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Kamal, Mona

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# **Egypt Relative to the COMESA's Member States: Do Fiscal Policy Rules Matter?**

*Mona Kamal \**

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## **Abstract**

This paper compares Egypt's most essential macroeconomic indicators with respect to its sisters in the COMESA region. Based on this descriptive analysis, the paper supports mutual coordination between fiscal and monetary policies as a way to enhance the effectiveness of both policies. It suggests the utilization of rule-based fiscal policies rather than discretionary ones to attain social welfare for the whole region. Finally, it recommends the establishment of a supranational coordinating body for fiscal policies within a time frame of 3 to 5 years.

***Keywords:*** Policy Objectives, Policy Designs and Consistency, Policy Coordination, Fiscal Policy, Comparative Analysis of Fiscal and Monetary Policy

***JEL Classifications:*** E61, E62, E63.

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*\*The opinions expressed in this study are those of the author and do not represent any organization of affiliation.*

# 1. Introduction

Effective policy coordination between monetary and fiscal authorities is the best practice for maintaining social and economic welfares on the country and regional perspectives. Nevertheless, the conflict of interests between the two bodies leads to non-coordinated policies and objectives (e.g. Sargent and Wallace, 1981; Woodford, 1995 & 2001; Wren-Lewis, 2000; Mishkin, 2002; Dixit and Lambertini, 2003; Sims, 2004; Allsopp and Vines 2005; Gnocchi, 2007) which hinder any economic progress and development.

Additionally, the relationship between fiscal and monetary policies is dynamic and changing over time both at the national and global levels (Yörükoğlu and Kılınc, 2012). This will imply the necessity of a frequent assessment of the concurrent mode of interaction between the two policies.

On the regional setting, the most important requirements for a successful integration are well-built commitment to the convergence criteria, disciplined fiscal policies that are consistent with the monetary policies (Edwards and Lawrence, 2012), efficient allocation of responsibilities to monetary and fiscal authorities, fair mechanisms to settle disputes, and equitable distribution of the gains as well as costs of integration among the member countries. (Maruping, 2005; The ECA, 2004). Moreover, the coordination of fiscal and monetary policies is an essential prerequisite for the success of integration since the benefits in terms of trade, optimal policies formulation and increases in living standards offset the loss of policy independence for an individual member state (Masalila, 2010).

The Common Market for Eastern and Southern Africa (COMESA, *hereafter*) indicates a wide disparity of population and incomes where Egypt accounts for the largest shares of population and income (Carmignani, 2005).<sup>1</sup> The COMESA's integrating framework targets achieving a solid coordinating agenda among its nationals. It also adapts the experience of the European Monetary Union (EMU, *hereafter*) in harmonizing the macroeconomic indicators of its countries (Masson and Pattillo, 2004; Zhang, 2012).

The COMESA aims at ensuring and supporting macroeconomic stability in the region through the observance of macroeconomic convergence criteria and the implementation of appropriate structural reforms (Masalila, 2010).

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<sup>1</sup> The Common Market for Eastern and Southern Africa (COMESA) comprises 20 countries. The members are Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Sudan, South Sudan, Swaziland, Uganda, Zambia, and Zimbabwe.

This paper summarizes the relative position of Egypt to the COMESA's countries through using macroeconomic indicators (e.g. inflation rates, real GDP per capita, fiscal policy, and trade shares). The descriptive analysis indicates the constraints imposed by the existing practices of discretionary fiscal policies on the sustainability of macroeconomic policies in the district. These various policies bound the effectiveness of the COMESA's Treaty in unifying the actual performance of major macroeconomic indicators. In order to overcome the problem of fiscal dominance in most of the member states, the COMESA's integrating framework has to enforce additional fiscal adjustment procedures and obligatory fiscal convergence criteria.

The current conditions that are confronting the COMESA has led to the emergence of the arguments of fiscal versus monetary policy dominance and fiscal policy rules versus discretion for further exploration in the economic literature.

This paper is structured as follows; section 2 reviews the literature. Section 3 highlights the main outcomes of the descriptive analysis. Section 4 concludes and provides some policy recommendations.

## 2. Literature Review

Several streams in the economic literature have investigated the interaction between monetary and fiscal policies.<sup>2</sup> One strand has focused on the coordination between the two policies in the context of the EMU and the inflation targeting paradigm (Beddie, 1999). Another trend has investigated the optimal monetary and fiscal policies within a union (e.g. Buti *et al.*, 2001; Dixit and Lambertini, 2003; Gnocchi, 2008; Galí and Monacelli, 2008; Orjasniemi, 2014). Closely related research streams have concentrated on the disagreement concerning rules-based versus discretionary fiscal policies (e.g. Wyplosz, 2011) and the debate about monetary and fiscal dominance regimes (e.g. Sargent and Wallace, 1981; Woodford, 1995 & 2001).

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<sup>2</sup> For more details on the interaction between monetary and fiscal policies, one can refer to the following studies: (Smith 1957; Sargent and Wallace, 1981; Blinder, 1982; Buti *et al.*, 2001; Hemming *et al.*, 2002; Dixit and Lambertini, 2003; Galí and Monacelli, 2008; Wyplosz, 2011; Pappa, 2012; Šehović, 2013).

(Corden, 1972; Masson and Pattillo, 2004) have argued that monetary integration will draw attention to the importance of the appropriate design of a monetary-fiscal policy mix.<sup>3</sup> In this case, the role of fiscal policy in attaining an internal balance and that of monetary policy to realize an external balance will have to arise.

(Galí and Monacelli, 2008) have suggested an optimal monetary-fiscal policy mix within a monetary union through the stabilization of inflation by a sole central bank and the stabilization of fiscal policies through country-specific discretionary fiscal policy rules. This mix has a maximization outcome on the average welfare of households in the union. On the contrary, (Gnocchi, 2007) has argued that coordinated discretionary national fiscal policies will not be an optimal tool for maximizing the welfare of the union. The conflict of interests between the common central bank and several governments about the pros and cons of monetary policy actions will lead to the ineffectiveness of fiscal policy in buffering against asymmetric shocks that are more likely to hit the union.<sup>4</sup> Accordingly, the discretionary or rule-based fiscal policy argument has become a cornerstone in the literature on monetary unions given the diverging behavior of fiscal policies practiced by member states and its impact on the union's prospect (Buti, *et al.*, 2001; Gnocchi, 2007).

The experience of the Euro Area suggests that a country with a history of macroeconomic instability may not adhere to fiscal discipline commitment and will fail in building-up a reputation about fiscal restraint. This country will inevitably harm the others' growth and employment objectives. Consequently, the negative spillovers from the fiscal irresponsible behavior of such country will raise concerns regarding the union's stability (Harvey *et al.*, 2001; C. R. Vieira and I. V. Vieira, 2013).<sup>5</sup>

In order to resolve the discretionary or rule-based fiscal policy argument, the valuable role of institutions in enhancing fiscal discipline has been demonstrated by many authors (e.g. Wren-Lewis, 1996 & 2000; Harvey *et al.*, 2001; Perotti, 2002; Masson and Pattillo, 2003; Wyplosz, 2011).

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<sup>3</sup> An optimum currency area (OCA) usually represents the ultimate goal of any monetary integration. Nevertheless, other monetary integrations may aim at attaining prices and exchange rates stability. On the other hand, few monetary integrating frameworks may consider enhancing the trade links among member countries as a major priority.

<sup>4</sup> According to the OCA theory pioneered by (Mundell, 1961) and has been extended by (McKinnon, 1963) the members of a monetary union will be vulnerable to asymmetric shocks (Orjasniemi, 2014).

<sup>5</sup> The cases of Greece, Italy and Spain are typical examples for these concerns.

Well-established Institutions within a union will provide an external agency of restraints over national economic policies and may result in merging fiscal policy indicators. The institutional design in a monetary union will confine the negative impacts of several governments on the monetary policy of a sole central bank. In the absence of institutions the central bank's ability towards maintaining price stability will be limited.<sup>6</sup> Therefore, maintaining fiscal sustainability<sup>7</sup> is a precondition for a successful monetary union since unsustainable fiscal behavior will eventually undermine the ability of the central bank to maintain monetary stability, in the long-run (Oshikoya and Tarawalie, 2010).

Nevertheless, governments are normally reluctant to surrender powers to a supranational fiscal authority in a union. Only long-term relationships between members that create incentives based on reputations and institutions can encourage sustainable policy coordination (Harvey *et al.*, 2001).

The fiscal dominance versus monetary dominance argument has practical implications on a feasible monetary union through affecting the institutions that are established for the purpose of maintaining macroeconomic objectives and are aiming at fostering fiscal sustainability (Bbinyeluaku and Viegi, 2009).

Fiscal dominance can be defined as a situation in which both high public debt ratios and heightened sovereign risk are weakening the domestic banking system (Turner, 2011). It can also be defined as a phenomenon when a perceived increase in sovereign risk and considerable uncertainty about future interest rates last for many years (Blommestein and Turner, 2012; Blommestein and Hubig, 2012). According to (Woodford, 2001), it is a policy regime, often associated with special fiscal pressures of war finance, in which other goals of the central bank are subordinated to the goal of assisting in financing the government's budget. Fiscal dominance is induced in less-developed countries by several reasons (e.g. the dependence of the central bank on the Treasury with the adherence of the former to the latter's seignorage targets, the existence of less-sophisticated financial markets with the agent's inability to substitute among financial assets).

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<sup>6</sup> There is a fully independent European Central Bank (ECB) in the EMU where a legal prohibition to finance government deficits also exists in the Maastricht Treaty (Cangiano and Mottu, 1998; Henry *et al.*, 2004).

<sup>7</sup> Fiscal policy persistence or sustainability can be defined as a measure of the degree of dependence of current fiscal policy behavior on its own past developments (Afonso, *et al.*, 2008). Additionally, the fiscal policy stance will be regarded as unsustainable if the government is not able to service its debt (the IMF, 2011).

Under fiscal dominance, the fiscal authority sets on its own the budget, announces the current and future deficits regardless of the monetary authority's inflation targets, and determines the amount of revenues that must be raised from the sales of bonds and seignorage (Sargent and Wallace, 1981). This situation limits the central bank's independence and distorts the credibility of monetary policy.

The negative implications of fiscal or monetary policy dominance on maintaining the overriding goals of the macroeconomic policy have been resolved by a massive investigation in the theoretical literature on the coordination between monetary and fiscal policies. Objectives such as economic stability and growth may be attained by appropriate coordination of the two policies and the choice of the right mix between them (Smith, 1957). The lack of coordination will result in inferior overall economic performance.

Some countries have tried to adopt the inflation targeting monetary policy regime to overcome the problem of fiscal dominance. However, governments can still pursue irresponsible fiscal policy within such regime. Furthermore, the exchange-rate flexibility required by this regime may cause financial instability. Therefore, a high degree of coordination between monetary and fiscal authorities is demanded (Mishkin, 2002).

Consequently, the institutional design and regular revision of the convergence criteria are key factors towards improved macroeconomic policy coordination. For that reason, the proposals for maintaining fiscal discipline through institutions have incorporated; (i) the upgrading of the transparency of budgetary practices; (ii) the introduction of national and supranational fiscal policy rules; (iii) the delegating of fiscal policy to an independent agency or council; and (iv) the combining of rules and independent fiscal councils in designing fiscal policies (Cangiano and Mottu, 1998; Capet, 2004; Leith and Wren-Lewis 2005; Wyplosz, 2011).

For instance, the Maastricht Treaty has enforced fiscal policy rules in terms of annual budget deficit that does not exceed 3% of GDP and public debt that does not exceed 60% of GDP (Orbán and Szapáry, 2004). In addition, the Stability and Growth Pact (SGP) monitors the fiscal conduct of the EMU's members. It can be considered as an external anchor of fiscal policies (Annett, 2006) and as a supranational fiscal policy rule for fiscal discipline in the Euro area (Wyplosz, 2011). The SGP does not substitute the domestic institutional arrangements for fiscal policy to attain medium-term fiscal sustainability (Lane, 2006).

The effectiveness of the SGP has been subject to extensive assessment in the literature after the global financial crisis and the problematic economic conditions of Greece and other neighborhoods (e.g. Seng and Biesenbender, 2012). This criticism has also expanded to reach the assessment of the SGP as a tool for smoothing output fluctuations (Cangiano and Mottu, 1998; Fatás and Mihov, 2001; Buti *et al.*, 2001).

On the individual country context for institutional design, (Wren-Lewis,1996) have suggested an independent advisory body to maintain sustainable national government finances parallel to the central bank along with a discretionary fiscal policy. (Wren-Lewis, 2000) has supported the idea of automatic stabilizers<sup>8</sup> rather than discretionary fiscal policies as ways to impose institutional and political constraints on the national government. Additionally, he has pointed out to the need for giving a limited fiscal-regulatory role to the central bank.<sup>9</sup>

Furthermore, a similar debate has emerged both on the country and regional settings concerning the appropriate fiscal policy rule given the wide range of economic and fiscal outcomes from each rule.

