About CMI

COMESA MONETARY INTEGRATION PROGRAMME AND THE ROLE OF COMESA MONETARY INSTITUTE (CMI)

The mandate to set up a monetary union is derived from Article 4(4) of the COMESA Treaty signed in Kampala, Uganda in 1993, which states that "the COMESA Member States shall in the field of monetary affairs and finance, cooperate in monetary and financial matters and gradually establish convertibility of their currencies and a payments union as a basis for the eventual establishment of a monetary union".

This mandate is further reinforced in Articles 76-78 of the Treaty, which respectively deal with COMESA Monetary and Fiscal Policy Harmonization, establishment of currency convertibility and formation of an exchange rate union. Based on the above mandate, the COMESA Committee of Governors of Central Banks set up a the COMESA Monetary Institute (CMI). The CMI's objective is to undertake all the technical, policy, statistical, institutional and legal preparatory work that will lead to creation of the common central bank and the introduction of a common currency in COMESA region, with the ultimate objective of achieving a monetary union. The Institute became operational in March 2011 and is based in Nairobi, at the Kenya School of Monetary Studies (KSMS), an institution of the Central Bank of Kenya (CBK).

Vision

To make COMESA region a zone of macroeconomic and financial stability with the ultimate goal of achieving a monetary union. The Monetary Union will make the region more globally competitive and attractive to cross border and foreign investment.

Mission

To provide excellent technical services to member countries in order to facilitate the region's sustained development through monetary and financial integration.

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Director's Note

Dear Readers,

The Year 2022 has seen a progressive return to normal operations as we emerged from strict COVID-19 pandemic requirements of social distance and serious restrictions on human interactions, which has enhanced growth for the CMI. This growth helped member countries to strengthen capacity in Macroeconomic Management and in assessing Financial System Stability.

More specifically, the CMI programs have enabled participants in member countries central banks to have skills relevant to their daily duties and made them competent and comparable with their peers in the region and beyond. It also enabled them to undertake high quality research, which could be used as an important reference by researchers and policy makers. The User's Guides produced by CMI are also important knowledge products which enables member central banks to train their staff at national level.

The main achievements in line with the objectives of the CMI in 2022 were the following:

A. Capacity Building Activities

The CMI undertook the following trainings on:

i. Application of Econometric Software to Cross Sectional Data using FinAccess Data and its implication on Financial Stability;

ii. Transmission Mechanism of Macro Prudential Shocks to the Financial System;

iii. Fiscal Stress Testing for Central Banks and Ministries of Finance;

iv. Macro and Micro Stress Testing for Financial Institutions;

v. Basic Dynamic Stochastic General Equilibrium (DSGE) Modelling and Time Series Analysis;

vi. Practical application of Bayesian Vector Auto Regressions (BAVR) Approach to the analysis of Monetary Policy Transmission Mechanism;

vii. Analysis of Payment System, Banking Interconnectedness and Systemic Risk using Network Analysis;

viii. Basel III and Macro Prudential Surveillance; and

ix. Challenges facing Central Banks in Banking Supervision.

B. Research Activities

I. The CMI undertook and validated country specific research studies, using staff from member Central Banks on the following::

i. Equilibrium Real Effective Exchange Rate and Monetary Policy Implementation; and

ii. Implication of FinTech on Financial Stability.

II. Completed the peer-review process of the papers on the following topics in collaboration with experts from the member Central Banks

i. Assessing the Bank Lending Channel of Monetary Transmission Mechanism using Panel Data Analysis;

ii. Modelling and Forecasting Inflation Dynamics;

iii. Risk Taking Channel of Monetary Policy Transmission Mechanism: An Application of Panel VAR, SVAR and VECM;

iv. Empirical Analysis of the Effects of Key External Shocks on Selected Macroeconomic Indicators;

v. Modelling the Spillover Effects of Volatility in Commodity Prices on Financial Stability;

vi. Estimating and Forecasting Time Varying Volatility in Consumer Prices: Application of GARCH Model; and

vii. Impact of Macroeconomic Developments on Financial System Stability.

C. Publications of the following:

a) CMI Working Papers after a full cycle of the peer-review process:

i. The Bank Lending Channel of Monetary Transmission Mechanism in Malawi: Evidence from Bank Level Panel Data;

ii. Empirical Analysis of the Effects of External Shocks on selected Macroeconomic Variables: The Case of Zambia.

iii. Impact of Macroeconomic Developments on Financial System Stability in Malawi;

iv. Impact of Macroeconomic Developments on Financial Stability in Mauritius; and,

v. The impact of macroeconomic developments on financial stability in Zambia

b) Special Reports which are available on COMESA and CMI Websites

i. Policy Options for COMESA Member Countries during a Period of Multiple Shocks;

ii. Fiscal Policy and Inclusive Growth;

iii Macroeconomic Developments in the COMESA Region in 2021, which is published in COMESA Annual Reports; and

iv. COMESA wide Financial Stability Report for 2021.

v. Climate Change and Inclusive growth;

vi. The Role of Financial Technology (FINTECH) in Changing Financial Industry and Increasing Efficiency in the Economy; and,

vii. Progress and Challenges of the COMESA Monetary Integration Program

D. Sub-committees and Committees Meetings

During the year under review, CMI successfully held the following face-to-face meetings:

i. The 19th Meeting of the Monetary and Exchange Rates Policies Sub-Committee

ii. The 16th Meeting of the COMESA Financial System Development and Stability Sub-Committee

iii. The 26th Meeting of the COMESA Committee of Governors of Central Banks

iv. The 26th Meeting of the COMESA Committee on Finance and Monetary Affairs

v. The Meeting of Experts of the 42nd Meeting of the Bureau

vi. The 42nd Meeting of the Bureau of the COMESA Committee of Governors of Central Banks

I am grateful to COMESA Member Central Banks for their support and contributions to the CMI activities which are geared towards making the region a zone of macroeconomic and financial stability. I am especially grateful to the CMI team for their dedicated service delivery during the year.

With this message, I would like to sign off and wish you all a happy reading.

Lucas Njoroge (PhD)

Director - CMI

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Training on Application of Econometric Software to Cross Sectional Data Using Financial Inclusion Data and Its Implications on Financial Stability

The COMESA Monetary Institute (CMI) organized a virtual validation workshop for a user's guide on "application of econometric software to cross sectional data using financial inclusion data and its implications on financial stability", from 21st to 25th February, 2022. The workshop was based on the 2022 Work plan for CMI, which was approved by the Bureau of the COMESA Committee of Governors of Central Banks in December, 2021.

