



***Macroeconomic Convergence:
What does it mean exactly, why
is it needed, and what are the
priorities?***

Joint Conference on “Regional Integration in the EAC: Making the Most of the Common Market on the Road to a Monetary Union”



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Outline

- What does convergence mean?
- Why does it matter?
- Is the EAC different from the euro area?
- How is the EAC doing?
- The road ahead

The meaning of convergence

- Commonly refers to economic catch-up
(real convergence)
- Roots in the OCA literature (Mundell, etc)
- Application in the euro area:
nominal convergence criteria

Why does it matter?

- OCA theory: reduction in scope for asymmetric shocks:
 - synchronization of business cycles
 - trade integration
 - labor mobility
- EMU Maastricht criteria are different:
 - Deficit and debt limits
 - Inflation limits
 - Exchange rate stability; LT interest rate convergence
- Why this difference?

Is the EAC different from the euro area?

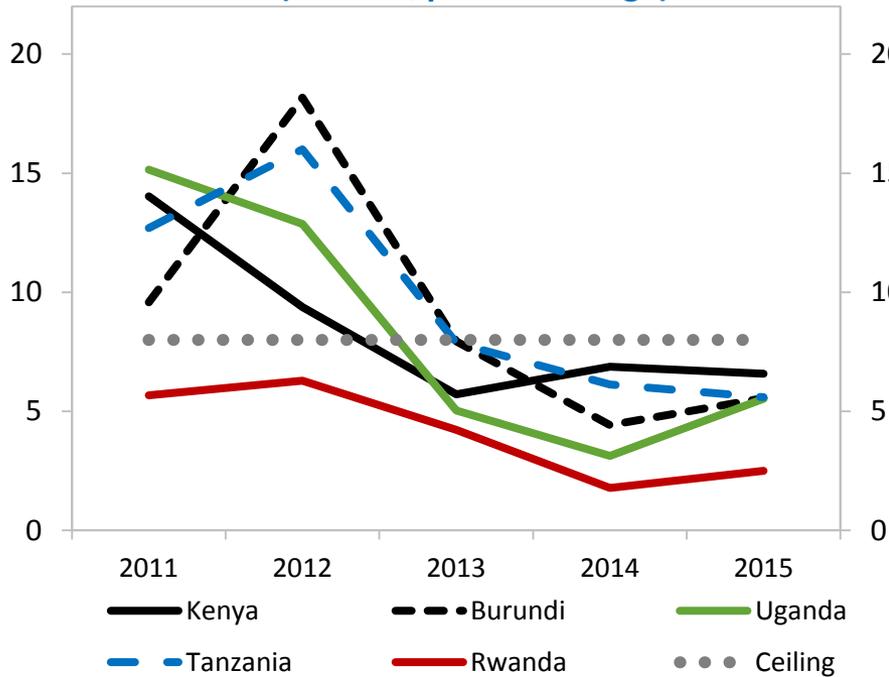
- Different degree of trade integration
- Financial depth and integration
- Labor mobility?
- Do LICs require less strong convergence?

How is the EAC doing?

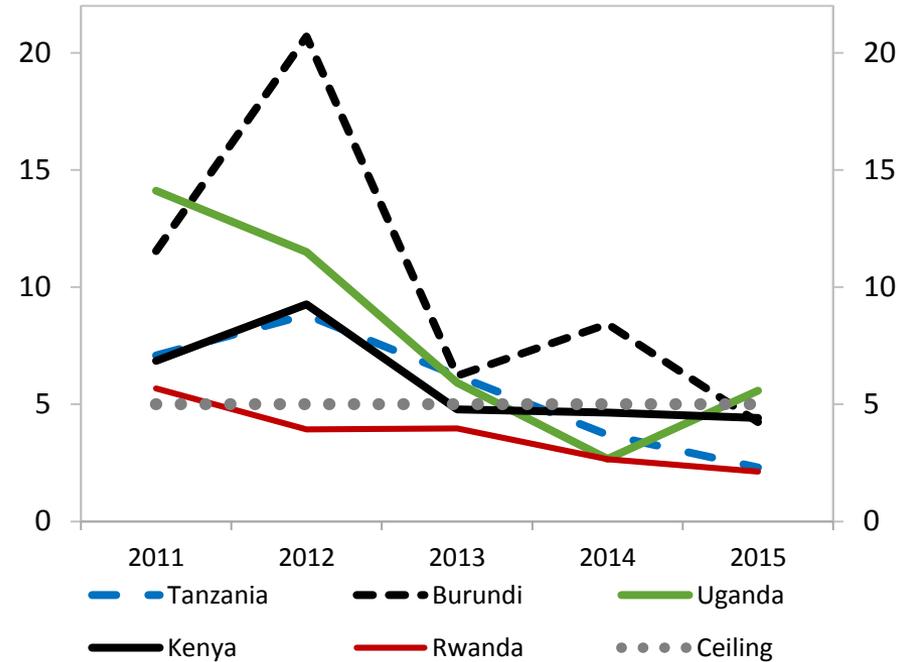
- Inflation: OK
- Debt: OK
- Deficits: too high
- Reserves: more needed

