

**EAC—EU—IMF CONFERENCE**  
**“Regional Integration in The EAC: Making The Most of the  
Common Market: On The Road to A Monetary Union”**

October 31–November 1, 2016

Hotel Mt. Meru, Arusha, Tanzania

**Opening Remarks**

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**International Monetary Fund**

Honorable EAC Ministers  
Respected EAC Governors  
Hon. Jesca Eriyo, Deputy Secretary General, Finance and Administration, EAC

All protocols observed  
Ladies and Gentlemen

### **Introductory Remarks**

*Good morning!* It is indeed a great honor for my colleagues and me from the International Monetary Fund to welcome you to the 2016 Conference on ***“Regional Integration in The EAC: Making The Most of the Common Market: On The Road to A Monetary Union”***, along with our host, the East African Community (EAC), and co-organizer, the European Union (EU).

Let me first start by congratulating the East African Community Secretariat (EAC), for hosting this important event at this critical juncture, and for assembling such an impressive group of policymakers, and distinguished representatives from the private sector, financial sector, trade unions, civil society, academia and international organizations. Indeed, it is my hope that having such a diverse group of regional and international stakeholders at the table will facilitate a frank and balanced discussion of how policy reforms can be

better adapted to both regional and country-specific circumstances, and appropriately sequenced to help ensure successful outcomes.

We have a packed agenda over the next two days, but while our goals are ambitious, our focus is quite clear—to take stock of EAC economic integration and make concrete recommendations for strengthening the common market and preparing the ground for an effective transition to East African Monetary Union (EAMU) by 2024.

This gathering is taking place five years after the first EAC Conference held here in Arusha in February 2012 to celebrate the achievements of the East African Community during its first decade, and help chart the way forward. So, it is only fitting that we should reconvene back here in Arusha—a city steeped in historical significance, and so wonderfully situated between the twin peaks of Mount Meru and Mount Kilimanjaro—to resume this all-important conversation.

In keeping with the outline of the conference agenda, my remarks will focus on three broad themes: first, to provide a short overview of the global and regional context; second, to take stock of progress under the customs union and common

market; and third, to identify remaining challenges on the road to the monetary union.

### **The Global and Regional Context**

To start off, allow me to provide some global and regional context.

Global economic prospects remain challenging. In particular, the global recovery remains weak and fragile, with growth in advanced economies still somewhat subdued. The recovery in the United States appears steadfast, but growth in the Euro area remains lackluster, and Japan's incipient recovery will require difficult reforms to maintain momentum. Although still reasonably robust, China's growth has decelerated, reflecting its ongoing rebalancing from manufacturing to services and from investment to consumption. In this context, overall growth prospects in emerging and developing economies remain a bright spot, with these countries continuing to contribute more than three-quarters of total global growth this year and next.

Regionally, the conference is of course also taking place against the backdrop of a continent that is navigating strong headwinds. In particular, SSA is being buffeted by both global and domestic challenges stemming from: (i) persistently

lower commodity prices; (ii) tighter financing conditions for the region's frontier markets; (iii) drought in parts of eastern and southern Africa, which has exposed an estimated 49 million people to food insecurity; and (iv) weaker growth in Europe and China and other key trading partners. Reflecting these developments, in our regional economic outlook published just a few days ago, we have revised downward projected growth for SSA in 2016 to just 1½ percent relative to the previous projection of 3 percent back in April.

But this headline number masks very different country experiences. Some countries, notably in this region, have continued to experience robust growth. At 6 percent, real GDP growth in the EAC in 2016 is expected to be well above the average for SSA and the prospects for 2017–18 also remain strong. The challenge, for the EAC as for other fast-growing countries in SSA, is how to sustain this growth over the medium-term, how to ensure that scaled-up public investment and borrowing translates into durable growth and not unserviceable debt, and how to make this growth more inclusive.

Faster economic integration within the EAC is therefore a potential “*game changer*”, as it holds the promise of improved productivity, competitiveness, and welfare gains. So, this is a particularly auspicious moment to step back and

review the experience with economic integration within the EAC, identify any implementation challenges and formulate concrete recommendations for addressing these challenges, with a view to preparing the ground for an effective transition to East African Monetary Union (EAMU), currently slated for 2024.

### **The Customs Union and Common Market – Realizing their Full Potential**

*Day 1 of the conference will focus on realizing the full potential of the customs union and common market, touching on three areas in particular.*

First, while significant progress has been made since the inception of the EAC Customs Union (in 2005) and the EAC Common Market (in 2010)—including, the establishment of a Single Customs Territory (SCT) with a Common External Tariff (CET) and effective elimination of internal tariffs for goods meeting Rules of Origin (RoO) criteria – there is still work to be done. Notably, progress with the elimination of non-tariff barriers (NTBs) has been slow. Customs valuation procedures have also varied across the region, despite the approval of the EAC Customs Valuation Manual. The session on trade facilitation will hopefully help articulate concrete proposals on how these outstanding challenges should be dealt with, taking into account the private sector perspective offered by some of our

panelists on what still needs to be done to facilitate doing business across borders within the EAC.

