PROCEEDINGS OF THE WEST AFRICAN MONETARY INSTITUTE/BANK OF ENGLAND SEMINAR ON MONETARY UNION

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EXECUTIVE SUMMARY

Introduction

The Seminar was the result of a request by the Committee of Governors of the West African Monetary Zone to the Bank of England at the June 2001 Forum for Central Banks to provide assistance to WAMI towards the realisation of the objective of a common currency for the West African Monetary Zone. Participants were drawn from member Central Banks of the WAMZ, The ECOWAS Secretariat, WAIFEM, University of Ghana and other research institutions in Ghana. Resource persons were experts from the Centre for Central Banking Studies of the Bank of England.

Technical Deliberations

Monetary Union in Practice

The seminar provided an in-depth treatment of the subject of monetary union from both theoretical and practical perspectives. It examined in very clear terms the various issues critical for an effective monetary union, drawing mainly from the experience of the EU. The issues discussed revolved around monetary policy, exchange rate and external reserves management, banking supervision and prudential regulation, and monetary and economic statistics. The preconditions for a monetary union, the forces driving the integration efforts in Europe in addition to the problems encountered in the build up to the single currency in Europe were broadly covered.

Challenges to Monetary Union

The challenges to monetary union were identified and strategies for ameliorating the problems were examined. A major challenge is the ability to keep fiscal operations of government in consonance with the monetary programme of the Common Central Bank in order to ensure price stability and reasonable economic growth. Another major challenge is the ability to maintain macroeconomic convergence in a group of countries that do not satisfy the preconditions for an optimum currency area, especially if they experience asymmetric shocks. Furthermore, the ability to produce adequate, timely and accurate statistics for multilateral surveillance is a challenge which would have to be surmounted for a more robust monetary policy design and implementation.

Monetary Management

The Seminar discussed three main perspectives to monetary management; targeting the quantity of money, the external value of money or the internal value of money. The main lesson was that the three approaches, monetary targeting, exchange rate targeting and inflation targeting have their advantages and disadvantages. The preference for one over the other is largely influenced by the state of macroeconomic balance and the primary objective of a central Bank. Inflation targeting, which appears to be the latest model of monetary management, has elegant appeal in terms of precision and simplicity but it is driven by a mass of data, which may not be produced timely and may not be readily available in many developing economies. It was clear from the deliberations that the management of interest rates is a crucial instrument for achieving the goals of the three models of monetary management.

Currency Boards and Other Options for Monetary Cooperation

It seems that currency boards, dollarisation and other stop-gap schemes of monetary cooperation are not a good substitute for a monetary union owing to a number of problems those schemes have experienced in some economies. In a currency board arrangement, the risks of real misalignment in the exchange rate may be greater, making the economy externally uncompetitive. In the case of dollarisation, substantial seigniorage income may be lost while the tendency towards successive devaluations may not be ruled out.

Statistical Harmonisation and Banking Supervision

The Seminar broadly recommended that statistics should be aggregated to cover the West African Monetary Zone and that such aggregation requires harmonisation of country data since these data must be sufficiently similar to permit such exercise. The Institute should, therefore, set out its framework for harmonising the zone's statistics. The Institute should define its statistical requirements covering the standards for the supply of data, which should include frequency, timeliness, quality and availability. The IMF GDDS framework was identified as a starting point for harmonising data in the WAMZ.

The Seminar revealed that banking supervision and regulation are important to ensure that bank failures are avoided and disruptive "lender of last resort" operations are not undertaken. Lapses in regulation, leading to bank failures can easily result in the loss of credibility for the supervisory authority, and undermine monetary policy effectiveness if the supervisory authority is the central bank. In all situations, timely, consistent and reliable monetary and financial statistics are required for effective and efficient bank supervision and monetary management.

Conclusion

The lessons from the seminar are numerous, but among the most important and critical are that: national objectives and aspirations can be better achieved through collaborative efforts in a monetary union, especially through the application of peer pressure as the European experience has shown; barriers to monetary union can be overcome even in the absence of the standard preconditions as depicted by the relatively better economic performance of the CFA Franc Zone countries vis-à-vis the non CFA Franc Zone countries in West Africa; and the elimination of fiscal dominance through tight fiscal controls under a monetary arrangement brought about by peer pressure is a vital benefit.

I. OPENING CEREMONY

The Director General of the West African Monetary Institute, Dr. M.O. Ojo, delivered the opening address while Dr. Paul Acquah, Governor of the Bank of Ghana presented the keynote address.

1.1 Opening Remarks

The Director General of WAMI, in his opening remarks, gave the background to the seminar which he noted was the result of a request by the Committee of Governors of the West African Monetary Zone at the June 2001 Bank of England Forum for Central Banks.

He observed that although the United Kingdom (UK) has not adopted the Common Currency of Europe, the Bank of England took active part in discussions and negotiations that led to the establishment of the European Central Bank and the introduction of the Euro. The Institute, therefore, believes that the UK, and especially the Bank of England has invaluable experience that could be shared not only with the Institute but also with officials from the participating Central Banks of the West African Monetary Zone and other research based organisations.