Inflation: converging and below the ceiling

Headline Inflation
(Percent, period average)

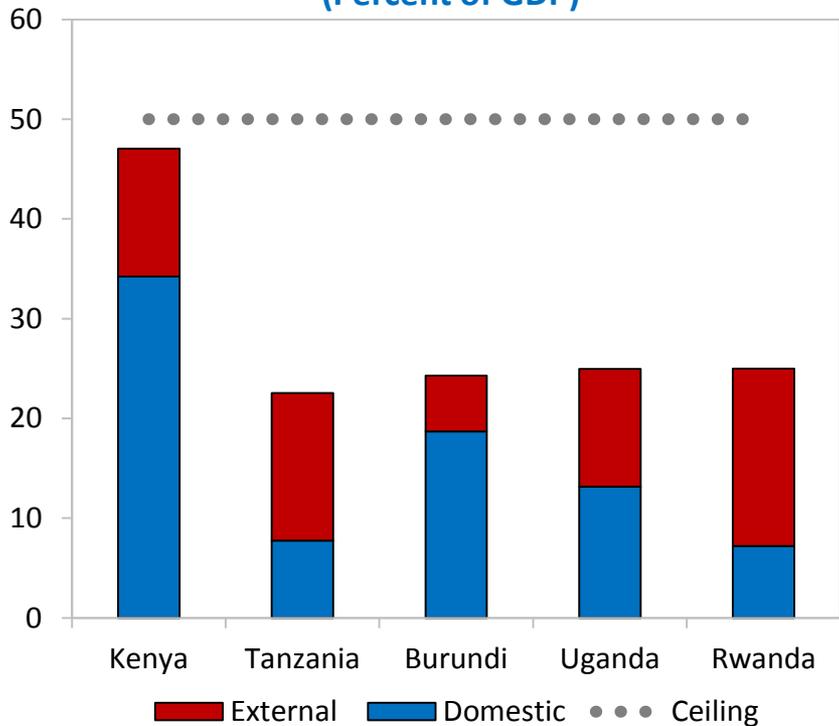


Core Inflation
(Percent, period average)

