
# Simplified Version of the Protocol for Establishing the East African Community Monetary Union

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# Preface

This is a simplified version of the Protocol on the Establishment of the East African Community Monetary Union (EAMU). It is intended to ease reading and understanding of the Monetary Union under the East African Community (EAC).

The meaning and the content of the Protocol has not been changed. However, definitions and examples have been used to explain some of the terms in the Protocol.

The Articles of the Protocol have been provided for further reference.

# Introduction

The Protocol was adopted in accordance with the EAC Treaty which commits Partner States (Burundi, Kenya, Rwanda, South Sudan, Uganda and the United Republic of Tanzania) to cooperate in monetary and financial matters.

Under Article 151 of the Treaty, it was necessary to adopt a protocol to spell out the objectives, scope and institutional mechanisms for co-operation and integration under the Monetary Union.

The objective of the Monetary Union is to promote financial stability and facilitate achievement of sustainable growth and development of the Community. This shall be attained overtime. The Monetary Union will together with the other stages of integration of the Community contribute to:

1. harmonious, balanced and sustainable economic development;
2. sustainable and non-inflammatory  economic growth;
3. intra-regional economic and financial system integration; and
4. efficient allocation of resources for economic development.

The EAMU Protocol was signed on 30th November, 2013 and provides a 10-year roadmap for the attainment of a Single Currency in the Community.

**The following is a simplified version of the EAMU Protocol.**

# Setting up, Aims and Scope of the Monetary Union

## Article 2: Setting up of the East African Monetary Union

**1.** The Partner States of the East African Community set up the East African Community Monetary Union to promote the aims of the Community.

> *The main aim of the Community is to develop plans and programmes for the wellbeing of the people of East Africa and for political, economic, social and cultural growth and development (Article 5 of the EAC Treaty).*

**2.** The Monetary Union shall be achieved overtime and governed by the laws of the Community.

## Article 3: Aims of the Monetary Union

The Monetary Union aims to promote and maintain monetary and financial stability to facilitate trade and economic integration in order to attain sustainable growth and development of the Community.

## Article 4: Scope of Cooperation in the Monetary Union

The Protocol applies to all monetary and financial matters as agreed by the Partner States. Accordingly, Partner States agree to:

a. harmonize and coordinate their fiscal policies;
b. develop and put in place single monetary and exchange rate policies;
c. develop and form one financial, payment and settlement systems;
d. use same principles and rules to govern the financial system;
e. form one financial management system;
f. harmonize their financial accounting and reporting practices;
g. use same policies and standards on statistics;
h. use the same currency.

# Conditions for the Monetary Union

## Article 5: Conditions for the Monetary Union

1. In order to realize the Monetary Union Partner States have to:

a. fully implement the Community's Protocols on the Customs Union and the Common Market;
b. harmonize and coordinate their financial policies;
c. harmonize and coordinate their monetary and exchange rate policies;
d. adopt same principles and rules for payments and settlement;
e. harmonize their payments and settlements systems;
f. harmonize the policies relating to production, analysis and dissemination of statistical information;
g. introduce currency bands and overtime fix bilateral exchange rates (A currency band represents the price floor and limit within which the price of a given currency can trade. The currency band restricts how much the price can move relative to a reference currency or currencies);
h. set up and use the same financial management systems, principles and rules for regulation and supervision.

**2.** The central bank in Partner States shall stop lending money to its Government and public institutions in order to attain and maintain macroeconomic convergence criteria (set out below in Part D) for a minimum of three (3) years.

**3.** In order to attain and maintain macroeconomic convergence, Partner States agree to monitor the following indicative convergence criteria:

a. An upper limit on core inflation of 5%.
b. An upper limit on fiscal deficit, excluding grants, of 6% of Gross Domestic Product; and
c. a tax to Gross Domestic Product ratio of 25%.

**4.** The institution responsible for inspection, compliance and enforcement shall determine whether a Partner State meets the above conditions.

# Convergence

## Article 6: Macroeconomic Convergence

Explanatory note:

Macroeconomic convergence stabilizes regional economy safeguarding from excessive fluctuation. It aims for low stable inflations and sustainable budget deficits. The Monetary Union requires similar policies across the Partner States.