I.2 Keynote Address

The Governor, Bank of Ghana, Dr. Paul Acquah, in his keynote address, acknowledged the introduction of the euro as a historic event in the international monetary system. He observed that the euro is a product of twenty-five years of remarkable cooperation among sovereign states with great diversity of economic, social and political interest. In his view, euro has transformed the global currency arrangements effectively into a tri-polar system, with the US dollar, the yen and the euro as the main currencies.

Regarding the smooth transition to the euro, he noted that in retrospect the process might not have required all the time it took. However, he recognised that the process needed careful preparations to ensure its viability. The long time frame provided the opportunity to build supporting institutions, harmonise statistical and regulatory framework and to promote macroeconomic policy convergence. This experience certainly offers important lessons for discussion at the seminar in order to appreciate the risks and the opportunities, and the way they were resolved along the path to desired objective.

While noting the significance of the European experience, Dr. Acquah urged the seminar not to lose sight of the WAMU, CFA franc zone experience, which could also be considered a successful monetary zone. He noted that the role played by multilateral surveillance over their macroeconomic policies reflected an important aspect of the solidarity of member countries of the zone.

The Governor emphasized the pioneering role that the West African Monetary Institute should play in providing the technical guidance to facilitate the process of integration in the Second Monetary Zone. He acknowledged that the WAMZ has given the ECOWAS Monetary Cooperation Programme renewed impetus.

Dr. Acquah noted that particular emphasis was placed on the importance of the convergence criteria not only for a single currency but also to build the foundation for successful monetary integration. Therefore it is important that economic statistics and concepts in the sub region are harmonised to give meaning to these criteria. He concluded that besides statistical harmonisation, there is need to harmonise the accounting systems and banking regulations in order to weave the fabric for the efficient functioning of the financial and other institutions within a competitive regional economic space.

SESSION 1

II. MONETARY UNION IN PRACTICE: LESSONS FROM EMU

RESOURCE PERSON: Bill Allen, Bank of England

II.1 Introduction

The session provided an in-depth treatment of the subject of monetary union from both the theoretical and practical perspectives. It examined in very clear terms the issues involved in monetary union as they evolved in Europe. These issues revolve around monetary policy, exchange rate and reserves management, banking supervision and prudential regulation. The Acting Director of Research, Central Bank of Nigeria, Dr. O.J. Nnaana, chaired the session.

II.2 Historical Background

Starting from the premise that there are no blue prints for when and how to create a Monetary Union, Mr. Bill Allen noted that each case of Monetary Union was unique and a product of economic, political and historical influences.

a) Politics

By way of historical background, he observed that the euro was a part of a larger political project aimed at European unification. The project, which began in 1950, was driven mainly by the "memory of two general European Wars in the previous half century and three wars between Germany and France in the previous century. The Treaty of Rome (1957) establishing the European Union defined the objective of the project as "ever-closer union" among the people of Europe.

France and Germany led the process for two main reasons: First, they were the largest of the six founding members both in terms of size and economy. Secondly, the history of conflict between them was at the heart of the *no more War* objective that European Integration was supposed to achieve. He noted that membership to the European Union was motivated not by a common perception of an overriding European interest but rather by their national interest.

b) The Werner Plan and Break-up of the Bretton Woods

The Werner Report (1970) acknowledged that a single currency would require a single monetary policy, which in turn would require a community organisation of central banks and some decisions on economic policy. The Werner Report recognised the political significance of single currency as laying the foundation for the development of political union. The first stage in the realisation of the single currency was the narrowing of fluctuation margins between European currencies so that they are tighter than Brettonwoods margins against the dollar. This system of narrow fluctuation margins among European currencies, introduced in 1972, became known as the 'Snake'.
Following the breakdown of the Bretton Woods structure of fixed exchange rates against the dollar in 1973, the snake continued to function, thus replacing the Bretton Woods parities and enabling European currencies to maintain fixed parities whilst the rest of the world was floating. The snake proved to be unstable as the economic policy priorities, particularly in response to economic shocks, were diverse among countries. No further progress was however made on monetary integration under the WERNER plan.

c) The European Monetary System and the Exchange Rate Mechanism

The decision to re-launch the monetary union in the late 1970s was still a political decision spear-headed by two of the larger members of the community, Germany and France. The exchange rate mechanism under the 'snake' was essentially the same under the EMS. The success of the EMS relative to the 'snake' was however due more to the convergence of economic policy priorities and objectives than any other factors.

d) The Approach to Monetary Union

France and Germany both supported the idea of monetary union when it was first proposed in 1987/88. For France, this provided an opportunity for it to reassert some degree of control over domestic monetary policy. The debate revolved around the rationale for permanently fixing exchange rates. Included in this was the need to avoid the problems brought about by unstable exchange rates experienced under the common agricultural policy.

