

EXCHANGE RATE MECHANISM UNDER THE WEST AFRICAN MONETARY ZONE (WAMZ)

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1. INTRODUCTION

On a April 20, 2000 six West African countries, The Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone, signed the Accra Declaration on the creation of a Second Monetary Zone in West Africa. The goal of this Zone, known as the West African Monetary Zone (WAMZ), is to have in place a common monetary and exchange rate policy by January, 2003. One crucial feature of the WAMZ is the adoption and operation of an Exchange Rate Mechanism (ERM), as a transitional fixed exchange rates arrangement among currencies in the Zone, prior to the adoption of a single or common currency in January, 2003. This paper discusses issues relating to the adoption and implementation of an ERM under WAMZ. To this end, it discusses conceptual issues relating to ERM and exchange rate regimes. The experiences of the European Union which operated an ERM for quite sometime before the adoption of a single currency – the EURO – are brought to bear on the discussions. Recommendations have been made by the West African Monetary Institute (WAMI) on the ERM option for the WAMZ and the Mechanism is deemed to have been in operation since April, 2002. These are discussed in the penultimate section in the paper. The conclusion is reached that in view of the need to allow more time for member countries to meet the economic criteria, the date of adoption of the common currency may have to be reviewed. Also, the exchange rate bands within which the central parity rates fluctuate appear to be too wide for the desired stability to be achieved. This, too, may have to be reviewed.

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2. EXCHANGE RATE MECHANISM AND EXCHANGE RATE REGIMES

2.1 What is Exchange Rate Mechanism?

An exchange rate mechanism (ERM) features in the context of initiating and implementing arrangements towards a higher level monetary cooperation among a group of countries in a given zone, with the ultimate objective being the adoption and use of a single currency in the zone. The ERM thus refers to arrangements that govern exchange rate management in a zone seeking higher level monetary cooperation during the transition between the existence of different currencies and the adoption of a single currency. It is essentially a transitional arrangement, or a step, towards adopting a single currency by a group of countries. The ERM is expected to help ensure that member countries participating in the mechanism undertake policy reforms and are re-oriented towards the adoption of a common currency. The choice of an appropriate ERM will have to take cognizance of the alternative exchange rate regimes in vogue. These are discussed in the following section.

In relation to the West African Monetary Zone (WAMZ), the ERM is expected to be consistent with the achievement of the longer-term objective of creating a single monetary zone for the six countries. The specific objectives of the WAMZ ERM are to:

- create a zone of exchange rate and macroeconomic stability;
- promote convergence of the economies;
- enhance trade among the countries; and
- promote a single market.

During the transition period to a common currency, member countries would have to pursue appropriate policies geared towards convergence of their economies. The convergence criteria are similar to those of the European Community/Union's ERM – relating to restrictions on public debt and fiscal deficit, stability of exchange rate and prices (unit digit inflation), maintenance of interest rate pegs, etc. (see Section 3). Considering the heterogeneous nature of the member countries of the zone in the 1990's, especially in relation to size and poor macroeconomic performance, meeting the convergence criteria may turn out to be a daunting challenge for some of the countries. Countries of the WAMZ are generally open, have low levels of financial deepening and high nominal interest rates. Their macroeconomic performance was poor as reflected in low level of external reserves, low growth rates of real GDP and high rates of inflation. Therefore, only countries that

have the political will to embark on meaningful fiscal, monetary and structural reforms would be able to transit from the ERM to the common currency.

