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ECONOMIC COMMISSION FOR AFRICA

Second Regular Meeting
of the Association of African
Central Banks

Rabat, 13 - 17 September 1971

REPORT OF THE SECOND MEETING OF THE EASTERN AFRICAN SUB-REGIONAL COMMITTEE OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS HELD IN DAR-ES-SALAAM ON 6 MAY 1971

1. Before proceeding to the agenda, the Chairman, Mr. Nsegwa expressed his pleasure that all the Central Banks were so well represented. Mr. Mtei also welcomed the Governors to Tanzania and hoped that they would enjoy their visit.

2. Mr. Rakotavao expressed regret over the absence of simultaneous translation for the benefit of the French-speaking delegates. It was agreed that in future efforts will be made to have simultaneous translation facilities but for the moment Mr. Beejadhur offered to translate for the French-speaking delegates where necessary.

Item 1 - Adoption of agenda

3. The provisional agenda was adopted.

Item 2 - Confirmation of minutes of the first meeting held in Nairobi on 14 May 1970

4. The minutes were confirmed subject to the following corrections:

(a) Mr. Mutagamba's name in the list of those "present" had the "u" omitted;

(b) The last sentence on page 1 to read "The meeting also noted that among the disadvantages inherent in a bilingual course was that participants will find it difficult to exchange experiences among themselves and will not therefore be able to learn from each other easily";

(c) Malawi's GNP growth rate - Item 3(a) - should read "10 per cent" instead of "5 per cent".

Item 3 - matters arising from the minutes

Staff - Training and exchange of visits by departmental heads

5. Mr. Menasse Lemma reported that the first central banking course organized by the Association of African Central Banks in Lagos in October-November last year went on very well. The official report on the course had already come out, and was being mailed. The report raises certain points such as costs, but these would be discussed at the plenary meeting of the Association at Rabat in September.

6. Mr. Obel reported on the course organized by the three East African central banks in Kampala in May 1970 in which staff from some other central banks in the sub-region also participated. He said that the Bank of Uganda endeavoured to give the participants a wide range of lectures and part of their training included visits to many places, including commercial banks. The course proved popular and selection had had to be restricted.

7. The Chairman reported that the costs of the course were met jointly by the three East African Central Banks and that the next course will be held in Nairobi in 1972 and invitations will go out in due course.

8. Mr. Gondwe observed that participants from his bank had benefitted very much. He thanked the East African Central Banks for arranging such an excellent course and suggested that in future, since these courses benefitted both the participants and the lecturers, the latter should come from the various countries of the sub-region.

9. Mr. Beejadhur observed that he could not send anyone for the Lagos course, but had sent a participant to Kampala. He noted that short courses and exchange visits sometimes provided better training than full fledged courses.

10. Mr. Mtei shared Mr. Beejadhur's views on the exchange of visits at least by managers of central banks in the sub-region.

Item 4 - (a) Exchange of information on recent economic and monetary developments in the countries of the sub-region

11. The Governors exchanged information on recent economic and monetary development in their countries.

Ethiopia: Mr. Menasse Lemma said that industrial production great at a much faster rate than agricultural production in 1970. There was a strong expansion of credit to the private sector, but no credit restriction had been contemplated yet. Imports were high, partly as a result of the difficulties connected with the closure of the Suez Canal. Following the closure of the Suez Canal, stocks were drastically run down and now the country was in the process of restocking. This affected the volume of imports. Export performance in 1970 was good, despite lower world prices on some of the products. Like many developing countries, Ethiopia was faced with the task of dealing with imported inflation. On relations with other countries in the sub-region, Mr. Menasse Lemma said they were good or improving. Communication with neighbouring countries was still not very good, but the construction of the road to Kenya was nearing completion and work on the one to Somalia was advanced.