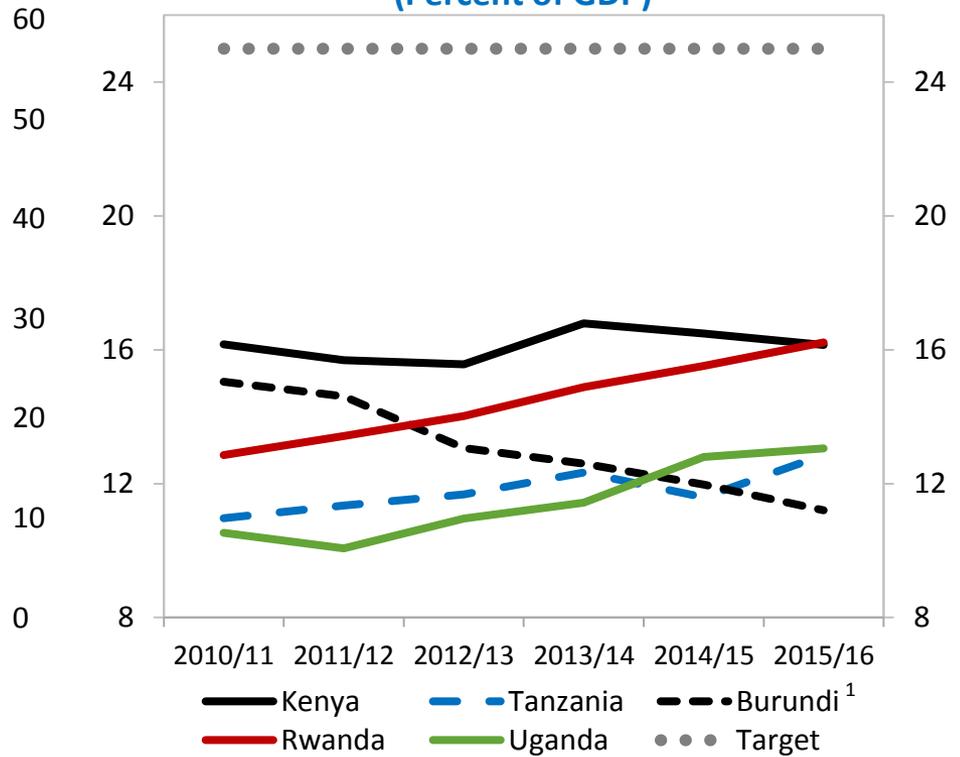


Gross Public Debt: below the ceiling Tax Revenue: below the target

PV of Gross Public Debt in 2015
(Percent of GDP)



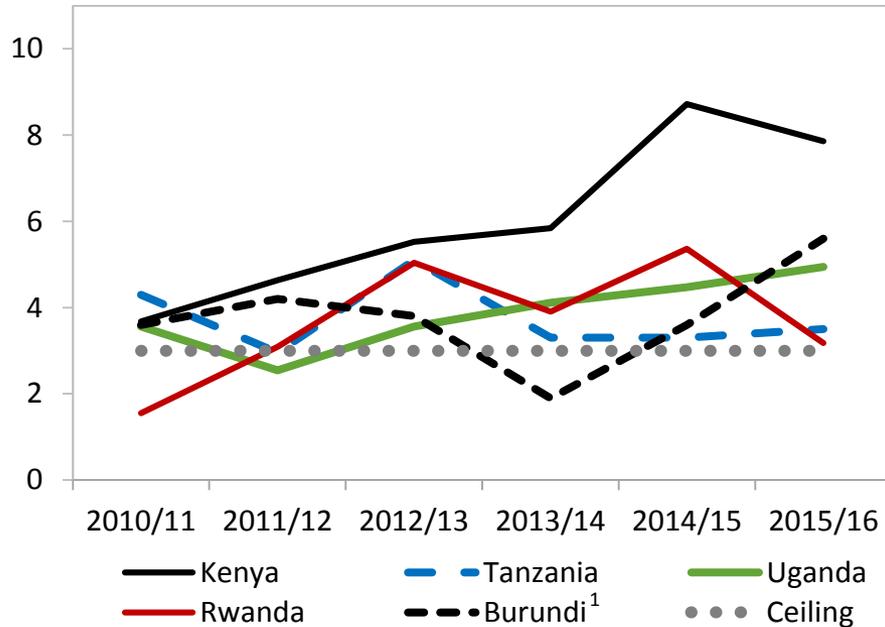
Tax Revenue
(Percent of GDP)