2.2 Exchange Rate Regimes

The options of countries for exchange rate regimes range from floating arrangements at one extreme to firmly fixed arrangements at the other extreme, with the remaining regimes falling on a continuum in between. These include pegs, target zones, and fixed but adjustable rates. As ERMs have a defining goal of exchange rate stability, the fixed exchange rate regime and its variants are more relevant. A fixed exchange rate system is one in which exchange rates are maintained at fixed levels. Each country has its currency fixed against another currency, and it is seldom changed. For example, Nigeria maintained fixed exchange rates from the time of attainment of political independence in 1960 till the breakdown of the Bretton Woods Monetary System in the early 1970s. There are two major reasons why fixed exchange rates are appealing. They are to promote orderliness in foreign exchange markets and certainty in international transactions. Some of the variants of fixed exchange rates are as follows:

(a) Crawling Peg

This exchange rate arrangement is a middle course between fixed and flexible exchange rates. It is appropriate for countries that have significant inflation compared with their trading partners, as has often been the case in Latin America. Under the crawling peg, the government fixes the exchange rate on any day but over time adjusts the rate in a pre-announced fashion, taking into consideration the inflation differentials between it and its major trading partners. Essentially, the peg can be either passive, meaning that the exchange rate is altered in light of past inflation, or active, whereby the country announces in advance the exchange rate adjustments it intends to make. The advantage of this peg is that it combines the flexibility needed to accommodate different trends in inflation rates between countries while maintaining relative certainty about future exchange rates relevant to exporters and importers. The disadvantage is that the crawling peg leaves the currency open to speculative attack because the government is committed on any one day or over a period to a particular value of the exchange rate.

(b) Adjustable Peg Exchange Rate

This refers to the system in which a national currency is pegged to a key currency, for example, the U.S dollar, but the level of the peg could be changed occasionally, albeit within a narrow band. This exchange rate regime features a strong exchange rate commitment, and its adherents before the currency crises of the mid- and late 1990s, included Brazil, Mexico and Thailand. In these emerging market economies, where capital mobility increased steadily during the 1970s and 1980s and up to a high point in the 1990s, the authorities had difficulties in maintaining the peg (Corden, 2001: 44). However, it is still workable for countries that have low capital mobility either because they are not integrated with the capital markets (like some very poor countries) or because they have effective capital controls (e.g. China).

(c) Target Zone

This is a compromise between floating rates and fixed but adjustable rates and is a popular regime. Under it, a central rate that can be fixed, crawling or flexible is surrounded by a band within which the central rate is permitted to float. It allows for flexibility among a country's policy objectives. It is also said to prevent extreme movements in the exchange rate.

(d) Currency Peg

In a currency peg a local currency is pegged to an external currency, e.g., that of a dominant trading partner or to a basket of currencies, with weights reflecting the shares of the countries in foreign trade. Pegging to a single currency may yield a number of advantages, one of which is the reduction in the exchange rate fluctuations between the focus country and the country to which it is pegged. This facilitates trade and capital flows between the two countries. One major weakness of the single currency peg, however, is that where the currency is pegged to a floating currency, e.g., the dollar, the local currency will float along with the dollar *vis-à-vis* other currencies. Another disadvantage is that movements in the exchange rate in relation to the currencies of other countries may interfere with domestic macroeconomic policy objectives.

In an attempt to stabilize its effective exchange rate the developing country may peg its currency to a basket of currencies. Often this entails the weighted average of several

currency values, the resulting exchange rate being total trade-weighted, export-weighted or import-weighted. One major advantage of pegging to a basket is that a country may be able to avoid large fluctuations in its exchange rate with respect to several trading partners' currencies. Consequently, it is able to stabilize its nominal effective exchange rate. Another advantage is that the system results in the reduction of price instability which arises from exchange rate changes. However, one major disadvantage of the basket peg is the determination of the exchange rate without reference to the domestic policies of the pegging authorities. Another is that a basket-weighted exchange rate, which, by definition, moves against all major currencies, might reduce confidence on the part of foreign investors and reduce capital inflows.

(e) **Firmly Fixed Exchange Rate Regimes**

There are three varieties of this: currency boards, dollarization and monetary union. In dollarization, a country adopts as its own the currency of a "hegemon", or dominant economy, e.g. the U.S dollar as was done by Ecuador in 2000. In a monetary union, a group of well-integrated economies adopt a single currency and coordinate monetary policy.