Mauritius: Mr. Beejadhur informed the Governors that sugar remained the backbone of the Mauritian economy. It accounts for 30 per cent of the GNP and 95 per cent of the exports. The balance of payments was in substantial surplus in 1970 and foreign exchange reserves rose by 25 per cent. He said unlike Ethiopia, his country had profited much from the closure of the Suez Canal. Earnings on invisibles have gone up considerably because of ships that now refuel there. But the most serious problem confronting Mauritius was unemployment, and relief on the unemployed cost Rs 140 million a year, or almost half the budget. The Development Works Corporation had been set up to implement projects designed to create more jobs, and the new comprehensive 1971-80 development plan would further help to tackle this problem. To curb prices which rose by 70 per cent after devaluation, a Price Control Board had been established. Also agriculture was being diversified to rice and tea with the help of an IBRD loan. Finally, he mentioned his country's concern over UK's entry into the EEC since Mauritius enjoys a preference on sugar.

Kenya: Mr. Abdallah reported that 1970 was a good year for Kenya, despite the drought which reduced livestock and put the dairy industry in severe problems. The economy grew at 7 - 8 per cent. Exports rose by 7 per cent, but imports, mainly of capital goods, increased tremendously, resulting in a large deficit on the current account. However, the high earnings on invisibles and substantial capital inflow more than made up for the deficit. On the East African Community trade, imports increased by 30 per cent and exports went up by only 10 per cent. Prices remained stable but there was a lot of money and liquidity in the economy and foreign assets continued to mount. The Government had difficulty to speed up development spending and there were huge Government deposits at the Central Bank. However, the Government had embarked on a programme of greater participation in business. It had acquired 60 per cent of the National and Grindlays Bank, the country's largest commercial bank and 50 per cent of the Mombasa oil refinery.

Malagasy: Mr. Rakotovao reported that 1970 was a good year for Madagascar, after two less satisfactory years. There was a big increase in agricultural production and a strong expansion in industrial production and mining. Commerce made good progress and the rate of price increases slowed down. A high level of investment continued despite new budgetary measures. There was a remarkable upturn in balance of payments which reflected the sound economic situation. Treasury policy had been to contract credit but it was noteworthy that the marked credit expansion had not been accompanied by inflationary tendencies.

Malawi: Mr. Gondwe said that Malawi was hit by bad weather in 1970, and the country had to import maize. But, the economy grew at 11 per cent in the monetary sector and 9.5 per cent in the non-monetary sector. In real terms the economy grew by 5 per cent. Manufacturing increased by 24 per cent. The most significant development was the considerable reduction in the budgetary deficit. The balance of payments improved considerably in 1970, as a result of a strong increase in tobacco exports, but because of the maize imports the deficit on current account remained. However, capital inflow reached a record level, causing the foreign reserves to rise by 40 per cent. As a result money and quasi-money increased by 54 per cent. The Government had embarked on a programme of local participation in business, and negotiations with certain concerns were in progress.

Rwanda: Mr. Birara started by commenting on credit allocation and the scheme of Government participation in business in Rwanda. Government credit policy distinguished domestic from foreign investors. In simple terms the policy was that foreign investors did not need credit from the country, since in the past they managed to do without it. However, a foreign investor could get local credit on condition that the amount would be repaid in foreign exchange within four years. Government participated in business by either acquiring 51 per cent shareholding or occupying one seat on the Board of Directors.

Somalia: Dr. Herzi reported that in 1970 Somalia was hit by drought. The drought affected exports, particularly the export of livestock. But the policy measures taken, principally the nationalization of commercial banks, more than compensated for the fall of exports. It was now easier to control commercial banks. The nationalized banks were amalgamated into two commercial banks. Following the nationalization measures Somalia's foreign exchange assets increased by 180 per cent. Credit to the Government declined in 1970, while credit to the private sector increased slightly, but the price levels actually fell. 1970 was the year of adjustment and 1971 will turn out to be a year of aggressive development, including further expansion of trade with neighbours.

