

EAC Secretariat: Towards an Economic and Monetary Union

Progress on the EAC Monetary Union

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Plan of presentation

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Background

- The EAC is guided by the Treaty that came into effect in 2000 and provides for the stages of integration process as Customs Union, Common Market, Monetary Union and Political Federation
- The Customs Union started in 2005 in a progressive approach up to 2010 when the EAC entered into a fully fledged Customs Union. Currently efforts are underway to make the EAC into a single Customs territory with a single customs authority.

- The Common Market Protocol came into force in July 2010 and will be implemented in a progressive approach until 31st December, 2015.
- When fully implemented the four freedoms will be realised including movement of people and capital which are critical for full realization of Common Market and for Monetary Union among others.
- The Process of establishing the EAMU is in progress in line with the Summit directive of establishing the EAMU.

Current Status on EAMU Preparations

- Preparatory works are ongoing which include:
 - Harmonisation of monetary and exchange rate policies through the Monetary Affairs Committee (MAC)
 - Harmonisation of fiscal policies through the Committee on Fiscal Affairs (CFA)
 - Harmonisation of Statistics through the Committee on Statistics
 - Harmonisation of financial sector through the Capital Markets, Insurance and Pensions Committee (CMPC)

- The MAC has made substantial work in among others creating frameworks for harmonisation of
 - Monetary and Exchange rate policies
 - Payment and settlement systems (EAPS)
 - Banking supervision
 - Banking and Currency (bank notes and Coins)
 - Information communication technology
 - Financial markets
 - Accounting and Finance

- The Committee on Fiscal Affairs has made significant progress in:
 - Excise Tax harmonisation
 - Value Added tax harmonisation
 - Conclusion of Double Taxation Agreement
 - Budget process coordination at regional level through pre-budget and post-budget consultative meetings of Finance Ministers which result into regional coordination of economic policies.

- The Committee on Statistics in collaboration with institutions such as the Central banks has initiated programs in harmonisation of economic statistics with emphasis on:
 - Monetary and Financial Statistics
 - Financial Soundness Indicators
 - Harmonised Consumer Price Index
 - Government Finance Statistics
 - Balance of Payments Statistics
 - National Accounts

- The CMIPC is making remarkable progress on financial market integration through regionalising of the Capital Markets, Insurance and Pensions sectors.
- Market Integration as a prerequisite for the EAMU is progressing through the creation of a single financial market in the region which is being implemented through the Financial Sector Development and Regionalization Project (FSDRP) in collaboration with the World Bank. Other development partners are joining the initiative

- The single financial market will among others be achieved through:
 - Financial Inclusion and Strengthening of Market Participants
 - Harmonization of Financial Laws and Regulations
 - Mutual Recognition of Supervisory Agencies
 - Integration of Financial Market Infrastructure
 - Development of the Regional Bond Market

Creation of a Legal Framework for EAMU

- Currently the process of negotiating of a EAMU Protocol is ongoing by a multidisciplinary team of senior government and Central Bank experts (High Level Task Force)
- The Protocol will provide a legal and regulatory framework for the operation of the EAMU.

- The issues under negotiations among others include:
 - Objectives and scope of the East African Economic and Monetary Union
 - Macroeconomic framework including monetary, exchange rate, fiscal matters and the macroeconomic convergence criteria
 - Payment and settlement system
 - Financial system framework
 - Statistics framework
 - Institutional arrangements
 - Transition arrangements
 - Financing

- To support the EAMU and the negotiations process, a number of studies have been carried out and they include among others:
 - A study on the establishment of the Monetary Union by the EAC Partner States which was undertaken in collaboration with the European Central Bank and underscored the prerequisites of the EAMU to include: Economic convergence, Legal convergence and market integration.
 - Review of the EAC macroeconomic convergence criteria which among others examines fiscal deficit and debt ratios, inflation, external account, interest rates and is being undertaken in collaboration with the IMF.

- Study on the exchange rate mechanism which examines the transition to EAMU and during EAMU and is being undertaken in collaboration with International Growth Centre (IGC)
- Study on monetary policy harmonisation which considers the framework for harmonisation of the monetary policies and is being undertaken in collaboration with the IMF

Salient Issues

- The EAMU process is being informed by the experiences of existing Monetary Unions such as the European economic and Monetary Union (EMU)
- The currency challenges of the EMU have provided lessons that include:
 - Need for a sound framework to create fiscal discipline
 - Need for a strong surveillance and enforcement mechanism of the macroeconomic convergence criteria
 - Need for reliable timely, and robust statistics
 - Need for strong regional institutions

- Creation of resilience of the economies such as building reserves during normal times that will support the hard times.
- Closer coordination of fiscal policies and the need to centralise some aspects of fiscal policy.
- Monitoring the economic and social developments so as to address macroeconomic imbalances
- Plans for reduction of existing national debts to sustainable levels
- Need for a stabilisation facility to manage external shocks
- Full implementation of the Customs Union and the Common Market

Wrap up

- After conclusion of the EAMU protocol, a transition phase will follow.
- EAMU has a strong political commitment from the top.
- Vibrant institutions are necessary for a sustainable EAMU
- Close coordination of fiscal policies is paramount
- EAMU will be robust since it is drawing lessons from the challenges of the existing currency unions such as the Eurozone and others on the African continent