In this regard, (Schaechter *et al.*, 2012, p. 8) have classified these rules into five categories (i.e. the balanced budget, structural budget balance, revenues, expenditures, and debt rules). To be more specifically; (Cordes *et al.*, 2015) have suggested the application of expenditure rules as tools for government's spending control, counter-cyclical fiscal policy, enhanced fiscal sustainability, and improved fiscal discipline.

Accordingly, the selection of the rule and its expected outcome will differ based on the country's economic situation, its degree of openness, and previous fiscal policy stance. A country may apply more than one rule (e.g. Kenya adopts revenues and debt rules since 1997) or choose one rule and revert to another one based on the developments in the fiscal and debt variables. This gives an indication of the essentiality of finding possible rules to conquer a disciplined fiscal policy (The International Monetary Fund, 2009).

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<sup>8</sup> Automatic stabilizers are the budget items suitable for mitigating demand shocks. These are the best tools of the fiscal policy when the public sector is developed, the tax system is highly progressive, and unemployment benefits are generous (Capet, 2004).

<sup>9</sup> (Wren-Lewis, 1996 & 2000) focused on the relation between the Bank of England (BoE) and the government in the United Kingdom.



The discretionary or rule-based fiscal policy dispute is relevant to the effectiveness of fiscal policy (Hemming *et al.*, 2002; Arestis, 2011). The theoretical and empirical literature has been skeptic about this issue. Numerous studies in the literature have assessed the main components and characteristics of fiscal policy in advanced economies. Most of these studies has analyzed the responsiveness of fiscal policy to output in order to explore the impact of automatic stabilizers (Fatás and Mihov, 2003; Afonso *et al.*, 2008).<sup>10</sup> These studies have put greater emphasis on fiscal policy as a key tool for macroeconomic stabilization (e.g. Wren-Lewis 2000; Krugman 2005; Leith and Wren-Lewis 2005).<sup>11</sup>

Moreover, the effectiveness of fiscal policy is often assessed in the context of discretionary fiscal policy. For instance, many contributions have analyzed the impact of fiscal discretion on the macroeconomic environment (e.g. Alesina and Perotti, 1995; Fatás and Mihov, 2003)<sup>12</sup> and the relationship between the size of the government and income volatility (Fatás and Mihov, 2001). In this respect, the aggressive use of discretionary fiscal policy will possibly amplify the business cycle fluctuations and harm the economic growth (Fatás and Mihov, 2003; Capet, 2004).<sup>13</sup> In addition, the type of fiscal adjustment procedures plays a vital role in determining the fiscal policy effects (de Arcangelis and Lamartine, 2003).<sup>14</sup>

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<sup>10</sup> On the theoretical basis, fiscal policy is consisted of three components (Fatás and Mihov, 2003); (i) automatic stabilizers; (ii) discretionary fiscal policy that reacts to the state of the economy; and (iii) discretionary policy that is implemented for reasons other than current macroeconomic conditions (i.e. changes in the cyclically-adjusted fiscal policy stance). The main characteristics of fiscal policy are its responsiveness, persistence or sustainability, and discretionary behavior (Afonso *et al.*, 2008).

<sup>11</sup> (Ilzetzki *et al.*, 2009) have shown that the magnitude of the fiscal policy multipliers depends on the following characteristics of the economy; (i) closed versus open, (ii) predetermined versus flexible exchange rate regimes, (iii) high versus low debt. It also relies on the fiscal policy variable being considered (e.g. government's consumption versus government's investment). In general, (Capet, 2004) has demonstrated that the higher the degree of the economy's openness is, the lower the fiscal multipliers and stabilizers are.

<sup>12</sup> According to (Alesina and Perotti, 1995), the fiscal discretion represents the unintended change in the budgetary position of the government as response to exogenous factors other than the business cycle. The Blanchard (1990)'s indicator of a discretion fiscal policy is defined as the structural primary fiscal deficit as a fraction of income (Blanchard, 1990; Van Aarle and Garretsen, 2003).

<sup>13</sup> The results are the outcome of using annual data for ninety-one countries over the period from 1960 to 2000.

<sup>14</sup> For example, the fiscal adjustments in OECD countries that rely mainly on spending cuts in transfers and the government's wage bill have a better chance of success and are expansionary. On the contrary, fiscal adjustments that depend on tax increases and cuts in public investment do not last and are contractionary. These are main issues concerning the prosperity of the economy (Alesina and Perotti, 1995 & 1997).

Another determinant of the usefulness of fiscal policies is the type of monetary policy regime.<sup>15</sup> The recent trends in practical monetary policy towards inflation targeting regime with its requirements (an independent monetary authority which targets price stability as an overriding policy objective, fiscal discipline as an attainable and sustainable practice, and zero financing from the central bank to the government's budget as an enforced principle) have led to a diminishing stabilizing role of fiscal policy in the economy (Allsopp and Vines 2005).

According to (Mishkin, 2002) inflation targeting may help in constraining the fiscal policy to the extent that the government is involved in setting the inflation targets jointly with the central bank. This will entail the importance of monetary and fiscal policies coordination.

On the other hand, there is a new view in the macroeconomic policy debate that fiscal policy is ineffective (Arestis, 2011). In such a case, a monetary policy oriented towards macroeconomic control will be inevitable. This also implies that the macroeconomic impacts of fiscal policy do not matter as long as policy sustainability is guaranteed (Allsopp and Vines 2005).

Furthermore, trivial influences and weak magnitudes of fiscal policy on the economy have been supported by the empirical evidence for OECD economies (e.g. Perotti, 2002; de Arcangelis and Lamartine, 2003) as well as for the EMU (e.g. Van Aarle and Garretsen, 2003).

As a consequence, several aspects cast doubts on the effectiveness of fiscal policy in developing countries as well as low-income countries (e.g. the repeated supply shocks that dampen the demand-side effects of fiscal policy, no access to international capital markets, poor tax administration, inefficient expenditure management, governance problems, volatile revenue bases, long lags of fiscal policy impact, the need to subsidize loss-making public enterprises, and greater deficit bias). Relevant key factors for emerging market economies are the borrowing constraints and limited access to finance that the economic agents are bounded by, the limited commitment of the government to the tax policy, and the attitude of the government towards consumptions (Aguilar *et al.*, 2005; Arestis, 2011).

According to (Hemming *et al.* 2002), these are factors in favor of using fiscal policy rules as tools to improve the effectiveness of such policy.

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<sup>15</sup> The Japan's experience of low-interest rates environment which reaches to zero-interest supports the argument of an effective fiscal policy that operates under an ineffective monetary policy (Krugman, 2005).

A final word regarding the discretionary vis-à-vis fiscal rules debate has not been reached by the literature, yet. This is because of the different outcomes from various types of shocks that are more likely to hit the union. Additionally, the impact of fiscal policy is relevant to the monetary unification considerations. For instance, external shocks are more likely to hit members within a monetary union. Fiscal policy cannot usually respond as quickly as monetary policy to these shocks. However, a change in the direction of fiscal policy through fiscal tightening can have a sizeable effect on external variables (Yörükoğlu and Kılınç, 2012).

Furthermore, a strong committed central bank to price stability within the union limits the scope of the national fiscal authorities in mitigating the effects of idiosyncratic shocks. For this reason, the coordination between discretion fiscal policies will be a must. <sup>16</sup>

Moreover, the cost of a monetary union is the country's inability to use monetary policy to react to country-specific shocks. Fiscal discipline and other integration requirements increase the social and economic costs of adjusting to specific shocks and add to the difficulties in acquiring and maintaining competitiveness (C. R. Vieira and I. V. Vieira, 2013). However, these costs can be reduced via labor mobility between member states and/or prices and wages flexibility (Corden, 1972; Buigut and Valev, 2005; Edwards and Lawrence, 2012). Moreover, the synchronization of the member countries' economic business cycles will contribute in absorbing the negative influence of external shocks (Njoroge *et al.*, 2011)). <sup>17</sup>

Concerning the COMESA, (Buigut and Valev, 2005; Debrun *et al.*, 2010; Njoroge *et al.*, 2011) have supported the broad conclusion by many studies that the type of real shocks that are hitting the region are highly asymmetric. <sup>18</sup> This can be attributed to differences in the mixes of commodity production. This result has been confirmed by empirical assessment (Buigut and Valev, 2005).

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<sup>16</sup> For more details refer to (Buti, *et al.*, 2001, pp. 803-804).

<sup>17</sup> This point is essential for the final steps of monetary integration because of its close relation with other important issues (e.g. the debate on the optimality of monetary integration, the endogeneity of OCA criteria, intensity of bilateral trade and correlations of business cycles, monetary integration as disciplinary effect, and the specialization hypothesis). For further details one can refer to (e.g. Mundell, 1961; Frankel and Rose, 1997; Broz, 2005; C. R. Vieira and I. V. Vieira, 2013; Njoroge *et al.*, 2011).

<sup>18</sup> (Krugman,1993) have pointed out to the impact of high trade integration, specialization and factor mobility on business cycles asymmetry in the EMU. On the contrary, high trade integration is regarded by (Frankel and Rose, 1997) as a source for income symmetry in the EMU.

In addition, (Njoroge *et al.*, 2011) have analyzed the nature, extent, and consequences of internal as well as external shocks in the COMESA during the period from 1990 to 2009. The authors' results have reflected negative effects of a monetary union on the participating countries by revealing them to large internal and external shocks. In this regard, (Enoch and Krueger, 2010) have verified that asymmetric shocks within a monetary union will force countries to rely on fiscal policy instruments to shield the economy against them. On the other hand, strong trade links may contribute to greater similarity of economic fluctuations and to better outcomes from monetary integration.

There is no doubt that reducing trade barriers in the COMESA will reduce major sources of government's revenues (taxes on international trade). This negative effect will cast doubts on the expected long-term benefits from regional integration (Alemayehu, and Haile, 2008). In order to overcome these obstacles, it will be essential to carry out deep analysis of the characteristics of national fiscal policies and shocks within each member state in the region. Furthermore, fiscal policy coordination will be a must.

In conclusion, there is no doubt that the existence of clear policy targets and rules will be proper means to obtain macroeconomic policy coordination.

### **3. The Performance of Egypt Relative to the COMESA's Member States**

This section of the paper summarizes the relative position of Egypt to its sisters in the COMESA through using macroeconomic indicators (e.g. inflation rates, real GDP per capita, fiscal policy, and trade shares).<sup>19</sup> The COMESA's history has begun in December 1994 to replace the Preferential Trade Area (PTA) which has existed by the early of 1981. For the purpose of policy coordination, a Monetary Harmonization Program (MHP, *hereafter*) has been prepared in 1990. The MHP and the convergence criteria of the COMESA's Treaty have been subject to several revisions by the COMESA's Secretariat. These revisions have indicated some progress towards the policy and institutional targets. This progress is ascribed to the individual country's political concerns or the international organizations' conditionality, not to the country's obligation towards the COMESA's integrating requirements (Harvey *et al.*, 2001; Masson and Pattillo, 2004). Breaches to the convergence criteria have been reported in the COMESA's reports (e.g. The COMESA's Official Website) and other regional reports (e.g. Zhang, 2012; Mbekeani, 2013).

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<sup>19</sup> The authors' calculations based on data collected from the International Monetary Fund (IMF), World Economic Outlook Database as in April 2015 and the IMF's Fiscal Monitor as in April 2015.

The convergence criteria have been subject to subsequent revisions according to the actual performance of the COMESA's member states and the quality of the reporting mechanisms of economic indicators to the COMESA's secretariat. Table (1) illustrates the revised convergence criteria.

**Table (1): Revised Monetary Cooperation Program of the COMESA**

<p><b><u>Stage 1 (Year 2005-2010)</u></b></p> <p><b><u>Primary Criteria</u></b></p> <p>(i) Overall budget deficit/GDP ratio (excluding grants) of not more than 5%;</p> <p>(ii) Annual average inflation rate not exceeding 5%;</p> <p>(iii) Minimize the central bank financing of the budget towards 0% target; and</p> <p>(iv) External reserves of equal to or more than 4 months of imports of goods and non-factor services.</p> <p><b><u>Secondary Criteria</u></b></p> <p>(i) Achievement and maintenance of stable real exchange rates;</p> <p>(ii) Achievement and maintenance of market based positive real interest rates;</p> <p>(iii) Achievement of sustainable real growth rate of real GDP of not less than 7.0%;</p> <p>(iv) Sustained pursuit of debt reduction initiative on domestic and foreign debt. i.e. reduction of total debt as a ratio of GDP to a sustainable level;</p> <p>(v) Total domestic revenue to GDP ratio of not less than 20%;</p> <p>(vi) Reduction of current account deficit (excluding grants) as a % of GDP to sustainable level;</p> <p>(vii) Achievement and maintenance of domestic investment rate of at least 20%;</p> <p>(viii) Implementation of the 25 Core Principles of Bank Supervision and Regulation based on agreed Action Plan for Harmonization of Bank Supervision for the COMESA region; and</p> <p>(ix) Adherence to the Core Principles for Systematically Important Payments Systems, by modernizing the payment and settlements system.</p>
<p><b><u>Stage Two (2011-2015)</u></b></p> <p><b><u>Primary Criteria</u></b></p> <p>(i) Overall budget deficit/GDP ratio (excluding grants) not exceeding 4%;</p> <p>(ii) Annual average inflation rate of not more than 3%;</p> <p>(iii) Elimination of the central bank financing of the budget deficit; and</p> <p>(iv) External reserves of equal to or more than 5 months of imports of goods and services.</p> <p><b><u>Secondary Criteria</u></b></p> <p>Same as in Stage 1</p>
<p><b><u>Stage Three (2016-2018)</u></b></p> <p><b><u>Primary Criteria</u></b></p> <p>(i) Overall budget deficit/GDP ratio (excluding grants) not exceeding 3%</p> <p>(ii) Annual average inflation rate not exceeding 3%;</p> <p>(iii) Elimination of central bank financing of the budget deficit; and</p> <p>(iv) External reserves of equal to or more than 6 months of imports goods and services.</p> <p><b><u>Secondary Criteria</u></b></p> <p>Same as in Stage 1</p>

Source: (Bhatia et al., 2011, p. 51).