II.2. Economic Arguments for and Against Monetary Union

While the idea of monetary union was generally accepted, the debate on how to proceed was advanced by two broad camps – economists and monetarists. The economists believed that macroeconomic convergence should precede the permanent fixing of exchange rates. They feared that if rates were fixed at an inappropriate level, it could in future lead to pressures from some members for realignments to be effected which might not be beneficial for the community as a whole. The monetarists, on the other hand, contended that permanently fixed exchange rates would promote monetary integration and did not share the concern about fixing at the wrong level.

This debate sprang up in the late 1980s and early 1990s following the Delors report. Two main issues were prominent - the benefits in having a common currency and secondly the implications of losing permanently sovereignty over the conduct of monetary policy.

European markets being highly integrated, it was generally recognised that the cost of cross border trade transactions would be significantly reduced. Furthermore, some members saw the possibility of avoiding devaluation as a means of engendering efficiency in their industries, which would have to compete with German firms in particular. Provided that such macroeconomic gains outweighed economic costs, the single currency would contribute positively to output growth.

The question on the loss of autonomy over monetary policy focused on whether the shocks were symmetrical or not. The consensus was that an independent monetary policy was more useful in dealing with symmetric shocks than asymmetric ones. However the debate was on whether symmetric shocks were more likely to occur, how useful monetary policy would be in the face of asymmetric shocks and what other policy options would be available to react to such shocks. In general, it posed the question, how and to what extent could fiscal policy be a substitute for monetary policy. Making comparisons with the US federal budget with its fiscal stabilisers it was recognised that there would be no scope for such a role for the relatively small EU central budget.

II.3 Issues in Negotiating The Treaty

After the Delor's report, the next stage in the process was to negotiate a Treaty. The main issues during the process were central bank independence, the role of fiscal policy, exchange rate policy, banking supervision and lender of last resort and the absence of an exit clause.

a) Central Bank Independence

Reflecting the Bundesbank tradition, the Delors report had made it clear that there shall be a single European Central Bank, independent of governments and whose single priority shall be price stability. This was reflected in the statutes of the European System of Central Banks (ESCB) and the European Central Bank (ECB). The precise definition of the tasks of the ESCB has the effect of giving it greater power in carrying out its assigned functions. However, such precision in defining the functions also restricted it from taking on new tasks.

The members of the Governing Council, the policy making body of the ECB are enjoined to act in the common interest of the Euro Zone and not those of their native countries. Notwithstanding this, the issue of the Presidency of the ECB and other executive board members is a matter of acute political sensitivity.

The principle of independence is further assured in the statutes of the ESCB by the provision that neither the ECB nor any national central bank shall 'seek or take instructions from community institutions or bodies, from any government of member states or from any other bodies. Provision was also made for long terms of office for the Executive Board members of the ECB and governors of national central banks to protect them from political pressure connected with their possible reappointment.

b) Fiscal Policy

The conditions under which member countries could join the single currency, the so-called convergence criteria, were the most important issues that had to be resolved. Some members were feared to be prone to large budget deficits, which could undermine the monetary union. It was believed that aggregate budget deficits could become so large that in order to deal with them interest rates would have to be kept so high that private savings, investment and economic growth could be suppressed. Furthermore, politicians could blame the central bank for the high interest rates, thus placing it under pressure to compromise price stability. Another concern was that the moral hazard that could result from investors continuing to lend to high deficit countries at unsustainable terms, expecting the EU to organise rescue package, thereby compounding their debt problems.

In order to resolve these issues, the convergence programme included two criteria related to fiscal policy- a 3 percent ceiling on the fiscal deficit-GDP ratio and 60 percent ceiling on debt to GDP ratio. Conditions under which member countries could be allowed to record levels above the limits were clearly specified in the criteria. The fact that there was no room for ambiguity regarding the criteria as a precondition for being admitted into the single currency, served as a motivating factor for countries to maintain fiscal balance. Provision was made for continuous monitoring of the public finances even after joining the common currency, under the terms of the so-called Stability and Growth Pact.

The Treaty provided for penalties to be levied on countries recording high budget deficits. There was a long debate as to whether there should be penalties and if yes, whether they should be automatically levied or subject to political discretion.

On the issue of moral hazard, the Treaty contains a 'no bailout' provision. The objective was to convince financial markets that they must assess European public sector borrowers based on their 'stand alone' credit worthiness rather than expect community bailouts in the event of financial problems. The 'no bailout' clause has so far not been tested.

c) Exchange Rate Policy

The allocation of responsibility for exchange rate policy has been a source of tension between governments and central banks. This arises out of the difficulty in isolating the two. Exchange rate policy commitments can come to dominate monetary policy. While monetary policy is the purview of the central bank, negotiating and entering into national agreements is the responsibility of governments. This dichotomy has often been a source of tension in some countries, especially in Germany. The negotiations led to the Treaty, in Article 109, assigning the governments through the Governing Council, the power to conclude formal agreements on the Euro participating in exchange rate systems. It further stipulates that if the Euro is not in any such system, the Council will formulate the general orientations for exchange rate policy but without prejudice to the ESCB's primary objective of price stability.

d) Banking Supervision

The debate was whether banking supervision should be conducted at the community level following the introduction of the common currency, or whether it should continue to be conducted at the national level, but subject as in the past, to the directives of the European Council, setting common standards for supervision. The arguments for centralised supervisory framework were not very strong .The Bundesbank believed in principle that supervision should not be the responsibility of a central bank arguing that occasional bank failures were inevitable or even desirable.

e) Absence of an Exit Clause

The absence of an exit clause is a common feature of European treaties, which serves to emphasise that the process of European integration is irreversible. It is more of a political position than a legal one. Since there is no legal framework to be followed should a country want to leave the euro-zone, the process of exiting could be chaotic and disorganised and with the risk of serious financial instability.