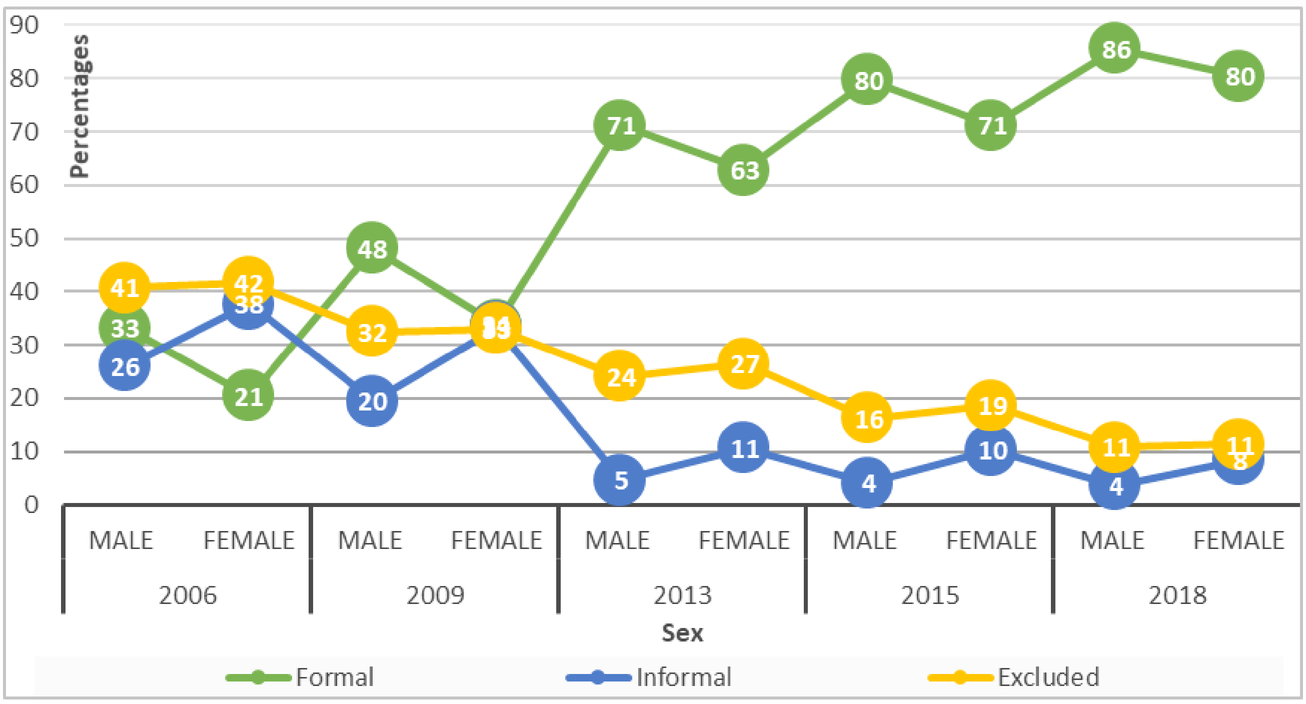
The main motivation of developing this User's Guide is the need to better understand the Financial Access Landscape, regionally and internationally and improve the measurement of financial inclusion by COMESA member countries.

30 delegates from 10 Central Banks of COMESA Member States namely: Burundi, Democratic Republic of Congo, Comoros, Egypt, Libya, Malawi, Mauritius, Rwanda, Sudan and Zambia, attended the validation workshop.

In his opening statement, Mr. Ibrahim Zeidy, Director of the CMI underscored the importance of understanding the Financial Access Landscape and improving the measurement of financial inclusion in COMESA member countries.

The participants, at the end of the training, had been equipped with i) econometric tools for the analysis of survey datasets as well as insights on the development of survey instruments and how they can be replicated in other research areas; ii) practical exposition of FinAccess Household Survey Data with emphasis on hands-on application using STATA econometric software. The training also built capacity among Central Bankers and policy analysts on how to successfully roll out surveys and carry out analysis using modern statistical software for policy; and enabled sharing of knowledge and experience on FinAccess Household Survey Data.

Access to financial services by Sex



2 Training on the Transmission Mechanism of Macro-Prudential Shocks to the Financial System

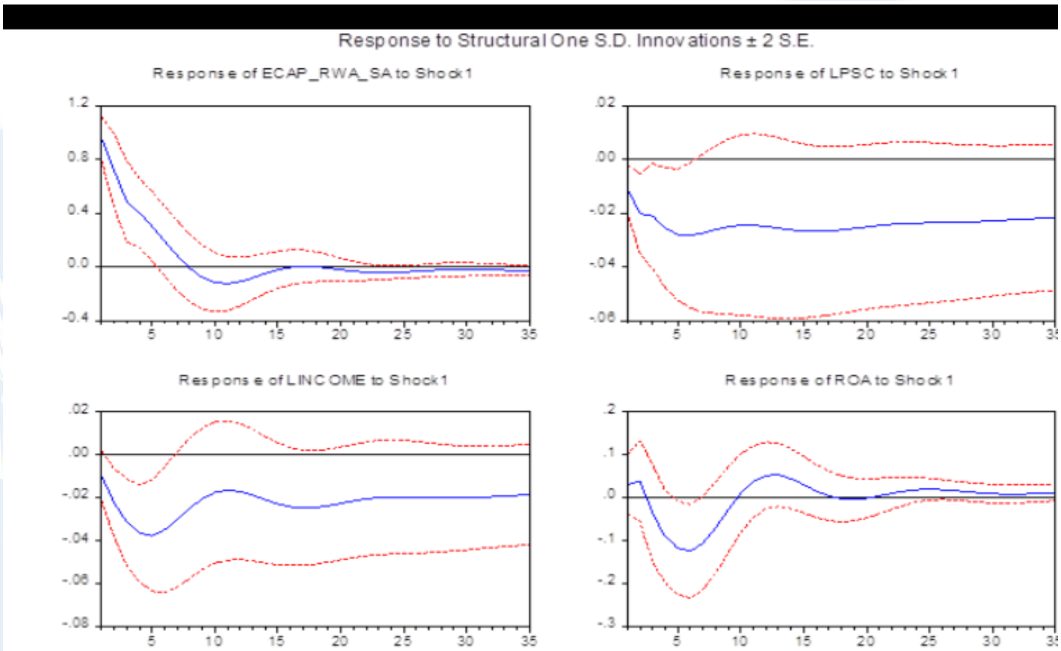
Based on the 2022 Work plan for CMI, which was approved by the 25th meeting of the COMESA Committee of Governors of Central Banks, CMI held a virtual training on the "Transmission Mechanism of Macro Prudential Shocks to the Financial System: Application of Vector Auto Regressions (VAR), Structural VAR (SVAR) and Vector Error Correction Models (VECM)", from 9th to 13th May, 2022.

The training was motivated by the fact that macro prudential shocks have potential to disrupt the normal credit intermediation channel and may result in a widespread curtailment of credit to bank dependent borrowers, thereby disrupting the entire financial system. Therefore, the training was intended to uncover the process (call it the transmission mechanism) through which macro prudential policy impacts the financial system. This is because a successful implementation of macro prudential regulations requires an accurate assessment of how fast the effects of macro-prudential impulses propagate to other parts of the financial system and the timing and size of these effects.

In his opening statement, Dr. Lucas Njoroge, the Ag. Director of the COMESA Monetary Institute underscored the importance of understanding the transmission mechanism of macro prudential shocks, in order to safeguard the financial system against the build-up of systemic risk. He also stated that the training helps to understand the interdependencies among key financial and macroeconomic variables and the feedback effects thereof.

He hence noted that the training is an important step towards designing appropriate macro prudential policies.

The training enhanced capacity of analyzing the most important features of transmission channels of macro prudential shocks on the financial system, especially during periods of extreme widespread financial distress; deepened the understanding of the interdependencies among key financial and macroeconomic variables and the feedback effects thereof; and enabled sharing of experiences and networking among the 25 delegates from eight (08) Central Banks of COMESA Member States namely: Djibouti, Egypt, Malawi, Mauritius, Sudan, Tunisia, Uganda and Zimbabwe who attended the training.