### 3.1. Inflation Rates

The overall COMESA's year on year inflation rate reflects considerable and persistent breaches from the COMESA's monetary policy convergence criteria. The rate has presented an average of almost 9.5% in June 2015 compared to 13.0% in June 2014 and approximately 8.6% in June 2013. Figure (1)

The COMESA's high annual averages of inflation rates are ascribed to the increasing inflationary pressures in its three major countries which have had the highest weights in HCPI-COMESA index.<sup>20</sup> This will imply a challenge facing the region in coordinating monetary as well as fiscal policies.

The annual averages of inflation rates for the periods from December 2011 to December 2012 and from October 2013 to December 2014 exceed 10.0%. However, the years 2013 and 2015 have witnessed annual inflation rates that are less than 10.0%. The least annual inflation rate of 7.3% has been recorded in July 2015. In the same context, table (2) shows that only two countries have been obliged to the monetary policy criterion for the second stage of monetary integration (2011-2015).<sup>21</sup> The annual average inflation rate for Zimbabwe is 2.3% during the period (2010-2014). Seychelles is the second best country with 2.6%.

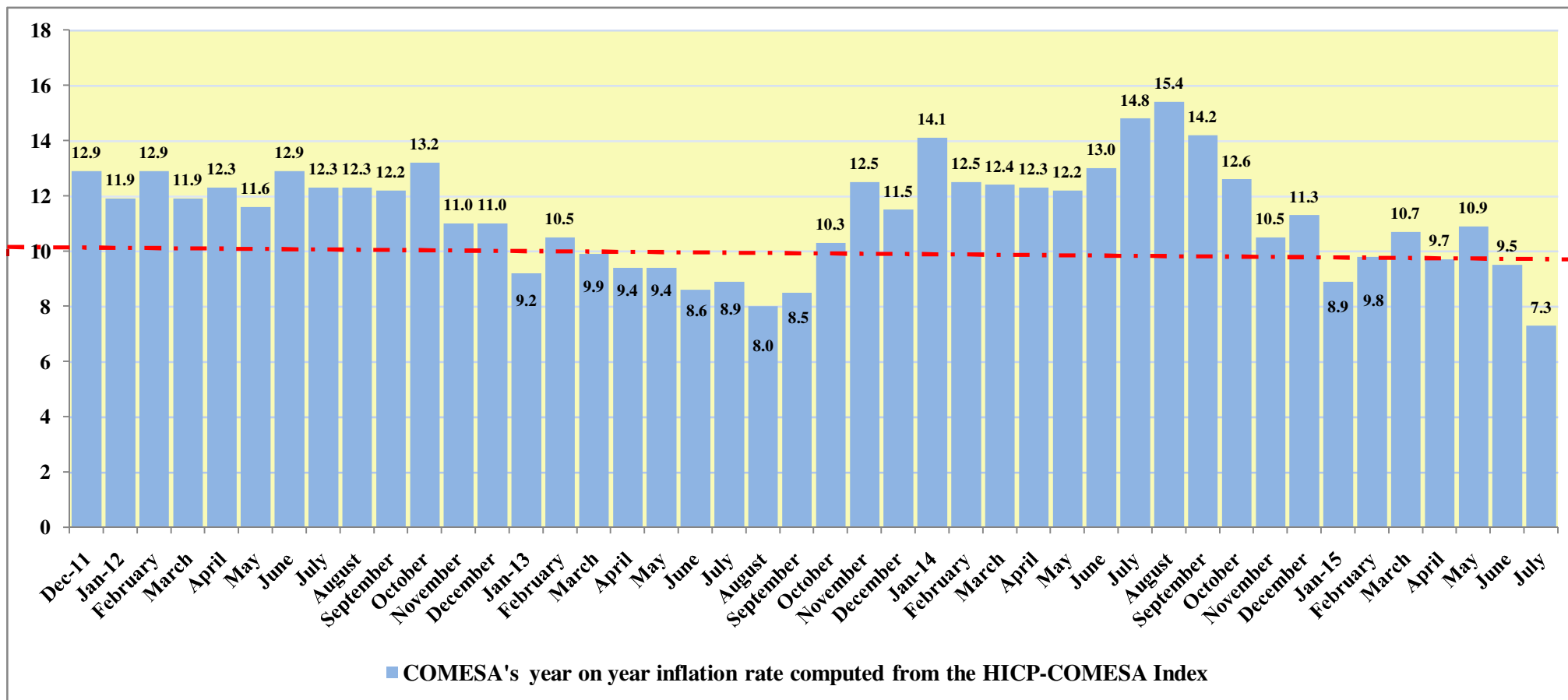
For that reason, appropriate coordination on the monetary policy side is essential for the COMESA region. In this respect, the burden will lie on Egypt, Sudan, Malawi, and Ethiopia because of the increasing inflation rates in these countries. Some member countries do not report inflation rates to the COMESA's secretariat which complicate the assessment procedures of the inflationary practices in the district. Therefore, finding a way for building-up an efficient reporting arrangement of inflation rates in the COMESA will be a must.

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<sup>20</sup> This rate is based on the Harmonized Consumer Price Index (HCPI-COMESA). This index is constructed for the purpose of comparing the inflation rates of the COMESA's members. The latest weights for the major three countries in the region are 58.71 for Egypt, 8.93 for Sudan, and 7.47 for Ethiopia).

<sup>21</sup> The Monetary Harmonization Program (MHP) has determined the least optimistic criterion of an annual average inflation rate of less than 10% (Harvey *et al.*, 2001). The monetary policy criterion for the COMESA region is very optimistic as it sets ceilings for annual average inflation rates at 3% and 5% during the three subsequent economic and monetary convergence stages (Bhatia *et al.*, 2011, p. 51).

**Figure (1): Developments in the COMESA's Annual Inflation Rates (%) (December 2011- July 2015)**



Source: The Harmonized Consumer Price Index (HCPI-COMESA), Monthly News Released data on July 2015, Issue No. 52, pp. 10-11.

**Table (2): The Monetary Policy Convergence in the COMESA**

Country	Average inflation (1995-1999)	Average inflation (2000-2004)	Average inflation (2005-2009)	Average inflation (2010-2014)	Comments on the averages of the period (2010-2014)*
Burundi	18.56	9.93	11.87	9.32	The country does not meet the criterion
Comoros	1.87	4.65	4.10	17.39	Does not meet the criterion with considerable inflationary pressures
Democratic Republic of the Congo	334.37	189.88	23.10	8.59	The countries do not meet the criterion
Djibouti	2.54	1.90	5.04	3.62	
Egypt	6.28	3.32	10.39	9.69	
Eritrea	8.77	19.85	17.96	12.56	
Ethiopia	3.25	4.11	19.06	16.19	Do not meet the criterion with considerable inflationary pressures
Kenya	6.96	6.46	8.76	8.06	Do not meet the criterion
Libya	4.44	-4.48	4.64	5.97	
Madagascar	13.39	11.12	9.72	7.03	
Malawi	40.91	17.62	10.88	17.68	Does not meet the criterion with considerable inflationary pressures
Mauritius	6.62	4.93	6.99	3.95	Do not meet the criterion
Rwanda	15.56	5.73	10.56	4.00	
Sudan	48.41	6.90	12.11	29.25	The country does not meet the criterion with considerable and distorting inflationary pressures. The worst country in the region regarding its inflation practices.
Seychelles	1.66	3.94	11.78	2.60	The country meets the criterion with the second best inflation practice in the region
Swaziland	8.01	7.18	7.03	6.19	Do not meet the criterion
Uganda	6.68	3.89	8.98	8.94	
Zambia	30.73	21.81	12.77	7.73	
Zimbabwe	NA	8.34	18.38	2.33	The country meets the criterion with the first best inflation practice in the region

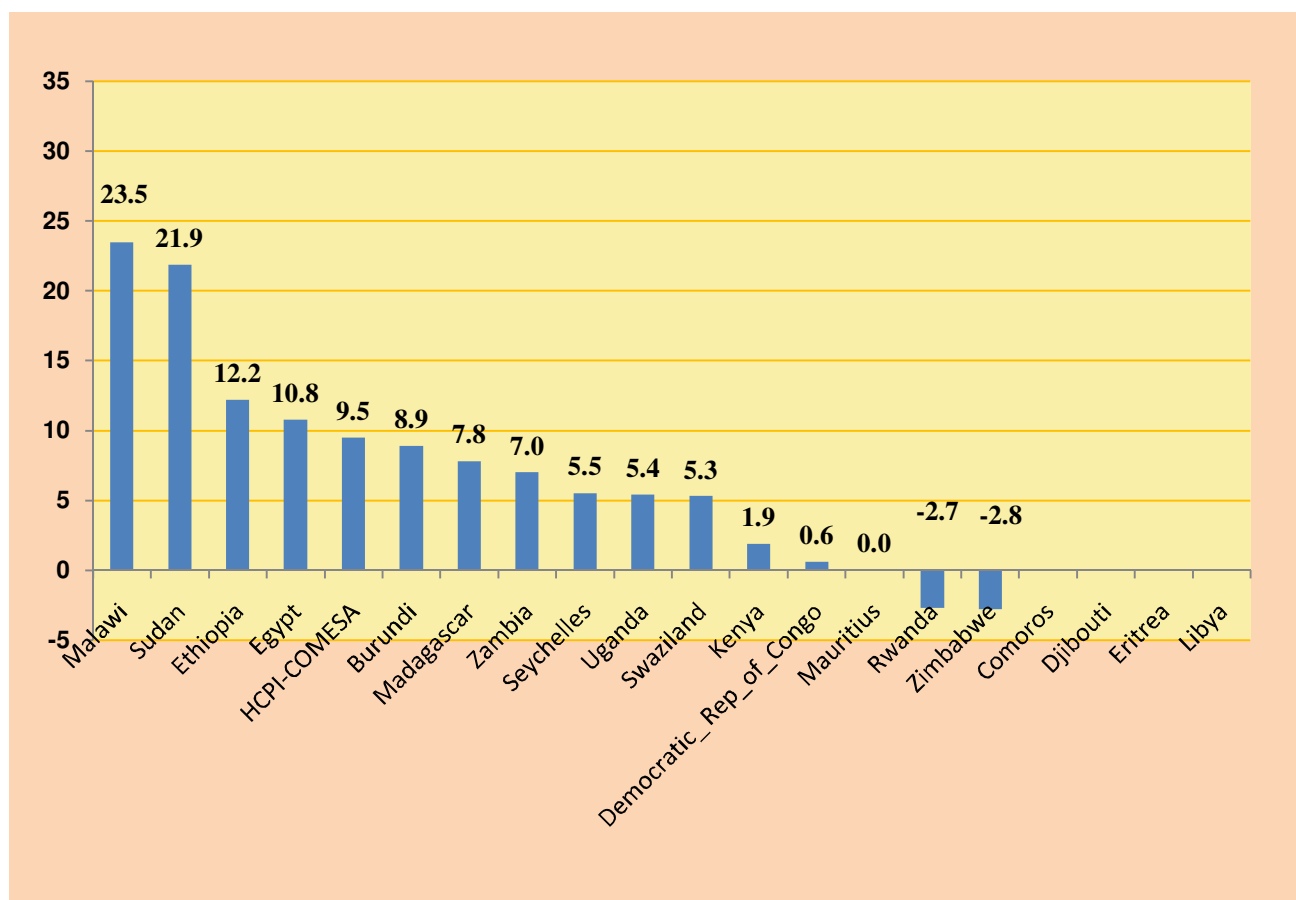
*Source: The author's calculations based on data from the International Monetary Fund, World Economic Outlook (WEO) Database, April 2015.*

*\* The criterion for the second stage of integration (2011-2015) is an annual average inflation rate of no more than 3%.*

*NA refers to unavailable data.*



**Figure (2): Year on Year Inflation Rate (%) in the COMESA Region and in Individual Member States (in June 2015)**



*Source: The Harmonized Consumer Price Index (HCPI-COMESA), Monthly News Release June 2015, Issue No. 51, p.2.*

*Data are not available for Comoros, Djibouti, Eritrea, and Libya.*

Egypt's annual inflation rate has increased by 10.8% in June 2015 relative to 7.7% in June 2014. Additionally, Ethiopia's rate has increased from 8.0% in June 2014 to reach 12.2% in June 2015. Sudan's rate has increased by 42.4% in June 2014 and by 21.9% in June 2015. On the contrary, Zimbabwe has recorded a deflation with an annual rate of 2.8% in June 2015 and a zero rate of inflation in June 2014 (The HCPI-COMESA Monthly News Release).