Currency Boards. A currency board combines three elements: a fixed exchange rate between a country's currency and an "anchor currency", automatic convertibility, and a long-term commitment to the system, often made explicit in the central bank's law. Under a currency board arrangement, the central bank commits to exchanging a unit of domestic currency for a larger, more stable foreign currency at a fixed exchange rate as Argentina did with the U.S dollar from the late 1990s. The arrangement requires that the domestic currency be issued only against foreign exchange and that it be fully backed by foreign assets. This leads to the main reason for countries to consider a currency board, namely, to demonstrate that they are pursuing an anti-inflationary policy (Gulde, 1999: 37). A currency board is credible only if a country's central bank holds sufficient official foreign exchange reserves to cover at least its entire monetary liabilities, thereby assuring financial markets and the public at large that every domestic currency note is backed by an equivalent amount of foreign currency in the official coffers. And to be able to do this as well as have a successful peg requires, as Mishkin (2000: 354) has argued, an independent central bank, a sound financial system, and a strong fiscal position.

In general, according to Corden (2001: 45), "the more open the economy, the more

suitable a fixed exchange rate. Smaller countries are more likely to be open than larger ones and may thus be good candidates for a currency board arrangement". However, in some small countries that may be more subject to asymmetric shocks, such as changes in exchange rate regimes and, in countries lacking in product diversity, a decline in the terms of trade, the authorities may need more flexibility to deal with the shocks. Furthermore, "very small countries are not optimal currency areas. Such countries generally have difficulty maintaining their own currency because the rates are buffeted by external events. They should, therefore, peg their currency, the way small South Pacific Islands peg to the Australian dollar. Small to medium-sized countries that are better integrated with their neighbours may find that a common currency area is practical and reduces the risks of shocks". (Corden, *ibid*).

The notable advantages of a currency board are economic and monetary credibility, low inflation, low interest rates than would otherwise prevail, following from zero expectations of devaluation. However, currency boards can prove limiting, especially for countries that have weak banking systems or are prone to economic shocks. With a currency board in place, the central bank can no longer serve as a lender of last resort for banks in trouble. Besides, with a currency board arrangement, it is not possible to use financial policies – i.e., adjustments of domestic interest or exchange rates – to stimulate the economy. Instead, economic adjustment can be achieved only through wage and price adjustments, which can be both slower and painful. In other words, a currency board arrangement, featuring a stable exchange rate, entails the loss of power by the authorities to conduct independent monetary policy. This involves real economic costs in terms of unemployment, stagnant output and low demand that may result as was the case in Argentina.

3. ERM IN THE EUROPEAN MONETARY SYSTEM

When the European Community (EC), in 1978, agreed to have close monetary cooperation between their countries, through creation of the European Monetary System (EMS), exchange rate mechanism was regarded as the operational heart of the system. The objectives of the EMS were as follows:

- to establish greater measure of monetary stability in the EC;
- to facilitate the convergence of economic development and give fresh impetus to the process of European Union;

creation of a zone of monetary stability in Europe, encompassing greater stability at home (domestic monetary developments consistent with stable domestic costs and prices) and abroad (exchange rate stability). Indeed, a high degree of exchange rate stability was considered a major objective of the EMS, as a basis for further economic integration among EC countries, for economic growth and for the narrowing of differences in living standards. Stability of domestic costs and prices was also seen as an essential precondition for further economic integration.