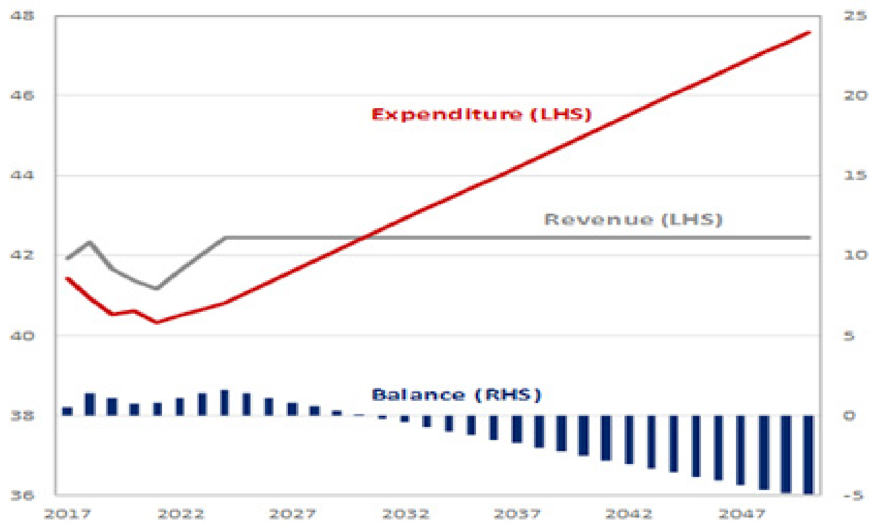
3 Training on Fiscal Stress Testing for Central Banks and Ministries of Finance

A virtual training workshop on "Fiscal Stress Testing for Central Banks and Ministries of Finance", was organized from 27th June to 1st July, 2022. The workshop was based on the 2021 Work plan for CMI, which was approved by the Bureau of the COMESA Committee of Governors of Central Banks in December, 2021.

The training aimed at providing a deeper understanding of how to deal with fiscal risks. One of the key roles of government is to develop the National Budget as a guide towards achieving specific development and social objectives. This includes determining the resource envelope namely: domestic revenue (tax and non-tax revenue), donor grants, and the borrowing needs for funding the identified priorities. However, and more often fiscal outturns differ substantially from the budget forecasts, owing to factors outside the government's control, thus posing challenges to the attainment of the government's intended objectives. Specifically, the occurrence of fiscal risks, defined as the deviation of fiscal outturns from initial forecast, leads to additional government obligations, revenue losses, larger public debts, and occasionally, refinancing difficulties and crises. Moreover, unexpected spending pressures or revenue losses often require disruptive adhoc adjustments during the fiscal year. Therefore, addressing fiscal risks is a key element of the COMESA Multilateral Macroeconomic Surveillance Framework. Fiscal stress test examines how the public finances would respond to fiscal risks. A comprehensive disclosure and analysis of fiscal risks can help governments to ensure that fiscal policy settings can respond to a range of potential future economic and fiscal shocks; that specific risks are actively monitored and managed; and that abrupt and disruptive changes in policy are avoided when risks materialize.

In his opening statement, Mr. Ibrahim Zeidy, Director of the CMI underscored the importance of conducting fiscal stress tests in COMESA member countries. He noted that countries need a more complete understanding of the potential threats to their fiscal position, in form of fiscal risk test that can help policy makers simulate the effects of shocks to their forecasts and their implications for government solvency, liquidity and financial needs.

At the end, the 35 delegates from 12 Central Banks and Ministries of Finance of COMESA Member States namely: Democratic Republic of Congo, Djibouti, Egypt, Eswatini, Kenya, Malawi, Rwanda, Seychelles, Sudan, Uganda, Zambia and Zimbabwe who attended the training attested to have horned their skills and knowledge in identifying specific fiscal risks and in designing stress test scenarios for fiscal stress test; and able to undertake fiscal stress testing for individual risk factors and to interpret results correctly for effective macroeconomic management. They also attested to have shared knowledge and experience on fiscal stress testing in member countries. These skills set enhances implementation of the COMESA Multilateral Fiscal Surveillance Framework.

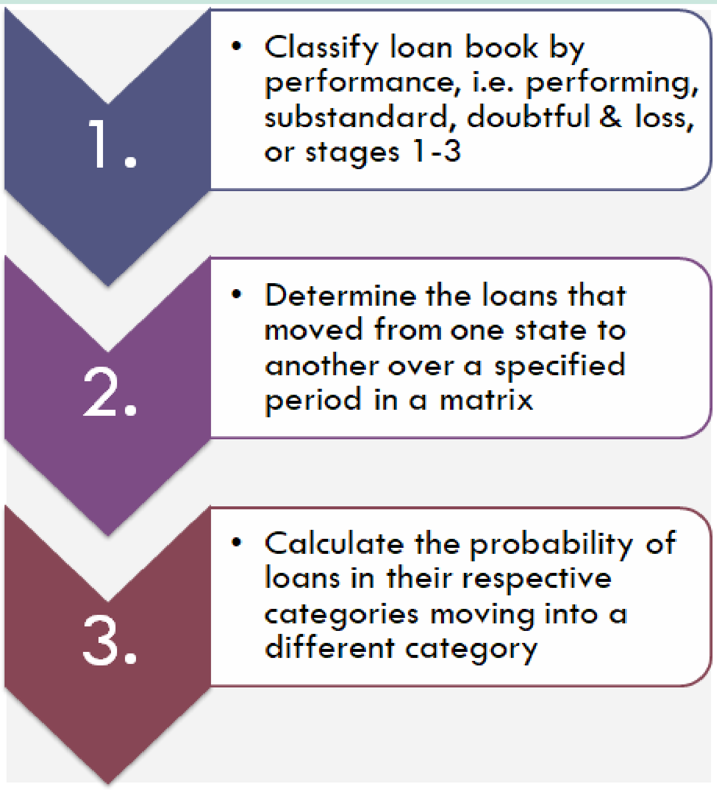


4 Training on Macro and Micro Stress Testing for Financial Institutions

The CMI, in line with the 2022 Work plan as approved by the Bureau of the COMESA Committee of Governors of Central Banks in December, 2021, conducted a virtual training on "Macro and Micro Stress Testing", from 29th August to 02nd September 2022.

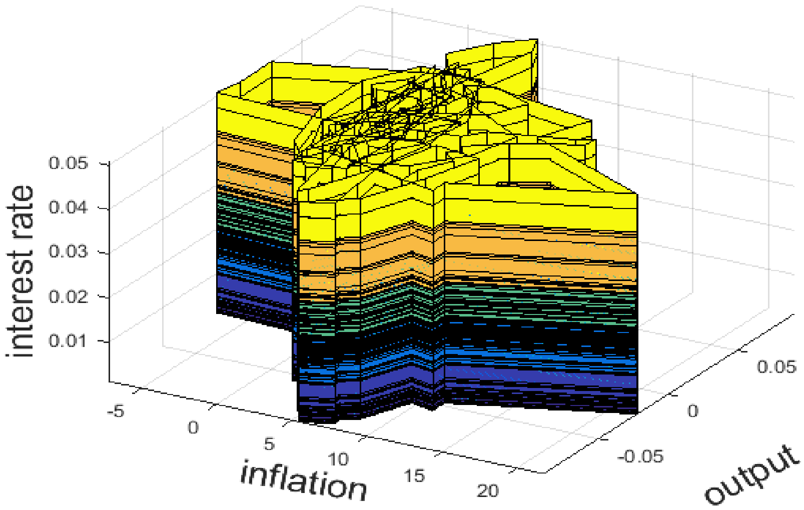
While addressing the delegates at the commencement of the training, the CMI's Director, Mr. Ibrahim Zeidy, underscored the importance of systemic risk assessment as it is pertinent in uncovering direct exposures between banks that can lead to contagion through domino effect and cause instability in the entire financial system. Thus, macro and micro stress testing being key tools for assessing the stability of the financial system underpinned the motivation for the Governors decision to undertake the afore-mentioned training. He further stated that the overall objective of the training was to expose participants to stress testing tools and enhance the implementation of the COMESA Financial System Development and Stability Plan.