II.4 Issues Of Implementation

There were both technical and political issues. The technical issues include payments systems, inflation measurement, currency design, printing and issuance, choice of conversion rates, distribution of seigniorage, relations between the ECB and the national central banks, choice of president and executive Board members, monetary policy strategy and the exchange rate regime.

a) Payment Systems

A single currency requires a single integrated money market, which in turn requires an efficient payments system. The quality standard for payments systems is Real Time Gross Settlement (RTGS). One of the most important aspects of the preparations for a common currency was the linking of the RTGS of member states so as to provide the necessary infrastructure for an integrated money market.

b) Inflation Measurement

One of the convergence criteria was a maximum acceptable rate of inflation. The Harmonised Index of Consumer Prices (HIPC) was developed by EUROSTAT, the Union's statistical agency, to provide a comparable measure of prices across EU countries. Coverage of the index is negotiated between Eurostat and national statistical institutes and is subject to approval by the European Commission. Once approved it is set out in Council Regulations, which renders them legally binding. In general, the coverage of the HIPC is narrower than national coverage. Whilst the coverage is harmonised across countries, the weights are based on the CPI basket of each country and are therefore not harmonised in that respect. The issue of whether it is conceptually possible to measure inflation with complete accuracy given the numerous sources of measurement bias, which are also difficult to assess received attention. In order to minimise such measurement bias, the weights and composition of the HICP are frequently reviewed.

c) Notes and Coins

The printing, distribution and introduction of new bank notes had encountered enormous logistical and operational problems. The main issues during the design stage was to find a design which would win the confidence of European citizens and which neutral between one country and another, and did not refer explicitly or implicitly to the many episodes of conflict in European history. For bank notes, the solution was to select a theme and hold a competition among designers. The neutral theme chosen was imaginary bridges, reflecting the key objective of integration, bringing nations closer. For coins, the solution was a map of Europe on one face and the denomination on the other face, which can vary from country to country.

As regards printing of the notes, the main issue was how the work was to be shared out among the various central banks, each of which had its own printing facility and wanted to maximise the amount of work allocated to it. The decision on this matter was therefore based on politics rather than economic considerations.
On the timing of the actual printing of the notes, the European Monetary Institute decided not to commence printing until it was certain that the common currency would take off. The timeframe for the production of the notes and coins was three years. A large publicity and public awareness campaign facilitated the introduction of the new currency.

d) Choice of Conversion Rates

All the member countries, being participating members in the ERM, had achieved a high degree of exchange rate stability under that mechanism. The choice of conversion rates was thus a simple matter. It was generally agreed that they should be based on the central parity rates in the ERM.

e) Distribution of Seigniorage

The Maastricht Treaty which set out a formula for capital subscriptions to the ECB also stipulates that seignoirage should be distributed according to the same principle. It however allows the ECB Governing Council to phase-in this method of distribution if its application results in significant changes in the national central banks' relative income positions. The Governing Council decided in December 2001 that the use of the formula be phased-in over a transitional period to the end of 2007.

f) Relations Between the ECB and National Central Banks

Monetary union and the creation of a common central bank constituted a considerable shock to the national central banks. The loss of autonomy in monetary policy was nothing new to them since most had been following German's monetary policy process, centred on decisions of the Bundesbank. But this was a permanent and more explicit loss of power and influence particularly for the Bundesbank. It also drew public attention to the very large number of employees in some of the national central banks. They therefore worked to maintain as many of their functions as they could with the result that the environment has not been conducive to a harmonious relationship between them and the ECB.

g) Monetary Policy Strategy and Exchange Rate Regime.

The large size of the EU market gives it the capacity to conduct its own monetary policy without the need for entering into an exchange rate agreement with any other country or block. As a result, the choice of an exchange rate regime has not been on the agenda of the European Central Bank. The euro has been independently floating since its introduction.

SESSION 2

III. THE THEORY OF MONETARY UNION / MANAGEMENT OF MONETARY POLICY, CHOICE OF ANCHOR, INFLATION TARGETING & INSTRUMENTS OF MONETARY POLICY

RESOURCE PERSON: Prof. Peter Sinclair, Bank of England

In this session, chaired by Mr. V.J.D. Selormey, Chief Manager, Bank of Ghana, Professor Sinclair discussed the theory of monetary union, the management of monetary policy, choice of monetary policy anchor and instruments.

He observed that the key theoretical justification of monetary unions is that it engenders improvements in monetary policy framework and implementation. It enhances labour and capital mobility and could be beneficial to attracting foreign direct investment.

