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REPORT OF THE ACHIEVEMENT OF MACROECONOMIC CONVERGENCE BY COMESA MEMBER COUNTRIES IN 2023

2024 (LN/TB-joo-fwn)

Report on the progress towards achievement of macroeconomic convergence by COMESA member countries in 2023 *(Agenda Item 3)*

1. The assessment of achievement of macroeconomic convergence criteria in 2023 is based on the revised COMESA macroeconomic convergence criteria (2019-2025), summarized as follow:

Primary Criteria

1. Overall budget deficit/GDP ratio (including grants) of not more than 5%
2. Annual average inflation rate of 7% (with a band of +/-1%).
3. Central Bank financing of the budget deficit/average revenue of last 3 financial years of not more than 5% (target of 0%)
4. External Reserves of equal to or more than 3 months of imports cover (target is atleast 6 months)

Secondary Criteria

1. Nominal Exchange rate Variability against the US Dollar of ±10%
2. Central Government Debt Stock as a ratio of GDP at less than 65%
3. Total Tax Revenue to GDP Ratio of at least 20%.
4. Achievement and maintenance of Government Capital Investment to Tax Revenue of at least 20%

2. Table 1 gives a summary of the progress made towards achieving macroeconomic convergence by member states in 2023.

Table 1: 2023 Macro-Economic Convergence Achievements

Country	Primary Criteria				Secondary Criteria			
	1 (% of GDP)	2 (%)	3 (%)	4 (Months)	1 (%)	2 (% of GDP)	3 (% of GDP)	4 (% of Tax Rev)
Burundi	-5.8	27.1	24.1	0.8	26.53	54.31	13.16	86.23
	Not Met	Not Met	Not Met	Not Met	Not Met	Met	Not Met	Met
Congo. Dem. Rep.	-3.2	19.6	N/A	2.8	24.4	9.8	10.3	17.0
	Met	Not Met		Not Met	Not Met	Met	Not Met	Not Met
Comoros	**-1.1**	**9.0**	**24.1**	**8.0**	**3.5**	**28.4**	**7.0**	**61.7**
	Met	Not Met	Not Met	Met	Met	Met	Not Met	Met
Djibouti	-3.4	3.8	0	5.1	0	68	15.8	40.4
	Met	Met	Met	Met	Met	Not Met	Not Met	Met
Egypt Arab Rep	**-6.0**	**24.4**	**N/A**	**5.0**	**36.0**	**N/A**	**12.5**	**23.0**
	Not Met	**Not Met**		**Met**	**Not Met**		**Not Met**	**Met**
Eritrea	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Ethiopia	**2.8**	**32.5**	**27.2**	**N/A**	**53.3**	**39.4**	**6.8**	**60.0**
	Met	Not met	Not met		Not Met	Met	Not Met	Met
Eswatini	**-1.7**	**5.0**	**19.3**	**2,5**	**12.7**	**40.9**	**28.0**	**22.0**
	Met	Met	Not Met	Not Met	Not Met	Met	Met	Met
Kenya	**-5.6**	**7.7**	**5.2**	**4.1**	**18.6**	**71.4**	**13.6**	**25.2**
	Not Met	Met	Met	Met	Not Met	Not Met	Not Met	Met
Madagascar	**-4.2**	**9.9**	**4.7**	**5.6**	**8.1**	**37.3**	**10.1**	**64.9**
	Met	Not Met	Met	Met	Met	Met	Not Met	Met
Libya	0.0	2.4	0.0	34.6	-2.4	43.4	1.4	439.6
	Met	Met	Met	Met	Met	Met	Not Met	Met
Malawi	**-10.0**	**28.8**	**13.0**	**0.7**	**64.1**	**58.3**	**12.7**	**51.7**
	Not Met	Not met	Not met	Not Met	Not Met	Met	Not Met	Met
Mauritius	**-4.8**	**7.0**	**14.3**	**10.6**	**-2.2**	**70.5**	**21.0**	**14.8**
	Met	Met	Not Met	Met	Met	Not Met	Met	Not Met
Rwanda	-6.7	14.3	0.0	4.4	13.0	73.5	14.7	65.7