At the end of the workshop, 52 analysts from 11 Central Banks of COMESA Member States namely: Congo DR, Djibouti, Egypt, Eswatini, Kenya, Malawi, Mauritius, Rwanda, Sudan, Uganda and Zambia attested to learning how to identify channels through which shocks are transmitted between the financial sector and the real economy, and within and between financial systems; linking changes in macroeconomic and financial variables with financial results and measure their relative impact on the health of the banking system; assess the resilience of individual banks and the financial system to solvency, liquidity and contagion risks and their interaction; and, analyze the health of commercial banks and assess their interconnectedness. Delegates shared country experiences and networked.



> ***"systemic risk assessment is pertinent in uncovering direct exposures between banks that can lead to contagion through domino effect and cause instability in the entire financial system"***
>
> **Ibrahim Zeidy**

5 Training on the Basic Dynamic Stochastic General Equilibrium Modelling and Time Series Analysis



The virtual training on "Basic dynamic stochastic general equilibrium (DSGE) modelling and Time Series Analysis" was organized from July 11th –15th 2022 the training was based on the 2022 Work plan for CMI, which was approved by the Bureau of the COMESA Committee of Governors of Central Banks in December, 2021.

While addressing the delegates at the commencement of the workshop, the CMI's Director, Mr. Ibrahim Zeidy, said that the motivation for the Governors decision was the usefulness of DSGE modelling for monetary policy formulation particularly in inflation targeting monetary policy regime, to which most COMESA member Central Banks are to transition to. He emphasized that contemporary monetary policy formulation requires information and forecasts on the interaction between sectors and variables in the economy. This can be better understood through DSGE modeling framework, which have richer micro-foundation that captures economic relationships than other comparable models.

At the end of the workshop, 32 delegates, from twelve (12) Central Banks of COMESA Member States, namely, D R Congo, Comoros, Djibouti, Egypt, Eswatini, Ethiopia, Malawi, Mauritius, Rwanda, Sudan, Zambia, and Zimbabwe attested to having developed and sharpened their skills to build small- to medium- scale DSGE model for their respective countries.

They also attested to knowledge sharing and networking. It is no doubt, therefore, that the knowledge gained from the training will contribute to improved monetary policy formulation and ultimately enhance the implementation of the COMESA Monetary Integration Programme by all COMESA member countries.

delegates attested to having developed and sharpened their skills to build the DSGE model in their respective countries

Validation Workshop of a User's Guide on the Practical Application of Bayesian Vector Auto Regressions Approach to the Analysis of Monetary Policy Transmission Mechanism

6

The CMI, in line with her 2022 Work plan approved by the Bureau of the COMESA Committee of Governors of Central Banks in December, 2021, conducted a virtual workshop to validate a user's guide on "Practical application of Bayesian Vector Auto Regressions (BVAR) Approach to the analysis of Monetary Policy Transmission Mechanism", from 25th to 29th July, 2022.

While addressing the delegates at the commencement of the workshop, the CMI's Director, Mr. Ibrahim Zeidy, said that the motivation for the Governors decision was the developments in the analysis of monetary policy transmission mechanism, which in part, is based on the BVAR approach, which is fast-gaining traction in recent years for the following key reasons. It is more adept at dealing with different data sources or incorporating information from other studies; is precise at parameter estimates; has limited mathematical complexities; and it produces more efficient forecasts.

At the end of the workshop, 30 economic analysts from 12 Central Banks of COMESA Member States namely: Comoros, Djibouti, Egypt, Eswatini, Kenya, Madagascar, Malawi, Mauritius, Sudan, Uganda, Zambia and Zimbabwe, had reviewed the material in the user's guide. They attested that the BVAR tool kit contained in the guide deepens the understanding of interdependencies among key macroeconomic variables and the feedback effects thereof.

Even more, they attested that BVAR enhances user's capacity to conduct analytical works in monetary policy analysis and forecasting as it adds to the suit of analytical tools that central banks can use to unravel the channels through which monetary policy is most effective. Delegates shared country experiences and provided useful input into the guide.

Var: UNTITLED Workfile: BVAR DATA::COMESA\

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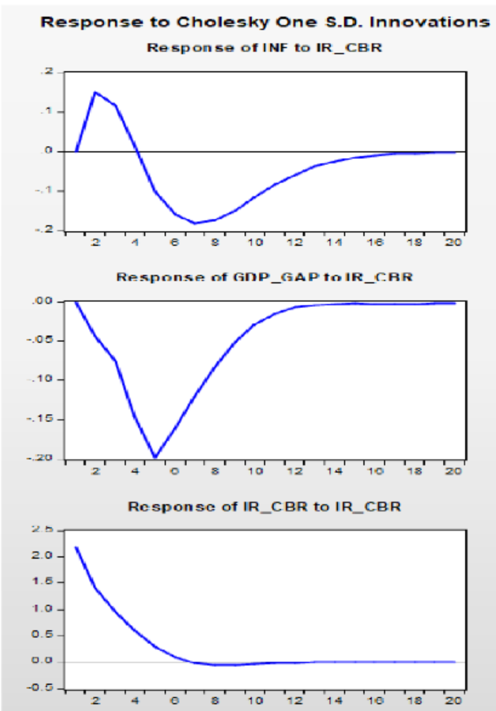
Effect of Cholesky (d.f. adjusted) One S.D. IR_CBR Innovation

Period	INF	GDP_GAP	IR_CBR
1	0.000000	0.000000	2.175883
2	0.150809	-0.043640	1.406737
3	0.115948	-0.075530	0.952992
4	0.016128	-0.144920	0.604968
5	-0.100179	-0.198288	0.287329
6	-0.160913	-0.159843	0.094302
7	-0.182387	-0.120497	-0.008429
8	-0.174505	-0.083022	-0.050646
9	-0.148927	-0.050635	-0.054975
10	-0.116598	-0.028650	-0.041398
11	-0.085115	-0.014907	-0.023141
12	-0.058576	-0.007279	-0.007140
13	-0.038444	-0.003759	0.003840
14	-0.024463	-0.002541	0.009633
15	-0.015490	-0.002385	0.011377
16	-0.010132	-0.002546	0.010556
17	-0.007118	-0.002648	0.008489
18	-0.005464	-0.002564	0.006121
19	-0.004504	-0.002306	0.004008
20	-0.003845	-0.001940	0.002388