## 3.2. Real GDP per Capita

Real GDP per capita has been utilized by many authors as a proxy for real economic convergence among countries (e.g. Harvey *et al.*, 2001; Carmignani, 2005; Alemayehu and Haile, 2008). Based on the standard deviation as a measure of income disparities within the COMESA region,<sup>22</sup> table (3) shows symmetry in log GDP per capita between the individual member states. Additionally, table (4) indicates symmetry in the growth rates of log GDP per capita between members.

However, the main contributor to the minor variations in the region's income has been Libya with standard deviations of almost 0.2 for log GDP per capita and 0.1 for the growth rate of log GDP per capita.

On the other hand, it is essential to find out a proxy measure to assess the convergence of the overall COMESA's income rather than the convergence of each member country. Therefore, the sigma convergence criterion is computed as in (Harvey *et al.*, 2001; Monfort, 2008).<sup>23</sup>

For comparability in real per capita income, figure (3) represents a depiction of the standard deviation of log real GDP per capita for the COMESA region during the period that spans from 1997 to 2014. The year 2011 has witnessed the lowest standard deviation. One intuitive explanation to this decline is the role that the political conditions in Egypt, Libya, and Sudan have played in diverging the real GDP per capita.<sup>24</sup> This is due to the large shares of these three countries in the real income of the whole region. Year 2014 indicates the same conclusion concerning coexisting deviations in this vital indicator.

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<sup>22</sup> The results are subject to the series that is utilized as a proxy for real income, the sample size, and the statistic that is used to measure the income disparities.

<sup>23</sup> The author has calculated the beta convergence criterion through regressing the initial real GDP per capita on the growth rate of real GDP per capita via a pooled data for the COMESA region during the period 2010-2014. The results have indicated a nonlinear and dynamic association between the two variables. This implies that other factors are essential for the analysis of real income convergence. For instance, the political instability has led to the difficulty of obtaining a direct and linear relationship between initial status of income and the subsequent growth rates of income.

<sup>24</sup> By the beginning of year 2011, the protests and demonstrations have been started in both Egypt and Libya. Additionally, the independence of Southern Sudan has taken place in the same year.

**Table (3): Developments in Log Real GDP per capita in the COMESA's Member States (2010-2014)\***

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob.
Burundi	2.93	2.93	2.96	2.90	0.02	0.00	1.74	0.33	0.85
Comoros	3.17	3.17	3.19	3.16	0.01	0.14	1.63	0.41	0.81
Djibouti	3.45	3.45	3.48	3.42	0.03	0.09	1.76	0.33	0.85
Democratic_Rep._of_Congo	2.79	2.79	2.85	2.74	0.04	0.13	1.73	0.35	0.84
Egypt	4.03	4.03	4.04	4.01	0.01	-0.27	1.84	0.34	0.84
Eritrea	3.06	3.08	3.08	3.03	0.02	-1.00	2.39	0.91	0.63
Ethiopia	3.13	3.13	3.20	3.05	0.06	-0.07	1.80	0.31	0.86
Kenya	3.45	3.45	3.49	3.42	0.03	-0.10	1.81	0.30	0.86
Libya	4.29	4.32	4.47	4.07	0.16	-0.28	1.81	0.36	0.84
Madagascar	3.15	3.15	3.16	3.13	0.01	0.11	1.60	0.42	0.81
Malawi	2.86	2.86	2.89	2.84	0.02	0.32	1.94	0.32	0.85
Mauritius	4.23	4.23	4.27	4.18	0.03	-0.11	1.77	0.33	0.85
Rwanda	3.18	3.19	3.23	3.13	0.04	-0.28	1.80	0.37	0.83
Sudan	3.62	3.62	3.65	3.56	0.03	-0.86	2.62	0.65	0.72
Swaziland	3.87	3.87	3.89	3.86	0.01	0.28	1.47	0.55	0.76
Seychelles	4.36	4.37	4.41	4.30	0.04	-0.32	1.73	0.42	0.81
Uganda	3.28	3.28	3.31	3.26	0.02	-0.43	2.25	0.27	0.87
Zambia	3.57	3.57	3.61	3.53	0.03	-0.16	1.65	0.40	0.82
Zimbabwe	3.26	3.28	3.31	3.19	0.05	-0.53	1.86	0.51	0.77

*Source: The author's calculations based on data from the International Monetary Fund, World Economic Outlook Database (WEO), April 2015.*

*\*Data are obtained from the Gross Domestic Product based on purchasing power parity (PPP) per capita GDP series. The series is used for comparability of developments in real per capita income during the period 2010 to 2014.*

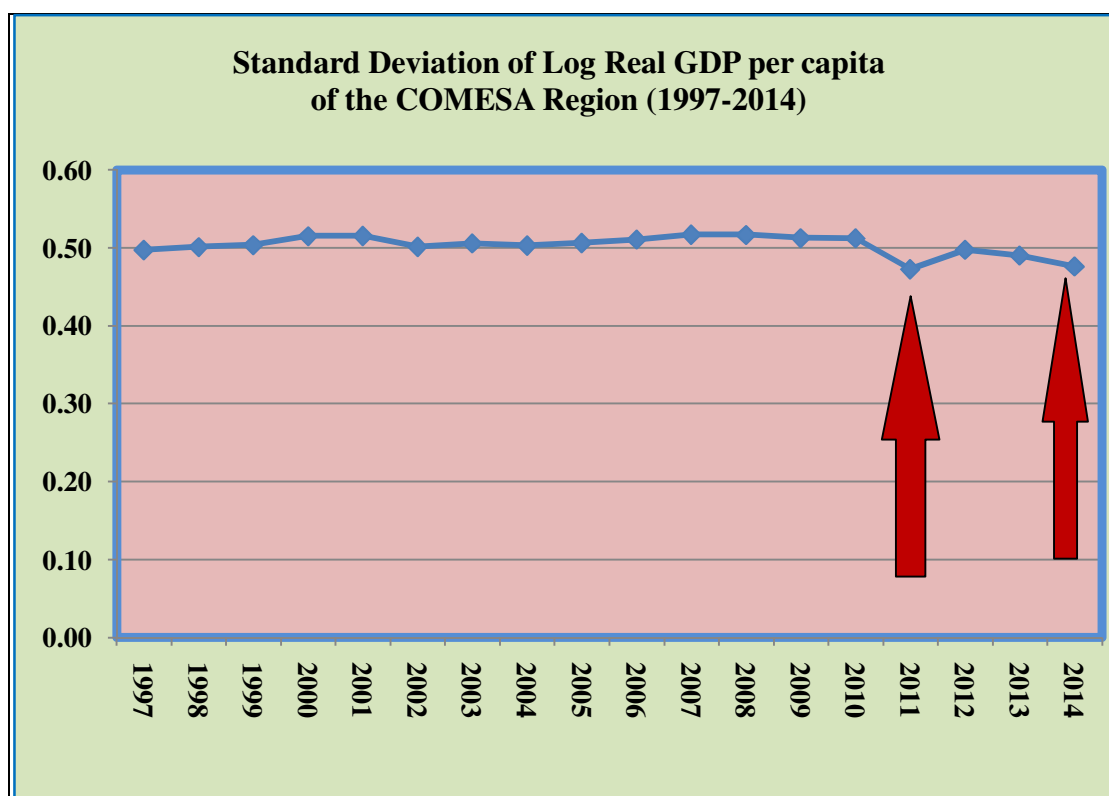
**Table (4): Developments in the Growth Rate of Log Real GDP per capita in the COMESA's Member States (2010-2014)\***

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Prob.
Burundi	4.61	4.61	4.61	4.61	0.00	-0.32	1.46	0.58	0.75
Comoros	4.61	4.61	4.61	4.61	0.00	-1.05	2.58	0.96	0.62
Djibouti	4.61	4.61	4.61	4.61	0.00	-0.95	2.76	0.76	0.68
Democratic_Rep._of_Congo	4.61	4.61	4.62	4.61	0.00	0.24	1.67	0.41	0.81
Egypt	4.61	4.61	4.61	4.61	0.00	1.21	2.91	1.22	0.54
Eritrea	4.61	4.61	4.62	4.60	0.01	0.50	1.39	0.75	0.69
Ethiopia	4.62	4.62	4.62	4.62	0.00	0.67	2.26	0.48	0.79
Kenya	4.61	4.61	4.61	4.61	0.00	0.63	2.12	0.49	0.78
Libya	4.59	4.59	4.68	4.51	0.06	0.07	2.33	0.10	0.95
Madagascar	4.61	4.61	4.61	4.60	0.00	-0.99	2.60	0.85	0.65
Malawi	4.61	4.61	4.61	4.61	0.00	-1.11	2.81	1.03	0.60
Mauritius	4.61	4.61	4.61	4.61	0.00	0.83	2.29	0.68	0.71
Rwanda	4.61	4.61	4.62	4.61	0.00	-0.11	1.46	0.51	0.78
Sudan	4.61	4.61	4.63	4.59	0.01	0.80	2.69	0.55	0.76
Swaziland	4.61	4.61	4.61	4.61	0.00	-0.80	2.56	0.58	0.75
Seychelles	4.61	4.61	4.61	4.61	0.00	-0.05	1.70	0.36	0.84
Uganda	4.61	4.61	4.61	4.61	0.00	0.09	1.34	0.58	0.75
Zambia	4.61	4.61	4.62	4.61	0.00	0.85	2.67	0.62	0.73
Zimbabwe	4.62	4.62	4.62	4.61	0.00	-0.33	1.32	0.68	0.71

*Source: The author's calculations based on data from the International Monetary Fund, World Economic Outlook Database (WEO), April 2015.*

*\*Data are obtained from the Gross Domestic Product based on purchasing power parity (PPP) per capita GDP series. The series is used for comparability of developments in real per capita income during the period 2010 to 2014.*

**Figure (3): Standard Deviation of Log Real GDP per capita of the COMESA Region (1997-2014)**



*Source: The author's calculations based on data from the International Monetary Fund, World Economic Outlook Database (WEO), April 2015.*

*The data available for 19 member countries and are pooled using the E-views software to obtain the standard deviation of the series for the COMESA region.*

*\*Data are obtained from the Gross Domestic Product based on purchasing power parity (PPP) per capita GDP series.*

### **3.3. Fiscal Policies**

The COMESA's fiscal policy indicators have been poorly reported to the regional as well as international institutions. This has complicated the possibility of an efficient comparability of the actual fiscal performance in the region. Tables (5) through (10) support this general conclusion. The tables present main fiscal policy variables that are collected from the IMF's Fiscal Monitor, April 2015. The averages of these variables have been computed for the period (2010-2014). In general, the government's budget deficit and debt percents of GDP have remained high in major countries in the region. Table (5) has shown the general government's overall balance (including grants) as a percent of GDP.

Based on the averages of the period (2010-2014), all countries have recorded deficits except the Democratic Republic of Congo with a surplus of 1.9%. Egypt, Kenya, and Libya have recorded deficits of 11.0%, 5.2%, and 4.8%, respectively. Table (6) indicates the general government's primary balance as a percent of GDP. The averages for Egypt, Libya, and Kenya have been 5.3%, 4.8%, and 3.1%, respectively. Egypt is the country with the highest averages as has been reflected in tables (5) & (6).

Consequently, the high averages for the period (2010-2014) of inflation rates and the government's overall balance as a percent of GDP indicate the importance of improving fiscal consolidation in Egypt. Moreover, the current situation of the Egyptian's financial markets implies the impossibility to enforce an important convergence criterion for the COMESA's integrating framework (i.e. the elimination of the CBE's financing of the budget deficit). On the contrary, Zimbabwe is the best performer in the inflation and fiscal policy indicators since it has traced the success of a major country like South Africa.

Tables (7) & (8) present the general government's revenue and expenditure as percents of GDP. Depending on the averages of the period (2010-2014), Libya is the country with the highest average of the general government's revenue of 56.6%. Zimbabwe is the second best country with 26.7%. Egypt is ordered the fourth with 23.4%. The country with the lowest percent is Madagascar with 11.7%. On the general government's expenditure side, Libya has had the highest average of 61.4%. Egypt is ordered the second with an average of 34.7%. Zimbabwe is the third best country with 27.6%. The country with the lowest percent is Madagascar with 14.2%.

Tables (9) & (10) illustrate the general government's gross and net debts as percents of GDP. The worst country regarding the average of the gross debt as a percent of GDP is Egypt with 81.6%.<sup>25</sup> Sudan is the second worst country with 80.6%. Zimbabwe and Kenya have recorded 56.0% and 43.8%, respectively. The best performer is the Democratic Republic of Congo with an average of 21.7%. The political instability in Libya has led to a negative average of net debt as a percent of GDP of 107.3% due to the economic recession. On the contrary, Egypt has had the highest positive average of net debt as a percent of GDP of 70.5%. Kenya has recorded a positive percent of 39.9%. Ethiopia is the country with the lowest positive percent of 20.0%. These fiscal and debt indicators reflect unsustainable fiscal policy in Egypt. Conversely, the fiscal indicators for Kenya reflect the benefits from the adoption of fiscal policy rules.