The exchange rate mechanism of the EMS comprised a system of fixed but adjustable exchange rates. Each currency had a central rate expressed in terms of the European Currency Unit (ECU). The ECU consisted of a fixed amount of the nine currencies of all EC countries (except Greece as at 1983). The central rates determined a grid of bilateral central rates with fluctuation margins of plus or minus 2.25 per cent (6 per cent for the Italian Lira) (Ungerer, 1983: 17). Intervention by the participating central banks to keep the exchange rates of their currencies within the margins was obligatory and unlimited, in principle, in EMS currencies. Intervention in other currencies (mainly the US dollar) was also allowed. The ECU played a central role in the EMS. It served as the unit of account for the ERM and for the operations in both the intervention and the credit mechanisms. It also served as a means of settlement and a reserve asset of EMS central banks. The central banks participating in the ERM of the EMS received an initial supply of ECUs at the start of the EMS, against the deposit of 20 per cent of both their gold holdings and gross dollar reserves with European Monetary Cooperation Fund which was established as an institution of the EC.

The creation of an economic and monetary union, featuring a single currency is a complex task, politically and technically, that requires a high degree of convergence of economic policies and performance. This means that if an agreed ERM is implemented, member countries would have to embark on meeting various economic criteria geared towards greater convergence of economic policies. Under the Maastricht Agreement, the framework for the emergence of the European Union and single currency (Euro), greater convergence of the economies is measured by four criteria (Habermeyer and Ungerer, 1992: 26):

- inflation;
- interest rates;
- exchange rate stability; and
- the sustainability of the fiscal position.

The requirement of fiscal sustainability entailed restriction of fiscal deficit to less than 3.0 per cent of GDP, limiting of public debt ratio to 60 per cent of GDP, and close coordination of national fiscal policies. It was feared that excessive fiscal deficits, often, financed by monetary expansion, endanger price stability and so should be avoided. Also, it was feared that unsustainable fiscal policy in one or more countries could undermine the common monetary policy. Also, under a monetary union, the costs of excessive fiscal deficits would have to be borne by all countries and undisciplined countries would have to be bailed out by the other member countries. It was, therefore, required that in order for a country to adopt the single currency, it must meet the above fiscal criteria along with the following:

- inflation rate should not be more than 1½ per cent higher than the inflation rate of the three member states with the lowest inflation;
- its interest rates on long-term government debt should not be more than 2.0 percentage points higher than comparable interest rates in the same three member states;
- its exchange rate must be maintained within the narrow band of fluctuation of the ERM for two years without a devaluation at the initiative of the country in question.

In accordance with the Maastricht Treaty of 1992, 11 EC countries replaced their national currencies with the Euro on January 1, 1999, based on conversion rates irrevocably fixed on December 31, 1998, to reach that third stage. The 11 countries had implemented policies enabling them to achieve a high degree of convergence of economic policies while putting in place the institutional and legal frameworks for conducting a single monetary policy (Issing, 1999: 21). With the adoption of a single currency, which goes hand in hand with a single monetary policy, then the latter can no longer play any role in countering economic shocks in individual countries. Changes in relative labour costs and other prices among countries can also no longer be offset by exchange rate changes. The loss of the exchange rate instrument, therefore, requires that national wage settlements be closely linked to developments in productivity. Problems of economic shocks would need to be addressed by appropriate national fiscal policies and improving competitiveness.

4. ALTERNATIVE EXCHANGE RATE MECHANISMS AND THE OPTION FOR WAMZ

As was noted before one crucial objective of ERMs is exchange rate stability. This is important as a means of ensuring avoidance of competitive devaluations which adversely affect trade and growth. It is also a means to ensure the emergence of a single currency for a zone or group of countries, as well as higher level economic integration. Therefore, ERMs are necessarily predicated on pegged/fixed exchange rates or variants of it involving adjustable pegs or fluctuation bands as was the case of the European Monetary System. In such cases, the ERM provides a central rate which is an anchor around which currencies in the zone or union are allowed to fluctuate with specific rules on the margin of fluctuation.