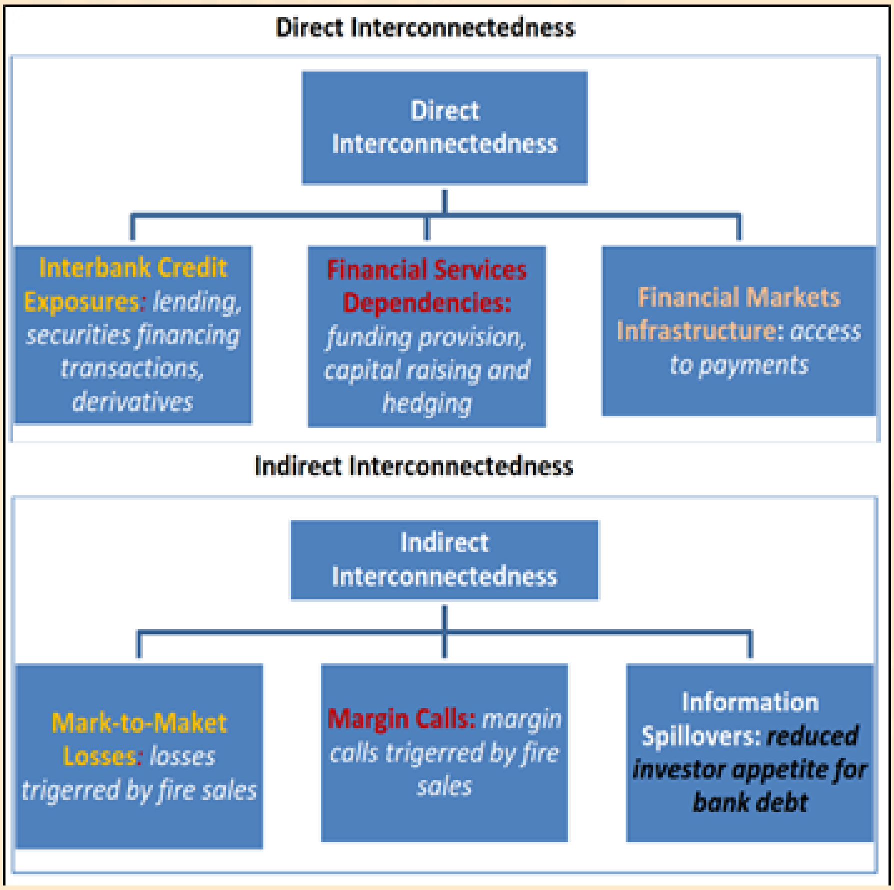
Cholesky Ordering: INF GDP_GAP IR_CBR



7 Training on the Analysis of Payments System, Banking Interconnectedness and Systemic Risk

The CMI conducted a virtual training for Staff of Central Banks from the COMESA region on "Analysis of Payments System, Banking Interconnectedness and Systemic Risk using Network Analysis framework", from 05th to 09th September, 2022.

Fifty-one (51) delegates from 12 Central Banks of COMESA Member States namely: Burundi, Democratic Republic of Congo, Comoros, Egypt, Eswatini, Madagascar, Malawi, Mauritius, Sudan, Uganda, Zambia and Zimbabwe participated in the trainning. The training familiarized participants with banking system interconnectedness, i.e., a relationship which is created among banks through financial transactions, such as borrowing and lending from each other, linkages in their payments system and exposure to a common economic sector, among others. Greater interconnectedness among banks means that stress from one bank tend to spread more rapidly and extensively across the financial system, leading to reduced provision of financial services such as lending to the real economy.



During the training, participants were exposed to a step-by-step approach in the deployment of Net Work Framework to the assessment and analysis of banking and payments system interconnectedness and systemic risk using COMESA money market data. In his address to the delegates, the Director of CMI, Mr. Ibrahim Zeidy, underscored that the training was motivated by the concern about possibilities of systemic crisis in the event of shocks to the financial system as a whole, due to the interconnectedness of not only the banking sector, but also with other non-banking financial institutions and sectors of the economy, including the debt market, real estate and the financial markets infrastructure.

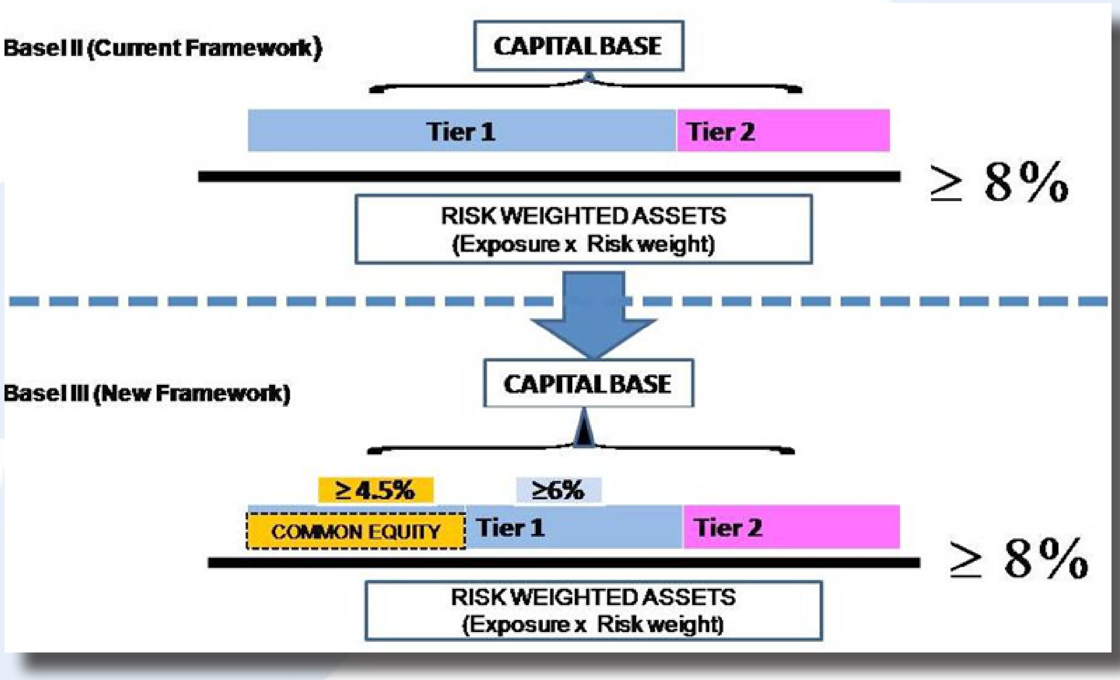
He also underscored that the training would enable, among others, participants to share knowledge and experiences and enhance the implementation of the COMESA Financial System Development and Stability Plan as it adds to the suit of analytical tools that COMESA member countries can use to advice policy.

8 Training on Basel III and Macro-Prudential Surveillance

The CMI, in line with the 2022 Work Plan, approved by the Bureau of the COMESA Committee of Governors of Central Banks in December, 2021, conducted a virtual training on "Basel III and Macro-Prudential Surveillance", from 19th to 23rd September 2022.

While addressing the delegates at the commencement of the training, the CMI's Director, Mr. Ibrahim Zeidy, noted that the implementation of Basel III framework within the internationally agreed timeframe is aimed at strengthening the resilience of the banking system, improving market confidence in regulatory ratios and promoting a level playing field. He further observed that COMESA member countries are making progress at implementing different facets of Basel III, and that they are aware that Basel III transition arrangements had provided for a period for observation and partial implementation of leverage, capital and liquidity ratios such that countries should have fully complied by January 1, 2019. Therefore, he noted that the training aimed to familiarize participants with Basel III standards and principles as well as equip them with tools and techniques for conducting supervision under the revised framework—knowledge which would enhance the implementation of the COMESA Financial System Development and Stability Plan.

At the end of the workshop, 45 banking Supervisors and Financial Stability analysts from 10 Central Banks of COMESA Member States namely: Burundi, Congo DR, Egypt, Kenya, Malawi, Mauritius, Sudan, Uganda, Zambia and Zimbabwe had a detailed exposure to Basel III standards, and attested to have been equipped with tools and techniques for conducting supervision under Basel III framework. Moreover, delegates shared country experiences on the implementation of Basel III and networked.



9 Training on Challenges Facing Central Banks in Banking Supervision

The CMI, as part of its 2022 Work plan approved by the Bureau of the COMESA Committee of Governors of Central Banks in December, 2021, conducted a training, in collaboration with the Central Bank of Egypt, on "Challenges Facing Central banks in Banking Supervision", from 25th to 29th September 2022, in Cairo Egypt.