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<sup>25</sup> A ratio of gross debt as a percent of GDP that is less than 60% is considered by international institutions as a criterion for debt sustainability.

Kenya follows two fiscal policy rules (i.e. the revenue and debt rules) since 1997. This has been indicated in table (11). It is important to find out appropriate mechanisms for reporting comparable fiscal policy indicators of the COMESA to international and regional organizations. Table (11) indicates conflicting information regarding the adoption of fiscal policy rules in the region's members. Therefore, the formation of a coordinating body of fiscal policies in the region may resolve this issue and enhance the economic convergence.

**Table (5): General Government's Overall Balance (% of GDP)**

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*	Average of (2010-2014)
Burundi	-	-	-	-	-	-	-	-	-	-	-
Comoros	-	-	-	-	-	-	-	-	-	-	-
Democratic Republic of Congo	1.9	-0.2	-1.1	1.3	2.5	-0.5	1.8	3.1	2.6	1.6	1.9
Djibouti	-	-	-	-	-	-	-	-	-	-	-
Egypt	-9.2	-7.5	-8.0	-6.9	-8.3	-9.8	-10.5	-14.1	-12.2	-11.5	-11.0
Eritrea	-	-	-	-	-	-	-	-	-	-	-
Ethiopia	-3.8	-3.6	-2.9	-0.9	-1.3	-1.6	-1.2	-1.9	-2.6	-2.9	-1.7
Kenya	-2.1	-2.4	-3.4	-4.3	-4.4	-4.1	-5.0	-5.7	-6.8	-7.6	-5.2
Libya	31.8	28.6	27.5	-5.3	11.6	-15.9	27.8	-4.0	-43.5	-68.2	-4.8
Madagascar	-0.5	-2.7	-2.0	-2.5	-0.9	-2.4	-2.6	-4.0	-2.4	-4.0	-2.5
Malawi	-	-	-	-	-	-	-	-	-	-	-
Mauritius	-	-	-	-	-	-	-	-	-	-	-
Rwanda	0.2	-1.7	0.9	0.3	0.4	-1.8	-1.6	-2.6	-3.6	-2.0	-1.8
Seychelles	-	-	-	-	-	-	-	-	-	-	-
Sudan	-1.4	-3.5	0.6	-5.1	0.3	0.2	-3.3	-2.3	-1.0	-1.5	-1.2
Swaziland	-	-	-	-	-	-	-	-	-	-	-
Uganda	-0.7	-1.0	-2.5	-2.1	-5.8	-2.6	-3.0	-4.1	-3.9	-2.7	-3.9
Zambia	16.9	-1.0	-0.7	-2.1	-2.4	-1.8	-3.2	-6.7	-5.6	-5.1	-3.9
Zimbabwe	-2.5	-3.0	-2.0	-2.1	0.7	-1.3	-0.6	-1.9	-1.5	-1.2	-0.9

Source: Data are collected from the IMF's Fiscal Monitor, April 2015. The concept of overall fiscal balance referred to net lending (+) / borrowing (-) of the general government. In some cases, however, the overall balance referred to total revenue and grants minus total expenditure and net lending. The Symbol (-) indicates the non-availability of the data point from the data source.

The average of (2010-2014) is computed.

\*The IMF's projections.

**Table (6): General Government's Primary Balance (% of GDP)**

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*	Average of (2010-2014)
Burundi	-	-	-	-	-	-	-	-	-	-	-
Comoros	-	-	-	-	-	-	-	-	-	-	-
Democratic Republic of Congo	3.1	0.9	-0.1	2.7	3.9	1.3	3.3	4.4	3.6	2.6	3.3
Djibouti	-	-	-	-	-	-	-	-	-	-	-
Egypt	-4.2	-3.0	-3.9	-3.7	-3.8	-4.7	-5.1	-6.6	-6.1	-4.4	-5.3
Eritrea	-	-	-	-	-	-	-	-	-	-	-
Ethiopia	-3.0	-2.9	-2.4	-0.6	-0.9	-1.2	-0.9	-1.6	-2.3	-2.5	-1.4
Kenya	-0.5	-0.8	-1.8	-2.7	-2.5	-2.2	-2.9	-3.3	-4.5	-5.4	-3.1
Libya	31.8	28.6	27.5	-5.3	11.6	-15.9	27.8	-4.0	-43.5	-68.2	-4.8
Madagascar	2.0	-1.5	-1.2	-1.8	-0.1	-1.5	-1.9	-3.3	-1.5	-2.8	-1.7
Malawi	-	-	-	-	-	-	-	-	-	-	-
Mauritius	-	-	-	-	-	-	-	-	-	-	-
Rwanda	1.0	-1.2	1.4	0.6	0.9	-1.4	-1.1	-1.8	-2.8	-1.3	-1.2
Seychelles	-	-	-	-	-	-	-	-	-	-	-
Sudan	-0.2	-2.5	1.5	-4.1	1.4	1.4	-2.2	-1.8	-0.3	-0.7	-0.3
Swaziland	-	-	-	-	-	-	-	-	-	-	-
Uganda	0.4	0.1	-1.4	-1.1	-4.9	-1.7	-1.7	-2.7	-2.2	-0.9	-2.6
Zambia	18.5	0.3	0.7	-0.7	-1.0	-0.8	-1.9	-5.1	-3.4	-2.6	-2.4
Zimbabwe	0.0	-1.2	0.3	0.4	1.9	-0.2	0.4	-1.0	-0.4	0.1	0.1

Source: Data are collected from the IMF's Fiscal Monitor, April 2015. The concept of overall fiscal balance referred to net lending (+) / borrowing (-) of the general government. In some cases, however, the overall balance referred to total revenue and grants minus total expenditure and net lending. The Symbol (-) indicates the non-availability of the data point from the data source. The average of (2010-2014) is computed.

\*The IMF's projections.



**Table (7): General Government's Revenue (% of GDP)**

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*	Average of (2010-2014)
Burundi	-	-	-	-	-	-	-	-	-	-	-
Comoros	-	-	-	-	-	-	-	-	-	-	-
Democratic Republic of Congo	11.8	10.4	11.5	15.2	20.3	15.7	17.3	15.8	14.3	15.7	16.7
Djibouti	-	-	-	-	-	-	-	-	-	-	-
Egypt	28.6	27.7	28.0	27.7	25.1	22.0	22.1	23.0	25.0	23.4	23.4
Eritrea	-	-	-	-	-	-	-	-	-	-	-
Ethiopia	18.3	17.0	15.9	16.2	17.2	16.6	15.5	15.9	15.1	16.2	16.1
Kenya	19.3	19.7	19.4	18.8	19.8	19.5	19.2	19.6	20.5	21.3	19.7
Libya	63.0	62.3	68.4	52.9	64.9	39.1	72.3	65.7	40.9	27.5	56.6
Madagascar	21.0	16.0	15.9	11.5	13.2	11.7	10.8	10.9	12.0	12.6	11.7
Malawi	-	-	-	-	-	-	-	-	-	-	-
Mauritius	-	-	-	-	-	-	-	-	-	-	-
Rwanda	21.9	21.2	25.2	24.1	26.3	24.6	24.2	25.1	23.8	23.3	24.8
Seychelles	-	-	-	-	-	-	-	-	-	-	-
Sudan	22.4	21.9	24.0	15.5	19.3	18.0	9.9	10.9	11.7	10.8	14.0
Swaziland	-	-	-	-	-	-	-	-	-	-	-
Uganda	14.9	14.6	13.7	12.9	13.5	14.1	13.6	12.7	13.4	14.4	13.5
Zambia	36.6	18.9	18.8	15.7	15.6	17.5	19.1	18.4	19.1	18.0	17.9
Zimbabwe	7.3	2.9	2.2	12.0	23.3	26.7	28.0	27.7	27.6	27.9	26.7

Source: Data are collected from the IMF's Fiscal Monitor, April 2015. The Symbol (-) indicates the non-availability of the data point from the data source.

The average of (2010-2014) is computed.

\*The IMF's projections.

**Table (8): General Government's Expenditure (% of GDP)**

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*	Average of (2010-2014)
Burundi	-	-	-	-	-	-	-	-	-	-	-
Comoros	-	-	-	-	-	-	-	-	-	-	-
Democratic Republic of Congo	9.9	10.6	12.6	13.9	17.9	16.2	15.5	12.7	11.7	14.1	14.8
Djibouti	-	-	-	-	-	-	-	-	-	-	-
Egypt	37.8	35.3	36.0	34.6	33.4	31.8	32.7	37.1	38.6	35.2	34.7
Eritrea	-	-	-	-	-	-	-	-	-	-	-
Ethiopia	22.1	20.5	18.8	17.1	18.5	18.2	16.6	17.8	17.7	19.1	17.8
Kenya	21.5	22.1	22.8	23.1	24.2	23.6	24.2	25.3	27.3	28.9	24.9
Libya	31.2	33.7	40.8	58.2	53.4	55.0	44.5	69.8	84.4	95.6	61.4
Madagascar	21.4	18.7	17.9	14.1	14.0	14.1	13.4	14.9	14.5	16.6	14.2
Malawi	-	-	-	-	-	-	-	-	-	-	-
Mauritius	-	-	-	-	-	-	-	-	-	-	-
Rwanda	21.7	22.9	24.3	23.9	25.9	26.5	25.9	27.6	27.4	25.3	26.7
Seychelles	-	-	-	-	-	-	-	-	-	-	-
Sudan	23.8	25.4	23.5	20.6	19.0	17.8	13.3	13.1	12.7	12.3	15.2
Swaziland	-	-	-	-	-	-	-	-	-	-	-
Uganda	15.6	15.6	16.2	15.0	19.3	16.7	16.6	16.8	17.3	17.1	17.3
Zambia	19.7	19.9	19.5	17.8	18.1	19.3	22.3	25.1	24.6	23.1	21.9
Zimbabwe	9.7	5.9	4.3	14.0	22.6	27.9	28.6	29.7	29.0	29.1	27.6

Source: Data are collected from the IMF's Fiscal Monitor, April 2015. The Symbol (-) indicates the non-availability of the data point from the data source.

The average of (2010-2014) is computed.

\*The IMF's projections.

**Table (9): General Government's Gross Debt (% of GDP)**

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*	Average of ( 2010-2014)
Burundi	-	-	-	-	-	-	-	-	-	-	-
Comoros	-	-	-	-	-	-	-	-	-	-	-
Democratic Republic of Congo	100.0	83.4	87.0	89.8	27.2	23.0	19.9	18.9	19.7	20.5	21.7
Djibouti	-	-	-	-	-	-	-	-	-	-	-
Egypt	90.3	80.2	70.2	73.0	73.2	76.6	78.9	89.0	90.5	90.5	81.6
Eritrea	-	-	-	-	-	-	-	-	-	-	-
Ethiopia	38.7	36.6	30.2	24.9	27.4	25.7	20.9	21.6	21.9	21.7	23.5
Kenya	44.0	38.4	41.5	41.1	44.4	43.0	40.8	42.2	48.6	50.1	43.8
Libya	-	-	-	-	-	-	-	-	-	-	-
Madagascar	37.3	32.8	31.8	33.4	31.9	32.4	33.7	34.0	34.9	35.1	33.4
Malawi	-	-	-	-	-	-	-	-	-	-	-
Mauritius	-	-	-	-	-	-	-	-	-	-	-
Rwanda	26.6	26.7	20.9	22.6	22.8	23.7	23.7	29.0	28.0	29.1	25.4
Seychelles	-	-	-	-	-	-	-	-	-	-	-
Sudan	75.0	70.7	68.8	72.1	73.1	70.5	94.7	90.5	74.2	78.5	80.6
Swaziland	-	-	-	-	-	-	-	-	-	-	-
Uganda	31.7	20.0	19.6	18.8	23.6	23.3	24.6	27.4	30.4	35.3	25.9
Zambia	25.0	21.9	19.2	20.5	18.9	20.6	25.5	28.8	31.1	32.4	25.0
Zimbabwe	44.7	50.1	68.9	68.3	63.2	51.8	56.7	54.2	54.0	55.2	56.0

Source: Data are collected from the IMF's Fiscal Monitor, April 2015. The Symbol (-) indicates the non-availability of the data point from the data source. The average of (2010-2014) is computed.

\*The IMF's projections.