III.1 Management of Monetary Policy

The common central bank determines the official monetary policy for the union as defined by a common authority. The main issue was to clearly determine the operational rules of the framework. This would address issues such as who sits on the Board of the common central bank, the basis for decision making, that is, whether by consensus or by simple majority, frequency of meetings, the role and functions of key officials such as the governor and the degree of transparency in its deliberations and decisions.
The common central bank delegates tasks to the NCBs. It must therefore define clearly the functions it has delegated to the NCBs, including how much consultation there should be, on what and how, and the latitude the NCBs have to act on their own.

III.2 Choice of Anchor

Monetary policy needs an anchor. It is therefore imperative on the common central bank to decide on whether it uses discretion or operates on rules and guidelines set by itself or a higher authority. The common central bank like all central banks has the option of targeting: a monetary aggregate, the external value of money or the external value of money.

However, only one of them can be successfully targeted at a time. For example, it should be clear whether a target should apply to levels or rates of change, a range or a point. In addition, how wide should the range be? Should targets be observed daily, monthly or annually or continuously and how far in advance should the target be known?

III.3 Inflation Targeting in Comparison With Alternative Regimes

a) Monetary Targeting

The rationale for monetary targets is that money is ultimately neutral without any lasting effects on quantities and relative prices. Thus, controlling the quantity of money should be an effective means of maintaining price stability. Furthermore, unlike targeting the exchange rate, the targeting of money has the added advantage of saving reserves as well as the potential to absorb or insulate external shocks.

Disadvantages of monetary targets relate to questions regarding stability, predictability and controllability. Velocity may not be as stable as assumed whilst the link between money and prices is difficult to ascertain econometrically partly because of the long and variable lags involved in the transmission process.

b) Exchange Rate Targeting

The advantage of an exchange rate target lies mainly in its clarity without any room for ambiguity. It tends to dampen shocks of domestic origin and is often easier to achieve than other alternatives provided there are capital controls. The disadvantages however seem to outweigh the benefits. These include its susceptibility to crisis especially with full convertibility and no capital controls; its need for large reserves, and susceptibility to shocks of external origin. It also poses serious credibility problems especially after the enforced parity change. Other technical problems include the difficulty in deriving the equilibrium exchange rate. Theoretically, this is defined in several different ways. The main ones are the exchange rate at which unit labour costs are equalised and the relative price of tradable and non-tradable goods.

c) Inflation Targeting

The advantage of inflation targeting is that it is directed right at the key goal of monetary stability. It has the ability to avoid many of the drawbacks in the alternatives discussed above. It is easy to transmit to the public, provides sharp focus for monetary policy and has a simple measure of failure or success. Moreover, it has been proven as a cheap method of disinflation in several countries where the policy has been credible.

The disadvantages include the difficulty in building credibility where non existed before. The framework requires a good macroeconomic model and forecast of future tends based on current and unchanged policies. Furthermore, the framework is rather new and so, far has operated under relatively tranquil conditions. It is therefore not clear how much of the success is due to good luck.

III.4 Concluding Notes on Monetary Management

In general, all regimes face some severe challenges. Neither the common central bank nor the NCB can control excessive government spending which may in the medium term jeopardise monetary stability. There is also need to have good control over policy instruments. Where the domestic capital market is underdeveloped, classical sterilisation is not very effective or may even be impossible, as the interest rate mechanism does not function. The money base is highly sensitive to current account and fiscal deficit developments and encourages resort to credit ceilings and other direct controls, which are in themselves a distortion. Also, when exports are dominated by a narrow range of primary commodities with volatile prices and or subject to domestic supply shocks, all regimes are put under strong pressure, exchange rate target regimes in particular.

III.5 Hard Pegs – Currency Boards and Dollar- / Eurorisation

a) Background

Currency boards have a long history, starting with Mauritania in 1849. A total of some 80 countries or territories have had a currency board at one time or the other since then. Most were colonies at the time, usually British. Post World War II decolonisation saw many disbanded and transformed into traditional central banks with fixed-but-adjustable pegged exchange rate shortly after independence.

Current currency boards include Argentina (till end 2001, at least), Bosnia, Brunei, Bulgaria, and Djibouti in West Africa, Estonia, Hong Kong and Caribbean Island states under the Caribbean Central Bank.

b) Key Characteristic

Foreign exchange reserves must not be less that some fixed proportion, usually between 60 - 100 %, of the monetary base. A fixed parity is declared and retained against a specified numeraire currency, generally enshrined in the law. Also a ban is placed on financing of government or bank borrowing by the monetary authority.

c) Attractions

- Reserves in numeraire funds could generate income
- Quick route to establishing reputation by proxy
- Reduces exchange rate uncertainty and hence may stimulate exports
- Capacity to attract capital from abroad

d) Weaknesses

- Risk of real misalignment against other currencies
- If inflation track record is not good, the board may break down
- Short term shocks might be poorly correlated with pegged currency
- Reduces ability to rescue failing institutions