While addressing the delegates at the commencement of the training, Dr. Naglaa Nozahie, Governor's Advisor for Africa Affairs, Central Bank of Egypt stated that Central Bank Banking supervisors are responsible for evaluating and promoting the safety and soundness of the financial institutions they supervise, as well as safeguarding the stability of the financial system. She noted, thus, that there is need for the Banking Supervisors to achieve the right balance between micro- and macro-prudential objective of system-wide resilience in evaluating and promoting the safety and soundness of the financial institutions they supervise, as well as safeguarding the stability of the financial system. On his part, Dr. Lucas Njoroge, the New CMI Director, stressed that supervisors are required to adequately manage macro and micro risks in order to be able to have early warning systems and early intervention strategies to avoid banking crises, and embrace technology in order to keep up with the digital

transformation that the industry is experiencing. Therefore, he noted, the training was to explain and discuss the challenges facing COMESA Central Banks in Banking Supervision, as supervisors have plenty of challenges which they should deal with in order to safeguard their banking sectors and financial stability.

At the end of the workshop, the 37 delegates who attended the training from 12 COMESA member countries' Central Banks of Burundi, Congo DR, Egypt, Eswatini, Malawi, Mauritius, Sudan, Uganda, Zambia, Libya, Tunisia and Zimbabwe enhanced their capabilities in identifying new trends in risk management and supervision on risk management frameworks and systems, and Onsite supervision developments and challenges. They also firmed up their skills in Anti-Money Laundering (AML) and Combating Financing of Terrorism (CFT) fundamentals and challenges, and preparation and building of recovery plans, early intervention framework and dealing with weak banks and bank resolution. Delegates also networked and shared experiences on challenges facing bank supervision and how they are dealing with them in their various jurisdictions.

The 19th Meeting of the COMESA Monetary and Exchange Rates Policies Sub-Committee

The Monetary and Exchange Rate (MERP) Sub-Committee meeting was held from 13th to 14th October, 2022, back to back with the Validation Workshop. The meeting considered the status of implementation of its work plan for 2022 and prepared the work plan for 2023 which will be implemented by CMI.

Preceding this was the validation workshop for studies conducted by Member Central Banks on "Equilibrium Real Effective Exchange Rate and Monetary Policy Implementation" which was held from 11th to 12th October 2022 in Nairobi, Kenya. The workshop followed the decision of the Bureau of the COMESA Committee of Governors of Central Banks in December, 2021 that CMI organizes a validation workshop for the studies undertaken in 2022 under the MERP Sub-Committee.

Dr. Lucas Njoroge, the Director of CMI, in his opening statement stated that the concept of equilibrium Real Effective Exchange Rate (REER) has been of policy concern over time due to its implication on a country's relative price competitiveness. He noted, among others, that it determines a country's ability to increase productivity and come up with innovations required for improved economic performance. He observed that REER is a key variable in the conduct and implementation of monetary policy and reflects the stance of the economy in terms of economic growth and the establishment of external balance. REER can also be a source of economic vulnerability where it's persistent deviation from equilibrium reflects deterioration of the economic situation in a country. Substantial misalignments are extremely costly. Undervaluation may lead to perceived greater relative price competitiveness of a country and can ultimately trigger retaliation and currency wars. On the contrary, undervaluation that follows sustained depreciation (or devaluation in fixed parities) increases the price of imports and discourages imports while promoting price competitiveness by lowering the price of exports, leading to improved trade balance. An overvaluation would have the opposite effects

The key finding from most of the studies indicate that in the long-run, real effective exchange rate is in line with the economic fundamentals. However, in the short run, several countries experienced REER misalignment, which has been declining over time, as would be expected given the floating exchange rate regimes pursued by most monetary authorities. In addition, tight monetary policy appears to be linked to an increase in REER misalignment, but is, by and large, due to vulnerability of the banking sector particularly during the early 1990s, a period in which studies find the greatest magnitude of REER misalignment. The main common policy recommendation across most of the studies is the need for prudent macroeconomic management and effective coordination between monetary and fiscal policies, as precondition to limit the deviations of the real exchange rate from its equilibrium level.

In his closing statement, Dr. Njoroge underscored that the studies will significantly contribute to policy advice that will ensure macroeconomic stability in member countries, and hence achievement of macroeconomic convergence in COMESA region.

The workshop and meeting were attended by delegates from the Central Banks of Burundi, Congo DR, Djibouti, Egypt, Eswatini, Malawi, Mauritius, Rwanda, Uganda, Sudan, Zambia and Zimbabwe. COMESA Secretariat was also represented.

The 16th Meeting of the COMESA Financial System Development and Stability Sub-Committee

The CMI held the 16th meeting of the COMESA Financial System Development and Stability (FSDS) Sub-Committee on 27th - 28th October, 2022, to review the activities undertaken by CMI in 2022 which are related with FSDS Sub-Committee and to prepare a work plan for 2023.

The Meeting was attended by delegates from the Central Banks of Burundi, Congo DR., Egypt, Kenya, Malawi, Mauritius, Rwanda, Sudan, Uganda, Zambia and Zimbabwe. The Meeting noted the progress made by Member States on the implementation of the COMESA Assessment Framework for Financial System Stability in 2022.

In the report, the meeting observed that significant progress were made, by many member countries on the implementations of the establishment of Financial Stability Units and Multi-Disciplinary Financial Stability Committees; development of action plans for the implementation of forward looking Financial Stability Reports and macro-prudential policies; status on compliance to the revised Basel Core Principles on effective banking supervision; and electronic submission of financial stability reports and financial soundness indicators of the banking sector to the CMI. The Meeting, further observed that there have been many developments in the Financial Stability space—developments which suggest the need to review and revise the existing framework—an exercise that the meeting constituted a small team to undertake.

The FSDS sub-Committee Meeting was preceded by a validation workshop for the studies conducted by Member Central Banks on "Implication of FinTech on Financial Stability", which was held on the 25th – 26th October 2022. The validation workshop was attended by participants from the Central Banks of Burundi, Congo DR., Egypt, Kenya, Malawi, Mauritius, Rwanda, Sudan, Uganda, Zambia and Zimbabwe.

Dr. Lucas Njoroge, the Director of CMI, in his opening statement stated that since the global financial crisis of 2007, most financial institutions' regulation and supervision mechanisms have become more stringent, improving significantly the resilience of supervised financial institutions and thus financial stability. At the same time, technological advancements in digital financial services, called FinTech, have increasingly taken a centre stage in the financial services space.

He further noted that FinTech has introduced new financial services trends in financial services, increasing the number of users expecting fast and

easily accessible financial services available on mobile phones and other electronic platforms, which, unlike the traditional banking system, has strong social and economic potential of providing access to financial services where it is low. However, whilst FinTech has provided the space for expanding financial services, its advancement could be a source of financial eco systems instability as it complicates policymaking with challenges for regulation particularly in emerging and developing economies. He observed that the studies were aimed better understanding the implications on financial stability of FinTech and to ultimately inform policy on expanding the reach, improving the quality, and reducing the cost of digital financial services for consumers in the COMESA region.

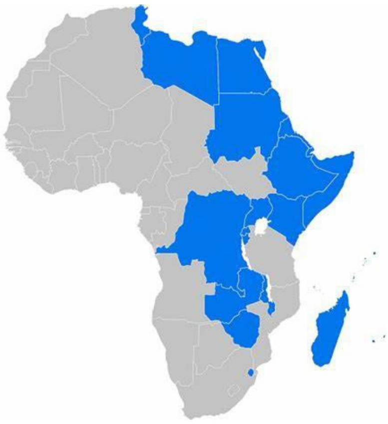
The findings of the country specific studies provide a spring board for policy considerations, including : the need to pursue robust regulatory framework that continuously identifies emerging risks and vulnerabilities to FinTech adoption and growth while at the same time, strengthen incentives for symbiotic development and prudent behavior among the FinTechs; the need to promote strong collaboration between incumbent financial services providers and FinTech firms to ensure a safe environment for innovation and stability of incumbent financial system; and the need for regulators in the COMEAS region to avoid looking for a one-size-fits-all regulation for FinTech as the FinTech effect on the stability of Financial Institutions is market-specific. An additional policy recommendation is the need to encourage incumbent financial services providers to foster the adoption of mobile based services as this has a positive effect on their profitability and thus promotes financial stability.