**Table (10): General Government's Net Debt (% of GDP)**

Country	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015*	Average of (2010-2014)
Burundi	-	-	-	-	-	-	-	-	-	-	-
Comoros	-	-	-	-	-	-	-	-	-	-	-
Democratic Republic of Congo	-	-	-	-	-	-	-	-	-	-	-
Djibouti	-	-	-	-	-	-	-	-	-	-	-
Egypt	71.4	64.5	55.6	58.7	60.0	64.5	67.9	78.1	81.9	83.0	70.5
Eritrea	-	-	-	-	-	-	-	-	-	-	-
Ethiopia	29.0	28.7	25.4	20.9	23.3	20.4	17.7	18.8	19.6	19.8	20.0
Kenya	39.9	34.4	37.1	36.9	40.2	39.1	37.1	38.4	44.9	47.4	39.9
Libya	-77.8	-77.6	-70.2	-93.6	-86.9	-170.5	-83.6	-92.9	-102.6	-49.9	-107.3
Madagascar	-	-	-	-	-	-	-	-	-	-	-
Malawi	-	-	-	-	-	-	-	-	-	-	-
Mauritius	-	-	-	-	-	-	-	-	-	-	-
Rwanda	-	-	-	-	-	-	-	-	-	-	-
Seychelles	-	-	-	-	-	-	-	-	-	-	-
Sudan	-	-	-	-	-	-	-	-	-	-	-
Swaziland	-	-	-	-	-	-	-	-	-	-	-
Uganda	-	-	-	-	-	-	-	-	-	-	-
Zambia	21.6	17.6	16.3	16.5	15.9	16.2	20.0	25.0	29.0	31.9	21.2
Zimbabwe	-	-	-	-	-	-	-	-	-	-	-

Source: Data are collected from the IMF's Fiscal Monitor, April 2015. The Symbol (-) indicates the non-availability of the data point from the data source. The average of (2010-2014) is computed.  
\*The IMF's projections.

**Table (11): Fiscal Rules among the COMESA's Member Countries**

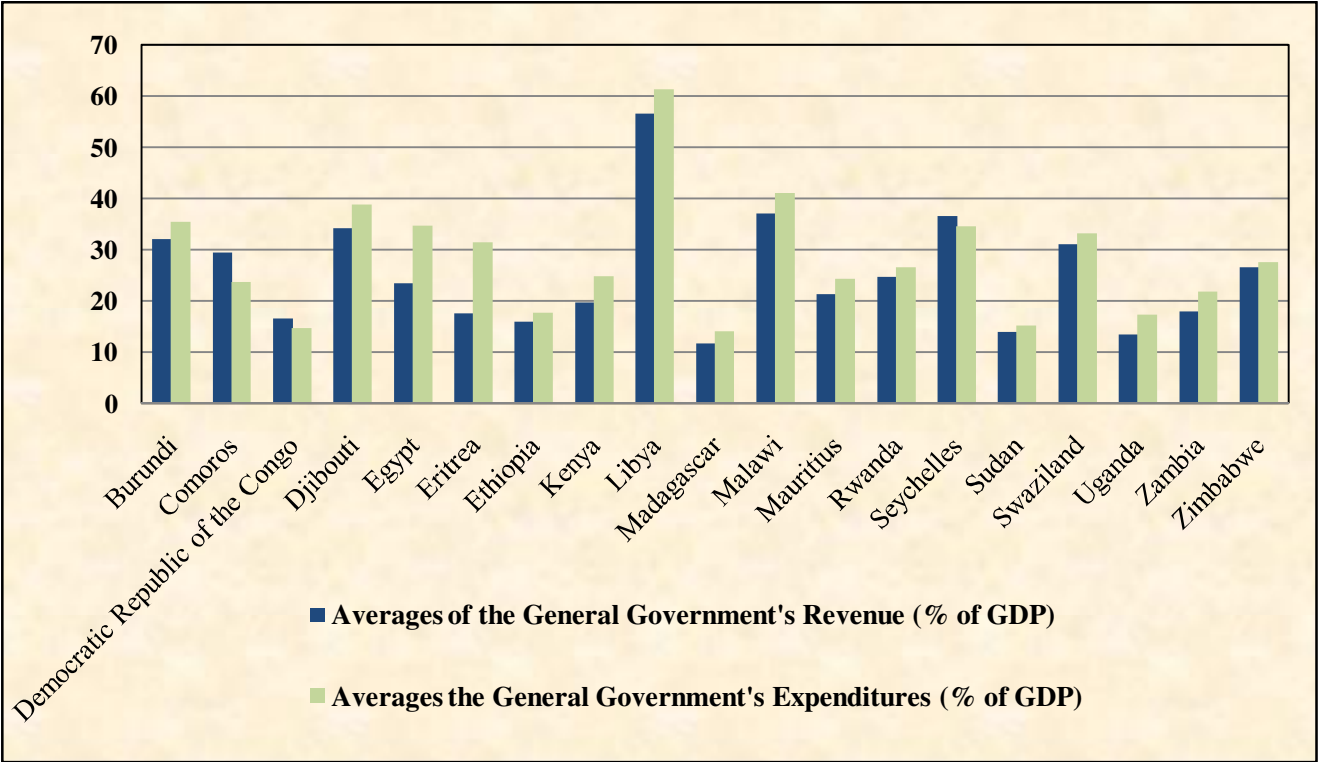
<i>Type of Fiscal Rule*</i>	<i>Country</i>	<i>Year of Implementation</i>	<i>Notes</i>
<i>Debt Rule &amp; Revenue Rule</i>	<i>Kenya</i>	<i>Since 1997</i>	<p>- Debt Rule that sets policy goals for debt ratios. However, these have proved to be non-binding and subject to changes. Currently, the debt-to-GDP ratio in net present value (NPV) terms to be below 40 percent and/or total nominal debt to be below 45 percent of GDP (as a goal of their medium-term debt management strategy). Moreover, the government overdraft from the central bank is limited to 5 percent of previous year revenue.</p> <p>- Revenue Rule which aims at maintaining revenue at 21-22 percent of GDP.</p>
<i>Type of Fiscal Rule**</i>	<i>Country</i>	<i>Notes</i>	
<i>No Rule</i>	<i>Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Libya, Seychelles, Sudan, Uganda,</i>	<i>Committed to improve fiscal performance through the convergence criteria, which is determined by the COMESA's treaty.</i>	
<i>Expenditure Rule</i>	<i>Ethiopia, Kenya Madagascar, Malawi, Mauritius, Rwanda, Swaziland and Zambia</i>	<i>Expenditure rule in Zambia is specific to salary and wage bill of the civil service (currently 8% of GDP) while in Swaziland, the expenditure is based on the estimated revenue collection. In the case of Ethiopia, Madagascar, Malawi and Zambia, the rule targets a specific expenditure to GDP ratio while in Mauritius; a combination of real and nominal expenditure ceiling is used. Kenya uses nominal expenditure ceiling as well as expenditure to GDP ratio.</i>	
<i>Revenue Rule</i>	<i>Ethiopia, Kenya Madagascar, Malawi, Mauritius and Rwanda</i>	<i>In Kenya and Madagascar, the rule imposes constraints on the developments in the tax-to-GDP ratio. The number of years for which the rule imposes the constraint is one year. In most countries, the entire government is covered by the fiscal rule while in a few cases the central government is covered by the fiscal rule. Formal agreement of parties in government defines the fiscal rule. The central budget authority is in charge of monitoring compliance with the fiscal rules in most countries. In case of non-compliance with the fiscal rules, there are no ex-ante enforcement procedures such as presentation of proposal to the legislature with corrective measures, nor implementation of corrective measures by the government or ministry responsible for the overrun or sanctions.</i>	
<i>Budget Balance (Surplus/ Deficit) Rule</i>	<i>Ethiopia, Kenya Madagascar, Malawi, Rwanda, Zambia and Zimbabwe</i>	<i>In Zambia, the budget balance rule is limited to the domestic balance. In most of these countries, the rule targets a specific budget balance in nominal terms.</i>	
<i>Debt Rule</i>	<i>Kenya, Malawi, Mauritius, Rwanda</i>	<i>In the case of Mauritius, the debt to GDP ratio has to be on a downward trend. Capital expenditure has to be at least equal to net borrowing constant expenditure rule.</i>	

\*Sources: The International Monetary Fund (IMF)'s Fiscal Rules Dataset (1985-2014), Last updated in April 2015; (Schaechter et al., 2012, p.44). Fiscal rules are defined as longer-lasting constraints on fiscal policy through numerical limits on budgetary aggregates.

\*\*Source: (Bhatia et al., 2011, p. 64).

Figure (4) represents the averages of the general government’s revenue and expenditure as percents of GDP for the period (2010-2014). Libya is the country with the highest averages; whereas Madagascar is the country with the lowest averages. In order to evaluate the possibility of converging the fiscal policy performance in the COMESA, data available for 19 member countries have been pooled using the E-views software to obtain the standard deviations of two series (i.e. the general government’s revenue and expenditures) for the COMESA region during the period (2010-2014).

**Figure (4): Averages of the General Government’s Revenue and Expenditures (% of GDP) in Individual Member States of the COMESA Region (2010-2014)**



*Source: The author’s calculations based on data from the International Monetary Fund, World Economic Outlook Database (WEO), April 2015.*

Figure (5) displays large disparities in the COMESA’s general government’s revenues and expenditures. This implies variety of the tax systems and tariff schemes within the region. The main contributors to these deviations are Libya, Comoros, Swaziland, Sudan, Burundi, and Malawi (table 12). Moreover, the differences in the COMESA’s general government’s expenditures have started to emerge from 2012 and henceforth. The major contributors to these variations are Libya, Malawi Djibouti, Burundi, Swaziland, Zambia, Sudan, and Egypt (table 13).

**Table (12): Descriptive Statistics of the General Government's Revenue in the COMESA's Member States (2010-2014)**

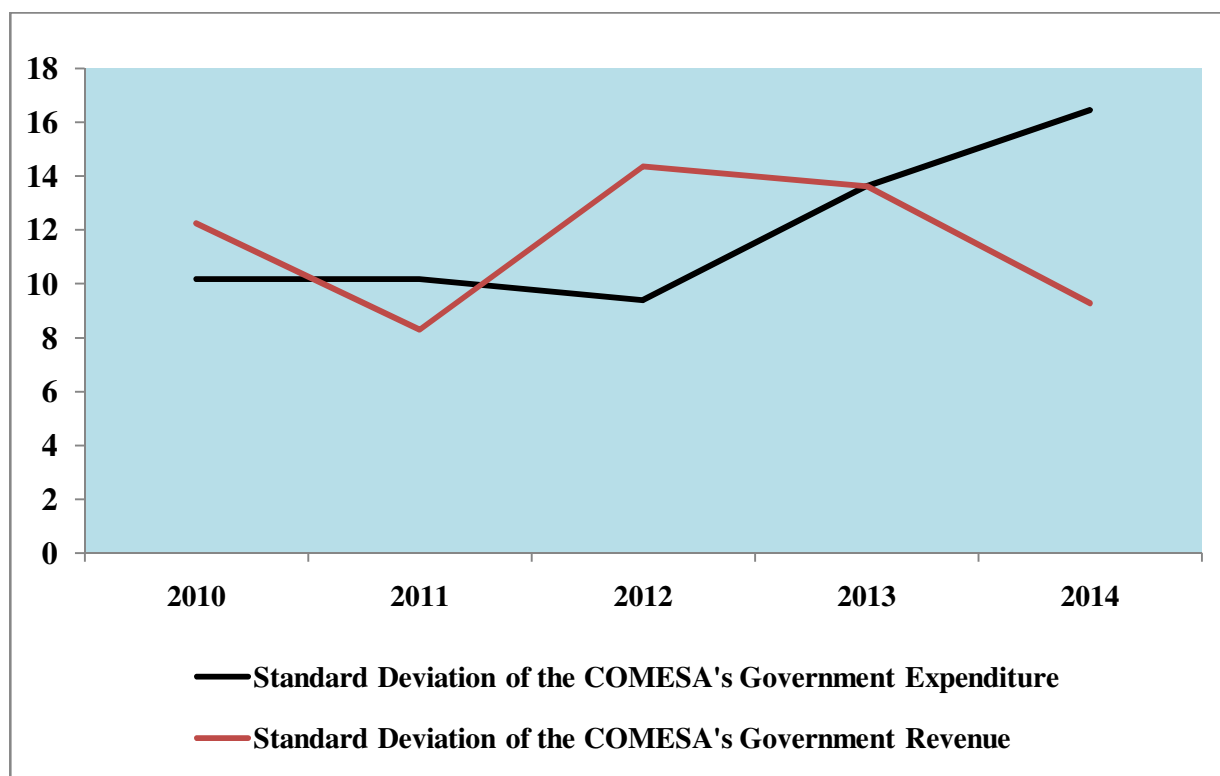
	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Probability
Burundi	32.2	31.4	37.2	26.7	4.3	0.0	1.5	0.4	0.8
Comoros	29.6	28.6	43.0	23.5	8.0	1.1	2.7	1.0	0.6
Djibouti	34.2	34.5	35.6	32.2	1.2	-0.8	2.6	0.6	0.7
Democratic Rep. of Congo	16.7	15.8	20.3	14.3	2.3	0.8	2.4	0.6	0.7
Egypt	23.5	23.0	25.1	22.0	1.5	0.2	1.2	0.7	0.7
Eritrea	17.6	17.4	18.6	17.2	0.6	1.4	3.1	1.6	0.4
Ethiopia	16.0	15.9	17.2	15.1	0.8	0.3	1.6	0.5	0.8
Kenya	19.7	19.6	20.5	19.2	0.5	0.7	2.4	0.5	0.8
Libya	56.6	64.9	72.3	39.1	15.4	-0.3	1.3	0.7	0.7
Madagascar	11.7	11.7	13.2	10.8	1.0	0.6	2.0	0.5	0.8
Malawi	37.1	38.6	40.2	29.8	4.3	-1.1	2.7	1.1	0.6
Mauritius	21.3	21.4	21.9	20.6	0.5	-0.8	2.6	0.5	0.8
Rwanda	24.8	24.6	26.3	23.8	1.0	0.7	2.3	0.5	0.8
Sudan	14.0	11.7	19.3	9.9	4.4	0.4	1.3	0.7	0.7
Swaziland	31.1	34.9	36.3	23.9	6.4	-0.4	1.2	0.8	0.7
Seychelles	36.6	35.9	38.8	35.1	1.7	0.4	1.4	0.7	0.7
Uganda	13.5	13.5	14.1	12.7	0.5	-0.3	2.4	0.1	0.9
Zambia	18.0	18.4	19.1	15.6	1.4	-0.9	2.3	0.7	0.7
Zimbabwe	26.7	27.6	28.0	23.3	2.0	-1.3	2.9	1.3	0.5