IV. ROUND TABLE DISCUSSIONS ON MONETARY UNION

The Chairman Mr. Basiru Njai, Deputy Director of Research, Central Bank of The Gambia opened the floor for discussions after a brief summary of the critical issues involving the West African efforts at monetary Union. The key issues, which emerged from the deliberations, are summarised below:

IV.1 The ECOWAS Monetary Cooperation Programme

The issue of timeframe for the WAMZ project and the ECOWAS programme was raised. In particular the issue was raised whether the take off of the second monetary zone (SMZ) by 2003 and merger with the UMEOA by 2004 are realistic. It was generally observed that for the WAMZ, monetary union is a question of how and not when or why. The WAMZ timeframe was based on the ECOWAS targets for a single monetary zone for West Africa. The paramount objective however, is for the economies to achieve the desired degree of convergence rather than focusing on issues bound by a timeframe.

IV.2 Cost and Benefits of the SMZ

The benefits of monetary union significantly outweigh the costs. Though sovereignty over monetary policy will be lost, the benefits are mainly derived from the disciplined monetary and fiscal policy regime that it imposes on participating countries. Prior to the single currency, participation in the exchange rate mechanism would start enforcing such discipline. The permanent removal of fiscal dominance, which has been the bane of economic management of countries in the sub region, is the main benefit of the single currency project.

IV.3 Issues on reserves management

The institutional structure for the WAMZ as envisaged under the statutes provides for a total pooling of reserves as opposed to partial pooling. The Reserves management was one of the difficult issues for the EMU. The solution was a matter of judgement. ECB opted for partial pooling mainly in view of the fact that the common central bank had a federal structure and also in view that the National Central Banks had different reserve levels. A total surrender was as such considered improper.

The EMI, the predecessor to the ECB, to determine the required level of reserves by the ECB and request member countries to make contributions in accordance with the size of reserves they held. Given that the day-to-day management was delegated to them, the NCBs manage two sets of reserves, those of the ECB and their national reserves. The ECB uses the pooled reserves to intervene in support of the EURO in which it has been quite successful.

IV.4 Exchange Rate Management

The question of whether exchange rates should be fixed prior to or following the achievement of macroeconomic convergence was raised. Here again the experience of the EU was to use judgement. Because Europe had already achieved a high degree of convergence, the parities under the 'snake', which in turn emerged following difficult realignments under the Bretton Woods system, were adopted in fixing the central parity rates under the new ERM.

IV.5 The Politics of Monetary Union

An important element in the success of the EU example, which the WAMZ may learn from, has been the leadership role performed by the two prime movers, Germany and France. The European Commission also played an important role by pursuing the community interest in the same way that governments pursue their national interests.

The question was raised whether there were technical considerations behind Britain's decision not to join the single currency or whether it was perceived that national interest would not have been served by joining. In response, it was noted that this was a subjective decision with no single explanation. The experience of failures under previous arrangements like the 'snake' may have been a factor whilst the fact that British monetary policy had been relatively successful in containing inflation could be another.

IV.6 Hard Peg/Currency Board Option

The practicality of having a hard peg with an explicit exit policy for the legacy currencies was discussed. It was observed that this would be possible if budget deficits are or nearly balanced so that once declared, the fixed parity against the specified numeraire is maintained.

In the case of the WAMZ, countries have demonstrated commitment to the monetary integration project. However, it cannot be taken for granted that macroeconomic convergence would be achieved by the target date. Also, it was observed that the main difficulty in achieving monetary union is that the region could not be considered an optimum currency area. There is very little trade among member countries and real and artificial barriers limit mobility of labour and capital. In this instance, concern was raised on whether a currency board arrangement may not be a viable option should countries fail to converge.

It was also noted that the key problem besetting the sub region is that of inability to achieve fiscal balance, purely driven by weaknesses in revenue performance and in part due to indiscipline in expenditure management. The general approach to deficit financing has been resort to the printing press or bank rolling of deficits. Against this backdrop, it was agreed that the sub region does not exhibit the discipline required to embark on a currency board arrangement.

IV.7 Sovereignty Issues

In conclusion, it was observed that monetary union is a serious business. It is not just a question of giving up authority over monetary policy. More importantly, it is about giving up a very strong symbol of national pride, one's currency. It is therefore important that the citizenry is given something worthwhile in return; these incentives could be disciplined fiscal management and a more variable and stable common currency.

SESSION 3

V. MONETARY, BANKING AND ECONOMIC STATISTICS – THE NEED FOR UNIFORMITY, TIMELINESS, ACCURACY AND COMPREHENSIVENESS

RESOURCE PERSON: Richard Walton, Bank of England

V.1 Introduction

This session, which was chaired by Mr. Mohamed Mansaray, Division Head, Domestic Banking Policy, Bank of Sierra Leone underscored the importance of statistics in the conduct of a single monetary policy for a monetary union. It was drawn largely from the experience of the European Union and emphasized the need for harmonisation of economic statistics to support both the tasks of multilateral surveillance of macroeconomic convergence by WAMI and astute monetary management by the WACB. Member countries presented the current position of their economic statistics, which together with the Euro area experience formed the basis of a round table discussion on the way forward with statistical harmonisation in the WAMZ.

