

ASSOCIATION DES BANQUES CENTRALES AFRICAINES



ASSOCIATION OF AFRICAN CENTRAL BANKS

**CONCLUSIONS AND RECOMMENDATIONS OF THE
CONTINENTAL SEMINAR ON THE HARMONIZATION OF
CONCEPTS, METHODOLOGIES AND STATISTICAL FRAMEWORKS**

**KENYA SCHOOL OF MONETARY STUDIES (KSMS),
NAIROBI, KENYA 3 – 7 AVRIL 2006**

1. INTRODUCTION

- 1.1. During its 29th ordinary session held on July 29th, 2005 in Accra, Ghana, the Assembly of Governors of the Association of African Central Banks (AACB) approved the organisation of a continental seminar on « *The Harmonization of Concepts, Methodologies and Statistical Frameworks* ». The objective of this seminar was to enable the AACB sub-regions to produce comparable and reliable statistical data for a better assessment of member States performance in complying with the convergence criteria of the African Monetary Co-operation Program (AMCP).
- 1.2. The seminar was held in Nairobi on April 3-7, 2006. It brought together 80 participants from twenty nine (29) out of the thirty nine (39) Member Central Banks constituting the Association as well as representatives of Bureaus of Statistics, Sub-regional, continental and international Institutions, including the Internal Monetary Fund. However, the African Union (AU), the Arab Maghreb Union (AMU) and the Southern African Development Community (SADC) could not honour the invitation to participate in the seminar.

2. OPENING

- 2.1. The seminar was jointly opened by the Governor of the Central Bank of Kenya, Mrs Jacinta Mwatela and the Executive Secretary of AACB, Mr. Bernard Konan who also acted on behalf of the AACB Chairperson of the Association.
- 2.2. Welcoming participants to Kenya, Mrs Mwatela reminded participants of the ultimate objective of the AMCP, the necessary prerequisites for achieving the set objective via compliance with the convergence criteria and the need for data from Member States and sub-regions to have common bases to aid assessment of compliance.
- 2.3. On behalf of Dr. Paul Acquah, the Chairperson of the AACB, Mr. Konan expressed the association's appreciation to the Government and people of Kenya as well as the Governor and staff of the Central Bank of Kenya for the excellent facilities placed at the disposal of participants. He provided the background to the seminar, reminded them of the importance of the seminar in the overall scheme of activities of the Association and thanked the participants for honouring the invitation.

3. STRUCTURE OF SEMINAR

- 3.1. The seminar took the form of a review of internationally acceptable statistical concepts, methodologies and frameworks, presentations, work group sessions, discussion of group reports and consolidation of recommendations and preparation of a draft programme of actions for harmonizing statistical concepts, methodologies and framework in Africa based on the recommendation.
- 3.2. A review of internationally accepted concepts, methodologies and statistical frameworks used in developing macroeconomics aggregates in the areas of national accounts, public finance, and balance of payments as well as monetary and financial statistics which are vital for assessing compliance with the AMCP convergence criteria was undertaken.

3.3. Presentations made at the seminar included the following:

- *Principles for Development of Statistics for a Monetary Union* - presented by the Statistics Department of the IMF;
- *From International Standards to Convergence: Selected Issues in the light of the European Experience* - presented by the Statistics Department of the European Central Bank (ECB);
- *Reinforcement of Statistical Capacities for Economic Convergence* - presented by the African Development Bank (AfDB);
- *System of National Accounts from 1968 to 1993 and Progress Report on the 1993 SNA in Africa* - presented by the United Nations Economic Commission for Africa (ECA);

3.4. Reports on statistical harmonization efforts of the various sub-regions present at the seminar namely, the Common Market for Eastern and Southern Africa (COMESA), the Bank of Central African States (BEAC), the Economic and Monetary Community of Central Africa (CEMAC) and the Economic Community of West African States (ECOWAS) were also presented. The statistical harmonization experience of the Sub-Saharan Africa Economic and Statistical Observatory (AFRISTAT) on the continent was also shared at the seminar.

3.5. Following the presentations, participants were divided into three working session groups and their reports were discussed during the last plenary session.

4. RECOMMENDATIONS

In the end, the seminar came up with the following recommendations and proposals:

4.1. PRIMARY CONVERGENCE CRITERIA

4.1.1 Overall budget deficit (excluding grants) /GDP ratio < 3%

4.1.1.1 Overall budget deficit (excluding grants)

4.1.1.1.1 That by the end of stage II of AMCP, ending in 2008, countries should produce consolidated data on general government transactions based on the various amendments introduced in the 2001 GFS Manual.

