

**THE SOUTHERN AFRICAN DEVELOPMENT
COMMUNITY**

MEMORANDUM OF UNDERSTANDING

ON

MACROECONOMIC CONVERGENCE

PREAMBLE

The Governments of:

The Republic of Angola
The Republic of Botswana
The Democratic Republic of the Congo
The Kingdom of Lesotho
The Republic of Malawi
The Republic of Mauritius
The Republic of Mozambique
The Republic of Namibia
The Republic of Seychelles
The Republic of South Africa
The Kingdom of Swaziland
The United Republic of Tanzania
The Republic of Zambia
The Republic of Zimbabwe

CONSCIOUS of their collective duty to - achieve economic growth and balanced intra-regional development; achieve compatibility among national and regional strategies and programmes; develop policies aimed at the progressive elimination of obstacles to the free movement of capital and labour, goods and services, and of the residents of the Member States; improve economic management and performance through regional co-operation; and create appropriate institutions and mechanisms for the implementation of programmes and operations of the Southern African Development Community (SADC);

RECOGNISING the need to accelerate growth, investment and employment in the SADC Region (hereinafter referred to as "the Region") through increased co-operation and coordination in respect of macroeconomic policies;

CONVINCED that regional economic integration and macroeconomic stability are preconditions to sustainable economic growth and for the creation of a monetary union in the Region;

DETERMINED to maximise co-operation and coordination in the implementation and management of sustainable macroeconomic policies and to reduce the divergence in macroeconomic aggregates among Member States;

COMMITTED to the establishment of a dynamic, sustainable and credible regional economic entity;

DEDICATED to good governance, accountable and transparent public resource management;

AGREE through their duly authorised representatives, to record the understanding of Member States on the steps to be taken to coordinate and monitor macroeconomic policies of Member States, as follows:

ARTICLE 1 DEFINITIONS

In this Memorandum of Understanding (MOU), unless the context otherwise requires, a word defined in the Treaty bears the same meaning, and:

“budget deficit” means government’s expenditure and net lending which exceeds receipts from revenue and grants;

“Committee of Central Bank Governors” means the Committee of Governors of Central Banks of Member States;

“Committee of Ministers for Finance and Investment” means the Committee of Ministers or any such body that Council may establish responsible for policy development and policy making for finance and investment matters; or such similar body that Council may establish;

“Committee of Senior Treasury Officials” means the technical advisory body to the Committee of Ministers for Finance and Investment, consisting of Heads of Treasuries;

“current account” means the record of transactions in goods, services, income and current transfers between residents of one country and another;

“exchange rate” means the price at which one currency is exchanged for another;

“inflation” means the rate of change of the general price level using a headline index;

“macroeconomic convergence” means the convergence by Member States to low and stable levels of inflation, sustainable budget deficits, public and publicly guaranteed debt and current account balances;

“market distortions” means regulatory or structural obstructions of the market clearing process;

“monetisation of deficits” means the financing of budget deficits through the creation of money;

“public and publicly guaranteed debt” means the amount of monies disbursed and outstanding contractual monetary liabilities of residents of a country to repay a principal debt with or without interest, or to pay interest with or without the principal debt. Such debt consists of loans to government, including loans to public enterprises and private companies enjoying government guarantees.

ARTICLE 2
PRINCIPLES OF MACROECONOMIC CONVERGENCE

1. Member States agree that in order to achieve and maintain macroeconomic stability, they need to converge on stability-orientated economic policies implemented through a sound institutional structure and framework.
2. Member States agree that stability-orientated economic policies include, but are not limited to -
 - (a) restricting inflation to low and stable levels;
 - (b) maintaining a prudent fiscal stance based on the avoidance of large fiscal deficits, monetisation of deficits and high or rising ratios of public debt to gross domestic product (GDP);
 - (c) avoiding large financial imbalances in the economy; and
 - (d) minimising market distortions.

ARTICLE 3
INDICATORS OF MACROECONOMIC CONVERGENCE

1. Member States agree that macroeconomic stability is a desirable outcome of macroeconomic convergence and that macroeconomic convergence in the Region will be measured and monitored by the following indicators:
 - (a) the rate of inflation in each Member State;
 - (b) the ratio of the budget deficit to GDP;
 - (c) the ratio of public and publicly-guaranteed debt to GDP; and
 - (d) the balance and structure of the current account.
2. Member States agree to identify common guidelines for each of these indicators and other complementary indicators that may be specified, including structural performance and financial conditions.

ARTICLE 4
FISCAL AND MONETARY POLICY CO-OPERATION

1. Member States will formulate, implement and maintain fiscal and monetary policies that are transparent, consistent and contribute towards the achievement of the principles referred to in Article 2.
2. Member States will formulate and implement sustainable fiscal and monetary policies that minimise negative spillover effects on other Member States.