V.2 Harmonisation of Statistics In The Euro area

The discussions during the session revealed that the driving force underpinning the harmonisation of statistics in the Euro area was the responsibility envisaged for the ECB to define and conduct a single monetary policy for the entire euro zone. The EMI, the forerunner to the ECB, had the task of undertaking the necessary statistical preparations. Much of the statistical information identified as important for economic and monetary policy money and banking data, balance of payments statistics, prices, government accounts, general economic statistics and recently financial soundness indicators. A key concern was for the information to be as comprehensive as possible to support ECB tasks.

a) Institutional Arrangement

The ECB, which succeeded the EMI in June 1998, and the statistical arm of the European Commission, the Statistical Office of the European Communities (EUROSTAT) are responsible for the monetary union area macroeconomic statistics. The national authorities collect and compile the required statistics at national level and supply the aggregated data to the ECB and EUROSTAT, which compile the Euro area aggregates. The national central banks and other national authorities and the ECB participate in conceptual and development work and also in the preparation of the ECB legal acts in the field of statistics.

The main forum for co-operation between the ECB and EUROSTAT is the Committee for Monetary, Financial and Balance of Payments Statistics, which comprise heads of statistics departments of national central banks and senior officials of national statistics institutes.

b) Harmonisation Issues

i. General Principles

In the Euro area, the process of harmonisation was largely supported by legislation, which empowered the ECB's Governing Council and related bodies to collect statistics available to national central banks. International statistical standards prescribed in renowned manuals such as the SNA 93, ESA 95, BPM5, GFS etc are largely followed.

The principles of harmonisation involve data coverage, frequency and timeliness of all required data. The ECB is very clear on the assessment of quality of data, balancing speed, detail and quality.

In harmonising, ECB realised that there are both merits and cost to statistical changes. Since international requirements rarely replace national ones entirely, ECB has tried to minimise the reporting obligations of institutions. In so doing, the Bank makes use of existing statistics wherever possible. The ECB aimed at achieving consistent statistics of good quality and refrains from imposing uniform concepts, having regard to differences in the structure and functioning of national financial and other institutions.

ii. Harmonising Prices

Given the importance placed on a maximum acceptable rate of inflation in the Euro zone and similarly in the WAMZ, a brief discussion followed on what the Euro zone did to arrive at an agreed method of measuring inflation. The method, which is the Harmonised Index of Consumer Prices (HICP), was originally developed by EUROSTAT as one of the convergence indicators. Currently, it plays a crucial role for the monetary policy of the ECB and for monitoring inflation in the EU.

Harmonisation efforts focused on those areas in which national prices differ across countries. These include the method of computation, types of prices collected, weights used, coverage and sampling method. It was made clear that the HICP is computed as a Laspeyres-type price index that is based on the prices of goods and services available for purchase in the economic territory of the Member States for the purpose of directly satisfying consumer needs. The coverage of HICP is good and services included in household final monetary consumption expenditure. The population and geographical territory to be covered were specified. The prices used in HICP are those paid by households to purchase individual goods and services in monetary transactions. The purchaser’s price is the price for the product the purchaser actually pays at the time of the purchase. The price includes any taxes less subsidies on the products, after deductions for discounts, excluding interest or service charges added under credit arrangement, including any extra charges incurred as a result of failing to pay within the period stated at the time the purchases were made. The weights of the HICP are aggregate expenditures by households on any set of goods and services covered by the HICP expressed as a proportion of the total expenditure on all goods and services within coverage. Most EU Member States take purposive samples (according to judgements made, often to gain efficiencies from collecting data from the major supermarkets), rather than random or probability samples.

iii. Harmonising Money and Banking Statistics

The two phases in which the reporting scheme for Euro area monetary aggregates was harmonised were discussed.

1. The proposals in the first phase drew on the degree of moneyness of categories of existing national instruments. The drawbacks were the differences in the underlying statistical definitions and classifications, the aggregates of which were still based on the national money and banking statistics.

2. In the second phase, each of the participating members reviewed their own statistical systems and made changes to meet harmonised instrument/maturity/and sector categories. Members added to these requirements the reporting of cross-border position within the Euro area.

The new monetary statistical system for the Euro area covered: the consolidated balance sheet for the Euro area, a list of banks for statistical purposes and detailed specification of statistical data to be reported by banks, at monthly and quarterly intervals.

iv. Harmonising Other Macroeconomic Indicators

General economic statistics covering prices and cost, national accounts, labour markets and wide range of other economic data support the second pillar of the ECB's monetary policy strategy. The second pillar covers a wide range of economic and financial data necessary to assess the outlook for price developments and risks to price stability.

The ECB now has quarterly as well as annual data on government revenue and expenditure available under the Commission Regulation. These data cover taxes and social security contributions on the revenue side and social benefits on the expenditure side. Both quarterly and annual national accounts data are available.

External trade statistics by commodity groups and for intra- and extra-EU trade are obtained. However, intra-EU trade data collection is too detailed and proposals have been made to change to a smaller number of product categories on a quarterly frequency.