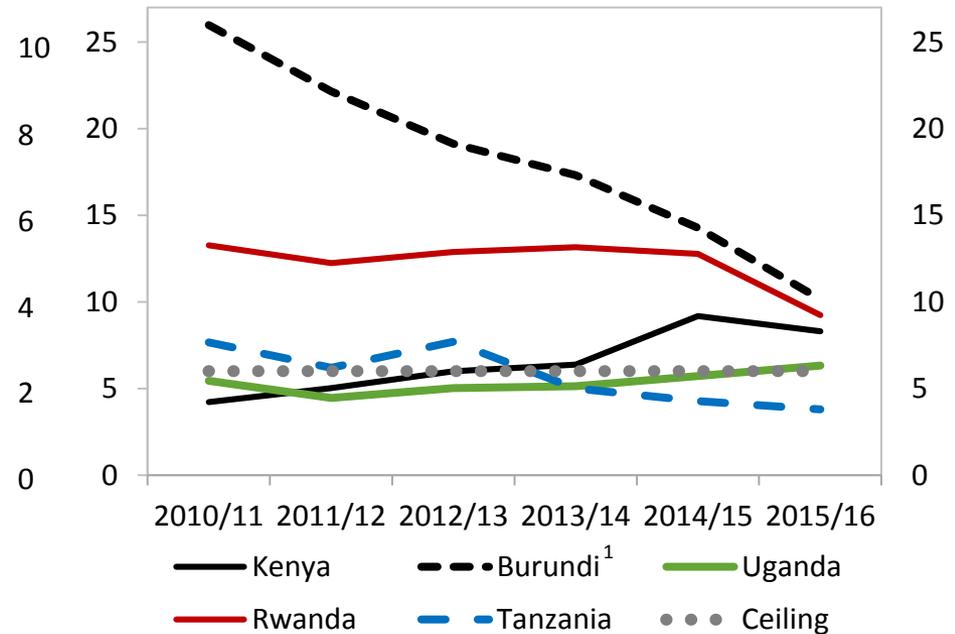
Fiscal Deficits

1. Substantial adjustments needed
2. How to reconcile with planned capital spending increases?

**Fiscal Deficit (including grants)
(Percent of GDP)**



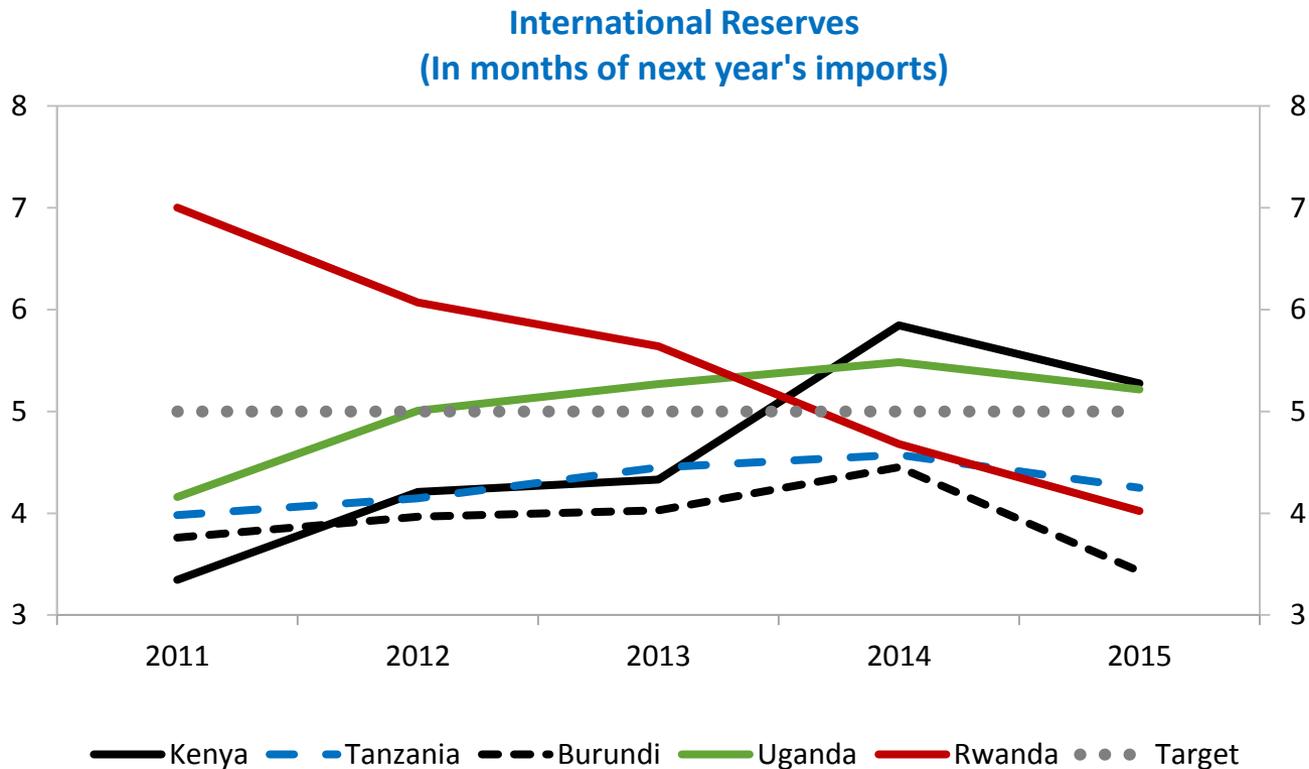
**Fiscal Deficit (excluding grants)
(Percent of GDP)**



¹ For Burundi, calendar years; e.g., 2015/16 corresponds to 2015

International Reserves

1. Large variations among countries
2. Need to build up reserves



The path ahead

- The EAMU Protocol: institutions, processes, etc
- Lessons from the eurozone
- Priorities

Thank you