4.1 Critical Issues to Consider

A number of issues must, therefore, be considered when deciding on what type of ERM to adopt. Among these are the following:

- (a) the type of fixed exchange rate arrangement. This will entail decision as to whether the parities should be fixed rigidly or should be adjustable;
- (b) determining the exchange rate at which a country enters an ERM. This is important because the choice of an inappropriate exchange rate may lead to difficulties of the country in staying in the mechanism and create distortions for the country's economy. The choice of an entry exchange rate may, therefore, have to be made from:
 - PPP-determined equilibrium exchange rates, or
 - market-determined exchange rates prevailing at the commencement of the year to start the ERM.
- (c) the type of anchor currency to be chosen, domestic or external, bearing in mind considerations such as:
 - the share of trade with the anchor currency country – this must be high;
 - the economic shocks that the country/zone faces in relation to those facing the anchor country – this must be similar;
 - credibility of anchor currency;
 - reliance of the economic and financial system on the anchor currency – must be extensive;
 - proportion of the country's external debt denominated in the anchor currency – must be high;

- pegging to a basket of currencies. This can reduce the vulnerability of the country's economy to fluctuations in the values of the individual currencies in the basket.
- (d) whether the ERM should involve bands/margins of fluctuation. If the answer is yes, this will entail deciding on three things:
 - the band width,
 - the central parity rate, and
 - the method of intervention to support the band.
- (e) time frame for implementation of the ERM. This will depend on the initial conditions of the countries, particularly the macroeconomic conditions, the commitment to fiscal, monetary and structural reforms by the countries.

4.2 Exchange Rate Mechanism for the WAMZ

The West African Monetary Zone has in view the adoption of a common currency by the member countries. This will be facilitated by a transitional ERM which would provide a zone of exchange rate stability and assist in the process towards convergence in the zone. An ERM predicated on pegged exchange rates or variants of it is, therefore, what to consider. To this end, a consideration of the fixed exchange rate regimes in section 2.2 can result in the following options:

(i) *Fixed Parities relative to a Regional/Zonal Basket of Currencies*

This is an option which is similar to that of the EMS. Under the option central parities for currencies of participating countries are defined relative to a currency unit derived as a basket of the currencies of the participating countries. In this regard, for the WAMZ, the West African Currency Unit (WACU) or a weighted average of the basket of the six currencies in the WAMZ could serve as the reference currency for the ERM. This reference currency, to which the regional/zonal currencies have a fixed relationship, is thus the domestic anchor. However, the WACU is made up of all the currencies in the ECOWAS. And as the WAMZ countries constitute just about one-third of ECOWAS countries, the desirability of a reference currency based on the zone's currencies becomes appealing. This is exactly what the West African Monetary Institute (WAMI), the institution saddled with the responsibility of mid-wifing the WAMZ, has done. The Institute has come up with a WAMZ currency unit called ZOCU. ZOCU is defined as the weighted average of the

dollar/SDR value of each of the currencies of the WAMZ countries (excepting Liberia). The weights used are the GDP coefficients of member countries. In the study carried out by the Institute, One ZOCU = US\$1.3087/SDR or SDR 0.76407/\$ at end December, 2000 or 1 January, 2001. One ZOCU is equal to the fixed amounts of the five zonal currencies. The amounts reflect each domestic currency equivalent of its dollar value component of ZOCU. Thus (WAMI, 2001: 13):

1 ZOCU =	+82.93	Nigerian Naira
=	+827.90	Ghanaian Cedi
=	+159.48	Guinea Franc
=	+0.097	Gambian Dalasi
=	+55.85	Sierra Leone Leone.

The central rate of each currency in the basket against the ZOCU is derived by deflating its currency amount component of the ZOCU by its weight (GDP weighted coefficient) in the ZOCU basket. Thus, with 82.93 naira in the ZOCU, and the naira has a weight of 75.7 per cent (0.757), then the ZOCU central rate in terms of naira is $82.93/0.757 = \text{N}109.55:\text{US}\1.00 . The bilateral cross rates are obtained by dividing one central ZOCU rate by another.

Under the option of fixed parities relative to Zonal/regional basket of currencies, each participating currency would have a par value against the other currency. The ERM is to operate within a band, within which any given exchange rate could fluctuate. It has been recommended that WAMZ ERM adopt a $\pm 15\%$ fluctuation margin or band. When an exchange rate approaches the upper or lower limit of its fluctuation range, the central banks of both countries would be obligated to intervene in the market.