	Not Met	Not Met	Met	Met	Not Met	Not Met	Not Met	Met
Seychelles	**0.2**	**-1.0**	**0.0**	**3.8**	**1.6**	**58.5**	**27.2**	**14.0**
	Met	Met	Met	Met	Met	Met	Met	Not Met
Somalia	0.0	6.1	N/A	N/A	N/A	N/A	N/A	N/A
	Met	Met						
Sudan	-3.3	171.5	N/A	2.3	N/A	316.5	N/A	N/A
	Met	Not Met		Not Met		Not Met		
Tunisia	-6.6	9.3	N/A	3.6	N/A	76.6	N/A	N/A
	Not Met	Not Met		Met		Not Met		
Uganda	-4.5	3.2	N/A	3.3	0.6	47.7	13.6	24.8
	Met	Met		Met	Met	Met	Not Met	Met
Zambia	**-5.7**	**10.9**	**0**	**3.7**	**-19.5**	**104.8**	**17.3**	**17.9**
	Not Met	Not Met	Met	Met	Not Met	Not Met	Not Met	Not Met
Zimbabwe	-1.2	29.4	0.0	0.5	89.0	61.2	17.8	25.8
	Met	Not Met	Met	Not met	Not Met	Met	Not Met	Met

Source: IMF REO Sub Saharan Africa April 2024; IMF REO Update Middle East and Central Asia April 2024; and Country Reports for Burundi, Congo DR, Comoros, Djibouti, Egypt, Eswatini, Ethiopia, Kenya, Libya, Madagascar, Malawi, Mauritius, Rwanda, Seychelles, Uganda, Zambia and Zimbabwe.

Notes: N/A outturn numbers were not available at the time of compiling this report.

3. The progress related to Primary and Secondary macroeconomic convergence criteria by member countries in 2023 as summarized in **Table 1** indicate the following:

PRIMARY CRITERIA

I. Overall budget deficit/GDP ratio (Including grants) of at most 5%

4. After a significant deterioration in 2020, the region's average fiscal deficit including grants as a percentage of GDP started to decline from 4.8% in 2021 to 4.2% in 2023, with a projected consolidation of 3.5% in 2024. The improvement reflects a combination of increased efforts to boost revenue mobilization, and expenditure efficiencies, including phasing out of untargeted subsidies as countries continue to consolidate their public finances to preserve fiscal sustainability (particularly those with elevated debt vulnerabilities) on the path to a credible and transparent medium-term fiscal policy framework.

5. Thirteen (13) COMESA member countries namely Congo DR, Comoros, Djibouti, Ethiopia, Eswatini, Libya, Madagascar, Mauritius, Seychelles, Somalia, Sudan, Uganda and Zimbabwe achieved convergence Criteria of overall budget deficit/GDP ratio (including grants) of not more than 5%.

II. Annual average inflation rate of 7% (with a band of +/-1%)

6. The COMESA region wide average inflation rate rose somewhat to 23.9% in 2023 from 19.6% in 2022 and 14.7% in 2021, which is more than double the pre-pandemic average of 9.4%. Country level data, however, suggests that consumer price inflation eased in most countries, reflecting the impact of earlier monetary policy tightening, and lower global food and energy prices. In a couple other countries, inflation remained persistently high, hitting double digit in some, largely on account of exchange rate depreciations, accommodative monetary and fiscal policies in 2023 and various shocks that affected both food and non-food prices.

7. Eight (08) COMESA member countries, namely Djibouti, Eswatini, Kenya, Libya, Mauritius, Seychelles, Somalia and Uganda achieved the COMESA macroeconomic Convergence Criteria on average annual inflation rate of 7% (with a band of +/-1%).