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**1.** Partner States commit to attain and maintain macroeconomic convergence, which shall be assessed on the following criteria:

a. upper limit on headline inflation of 8%;

b. upper limit of fiscal deficit, including grants of 3% of Gross Domestic Product;

c. upper limit on gross public debt of 50% of Gross Domestic Product in Net Present Value terms; and

d. a reserve cover of 4.5 months of imports.

**2.** The Council of Ministers shall develop measures to regularly monitor assess and enforce compliance to the macro-economic convergence and promote financial discipline in the Partner States .

# Macroeconomic Policy Framework

Explanatory note:

Macroeconomic Policy Framework deals with the performance, structure, behavior, and decision-making of an economy as a whole such as changes in unemployment, national income, rate of growth, gross domestic product, inflation and price levels.

## Article 7: Macroeconomic Policy Framework

1. Partner States agree to stick to the macroeconomic policy framework comprising of the:

a. financial policies;

b. monetary policies; and

c. exchange rate policy.

## Article 8: Financial Policies

1. Partner States undertake to:

a. harmonize and coordinate their financial policies;

b. inform each other of their financial policies;

c. coordinate their fiscal policies with the single monetary policy and exchange rate policy;
d. coordinate and harmonize their public procurement policies;
e. coordinate and harmonize their budget frameworks;
f. implement their economic policies to achieve and maintain macroeconomic convergence;
g. adopt and strictly apply principles of financial discipline;
h. avoid harmful tax competition;
i. inform the East African Central Bank about the aid flows; and
j. ensure efficient mobilization and allocation of resources.

**2.** The Council of Ministers shall develop mechanisms to implement this Article.

## Article 8: Public Debt Management

**1.** In implementing the financial policies, the Partner States shall:

a. adjust their net financing to their respective governments in accordance with the debt ceiling specified in Article 6 (1a); and
b. inform the Council of Ministers on the Status of their domestic and external debts, including their publicly guaranteed debts, every three months.

**2.** Partner States agree to develop and use one public management structure.

## Article 10: Building resilience and managing unexpected developments that affect the economy

1. The Partner States agree to establish measures for managing an unexpected development that affects the economy from external factors and ensure economic strength in Partner States. These may be tax increases, change in financial policy, natural disasters, introduction of new technology.

2. The mechanisms above shall:

a. identify, monitor and reduce any economic risks in a Partner State that threaten the economic stability of the Monetary Union;
b. build and maintain the strength of the economies of the Partner States to an unexpected development which affects the economy; and
c. Stabilize the economy of a Partner State in the event of an unexpected development that threatens the economy.

3. The mechanisms shall include:

a. An early warning system which shall ensure regular monitoring risk profile of the economy of each Partner State to reduce any risks that may arise; and
b. A stabilization facility to provide assistance to a Partner State experiencing or threatened with a severe external unexpected development that threatens the economy.

4. The Council of Ministers may allow a Partner State to exceed the financial deficit target provided that the Partner State does not breach the convergence limit on the debt ratio.

## Article 11: Monetary Policy

1. The East African Central Bank shall develop one monetary policy for the Monetary Union that binds Partner States using the same currency.

2. The primary aim of the monetary policy is to achieve and maintain price stability, contribute to financial stability, economic growth and development.

## Article 12: Exchange Rate Policy

1. The East African Central Bank shall create a uniform exchange rate policy for Partner States using the same currency.

2. The exchange rate shall be free floating in Partner States using the same currency.

3. Partner States using the same currency agree to transfer to the East African Central Bank foreign reserves as may be determined by the Council of Ministers.

4. The foreign reserves above shall not include the International Monetary Fund reserve positions and the Special Drawing Rights of the Partner States.

## Article 13: Foreign Transactions by Partner States

1. Foreign exchange transactions by the Government of the Partner States using the same currency shall be carried out through the system of central banks.

