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**Speech delivered at the Symposium of the 35th Ordinary Session of the
Association of African Central Banks Governors**

on the theme

Impact of the International Financial Crisis on Monetary Unions:

The Challenge of Coordinating Budgetary and Monetary Policies in Africa

by

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Hon. Mr. Ken Kandodo, Minister of Finance of the Republic of Malawi

Dr. Perks Ligoya, Governor of the Reserve Bank of Malawi

Governor Jean-Baptiste Compaore, representing the Banque Centrale des Etats de l'Afrique de l'Ouest

Honourable Governors and Deputy Governors

Mr. Samuel Meango, AACB Executive Secretary

Invited Guests

Distinguished Ladies and Gentlemen

I have the honour and privilege to make remarks, on behalf of the Chairperson of the African Union Commission (AUC), H. E. Dr. Jean Ping, at this year's Association of African Central Banks Symposium taking place in this beautiful city of Lilongwe, in the Warm Heart of Africa, Malawi. H. E. Dr. Jean Ping would have liked to be here himself, but due to other pressing commitments he requested me to represent him at this Symposium. He sends his greetings, wishes your Symposium great success, and looks forward to its conclusions. Chairperson Ping strongly believes that the conclusions of your Symposium will assist in developing policies and strategies aimed at the realization of the AU vision of an "integrated, prosperous and peaceful Africa".

Honourable Minister

Honourable Governors

Distinguished Ladies and Gentlemen

This year's theme "*Impact of the International Financial Crisis on Monetary Unions: The Challenge of Coordinating Budgetary and Monetary Policies in Africa*" will provide an excellent opportunity to reflect on our vision to enter into a monetary union in Africa. There are certainly important lessons to learn from the experiences of the European Economic and Monetary Union (EMU) in the past couple of years in this regards. As we develop our own monetary union, we should learn from those experiences and apply them to the African context. In this globalised world, Africa is not immune to world developments despite the fact that African financial markets are not linked to global financial markets.

One of the lessons to draw from the European experience is that convergence criteria should be strictly adhered to. In the case of the European Economic and Monetary Union, there have been divergent current account positions among member countries, with Germany, Austria and the Netherlands posting current account surpluses and others such as Portugal, Ireland, Greece and Spain posting deficits. Of course, these deficits were reflective of fundamental underlying economic problems in these countries. As a result of the close physical and economic connections between European countries, there is a high risk of spillover effects with adverse risks for the monetary union. The lesson for Africa from the Eurozone experience is that macroeconomic differences need to be addressed to avoid the inherent risks associated with contagion in a monetary union. In this regard, I wish to commend calls by the AACB Governors

for African economies to make steady progress towards macroeconomic convergence in line with the African Monetary Cooperation Programme (AMCP).

In a monetary union, member countries do not have monetary policy independence. As such, budgetary policy is used to stabilize the economy. In this context, proper coordination between the monetary policy of the union and individual member countries' budgetary policies should be synchronized to have the desired outcomes of the monetary union as a whole to the benefit of members. Budgetary policies indeed have an important stabilization role to play in a monetary union. Concretely, budgetary policies should be consolidated to ensure sustainable growth in the long term. An important criterion in this regard is to maintain a threshold on the fiscal balance for harmonization in the entire monetary union. In the EMU, the Stability and Growth Pact was adopted to ensure fiscal discipline of national budgets. The European Union, however, acknowledges that even with this Pact in place, there is need to improve compliance beyond the need for a political decision on sanctions. They call for automatic sanctions on members who are not in compliance with the rules. This is another area where Africa's envisaged monetary union can learn from.

Honourable Minister

Honourable Governors

Distinguished Ladies and Gentlemen

There is need for us to initiate reforms that will draw us closer to our vision of an integrated, prosperous and peaceful Africa, a power to reckon with in this globalised economy. Better coordination of our budgetary and monetary policies is a matter of concern to all of us as these will help us strive towards better managed economies for the benefit of the African people. As

we work together on establishing the African Central Bank, this Symposium should assist us to reflect on issues such as crisis management in the case of any eventualities. I wish to propose that the reflections be carried forward by the African Union Commission-Association of African Central Bank Task Team that will soon embark on the preparation of the Joint AUC-AACB Strategy on the establishment of the African Central Bank.

Further, as we work of the establishment of the African Monetary Fund, whose headquarters will be in Yaoundé, Cameroon, we will need to bear in mind that coordination between the African Central Bank and the African Monetary Fund would be critical. The African Monetary Fund will undertake macroeconomic surveillance to ensure compliance in member countries of the envisaged African monetary union. In this connection, I wish to inform this Symposium that the AUC, working with Member States, continues to make progress on work leading to the establishment of the Fund. The Protocol for the Fund has already been adopted by the AU Assembly while the draft Statutes have been considered by Finance and Legal Experts and Ministers of Finance, Planning and Economic Development.

Furthermore, better coordination of budgetary and monetary policies in Africa will require availability of timely, quality and comparable statistics. Unfortunately, this is not always the case. Your own experience with the preparation of the AMCP progress reports renders testimony to this, as some Central Banks have not been able to submit the requested statistical data on time.

I am pleased to inform you that the African Union Commission, in collaboration with the United Nations Economic Commission for Africa and the African Development Bank, has been working on statistical development in Africa. To date, the African Charter on Statistics and the Strategy for the Harmonization of Statistics in Africa (SHaSA) have been prepared and adopted by the

African Union Assembly of Heads of State and Government. Currently, the African Union Commission is following up with Member States that are yet to sign and ratify the Charter to ensure that it enters into force at the earliest opportunity. The Commission is also working on an implementation plan for the Strategy. Given the immense benefits to be derived from the implementation of the Charter and the Strategy, it can only be my hope that the AACB will render its full support to these important initiatives.

Honourable Minister

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In conclusion, please allow me to congratulate the Government of Malawi and the Reserve bank of Malawi for hosting this very important and timely symposium. The African Union Commission remains committed to the work of the AACB and will do all possible to ensure that the aspirations of the Association and the African continent are realized. I thank you, once again, for giving me the opportunity to address this Symposium and wish you successful deliberations.

I thank you for your kind attention!