4.1.1.1.2 Grants and subsidies whether in cash or in kind, received from donor partners should always be excluded from the total revenue of government because of their irregular nature. This also applies to exceptional revenue.

4.1.1.1.3 Transactions should be recorded on the accrual basis to ensure that they are in line with the 1993 SNA principles.

4.1.1.2 Gross Domestic Product (GDP)

4.1.1.2.1 Given the low level of the institutional, logistical and financial capacities of African countries, statistics on GDP should be derived using the following sequence in approaches:

- *Stage 2004-2008 of the AMCP implementation process:* GDP should be determined according to the expenditure flow and the production approaches. During this stage, African countries should reach phase 3 of the 1993 SNA methodology. In this regard, ECA was urged to provide the necessary technical assistance to Member Central Banks and the National Statistics Institutions of the continent. Within this framework, the seminar recommended that Member Central Banks should contribute to the compilation of the GDP from the expenditure flow approach.
- *Stage III (2009-2012) of the AMCP implementation process:* Compilation of GDP statistics should be prepared based on the revenue approach. In addition, African countries should strive to implement up to phase 6 of the 1993 SNA methodology.

4.1.1.2.2 Countries should build their institutional, logistical and financial capacities to collect the requisite basic data, and ensure the harmonization and comparability of GDP statistics by using the purchasing power parity (PPP) adjustment technique. The African Development Bank (AfDB), which is currently working on the African component of the International Comparison Program (ICP), agreed in principle to provide technical assistance.

4.1.1.2.3 Member countries should continue computing and publishing GDP in current terms and in constant terms, for monitoring and reporting purposes, in order to meet the computational requirements of AMCP convergence criteria as the two concepts have different objectives:

- GDP in current terms is useful in computing ratios of various AMCP convergence criteria that incorporate GDP while
- GDP in constant terms is used for setting real growth rates targets.

4.1.2 Inflation rate < 3%

4.1.2.1 The CPI should continue to be used for measuring inflation in the context of AMCP implementation and member countries should adopt the principle of publishing the global CPI in accordance with the classification of individual consumption by purpose (COICOP) as recommended by the 1993 SNA. However, member countries should, *in the short term*, take appropriate measures for computing a Harmonized Price Index (HPI) at national level by 2008. The computation of this HPI should be done progressively both at sub-regional and continental levels.

- 4.1.2.2 *In the medium term*, Member countries should work towards shifting from CPI to GDP deflator as the most appropriate instrument for measuring inflation. It was proposed that the National Statistics Institutions should liaise with the AfDB, ECA and Member Central Banks on ways of achieving this objective through the implementation of the International Comparison Programme.

4.1.3 Minimization of Central Banks' financing of budget deficit

- 4.1.3.1 Due to the negative impact of Central Banks' financing of the budget on domestic prices, the seminar re-affirmed the implementation of the ACMP agreed limit of 10% of total tax revenue of the previous year, up to 2009. Thereafter, the seminar proposed a gradual reduction in criterion of budget deficit financing by Central banks to 0% by 2012.

- 4.1.3.2 That capital markets should be developed to facilitate the mobilization of alternate resources for financing of the budget deficit in member countries.

4.1.4 External reserves \geq 6 (six) months imports of good and services

- 4.1.4.1 As regards external reserves, the seminar recommended the definition and the methodology of the IMF Balance of Payments Manual, version 5.

4.2 SECONDARY CONVERGENCE CRITERIA

4.2.1 Elimination of domestic arrears and non accumulation of new arrears

- 4.2.1.1 The seminar re-affirmed the ACMP criterion on the elimination of domestic arrears as most viable option to ensuring debt sustainability. It observed that accumulation of arrears affects exchange rate stability through various feedback mechanisms.

4.2.2 Tax revenue /GDP ratio \geq 20%

- 4.2.2.1 That the 2001 GFS Manual definition and methodology excluding exceptional revenue be adopted.

4.2.3 Wage bill/total tax revenue ratio $<$ 35%

- 4.2.3.1 Again the seminar recommended the 2001 GFS Manual definition and methodology for this criterion.

4.2.4 Maintenance of real exchange rate stability

- 4.2.4.1 As regards the establishment of an exchange rate mechanism as recommended by stage IV (2013-2015) of AMCP, the seminar proposed that, in addition to the real exchange rate (RER), the real effective exchange rate (REER) index should also be computed. The REER index is defined as the nominal effective exchange rate (NEER) index, adjusted from inflation differentials between the domestic economy and the trading partner countries.