# Financial, Payment and Settlement Systems

## Article 14: Financial System

1. The Partner States undertake to develop and operate an efficient, stable and integrated financial system.

2. The financial system shall:

a. promote the development of the financial sector;
b. promote financial inclusion and deepening;
c. facilitate regulation and prudential supervision of the financial sector;
d. facilitate the development of the financial system infrastructure;
e. facilitate early identification of risks or shocks to the financial system;
f. promote a comprehensive, accurate and systematic assessment of financial stability;
g. promote adoption of preventive and timely mitigation policies;
h. facilitate coordination and promotion of a speedy region wide response to a crisis within the financial system;
i. ensure market efficiency and stability;
j. facilitate the orderly, fair and transparent market conduct of the financial sector;
k. promote and strengthen competition for greater affordability of financial services;

l. promote confidence and the protection of consumers and investors; and

m. fulfill key economic functions without serious default or impact on financial sector.

**3.** The financial system shall include the following sub-sectors:

a. banking;
b. capital and Money Markets;
c. insurance;
d. retirement benefits; and
e. microfinance and other financial services.

## Article 15: Payment and Settlement Systems

The Partner States agree to develop similar systems of payment and settlement in order to provide a smooth flow of financial transactions within the Monetary Union.

## Article 16: Financial Management, Accounting and Reporting

The Partner States shall harmonize their financial management systems, financial accounting and reporting practices.

# Statistics

## Article 17: Statistics

Using internationally accepted best practices, Partner States shall develop and adopt common methods for compiling, analyzing and sharing statistics within the Community.

# Single Currency

## Article 18: Name, Status and Adoption of Single Currency

1. Partner States that meet the conditions for the Monetary Union shall use the Single Currency within those states.

2. The Single Currency shall be adopted by at least three Partner States if they all meet the conditions of the Monetary Union.

3. The Summit shall decide on the name of the Single Currency and the date when it starts working.

## Article 19: Determination of Conversion Rates

Before the Single Currency replaces the national currencies of Partner States, the Council shall determine a conversion rate that cannot be changed.

# Institutional Mechanisms

## Article 20: East African Central Bank

1. The East African Central Bank shall be set up, and together with the national central banks in Partner States will form one system. This system shall work in Partner States using the same currency.

2. The capital (assets and resources) for the East African Central Bank shall be contributed by Partner States, as decided by the Council of Ministers

3. The East African Central Bank shall work without interference from any Partner State.

## Article 21: Other Institutions to support the Monetary Union

The Summit shall, on recommendation by Council, set up other institutions including those responsible for financial services; inspection, compliance and enforcement; statistics and any other necessary institutions for proper functioning of the Monetary Union.

# General Provisions

## Article 22: Other Institutions to support the Monetary Union

The Partner States agree to harmonize different laws, policies and systems to ensure implementation of the Protocol.

## Article 23: Transitional Provision

The East African Monetary Institute shall be set up to direct preparatory work for the Monetary Union.

## Article 24: Measures to address imbalances

The Council shall develop measures to support a Partner State who experiences structural problems when implementing the Protocol.

## Article 25: International and regional agreements on matters relating to the Monetary Union

The East African Central Bank shall be involved in negotiation, conclusion and implementation of any agreement with a foreign entity that may impact on the single monetary and exchange rate policy.

## Article 26: Admission to Single Currency Area

The Summit may admit a Partner State which meets the conditions of the Monetary Union.

## Article 27: Regulations, Directives and Decisions

The Council of Ministers shall make regulations, issue directives or take decisions necessary for effective implementation of this Protocol

## Article 28: Dispute Settlement

Any dispute or disagreement under the Protocol is to be settled in accordance with the EAC Treaty provisions.

## Article 29: Amendment of the Protocol

1. The Protocol may be revised at any time by agreement of all Partner States, and in accordance with the EAC Treaty provisions. These revised parts of the Protocol shall be adopted by the Summit.

2. The Council of Ministers may submit proposals for revision of the Protocol to Partner States.

## Article 30: Entry into force

The Protocol shall become law when all Partner States have given their approval.

## Article 31: Depository and Registration

The Secretary General shall transmit copies of the Protocol to all Partner States, and shall register this Protocol with International organizations as the Council of Ministers may determine.

Signature

The Protocol was signed in Kampala on 30 November, 2013 by their Excellencies President Yoweri Kaguta Museveni, President Pierre Nkurunziza, President Uhuru Kenyatta, President Paul Kagame and President Jakaya Mrisho Kikwete.

Explanatory note:

N.B: Republic of South Sudan had not joined the Community by the time the Protocol was signed.

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