Second, implementation of the common market's provisions governing the free movement of persons, labor and capital, and the rights of establishment of residence has also been slower-than-anticipated, and the benefits from regional integration remain constrained by the region's insufficiently developed infrastructure. The existence of country-specific exemptions for various industrial products, and presence of Special Economic Zones and Export Processing Zones all pose additional challenges to the effective implementation of the SCT. I hope that conference participants will discuss how best to expand the scope and coverage of the single customs territory, and accelerate the harmonization of domestic taxes and investment-related tax incentives, to help ensure a level playing field within the common market.

Finally, cross-border trade in financial services has risen with the growing presence of EAC regional banks, but wide disparities in financial sector development within the region continue to constrain financial integration. Shared goals include: enhanced financial deepening and inclusion, and improved mobilisation of domestic savings and investment. Clearly, the introduction and

expansion of both mobile money and agency banking holds tremendous potential for boosting financial access, including at the regional level. At the same time, supervisory and regulatory capacity needs to keep pace with these innovations.

The Fund has provided extensive technical assistance to the EAC on the development of a regional “Financial Sector Regulatory and Supervisory Architecture”, and there are key choices and issues that the region’s authorities will need to grapple with. Discussants will weigh the principal recommendations coming out of this TA, including: support for the adoption of a common rulebook, but with a decentralized approach to banking supervision housed in the national central banks.

The keynote address on lessons from the euro area, by Professor Maurice Obstfeld, Chief Economist of the Fund, will lay the bridge to Day 2 of the conference.

### **The Road to the Monetary Union—Next Steps**

*Day 2 of the Conference revisits the roadmap for establishing the East African Monetary Union (EAMU)—currently scheduled for 2024—and discusses ways of mitigating any inherent risks.*

Of central importance will be a discussion of the required pace of macroeconomic convergence and the harmonization of policies and standards



that will underpin regional surveillance. So the first two sessions of Day 2 will take a closer look at the convergence process and its priorities as well as the institutions & procedures needed to sustain it.

Of course, the conference would not be complete without some discussion of incentives and corrective procedures that could be used to deal with deviations from pre-determined policy paths so as to keep countries on track. Recent IMF research suggests that EAC member countries were subject to frequent and substantial country-specific shocks during 1990–2013.<sup>2</sup> *So, given the EAC's increasingly diverse membership, how can the impact of asymmetric shocks be mitigated within the EAMU?* Panelists will discuss possible mechanisms that would allow member countries to respond to asymmetric shocks without undermining convergence. Could enhanced mobility of all factors of production, *as envisaged in the Common Market Protocol*, help to alleviate such pressures? Would the adoption and monitoring of cyclically-adjusted measures of the fiscal

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<sup>2</sup> African Departmental Papers, “Toward a Monetary Union in the East African Community Asymmetric Shocks, Exchange Rates, and Risk-Sharing Mechanisms” (2015) by Paulo Drummond, Ari Aisen, Emre Alper, Ejona Fuli, and Sébastien Walker.

deficit, and the creation of region-wide policy buffers (e.g., in the form of a stabilization fund), help?

The final session, dedicated to identifying key conference takeaways, will summarize the main challenges and agree on policy and capacity development priorities going forward.

### **An Appeal for Outreach**

Although the potential benefits from comprehensive economic integration are palpable, it is clear that the road to regional integration is long and painstaking, requiring steadfast dedication and commitment. There is obviously merit in staying the course, but equally clearly economic integration is not for the faint-hearted!

This brings me to my final point, the issue of COMMUNICATION and OUTREACH, and the need for policymakers and the region's press corps to: articulate the case for policy reforms to region's citizenry, motivate the policy reforms and their long gestation lags, and get the public's buy-in *on an ongoing basis*. This is particularly important since *today's reforms can at times appear costly in the short term and yield benefits only over the medium and long term.*

Recent experiences in the euro area and the Brexit vote underscore that this is not easy—but yet we must recognize that this remains an essential prerequisite for success!

This is a substantial agenda and I look forward to lively and constructive discussions. I am confident that with all the experience and knowledge assembled here, we will be able to formulate concrete recommendations that will help the region in advancing its integration agenda.

So a warm welcome to you all—“*Jambo*”!! I hope that you will find the conference enriching, and that the talks will be fruitful and impactful!