The meeting further considered capacity building activities undertaken by CMI under FSDS Sub-Committee in 2022, and progress on the COMESA-wide Financial Stability Report (FSR) for 2021 and prepared a work plan for 2023. The FSR has been compiled by a select working group of experts drawn from the central banks of DR Congo, Egypt, Mauritius, Sudan and Zambia. The team convened the first meeting in Nairobi Kenya during 22nd - 24th June, 2022 to interrogate the 2021 FSR data, the structure and content of the FSR, distribute the work load among team members and set out the time lines within which to prepare the 2021 FSR for the COMESA region.

Standing (L-R): Dr. Thomas Bwire, Senior Economist, CMI; HusamEldin Omer Ibrahim, Analyst, Financial Stability Unit, Central Bank of Sudan; Dr. Ahmed Sahloul, Assistant sub-Governor for Banking Supervision, Central Bank of Egypt; Nason Kapako, Senior Economist, Macro Prudential Analysis, Bank of Zambia; Dr. Lucas Njoroge, Senior Economist, CMI; and Jacob, O. Oyoo, Senior Admin Assistant, CMI.

Seated (L-R): Faith Njau, Admin Assistant, CMI; Yuki Mafuankadi, Deputy Director, off Site Control, Banking Supervision, Banque Centrale du Congo; Ibrahim Zeidy, Director, CMI; and Mrs. Divya Seewon, Ag. Analyst, Financial Stability Division, Bank of Mauritius.

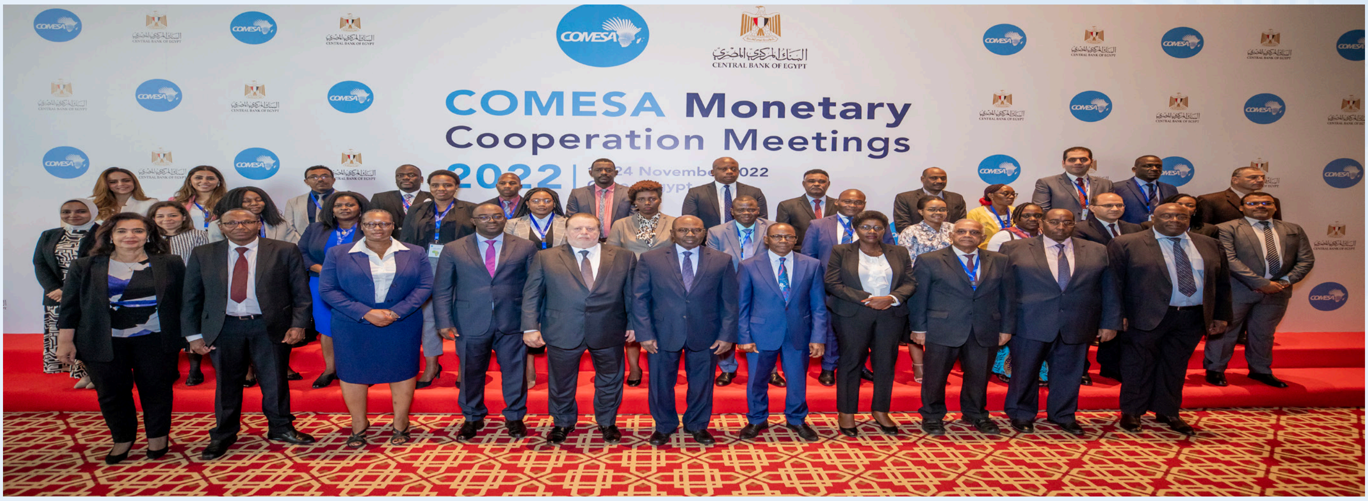
The FSR provides an in-depth review of developments in the financial sector; identify key risks, vulnerabilities and challenges facing the financial systems of member countries in the COMESA region; and pens down policies which needs to be pursued to address them —these being key ingredients for enhancing the implementation of the COMESA Financial System Development and Stability Plan.



11 out of 21 COMESA member countries are covered in the 2021 COMESA FSR, as per responses to the questionnaire. These include: Burundi, Egypt, Kenya, Madagascar, Malawi, Mauritius, Democratic Republic of Congo (RDC), Sudan, Uganda, Zambia and Zimbabwe.

The FSR is comprised in Three Chapters, with Chapter One on Legislative and Institutional Framework for Financial Stability in COMESA Member Countries and Chapter Two on Global and COMESA region Macro-Financial Development. Chapter Three is on Analysis of COMESA region Banking Sector Performance. The report also includes annexes on Financial Stability Framework and Stress Testing Implementation. The chair of the task force, Dr. Ahmed Sahloul, Assistant Sub-Governor for Banking Supervision, Central Bank of Egypt, briefed the meeting on the milestones in the preparation of the Chapters and the key challenges that the taskforce has experienced in compiling the report. The FSR is due for publication.

The 26th Annual Meeting of the COMESA Committee of Governors of Central Banks



The Central Bank of Egypt hosted the 26th COMESA Committee of Governors of Central Banks under the chairmanship of Mr. Hassan Abdalla, Governor, Central Bank of Egypt and Chairman of the COMESA Committee of Governors of Central Banks on 24th November 2022.

The meeting was attended by the Governors and representatives of the COMESA member Central Banks of Burundi, Djibouti, Egypt, Eswatini, Malawi, Sudan, Uganda, Zambia, and Zimbabwe, as well as the COMESA Clearing House (CCH), COMESA Monetary Institute (CMI), COMESA Business Council (CBC), COMESA secretariat and the auditor from KPMG Zambia on invitation. The meeting was preceded by the meeting of the 42nd Bureau of the COMESA Committee of Governors of Central Banks on the 23rd November 2022 at the same venue, following the meetings of the Technical Committees of Experts during the period from 19th to 22nd November 2022.

The annual meetings deliberated on the activities of the CMI and the CCH, the two COMESA Institutions entrusted with Monetary and Financial Integration of member countries. The CMI accomplished many activities under the Monetary and Exchange Rates Policies Sub-committee and the Financial System Development and Stability Sub-committee to improve Macroeconomic Management and the Assessment of Financial Stability of member countries. The CCH continues to facilitate payments among member states through its Regional Payment and Settlement System (REPSS) to improve intra-regional trade.

In his opening speech, the Governor of the Central Bank of Egypt welcomed Governors and noted that their presence was a clear indication of their commitment to COMESA integration agenda. He observed that the meeting was taking place at a time when the region was facing multiple challenges, from the repercussions of the negative effects of the COVID-19 pandemic and climate change, as well as the Russian-Ukrainian crisis and the resulting uncertainty in the world, which, among other things, were causing high rates of inflation and recession in several countries.

The Chairman indicated that Central Banks are responsible for a large part of the efforts to rescue economies from recession and ensure economic recovery and sustainable growth. He observed that the need to address concerns related to climate change will not only be the responsibility of Central Banks, but also of Government Institutions and stakeholders, which was made clear at the recently ended COP27 climate summit in Sharm El-Sheikh.