The above option has the advantage that exchange rate fluctuations among member countries do not disrupt intra-regional trade. Indeed, it would improve intra-regional resource allocation and create a single large economy with limited dependence on international trade. But then, trade within WAMZ has been relatively small compared with trade with the rest of the world, thus making exchange rates in the zone reflect more of trade developments with the rest of the world than developments in the zone. And so pegging to a domestic anchor may not promote competitiveness. Furthermore, there may be a need for countries to hold reserves in zone currencies to enable them to intervene to support bilateral exchange rates. But the zone currencies are not internationally traded. And if the option is implemented currency convertibility agreements may be required.

(ii) *Fixed Parities Relative to a Single External Anchor or basket of Foreign Currencies*

This is an alternative option available to WAMZ in the transition to a single currency. The option requires setting exchange rate parities relative to an external anchor such as internationally traded currencies, e.g., the U.S dollar, SDR or the Euro. WAMI has, however, recommended a fixed but adjustable peg or crawling peg of the zone currencies to either the SDR/Euro or the dollar. The rate of crawl is set based on projected inflation in the zone during the period of the ERM. At the beginning of the year, the market exchange rate for each currency is adopted as the parity rate with the US dollar/SDR/Euro. This market rate becomes the central parity rate for the currency. A margin of fluctuation is set around the parities. To this end, in order to allow for domestic inflation an upward sloping band is constructed for each currency, for example $\pm 5\%$ given target inflation of 5%. This is to compensate for loss of competitiveness associated with increases in domestic inflation. The alternative to an upward sloping band is to have a horizontal band with a wider margin of fluctuation, e.g. $\pm 15\%$. The implied allowance for depreciation here would compensate for domestic inflation.

The option of pegging zone currencies to a single external anchor has the advantages of simplicity, transparency and consistency with trade patterns of the zone, and hence would be supportive of external trade. It would focus exchange rate policy on promoting external competitiveness and make the transition to the common currency with the CFA zone easier, as the CFA is pegged to the Euro. The option, however, has the disadvantages earlier noted. Notably, it has the disadvantage of instability in relation to fluctuations in the external anchor, more especially as the economic shocks facing WAMZ countries are generally different from those facing the proposed anchor/key currency countries. Also, pegging to an external currency will mean that central banks would need to have sufficient reserves of foreign currency to undertake intervention. Furthermore, the option lacks appeal to nationalistic sentiments.

4.3 The ERM Journey So Far

WAMI has recommended that the WAMZ ERM should have the US dollar as the main anchor and central rates of currencies with the US dollar at the beginning of the year would be the central parity rates (WAMI, 2001: 29-30). The ERM would be such that

central parity rates are defined as the dollar exchange rates effective from April, 2002. Bilateral exchange rates would be the derived cross rates between each currency's central rate with the U.S dollar. In addition, the ERM would have a horizontal band of $\pm 15\%$ on each side of the central rates with the US dollar, subject to review after the first six months of the mechanism. Other decisions on the ERM include the following:

- All the participating members of the WAMZ are eligible for entry into the ERM. All members will have to stay within the ERM for a continuous period of six months before gaining the single currency area.
- As the currencies of participating countries may fluctuate against the US dollar, the central bank of the respective currency will have to intervene so that they do not move beyond the upper and lower limits of $\pm 15\%$.
- The Stabilization and Cooperation Fund of the WAMZ may be used as a source of short-term funds to assist countries in difficulties. If the misalignment is persistent, countries may apply to the Convergence Council for realignment of their central parity rates or adjust the margins of fluctuation.
- The WAMZ ERM would be in effect for nine months starting from April 2002 till the adoption of the common currency in January, 2003.

