in Naivasha in November 2014 identified strategic objectives and priority areas towards operationalization of the EAMU Protocol that fall under the mandate of Central Banks and developed an action plan for implementation. We now have the onerous task of taking this to the next level especially now that the EAMU Protocol has been ratified by all Partners States.

Fellow Governors, the ratification of the EAMU Protocol set the stage for the establishment of the policy, legal and institutional frameworks to support the creation of a single currency area. EAC Central Banks are expected to play a pivotal role in the process leading to the establishment of the four institutions responsible for the implementation of the EAMU Roadmap. These institutions include the East African Monetary Institute (EAMI) to undertake the preparatory work for the Monetary Union – this will fall heavily on the Central Banks; The East African Surveillance, Compliance and Enforcement Commission – this will require some input from us; The East African Statistics Bureau – we have a role to play here; and The East African Financial Services Commission. So, time management and planning is important. I note that the timeline for the establishment of EAMI is 2015 while the other three institutions are to be established by 2018. Given that banks dominate, our regulatory capacity and technology will be required.

Fellow Governors, Central Banks are also expected to support the development and integration of the financial system as well as the implementation of other priority areas of the EAMU Protocol including the attainment of Macroeconomic Convergence (by 2021), Harmonization of Monetary and Exchange rate Operations (by 2022) and Introduction of the Single Currency (by 2024). Realization of these milestones takes time and in some cases may require review of the policy, legal and regulatory frameworks governing the financial system, payments and settlement systems as well as adoption of common principles and rules for the regulation and supervision of the financial system. In this regard, we need to

develop requisite capacity, within Central Banks and the region at large, to undertake preparatory work for the EAMU.

I wish to commend our technical staff who have worked tirelessly over the past few days to produce a very comprehensive report. I also extend appreciation to 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 IMF's continued partnership with EAC countries in the modernization of our policy frameworks.

Fellow Governors, I assure you of the Central Bank of Kenya's commitment to operationalization of the EAMU Protocol. As you very well know we have to open and close many doors of our working life. Time has come for me to close the central banking one, which was a special one for me in the sense that my engagement as Governor of the CBK gave me a rare opportunity to conduct monetary policy in practice. Some theories we held so dear have been put to the test and they were found to work even better in practice. I leave the Central Bank with a great sense of pride and accomplishment, which I can not do ample justice to highlight within the short space of time that I have now. I am sure another forum will open where I will share more broadly my experience while serving at the helm of Kenya's financial sector. But one important accomplishment for us all is that we have transformed our Central Banks into strong institutions. They have promoted operations by defining the appropriate rules and developed the financial markets using a combination of appropriate rules of the game and appropriate incentives/(penalties) to encourage prudent behavior in the market. I enjoyed your trust and warm companionship, and notably your commitment in driving and modernizing the financial sector in the region over the last 8 years of my term.

Let me conclude by once again, thanking the Bank of Tanzania for the warm welcome and hospitality. With these few remarks, I look forward to fruitful engagement in discharging our mandate in this meeting.

Thank you.