**Table (13): Descriptive Statistics of the General Government's Expenditure in the COMESA's Member States (2010-2014)**

	Mean	Median	Maximum	Minimum	Std. Dev.	Skewness	Kurtosis	Jarque-Bera	Probability
Burundi	35.4	35.1	40.8	30.1	4.8	0.1	1.3	0.6	0.7
Comoros	23.7	23.8	25.3	22.1	1.6	0.0	1.3	0.6	0.7
Djibouti	38.9	37.2	47.5	35.5	4.9	1.4	3.1	1.6	0.4
Democratic Rep. of Congo	14.8	15.5	17.9	11.7	2.5	-0.1	1.5	0.5	0.8
Egypt	34.7	33.4	38.6	31.8	3.0	0.4	1.4	0.6	0.7
Eritrea	31.5	30.7	34.6	29.0	2.5	0.3	1.4	0.6	0.7
Ethiopia	17.8	17.8	18.5	16.6	0.7	-0.8	2.4	0.6	0.7
Kenya	24.9	24.2	27.3	23.6	1.5	0.9	2.4	0.7	0.7
Libya	61.4	55.0	84.4	44.5	15.8	0.5	1.9	0.5	0.8
Madagascar	14.2	14.1	14.9	13.4	0.5	-0.1	2.1	0.2	0.9
Malawi	41.1	41.2	49.3	35.0	5.4	0.5	2.2	0.4	0.8
Mauritius	24.4	24.6	25.1	23.3	0.7	-0.6	1.9	0.6	0.8
Rwanda	26.6	26.5	27.6	25.9	0.8	0.2	1.3	0.6	0.7
Sudan	15.2	13.3	19.0	12.7	3.0	0.5	1.3	0.8	0.7
Swaziland	33.3	34.2	38.3	28.5	3.8	0.0	1.9	0.3	0.9
Seychelles	34.6	34.7	36.1	31.9	1.6	-1.0	2.6	0.8	0.7
Uganda	17.4	16.8	19.3	16.6	1.1	1.3	3.0	1.4	0.5
Zambia	21.9	22.3	25.1	18.1	3.1	-0.2	1.4	0.6	0.7
Zimbabwe	27.6	28.6	29.7	22.6	2.9	-1.3	3.0	1.4	0.5

*Source for tables (12) & (13): The author's calculations based on data from the International Monetary Fund, World Economic Outlook Database (WEO), April 2015.*

**Figure (5): Standard Deviations of the General Government's Revenue and Expenditures (% of GDP) for the COMESA Region (2010-2014)**

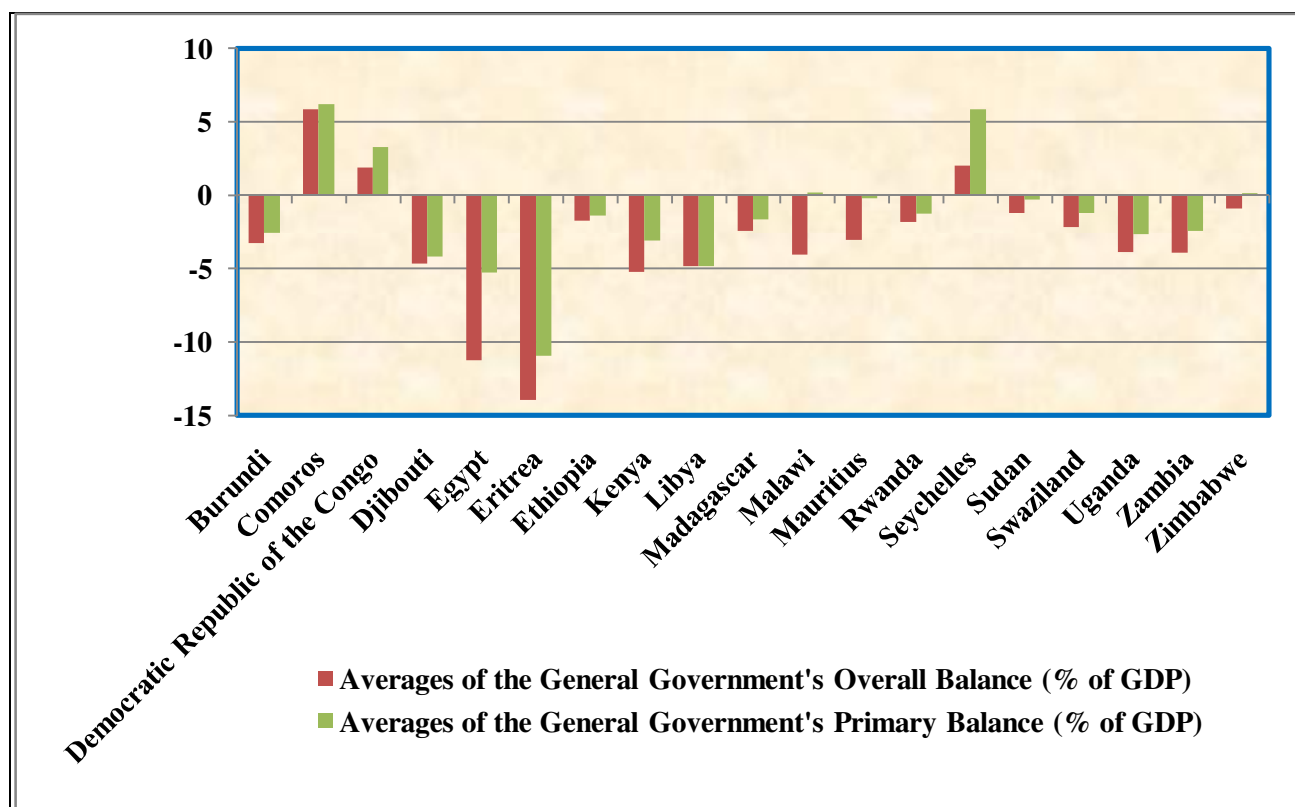


*Source: The author's calculations based on data from the International Monetary Fund, World Economic Outlook Database (WEO), April 2015. Data for 19 member countries are pooled using the E-views to obtain the standard deviation of the series for the COMESA region.*

Figure (6) represents the averages of the general government's overall and primary balances as percents of GDP for the period (2010-2014). Figure (7) displays the averages of the general government's net and gross debts as percents of GDP. Eritrea and Egypt are the countries with the highest deficits and debt indicators in the region. These two countries are challenged by unsustainable fiscal and debt variables.

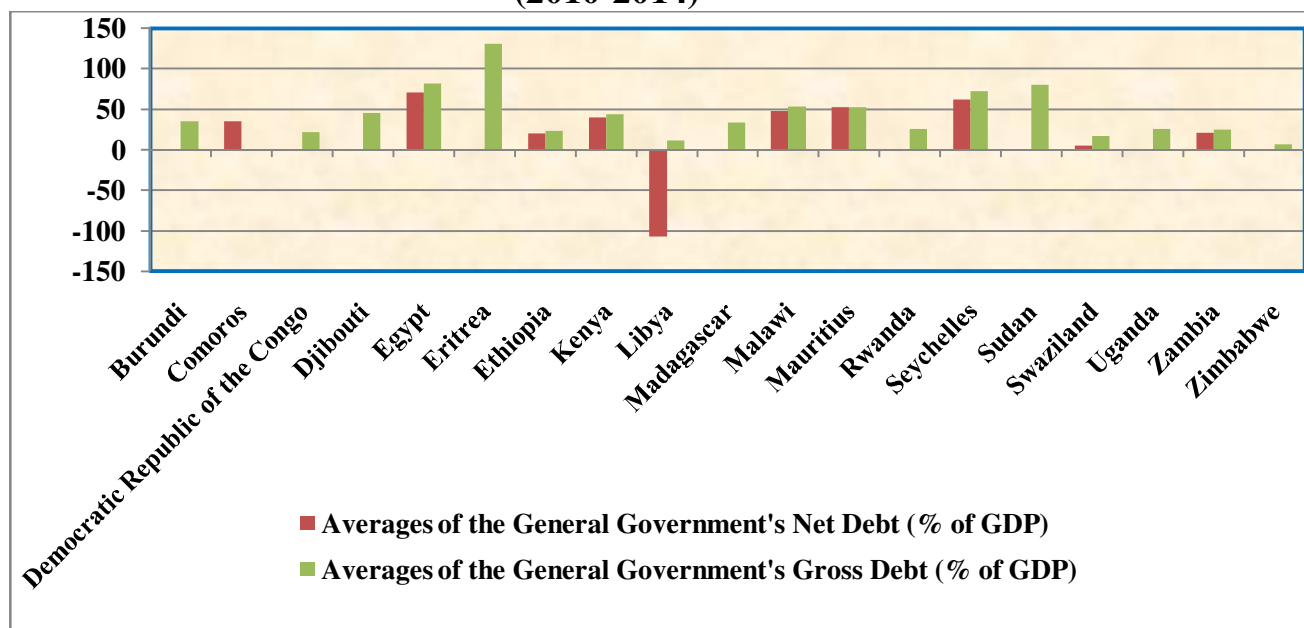


**Figure (6): Averages of the General Government's Overall and Primary Balances (% of GDP) in Individual Member States of the COMESA Region (2010-2014)**



Source: The author's calculations based on data from the International Monetary Fund, World Economic Outlook Database (WEO), April 2015.

**Figure (7): Averages of the General Government's Gross and Net Debts (% of GDP) in Individual Member States of the COMESA Region (2010-2014)**



Source: The author's calculations based on data from the International Monetary Fund, World Economic Outlook Database (WEO), April 2015.

### 3.4. Trade Shares

The COMESA's most important achievement in its integrating framework has been the formation of a Free Trade Area (FTA) by nine member countries in 2000. This area has eliminated tariffs and quotas on goods that conform to the COMESA's rules of origin (Masson and Pattillo, 2004).<sup>26</sup> The COMESA has done further steps to integrate trade policies and to encourage investments via the abolishment of barriers to the movements of goods and services, factors of production, and human capital within the region (Carmignani, 2005). Moreover, the COMESA's orientation towards the harmonization of its regional agenda with those of its corresponding Regional Economic Communities (RECs) represents a complexity in its integrating framework.

In October 2008, the COMESA has planned to form a Continental Free Trade Area (CFTA) (the UNECA, 2012). The establishment of Tripartite COMESA–EAC–SADC Agreement to merge the COMESA, SADC, and EAC regions in a common trade area represents an important step to reach a CFTA.<sup>27</sup> This trade integration will generate benefits to the three regions subject to the political dedication by individual states to follow the principles of integration (Bhatia *et al.*, 2011; the UNECA, 2012). Nevertheless, the overlapping membership in various areas has been considered by (the World Bank, 2000; ECA, 2010; Khandelwal, 2004; Buigut and Valev, 2005; Mbekeani, 2013) as a hurdle to guarantee efficient integration that bounds the effectiveness of convergence criteria and harms the possible gains from free trade.<sup>28</sup> This can be ascribed to confusions arising from differences in rules of origin, wasteful duplication of efforts, forgone capacities, costly negotiating resources, resulting administrative costs, and counter-productive competition among countries as well as institutions.

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<sup>26</sup> The FTA members are Djibouti, Egypt, Kenya, Madagascar, Malawi, Mauritius, Sudan, Zambia and Zimbabwe.

<sup>27</sup> The Tripartite FTA arrangement is signed on 10<sup>th</sup> of June 2015 in Sharm El-Sheikh, Egypt. This trade agreement will build on the FTAs that are already in place in COMESA, EAC, and SADC regions. The Tripartite FTA covers 26 countries (i.e. Angola, Botswana, Burundi, Comoros, Democratic Republic of Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Lesotho, Libya, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Rwanda, Seychelles, South Africa, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe). For more details, one can refer to the COMESA's Official website.

<sup>28</sup> The COMESA comprises 20 countries of which four are also members of the EAC. The SADC has 15 member countries of which eight are also members of the COMESA and one is a member of the EAC. Given this inter-locking membership and the Tripartite Agreement to merge the three RECs, the COMESA is facing key challenges (Bhatia *et al.*, 2011).