Indeed, the ERM is deemed to have been in operation from April, 2002. Considering the relative stability of the zone countries' central rates (Table 1) between 31st March and 2nd May 2002, it appears that the ± 15 per cent fluctuation band is on the very wide side.¹ Very importantly, member states had undertaken significant exchange rate reforms over the years, thus ensuring the movement of the exchange rates towards their equilibrium levels. The reforms have entailed liberalization of the exchange rates, following substantial bouts of devaluations. The liberalization has further resulted in further depreciations of the exchange rates such that the previously high parallel market premiums have been substantially reduced to single digit in most of the countries. And so, the type of exchange rate realignment needed prior to entry into the WAMZ ERM may not require a very wide band of fluctuation. The current band of fluctuation of ± 15 per cent of the ERM may, therefore, need to be reviewed downwards. A second observation relates to the single currency peg. In view of the observed disadvantages, could the weighted average of a basket of the key currencies – U.S dollar, Euro, Yen, etc, not have been considered in view of the need to

¹ For example, between March 31 and May 28, 2002, four of the five currencies in the Zone depreciated slightly as follows: Dalasi (5.89%); Cedi (2.04%); Gineau Franc (0%); Naira (0.6%). The Sierra Leone appreciated by 0.6%.

minimize the fluctuations in the value of a single currency as anchor? Thirdly, and very importantly, the period of nine months transition to the single currency is rather short for some of the countries to meet the convergence criteria. In these countries, Nigeria for example, macroeconomic indicators have been deteriorating of late. Considering the experience of the European Union, it may be recalled that the ERM which was the heart of the EMS operated for many years – 1979 to 1998 – before the Euro was eventually introduced. And one of the conditions required of any member before adopting the Euro was for it to observe the normal exchange rate fluctuation margin provided for by the ERM of the EMS for at least two years without devaluation. In the light of the above, the date of January 1, 2003 fixed for adopting the common currency by WAMZ countries may have to be shifted backwards to allow them time to adjust and coordinate their policies, and generally prepare for the expected change.

5. CONCLUSION

The ERM is an important transitional step towards the adoption of a single currency in the West African Monetary Zone. It is a mechanism that will help to ensure a high degree of exchange rate stability, price stability and monetary stability in the Zone as a basis for enhanced economic integration. Stable exchange rates among the currencies in the Zone will help lower transaction costs, enhance trade, reduce speculative activity, and contribute to general macroeconomic stability. This will, in turn, provide a sound basis for sustainable output growth, employment creation and improved living standards. For these to actualize, however, member countries participating in the ERM will have to develop the will to implement monetary, fiscal and structural reforms geared towards re-orientating their policies to meeting the convergence criteria and eventually adopting a common currency. Indeed, a strong economic policy support is required for the ERM and single currency/monetary policy initiative. This support entails on the part of the member countries the following:

- sound national fiscal policies and close coordination of such policies;
- commitment to maintaining budgetary position of close to balance or in surplus under normal economic conditions; and
- responsible wages settlements such that wage increases correspond to the growth of labour productivity.

The significance of fiscal and other policies, excluding monetary and exchange rate policies, in an economic and monetary union becomes more prominent when the disadvantage of substantial reduction in the member states' economic sovereignty is considered. For example, a single currency and a single monetary policy, both of which go hand-in-hand, can no longer play any role in countering economic shocks in individual countries. In the new environment of a functioning monetary zone, country specific or zonal economic problems will need to be addressed by implementing appropriate national fiscal policies, structural reforms including deregulation of markets, and improving competitiveness. This is a major economic policy challenge for member countries of the WAMZ.