ARTICLE 5
INFORMATION AND DATA

1. Member States will, in accordance with Article 7, provide all data and reports required for the implementation and monitoring of this MOU.
2. Data will be provided in accordance with internationally acceptable data standards as defined by the International Monetary Fund.

ARTICLE 6
INSTITUTIONAL ARRANGEMENTS

1. Member States agree that the Committee of Senior Treasury Officials will be responsible for the implementation of this MOU and will report on implementation to the Committee of Ministers for Finance and Investment
2. The Committee of Senior Treasury Officials may make use of, or recommend to the Committee of Ministers for Finance and Investment, the establishment of, any structure that may be necessary to facilitate the implementation of this MOU.
3. Member States agree that, for the purposes of this Article, the Committee of Ministers for Finance and Investment, will collaborate with the Committee of Central Bank Governors.

ARTICLE 7
MONITORING AND SURVEILLANCE

1. The Committee of Ministers for Finance and Investment will establish a collective surveillance procedure to monitor macroeconomic convergence in the Region, determine specific targets, assess progress relative to these targets and provide advice on corrective actions.
2. Member States will present to the Committee of Ministers for Finance and Investment an annual convergence programme which will include:
 - (a) a review of recent economic developments in the Member States;
 - (b) progress relative to previous targets;
 - (c) medium-term objectives for the agreed convergence indicators; and
 - (d) specific targets for these indicators over a three-year period.
3. The Committee of Ministers for Finance and Investment will evaluate and monitor the annual convergence programmes submitted by Member States, determine whether they satisfy the common guidelines, advise on possible changes, compare outcomes with previous programmes and make recommendations they may deem appropriate in accordance with the Treaty.

4. The Committee of Ministers for Finance and Investment will issue a communiqué explaining its assessments.

ARTICLE 8

PROTOCOL ON FINANCE AND INVESTMENT MATTERS

Member States will develop a protocol on finance and investment matters in accordance with the understanding herein recorded and the objectives set out in the Treaty.

ARTICLE 9

REVIEW OF THE SADC PROGRAMME ON MACROECONOMIC CONVERGENCE

The Committee of Ministers for Finance and Investment may review the SADC macroeconomic convergence programme.

ARTICLE 10

SETTLEMENT OF DISPUTES

Any dispute arising from the interpretation or application of this MOU, will be settled through negotiation.

ARTICLE 11

REVISION

A proposal for the revision of this MOU shall be made to the Committee of Senior Treasury Officials by any Member State and three months after notification be placed for consideration by the Committee of Senior Treasury Officials before the Committee of Ministers for Finance and Investment.

ARTICLE 12

AMENDMENT

1. A proposal to amend this MOU may be made through the Committee of Senior Treasury Officials, provided, however, that the proposed amendment shall not be submitted to the Committee of Ministers for Finance and Investment, for preliminary consideration, until all members of the Committee of Ministers for Finance and Investment have been duly notified of such proposed amendment, and a period of three months has elapsed after such notification.

2. Amendments to this MOU shall be adopted by a decision of three-quarters of the Committee of Ministers for Finance and Investment.

ARTICLE 13
ENTRY INTO FORCE

This MOU shall enter into force thirty (30) days after signature by two-thirds of the Ministers responsible for finance and investment and, thereafter, shall remain open for signature.

ARTICLE 14
TERMINATION

Any Member State intending to terminate its participation in this MOU shall, through its Minister responsible for finance and investment, give six (6) months notice of its intention to terminate. Such intention shall be communicated to the Ministers responsible for finance and investment through the Committee of Senior Treasury Officials.

ARTICLE 15
DEPOSITARY

This MOU shall be deposited with the Executive Secretary, who shall transmit certified copies thereof, to all Member States.

IN WITNESS WHEREOF, WE, the duly authorised representatives of Governments, have signed this Memorandum of Understanding.

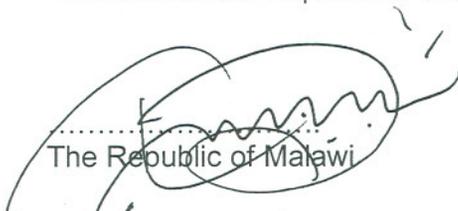
DONE AT *Pretoria* on *8th August* 2002 in three (3) original texts in the English, French and Portuguese languages, all texts being equally authentic.


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The Republic of Angola


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The Republic of Botswana

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The Democratic Republic of the Congo


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The Kingdom of Lesotho

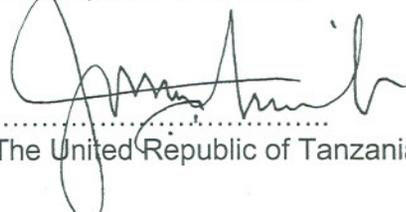

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The Republic of Malawi


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The Republic of Mauritius


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The Republic of Mozambique


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The Republic of Namibia


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The Republic of Seychelles


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The United Republic of Tanzania


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The Republic of South Africa


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The Kingdom of Swaziland

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The Republic of Zambia


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The Republic of Zimbabwe