<u>Tanzania</u>: Mr. Mtei reported that in 1970 the country had a large deficit in the visible trade against the small surplus achieved in 1969. The 1970 deficit was occasioned by heavy imports of capital equipment mainly for the construction of the Tanzania/Zambia Railway. The impact on the country's foreign exchange for this project will not be felt until the 1980's when repayments commence. Overall imports increased by 33 per cent. Exports in 1970 were up by only 12 per cent but a substantial part of them was delayed and would appear as 1971 exports. In August 1970 when the reserves were falling Tanzania decided to utilize some of her SDR holdings. Recently exchange control had to be introduced against Kenya and Uganda because there was some evidence of undesirable capital outflow to these countries. The fall in reserves has also partly been attributed to the expansion in credit which has occurred over the past year or so, and the Central Bank had to impose credit ceilings on the commercial banks towards the end of last year. Government is slowing down its capital programmes, and finance rather than manpower will become the main constraint on development spending in the coming year.

<u>Uganda</u>: Mr. Obel informed the Governors of the recently introduced changes in Government participation. Last year the Government announced its intention to acquire a 60 per cent shareholding in a number of companies. This year the new Government made some modifications on that plan, and some companies have been dropped from the list of acquisitions. For the banks, insurance and oil companies, the extent for Government participation was modified from a 60 per cent shareholding to 49 per cent. A 50 - 50 shareholding for a few special cases was introduced. On Government finance, they now anticipate a deficit of Shs 700 million at the end of the fiscal year in June. The deficit would have been larger were it not for a change of policy earlier this year. GDP grew by 2 per cent in 1970. The foreign trade surplus increased as imports declined while exports went up by 24 per cent. Inter-community trade increased substantially, but as always the country was in substantial deficit with Kenya, though the gap was slightly narrowed. On the monetary side, domestic credit increased, most of the increase going to the Government, and foreign assets declined somewhat.

<u>Zambia</u>: Mr. Musakanya reported that 1970 opened with official foreign reserves standing at Kwacha 400 million (about US$560 million). But during the year exports fell, as a result of a mine disaster and bad weather which affected agricultural production. The fall in exports was reflected in the decline in official foreign assets which fell to K 350 million by the end of the year. During the year liquidity declined and money became tight. The year saw a strong growth in manufacturing particularly copper fabrication, and Zambia was trying hard to close the gap in agriculture. Trade with Tanzania

Item 6. - The establishment of conditions governing the election and term of office of the Chairman of the Eastern African Sub-Regional Committee

18. Governor Menasse Lemma circulated a note on alternatives for the election of the Chairman of the Sub-regional Committee. The Governors discussed the alternatives and agreed to adopt rotation of chairmanship according to the alphabetical order of the simple names of member countries. Kenya, who were current chairman, would therefore come last, after Zambia, in the first round of rotation.

19. It was noted that the term of office would be two years in accordance with the Articles of Association.

Item 7 - Date and place of the next meeting

20. Mr. Gondwe invited the Governors to hold the next meeting of the Sub-regional Committee in Malawi. Mr. Musakanya also offered to host the next meeting in Zambia. After some discussion, the Governors agreed that since the Sub-regional Committee will meet again in Rabat in September, it would be more appropriate to decide the next venue then.

LIST OF PARTICIPANTS

Present:

Central Bank of Kenya	Mr. D.N. Ndegwa, Governor, Chairman Mr. A. Abdallah, Deputy Governor Mr. H. Karani
Banque de la Republique du Burundi	Mr. R. Setukuru, Director
National Bank of Ethiopia	Mr. Menasse Lemma, Governor
Institute d'emission Malagache	Mr. Jean Kientz, Director-General Mr. R. Rakotovao, Administrator
Reserve Bank of Malawi	Mr. G.E. Gondwe, General Maaager Mr. F. Mambiya
Bank of Mauritius	Mr. A. Beejadhur, Governor
Banque Nationale du Rwanda	Mr. J. Birara, Acting Governor
Somali National Bank	Dr. A. N. Herzi, Governor Mr. Osman H. Yusuf
Bank of Tanzania	Mr. E.I.M. Mtei, Governor Mr. E.A.K. Mwanjisi Mr. D.T.S. Ballali
Bank of Uganda	Mr. O. Obel, Deputy Governor Mr. T.M. Mutagamba Mr. C. Bangirana
Bank of Zambia	Mr. V.S. Musakanya, Governor
Economic Commission for Africa	Mr. W. Katabi, Acting Chief, Trade, Fiscal and Monetary Affairs Division