III. Minimize the Central bank financing of the budget towards zero

8. Most COMESA member countries have rules which prescribe Central Bank financing as a % of the previous year's tax revenue. In the COMESA macroeconomic convergence criteria, it is capped at no more than 5% (target of 0%) of the budget deficit/average revenue of last 3 financial years. However, as the fiscal deficit continues to mount, public sector borrowing requirements mainly from the domestic market increases substantially. Hence, recourse to Central Bank resources was inevitable during the year under review for a number of member countries that reported the data.

9. Seven (08) out of the seventeen (17) COMESA member countries that reported the data, namely Djibouti, Kenya, Madagascar, Libya, Seychelles, Zambia and Zimbabwe achieved the criteria on Central Bank financing of the budget deficit/average revenue of last 3 financial years of not more than 5%.

IV. External Reserves of equal to or more than 3 months of imports of goods and services

10. Adequate reserves help countries better manage their economies and respond to external shocks, while appropriate reserve management is essential for minimizing the opportunity cost of holding reserves and maximizing returns.

11. The COMESA region external reserve cover dwindled down to an average of 2.3 in months of imports of goods and services in 2023, from 2.7 and 3.1 months of import of good and services in 2022 and 2021, respectively, breaching the standard import-cover benchmark for the COMESA macroeconomic Convergence Criteria of External Reserves of equal to or more than 3 months**.** The dip in external reserves in months of imports of goods and services during the year under review reflects considerable pressure to provide for foreign exchange to smooth disruptive volatility in the exchange rate and supporting oil and food imports particularly for commodity importing economies of the region.

12. Twelve (12) COMESA member countries namely, Comoros, Djibouti, Egypt, Kenya, Madagascar, Libya, Mauritius, Rwanda, Seychelles, Tunisia, Uganda and Zambia achieved the COMESA macroeconomic Convergence Criteria of External Reserves of equal to or more than 3 months of imports of goods and services.

13. **Overall, the assessment of COMESA Member States' performance on the primary convergence scale during the year under review** indicate that:

(i) Three member countries—Djibouti, Libya and Seychelles, for a second year in a row, achieved 100% of the primary criteria.

(ii) Kenya, Madagascar, Mauritius and Uganda achieved 75% of the primary criteria, with Kenya missing out on the overall budget deficit/GDP ratio; Madagascar and Mauritius missed on the criteria of Central Bank financing of the budget deficit; while for Uganda, the criteria on Central Bank financing of the budget deficit could not be assessed due to data gaps.

(iii) Five countries, including Comoros, Eswatini, Rwanda, Zambia, and Zimbabwe achieved 50% of the primary criteria.

(iv) Five countries— Congo DR, Egypt, Ethiopia, Somalia and Sudan recorded a 25% achievement level on the primary criteria;

(v) While two member countries— Burundi and Malawi—breached all the four primary criteria.

14. Overall budget deficit/GDP ratio (including grants) of not more than 5% was the most achieved criteria, at an achievement rate of 62%, followed by external Reserves of equal to or more than 3 months of imports cover (target is atleast 6 months), at 57%. Annual average inflation rate of 7% (with a band of +/-1%) criteria was the most difficult for Member States to attain, with attainment rate at only 38%.

15. The performance score on the primary convergence scale for the region improved to 51%, compared to 46% and 40% attained in 2022 and 2021, respectively.

SECONDARY CONVERGENCE INDICATORS

I. Nominal Exchange rate Variability against the US Dollar of ±10%

16. The funding squeeze driven by limited access to external financing on account of the challenging external financing conditions, escalating geo-political tensions in the Middle East and red sea regions, increasing vulnerabilities to global external shocks and threats of rising political instability and frequent climate change events, marked the year under review. Fundamentally, shocks resulted in dwindling of reserves, a large build of external debt and debt servicing, sharp rise in import of goods and services and a sustained drop in capital flows. As a result, exchange rate suffered sustained pressures and inflation stayed above the pre pandemic level, on average, in the region. At the same time, output levels remained depressed, and is forecast to decelerate for a third consecutive year in a row to 2024, before reversing trend beyond 2025.