The membership conflict in several FTAs is difficult to be resolved because of political concerns (Khandelwal, 2004; the ECA, 2010) unless there is political commitment (Mbekeani, 2013) by members to adhere to the agreements besides national fiscal policies coordination. Additionally, reducing trade barriers in countries where taxes on trade are the most significant sources of the general government's revenue complicates the inter-temporal tradeoff between the short-term loss of revenues and the expected long-term benefits from regional integration (Alemayehu and Haile, 2008). This highlights the importance of continued fiscal policy reforms in addition to viable coordination between monetary and fiscal policies in the region.

Egypt is close to these concerns since the Egyptian fiscal authority is grabbing efforts to create and generate other tax sources given the expected revenue loss from the subsequent stages of trade integration within the COMESA and other optimistic tripartite COMESA-SADC-EAC trade agreement.

**Table (14): Budget Sector Tax Revenues in Egypt  
(1989-2014)**

	1989/90	1993/94	2002/03	2008/09	2012/13	2013/14
	(in percent of GDP)					
Taxes	13.2	19.0	13.3	15.7	14.3	13.0
Income	4.4	6.9	5.0	7.7	6.7	6.1
excl. EGPC, Suez Canal, CBE	...	...	3.3	3.4	2.9	2.8
Property	0.3	0.2	0.2	0.3	0.9	0.9
Goods and services	4.2	6.2	5.5	6.0	5.3	4.6
International trade	3.2	3.8	2.0	1.4	1.0	0.9
Other	1.1	2.0	0.7	0.3	0.4	0.6
	(in percent of total)					
Taxes	100.0	100.0	100.0	100.0	100.0	100.0
Income	33.5	36.0	37.4	49.2	46.9	46.5
excl. EGPC, Suez Canal, CBE	...	...	24.4	21.9	20.5	21.7
Property	1.9	1.2	1.4	1.7	6.6	7.2
Goods and services	32.0	32.7	41.5	38.4	37.0	35.3
International trade	24.0	19.8	14.8	8.6	6.7	6.8
Other	8.6	10.3	4.9	2.1	2.9	4.2

*Source: IMF Country Report for Egypt, Report No. 15/33, p. 38.*

Table (14) reflects a decline in taxes on international trade as a percentage of GDP since FY 2002/03.

On the other hand, the COMESA's international trade shares with its main trading partners as well as its intra-trade links play as key factors in determining the effectiveness of the monetary integration within the region. Tables (15) & (16) describe the international trade between the COMESA's countries and the EU.

In 2014, Libya and Egypt represent over 70.0% of the EU's exports to the COMESA. In the same year, Libya represents the leading trade partner with 43.8% of the EU's imports and Egypt has recorded a share of 30.1%. The EU's exports to the COMESA have grown by an annual average rate of 7.1% during the period (2002-2014). The EU's imports from the COMESA have increased by an annual average rate of 8.6 % during the same period.

**Table (15): The EU-28's Exports of Goods to COMESA's Countries**

(EUR million)

	2002	2011	2012	2013	2014	Growth rate 2013/2014	Annual average growth rate 2002/2014	Share in EU-28 exports to COMESA countries (2014)
<b>COMESA</b>	<b>14 649</b>	<b>24 572</b>	<b>30 843</b>	<b>31 963</b>	<b>31 423</b>	<b>-1.7%</b>	<b>7.1%</b>	<b>100.0%</b>
Burundi	43	79	85	84	109	29.2%	9.3%	0.3%
Democratic Republic of Congo	531	1 175	1 257	1 378	1 631	18.4%	11.0%	5.2%
Djibouti	167	187	189	191	239	25.0%	4.6%	0.8%
Egypt	6 767	14 127	15 537	14 944	16 950	13.4%	8.4%	53.9%
Eritrea	117	72	104	84	57	-31.9%	-2.9%	0.2%
Ethiopia	380	951	1 173	1 209	1 278	5.7%	11.4%	4.1%
Kenya	929	1 692	1 864	1 846	1 819	-1.4%	6.2%	5.8%
Comoros	40	41	45	42	39	-7.7%	1.7%	0.1%
Libya	3 241	2 119	6 372	7 845	5 316	-32.2%	17.4%	16.9%
Madagascar	270	449	517	537	532	-1.0%	7.3%	1.7%
Mauritius	747	822	848	862	875	1.6%	2.9%	2.8%
Malawi	72	129	172	170	158	-7.2%	9.3%	0.5%
Rwanda	76	154	197	184	168	-8.8%	8.4%	0.5%
Seychelles	170	200	266	321	241	-25.1%	5.1%	0.8%
Sudan	576	1 219	928	909	797	-12.4%	5.6%	2.5%
South Sudan	:	:	:	49	47	-4.7%	:	0.1%
Swaziland	20	26	22	23	29	27.5%	5.2%	0.1%
Uganda	204	501	501	467	481	3.1%	8.0%	1.5%
Zambia	114	397	483	578	437	-24.3%	15.2%	1.4%
Zimbabwe	184	232	282	241	221	-8.3%	4.1%	0.7%

Source: Eurostat Statistics-Explained  
[http://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU\\_trade\\_with\\_the\\_Common\\_Market\\_for\\_Eastern\\_and\\_Southern\\_Africa\\_\(COMESA\)&oldid=237595](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_trade_with_the_Common_Market_for_Eastern_and_Southern_Africa_(COMESA)&oldid=237595)].

**Table (16): The EU-28's Imports of Goods from the COMESA's Countries**

(EUR million)

	2002	2011	2012	2013	2014	Growth rate 2013/2014	Annual average growth rate 2002/2014	Share in EU-28 imports from COMESA countries (2014)
<b>COMESA</b>	<b>18 307</b>	<b>27 952</b>	<b>49 553</b>	<b>38 353</b>	<b>28 466</b>	<b>-25.8%</b>	<b>8.6%</b>	<b>100.0%</b>
Burundi	20	47	42	32	22	-31.9%	17.2%	0.1%
Democratic Republic of Congo	505	2 001	2 435	1 374	1 531	11.4%	17.4%	5.4%
Djibouti	5	8	12	9	9	2.3%	17.0%	0.0%
Egypt	3 339	9 608	8 516	7 970	8 567	7.5%	9.9%	30.1%
Eritrea	6	4	4	3	10	192.1%	13.2%	0.0%
Ethiopia	197	698	644	545	571	4.7%	10.6%	2.0%
Kenya	865	1 277	1 234	1 140	1 160	1.8%	2.7%	4.1%
Comoros	19	9	59	13	11	-19.6%	40.5%	0.0%
Libya	9 524	10 447	32 830	23 211	12 478	-46.2%	18.7%	43.8%
Madagascar	506	549	583	738	839	13.7%	5.0%	2.9%
Mauritius	1 350	930	1 050	1 086	966	-11.1%	-2.4%	3.4%
Malawi	217	232	256	223	297	33.1%	3.9%	1.0%
Rwanda	26	48	49	27	47	74.9%	9.5%	0.2%
Seychelles	260	186	221	293	268	-8.6%	1.4%	0.9%
Sudan	270	336	148	183	193	5.3%	12.8%	0.7%
South Sudan	:	:	:	0.1	0.2	82.9%	:	0.0%
Swaziland	130	167	180	230	162	-29.7%	3.4%	0.6%
Uganda	282	453	413	430	453	5.3%	4.5%	1.6%
Zambia	120	503	458	456	372	-18.3%	19.2%	1.3%
Zimbabwe	666	446	417	388	510	31.6%	-0.04%	1.8%

Sources :Eurostat Statistics-Explained  
[\[http://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU\\_trade\\_with\\_the\\_Common\\_Market\\_for\\_Eastern\\_and\\_Southern\\_Africa\\_\(COMESA\)&oldid=237595\]](http://ec.europa.eu/eurostat/statistics-explained/index.php?title=EU_trade_with_the_Common_Market_for_Eastern_and_Southern_Africa_(COMESA)&oldid=237595).

Regarding the intra-COMESA's trade, table (17) shows that Egypt has registered the biggest market share for exports with 23.8% in 2013. However, this presents a drop from the previous year's share of 27.0%. Kenya is the second with 19.1%. It has been followed by Zambia in the ordering. On the imports side, Zambia has maintained its position as the county with the biggest market share of almost 26.0% in 2013, up from the previous year's share of 19.0%. Egypt is the 7<sup>th</sup> in that rank with a share of 6.0% (COMESA, 2014).

The improvement in the intra-COMESA's trade has to be the priority of the region. In the same vein, the tariffs schemes in the major importers countries have to be revised in order to enhance trade links. Furthermore, one of the prerequisites for an effective economic and monetary integration is high percentage of intra-regional trade. This is not the concurrent case with shares less than 50.0%, in the exports and imports sides. This is a significant challenge confronting the COMESA. Accordingly, the national fiscal authorities have to provide more incentives to enhance intra-trade and coordinate policies.

**Table (17): Intra-COMESA Trade, 2013, Values in US\$ Million and (% Share)**

Rank	Exporter	Value	% Share	Importer	Value	% Share
1	Egypt	2,358.9	23.8	Zambia	2,802.5	25.5
2	Kenya	1,897.7	19.1	DRC	2,004.4	18.2
3	Zambia	1,842.3	18.6	Libya	1,404.9	12.8
4	DRC	1,702.6	17.1	Uganda	703.5	6.4
5	Uganda	535.7	5.4	Sudan	687.8	6.3
6	Rwanda	333.2	3.4	Kenya	672.1	6.1
7	Ethiopia	277.8	2.8	Egypt	654.1	6.0
8	Mauritius	213.3	2.1	Zimbabwe	416.4	3.8
9	Sudan	159.9	1.6	Rwanda	374.3	3.4
10	Malawi	142.2	1.4	Burundi	308.6	2.8
11	Zimbabwe	135.4	1.4	Malawi	236.8	2.2
12	Swaziland	123.7	1.2	Ethiopia	194.7	1.8
13	Libya	89.9	0.9	Mauritius	183.3	1.7
14	Madagascar	63.7	0.6	Madagascar	153.8	1.4
15	Burundi	39.9	0.4	Djibouti	92.2	0.8
16	Eritrea	5.5	0.1	Seychelles	50.9	0.5
17	Seychelles	3.7	0.0	Comoros	24.5	0.2
18	Comoros	1.7	0.0	Swaziland	14.3	0.1
19	Djibouti	0.8	0.0	Eritrea	12.9	0.1
	<b>Total</b>	<b>9,928</b>	<b>100.0</b>	<b>Total</b>	<b>10,992</b>	<b>100.0</b>

Source: COMESA, *International Trade Statistics Bulletin No. 13, November 2014, p. 23.*  
*These are the latest available data from the COMESA's Official Website.*

## 4. Concluding Remarks and Policy Recommendations:

- This paper has summarized the relative position of Egypt to the COMESA's member states through using vital fiscal and monetary policy indicators. Built on this descriptive analysis, the paper advocates the importance of coordination between fiscal and monetary policies in the COMESA to attain optimal macroeconomic policies.
- Increasing trade shares, maintaining price stability, and practicing disciplined fiscal policies have to be the overriding objectives for the prevailing COMESA's integrating framework.
- The monetary policy convergence criterion has witnessed breaches in the whole years of 2012 and 2014. The coordinating efforts for monetary policy will lie on Egypt, Sudan, Malawi, and Ethiopia. Furthermore, an efficient reporting scheme about inflation rates to the COMESA's secretariat is crucial.
- The intra-COMESA's trade has represented small percentages as compared to the COMESA's international trade. It has to increase considerably through coordinating fiscal policies of member states about tariffs as well as none tariffs barriers.
- Given the developments in the COMESA's main macroeconomic indicators, there is a deficiency regarding monetary and fiscal policies coordination.
- Egypt, Libya, and Sudan are supposed to be the main contributors to the divergence in monetary policy, real income, and fiscal policy criteria.
- The burden of coordinating monetary and fiscal policies will lie on Egypt as a major economy in the region with the most important diverging macroeconomic indicators.
- Egypt is responsible for restructuring the public debt and reducing the fiscal deficit. Egypt is subordinate to the emerging market economies and the COMESA's countries with respect to debt and fiscal indicators. This situation does not meet the objectives of a prominent country like Egypt.
- In light of the descriptive exploration for Egypt relative to the COMESA, this study suggests monitoring the government's expenditure, determining numerical targets, and reallocating it to build-up productive capacities and investments.
- This policy recommendation for Egypt is consistent with (Cordes *et al.*, 2015) who support the application of expenditure rules as tools for enhanced fiscal sustainability.

- The analysis of fiscal policy in the COMESA raises the issues of policy commitment and accountability. In this context, this paper recommends the following;
  - (i) The establishment of a supranational coordinating body for fiscal policies within 3 to 5 years as a time frame.
  - (ii) Each member state has to report to this body; (1) the type of fiscal rule that it plans to commit its fiscal policy to; (2) the numerical targets of the domestic fiscal policy; (3) the country's current indicators compared to the COMESA's Treaty convergence criteria; (4) the year of implementation; and finally (5) the tools of enforcement.
  - (iii) The COMESA's data portal will be required to provide comparable fiscal policy indicators within 3 to 5 years. This will enable the coordinating body of fiscal policies in monitoring the soundness of fiscal policy in the region's member states.
- Yes, fiscal policy rules do really matter.

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