4.2.4.2 That market forces be allowed to determine exchange rates in Member countries. Member countries should therefore pursue prudent and well co-ordinated fiscal and monetary policies to ensure overall macroeconomic stability including exchange rate stability.

4.2.5 Public investments /tax revenue ratio \geq 20%

4.2.5.1 The seminar recommended the adoption of the definition of public investments as contained in the 2001 GFS Manual by all Member States.

4.2.6 Maintenance of positive real interest rates

4.2.6.1 The seminar endorsed the criterion on the maintenance of positive real interest rates by Member States. It recommended that research should be conducted on how Islamic Institutions could comply with the criterion of maintaining positive real interest rates within the context of the AMCP implementation.

4.3 PROPOSED PROGRAMME OF ACTIONS

The Association of African Central Banks has the arduous task of facilitating the adoption and harmonization of statistical concepts, methodology and frameworks among Member States to ensure the comparability of statistical data in assessing compliance with set AMCP convergence criteria. In the light of this, the seminar proposes the following programme of action based on the recommendations above, for the consideration and adoption of the AACB Bureau:

4.3.1 Activities that require urgent attention

- The seminar proposes the adoption of the Debt / GDP ratio criterion as secondary criterion for all sub-regions of the AACB. Presently some sub-regions have adopted the criterion as a secondary criterion and others have not;
- For purely analytical purposes, the seminar proposes that countries whose economic activity relies heavily on a single commodities/sectors (i.e. oil, mining, agriculture, etc) should in their report on the implementation of the AMCP, provide separate data on their lead commodity/sector's contribution to total GDP;
- The definition of external reserves and the methodology for their compilation, the definitions and methodology stipulated in the BOP5 Manual should be adopted when computing the External reserves / Imports ratio for goods and services. Similarly, the definitions and methodology in the 2001 GSF Manual should be adopted when computing domestic arrears and total tax revenue;

- The AACB should formally request the AfDB and the ECA to step up technical assistance to African countries in harmonising real sector statistics, particularly in relation to methodologies, strategies and action regarding price indices and national accounts in accordance with the 1993 SNA. As key African institutions set up to among others facilitate capacity building in the development of statistical information in the continent, the AACB should ensure that its work programme is properly aligned with those of the ECA and the AfDB in order to take advantage of capacity building programmes of these institutions;
- Furthermore, AACB should formally request the IMF to strengthen its collaboration with African States in the area of public finance and balance of payments statistics, in line with the 2001 GFS and BOP5 Manuals;
- Central Banks should build capacities to enable them participate in the compilation of GDP from the expenditure flow approach.

4.3.2 Actions to implement in 2007-2008

- As most of the African countries do not yet compile systematically data on the underlying inflation, the observable inflation rate could be used in the meantime. However, concerned countries should make every efforts to compute and publish underlying inflation rate before the end of 2008;
- Countries hosting Islamic banks should assess the applicability of real interest rates within the context of the AMCP implementation;
- Public finance statistics should reflect consolidated transactions of general government. In this prospect, they should incorporate all the amendments in the 2001 GFS Manual;
- Member States should develop their institutional, logistical and financial capacities for collecting requisite basic data for producing comparable statistics;
- AACB sub-regions should come up with a Harmonized Price Index and member States should take the necessary measures for its implementation;
- The Reference Regional Strategic Framework should include the objectives and stages of implementation of the African Monetary Co-operation Programme;
- African States should determine their GDP data from the expenditure and production perspectives. During this period, they should reach Milestone level 3 of the 1993 SNA methodology.

4.3.3 Actions to implement in 2009-2012

- African countries should use the revenue approach to compute their respective GDP data. In addition, they should direct their efforts towards the implementation of the 1993 SNA methodology and reach the prescribed Milestone level 6;
- Member Central Banks, in collaboration with AfDB, ECA and National Statistics Institutions, should find ways and means to shift to from the computation of CPI to GDP deflator as it is the most appropriate instrument for inflation measurement;
- Capital markets should be developed to provide alternate resources for financing of budget deficits;
- Member States should undertake harmonization of financial and the calendar years.

4.3.4 Actions to implement in 2013-2015

- As planned at stage IV (2013-2015) of the AMCP, REER index should be computed for African national currencies with respect to the foreign currency or currencies the Assembly of Governors would have chosen for setting up an exchange rate mechanism.
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