17. Striking a balance between containing the ongoing inflationary pressures and supporting the still-fragile recovery, while at the same time safe guard debt sustainability and manage exchange rate volatilities in response to tightening global financial conditions remains a key challenge for the regional Central Banks. Even in the face of weak economic activity, many regional Central Banks have tightened monetary policy to anchor inflation expectations and allowed the exchange rate to depreciate while conducting foreign exchange interventions to smooth disruptive volatility. The depreciation of currencies in member countries had adverse impact on debt repayment obligations and inflation.

18. Seven (07) out of the seventeen (17) COMESA member countries that reported data, namely Comoros, Djibouti, Madagascar, Libya, Mauritius, Seychelles and Uganda achieved the revised COMESA secondary Convergence Indicator of nominal exchange rate variability of ±10%.

II. Central Government Debt Stock as a ratio of GDP at less than 65%

19. The region’s average Government debt as a share of GDP declined to 55.6% in 2023, compared to 58.1% in 2022 and 57.4% in 2021, reflecting, a combination of improvement in macroeconomic imbalances, fiscal consolidation and a comeback in foreign direct investment (FDI) after several years of sluggish inflows.

20. Ten (10) COMESA member countries namely, Burundi, Congo DR, Comoros, Ethiopia, Eswatini, Madagascar, Malawi, Seychelles, Uganda and Zimbabwe achieved the COMESA secondary Convergence Indicator of total government debt as a share of GDP of less than 65%.

III. Total Tax Revenue to GDP Ratio of at least 20%.

21. Adequate level of revenue to GDP ratio is necessary to implement policies that would move the economies into virtuous cycle of higher investment and higher growth.

22. Three (03) out of the Fifteen (15) COMESA member countries that reported data, namely Eswatini, Mauritius, and Seychelles achieved the secondary Convergence indicator of total tax revenue to GDP ratio of at least 20%.

IV. Achievement and maintenance of Government Capital Investment to Tax Revenue of at least 20%

23. Thirteen (13) out of the seventeen (17) COMESA member countries that reported data, namely Burundi, Comoros, Djibouti, Egypt, Ethiopia, Eswatini, Kenya, Madagascar, Libya, Malawi, Rwanda, Uganda and Zimbabwe achieved the secondary Convergence indicator of maintenance of government capital investment to tax revenue of at least 20%.

24. **Overall, the assessment of COMESA Member States' performance on the secondary convergence scale** during the year under review, among the member countries that reported the data, indicate that:

(i) Six countries—Comoros, Eswatini, Madagascar, Seychelles, Libya, and Uganda—met 75% of the secondary criteria—with Comoros, Madagascar, Libya and Uganda breaching the criteria on total tax revenue to GDP Ratio of at least 20%. Eswatini and Seychelles breached the criteria on Nominal Exchange rate Variability against the US Dollar of ±10% and on achievement and maintenance of Government Capital Investment to Tax Revenue of at least 20%, respectively.

(ii) Burundi, Djibouti, Ethiopia, Malawi, Mauritius and Zimbabwe achieved 50% of the Secondary criteria, breaching, almost in common, the criteria on total tax revenue to GDP Ratio of at least 20%, among others.

(iii) Congo DR, Egypt, Kenya and Rwanda breached all except the criteria on total government debt as a share of GDP of less than 65% (Congo DR) and achievement and maintenance of government capital investment to tax revenue of at least 20% (Egypt, Kenya and Rwanda).

(iv) One member country, Zambia, breached all the secondary criteria while other countries, including Eritrea, Somalia, Sudan and Tunisia did not submit the data.

25. Overall, among the seventeen (17) Member States that reported data, achievement and maintenance of Government Capital Investment to Tax Revenue of at least 20% was the most achieved, at 80% while tax revenue to GDP ratio of at least 20% criteria remained the most challenging secondary criteria to attain, with an achievement rate at a paltry 20%. The achievement rate on the criteria on central government debt Stock as a ratio of GDP at less than 65% was 57%.

26. The performance score on the secondary convergence scale for the region in 2023 improved to 47%, compared to 35% in 2022 and 26% attained in 2021.

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