The Secretary General of COMESA, Ms. Chileshe Mpundu Kapwepwe, in a statement read on her

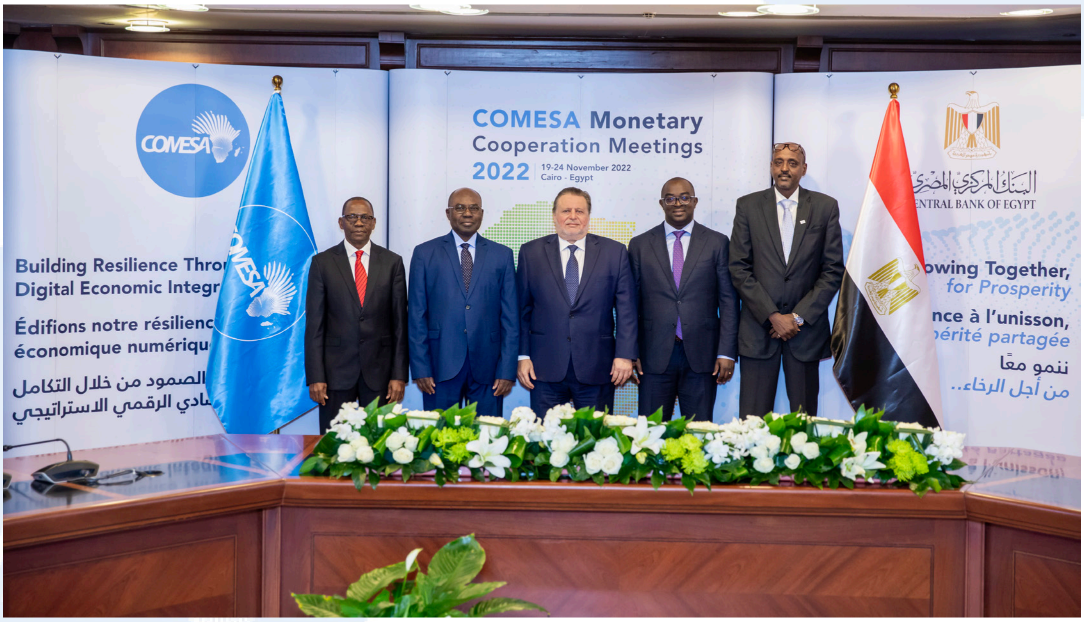
> **Central Banks are responsible for a large part of the efforts to rescue economies from recession and ensure economic recovery and sustainable growth**

behalf by Mr. Mahmood Mansoor, the Executive Secretary of the CCH expressed gratitude to Governor Hassan Abdalla for the warm hospitality and congratulated him upon the well-deserved appointment. She expressed her very sincere appreciation to all Governors, Deputy Governors and Distinguished Delegates for their attendance, despite their busy schedule of national responsibilities and stressed that their attendance at the meeting was a clear testimony of their unwavering support to COMESA and continued efforts towards deeper Monetary and Financial Integration of the region. She noted that this effort for greater Monetary and Financial Stability will facilitate the Economic Integration and provide for sustained Economic Development.

The meeting agreed on the following two topics for the Annual Governors Symposium to be held in Zimbabwe in 2023 (i) The future of money: CBDCs and other virtual assets and (ii) Central banks in the era of climate change. At the end of the meeting, the following Bureau of the COMESA Committee of Governors of Central Banks for the year 2023 was elected:

- Governor of the Reserve Bank of Zimbabwe, **Chairperson**;
- Governor of the Central Bank of Egypt, First **Vice-Chair;**
- Governor of the Central Bank of Eswatini, **Second Vice-Chair;**
- Governor of the Central Bank of Uganda, **First Rapporteur**; and
- Governor of the Reserve Bank of Malawi, **Second Rapporteur.**

Meeting of the Outgoing Bureau



Standing Left to Right: Dr. Innocent Matshe, Deputy Governor, Reserve Bank of Zimbabwe; Mr. Hussein Yahia Jangoul, Governor, Central Bank of Sudan; Mr. Hassan Abdallah, Acting Governor, Central Bank of Egypt; Mr. Dieudonné Murengerantwari, Governor, Banque De La République du Burundi; Mr. Robert Carton Mohamed, Chef de Service, Rélations Extérieures, Banque Centrale de Djibouti.

Publications

CMI Working Paper Series After a Full Cycle of Peer-Review Process

1. The Bank Lending Channel of Monetary Transmission Mechanism in Malawi: Evidence from Bank Level Panel Data;

   Link - https://cmi.comesa.int/wp-content/uploads/2022/09/CMI001_BANK-LENDING-CHANNEL-OF-MONETARY-TRANSMISSION-MECHANISM-Malawi.pdf

2. Empirical Analysis of the Effects of External Shocks on selected Macroeconomic Variables: The Case of Zambia;

   Link - https://cmi.comesa.int/wp-content/uploads/2022/09/CMI002_Empirical-Analysis-of-the-Effects-of-External-Shocks-on-Selected-Macroeconomic-Variables_The-Case-of-Zambia.pdf

3. Impact of Macroeconomic Developments on Financial System Stability in Malawi;

   Link - https://cmi.comesa.int/wp-content/uploads/2022/09/CMI003_Impact-of-Macroeconomic-developments-on-Financial-System-Stability_Malawi.pdf

4. Impact of Macroeconomic Developments on Financial Stability in Mauritius;

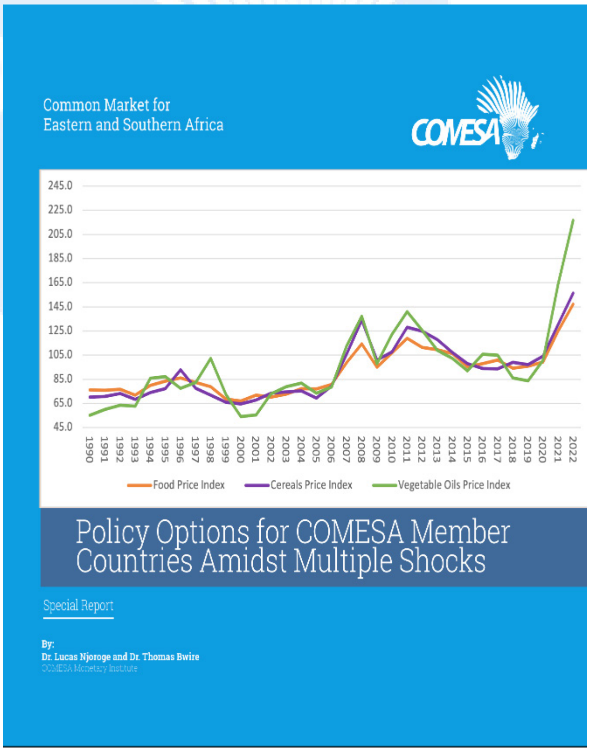
   Link - https://cmi.comesa.int/wp-content/uploads/2022/09/CMI004_Impact-of-Macroeconomic-Developments-on-Financial-Stability_Mauritius.pdf

5. The impact of macroeconomic developments on financial stability in Zambia.

   Link - https://cmi.comesa.int/wp-content/uploads/2022/09/CMI005_The-impact-of-macroeconomic-developments-on-financial-stability_Zambia.pdf

Special Reports Which are Available in COMESA and CMI Websites

1. Policy Options for COMESA Member Countries during a Period of Multiple Shocks;



This article examines the multiple shocks the world is currently experiencing and proposes several policy options that the economies of the COMESA region can implement to go through the storm and possibly find their path to a quick recovery.

Link - https://cmi.comesa.int/wp-content/uploads/2022/08/Policy-Options-for-COMESA-Amidst-Multiple-Shocks.pdf

2. Fiscal Policy and Inclusive Growth;

The objective of this paper is to provide an introductory note on how to make fiscal policy more inclusive.

Link - https://drive.google.com/file/d/1d6Zcz9eSRoKrs6pbQ5omL9HVMD3VzLTf/view?usp=sharing