Table 1: Exchange Rate Movement on WAMZ ERM, March – May, 2002

Period	Dalasi	Cedi	G/Franc	Naira	Leone
3/31/02	17.82	7680.01	1975	115.6	2165.32
4/1/02	18.13	7683.19	1975	115.6	2165.32
4/2/02	17.84	7693.00	1975	115.6	2165.32
4/3/02	17.98	7709.45	1975	115.6	2165.32
4/4/02	17.98	7727.78	1975	115.6	2175.09
4/5/02	17.80	7700.75	1975	115.6	2175.09
4/6/02	17.80	7700.75	1975	115.6	2175.09
4/7/02	17.80	7700.75	1973	115.6	2175.09
4/8/02	18.31	7677.96	1973	115.6	2175.09
4/9/02	18.28	7714.09	1973	115.6	2175.09
4/10/02	18.68	7759.87	1973	115.6	2175.09
4/11/02	18.46	7730.53	1973	115.6	2154.66
4/12/02	18.57	7748.32	1973	115.6	2154.66
4/13/02	18.57	7748.32	1973	115.6	2154.66
4/14/02	18.57	7748.32	1973	115.6	2154.66
4/15/02	18.53	7724.41	1973	115.6	2154.66
4/16/02	18.66	7739.36	1973	115.6	2154.66
4/17/02	18.57	7745.00	1973	115.6	2154.66
4/18/02	18.62	7766.64	1973	115.6	2171.08
4/19/02	18.81	7742.28	1973	115.6	2171.08
4/20/02	18.81	7742.28	1973	115.6	2171.08
4/21/02	18.81	7742.28	1973	115.6	2171.08
4/22/02	18.81	7742.28	1973	115.6	2171.08
4/23/02	18.70	7764.00	1973	115.6	2171.08
4/24/02	18.73	7784.08	1973	115.6	2171.08
4/25/02	18.46	7772.31	1973	115.6	2142.50
4/26/02	18.46	7787.70	1973	115.8	2142.50

Period	Dalasi	Cedi	G/Franc	Naira	Leone
4/27/02	18.46	7787.70	1973	115.8	2142.50
4/28/02	18.46	7787.70	1973	115.8	2142.50
4/29/02	18.77	7778.01	1973	115.8	2142.50
4/30/02	18.58	7813.81	1973	115.8	2142.50
5/1/02	18.58	7813.81	1973	115.8	2142.50
5/2/02	18.58	7821.82	1973	115.8	2144.04
5/3/02	18.69	7792.38	1973	115.8	2144.04
5/4/02	18.69	7792.38	1973	115.8	2144.04
5/5/02	18.69	7792.38	1975	115.8	2144.04
5/6/02	18.64	7775.76	1975	115.8	2144.04
5/7/02	18.63	7828.45	1975	115.8	2144.04
5/8/02	18.80	7837.79	1975	115.8	2144.04
5/9/02	18.54	7817.11	1975	115.8	2063.14
5/10/02	18.62	7830.92	1975	115.8	2063.14
5/11/02	18.62	7830.92	1975	115.8	2063.14
5/12/02	18.62	1830.92	1975	115.8	2063.14
5/13/02	18.67	7842.81	1975	115.8	2063.14
5/14/02	18.45	7804.60	1975	115.8	2063.14
5/15/02	18.73	7857.24	1975	115.8	2063.14
5/16/02	18.52	7879.87	1975	116.3	2063.14
5/17/02	18.71	7883.19	1975	116.3	2063.14
5/18/02	18.71	7883.19	1975	116.3	2063.14
5/19/02	18.71	7883.19	1975	116.3	2063.14
5/20/02	18.79	7857.22	1975	116.3	2063.14
5/21/02	18.70	7882.58	1975	116.3	2063.14
5/22/02	18.91	7928.89	1975	116.3	2063.14
5/23/02	18.56	7866.71	1975	116.3	2032.53
5/24/02	19.07	7867.64	1975	116.3	2032.53
5/25/02	19.07	7867.64	1975	116.3	2032.53
5/26/02	19.07	7867.64	1975	116.3	2032.53
5/27/02	18.83	7867.64	1975	116.3	2032.53
5/28/02	18.87	7837.99	1975	116.3	2032.53

Source: WAMI, Accra.

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