Data on employment and unemployment and earnings for the economy and its main sectors are important for the analysis of economic activity. A European Labour price index following the model in the USA was considered too ambitious and costly.

Short-term business statistics provide important information on demand, output and prices and are used as leading indicators for quarterly national accounts. A Council Regulation on short-term economic statistics, which was designed to improve coverage, quality and timeliness, assisted this work. Statistics cover industrial production, construction and the retail trade and will include in the future service sector indicators.

V.3 Current Position of Economic Statistics in the WAMZ

Representatives from The Gambia, Ghana, Nigeria and Sierra Leone made presentations on the current position of economic statistics in their various countries. The underlying objective was to provide the basis for identifying areas of differences and map out a way forward on the harmonisation of statistics in the WAMZ, drawing largely from the Euro area experience discussed above.

a) The Gambia

Mr. Basiru Njai, Deputy Director, Economic Research Department, Central Bank of The Gambia delivered the current position of statistics in The Gambia.

i. General Data Dissemination System (GDDS)

The Gambia is benefiting from participation in the IMF's GDDS. It was clearly expressed that The Gambia has used the framework to significantly improve the quality, timeliness and transparency of data.

ii. Money and Banking Statistics

Compilation of money and banking statistics in The Gambia is in accordance with the IMF's Monetary and Financial Statistics manual. Presently, the Central Bank of The Gambia compiles the Depository Corporation Survey (DCS), which consolidates the balance sheet of the central bank and the commercial banks. Efforts are currently underway to expand the coverage of the DCS to include all institutions that issue deposits such as postal savings bank, savings and credit companies and village based savings and credit associations. In fact an overall financial corporation survey is also to be implemented soon. This will consolidate data for the entire financial system to ensure better analysis of credit extended by the overall financial sector.

The periodicity and timeliness of the monetary survey broadly follow the GDDS recommendations. Data is compiled on monthly basis and published within two months. Short term and long-term government security rates and the full range of deposit and lending rates are published on a quarterly basis

iii. Real Sector Statistics

There are substantial weaknesses in The Gambia's real sector data, that is, the national accounts, consumer price index and labour market indicators. Each of these areas was covered in turn.

National Accounts

The national accounts are compiled using the 1968 Systems of National Accounts (SNA 68) as opposed to the most recent methodology, the SNA 93. They are compiled on an annual basis in current and constant prices using the production or value-added approach. The flaws in national accounts compilations in The Gambia stem mainly from the fact that the compilation method is outdated, the base year employed (1976/77) is very old and the accounts have been produced with lags. As well, gross national income, gross disposable income, consumption, savings and capital formation aggregates ceased being published in 1994. For the medium term, the plans for improvement are to move the base year from 1976/77 to a more recent year and to change the framework for national account to the SNA 93.

Consumer Price Index

The consumer price index is a weighted average of the change in prices of 135 items. The selection of items and their weights are based on a survey of the consumption of low-income households in the Greater Banjul Area conducted in 1968/69. The base year of the index is 1974. The major groups covered by the index have the following weights: Food and Drinks (58%), Clothing, Footware and Household Items (18%), Rent (5%), Fuel and Light (5%) and Miscellaneous (personal and medical care, education, recreation etc) (14). Prices are collected from four market areas and 48 retail outlets and service establishments. Rental data are collected from 42 retail dwellings. The CPI is released every month to selected users, which include, the government, central bank, national assembly, etc.

The major weakness in the index is the coverage, which is limited in scope. Also, the index is based on a 1968/69 household expenditure survey and therefore the weights may not reflect current trends. The 1974 base year as well is regarded as outdated.

Plans are afoot to strengthen the collection of prices. The structure of the index, including the list of elementary items and their weights in the whole index are to be updated following the 2000 household expenditure survey.

Labour Market Indicators

Producing and disseminating employment data is the responsibility of the employment and earnings section of the Central Statistics Department. The most recent published information on employment for the country is from the 1993 census. In 1993, the Central Statistics Department reinstated the survey on employment and remuneration, which was earlier conducted in 1985, but restricted to the Greater Banjul Area because of resource constraints.

The data provided include levels of employment, average weekly earnings of workers and the number of hours worked per week in each industry.

The main limitation of the labour market indicators is that there is no periodicity in the reporting. The results of the 1994 survey on employment and remuneration were published in 1996. However, there are plans to conduct the National Employment Survey every two years.

b) Ghana

Mr. Agyapong of the Research Department, Bank of Ghana spoke on the present position of statistics in Ghana.

i. Compliance with the IMF GDDS

Ghana is currently not participating in the IMF General Data Dissemination System. The view was that lapses in this regard are largely attributable to the Ghana Statistical Service (GSS).

ii. Money and Banking Statistics

The compilation of monetary statistics in Ghana falls within the purview of the Bank of Ghana. All deposit money banks have reporting responsibility to the Central Bank on the position of their assets and liabilities.

iii. A revised national CPI was introduced in January 1998 with a base of 1997. The weights are based on the standard consumption basket, which was estimated from the 1992 general living standard survey. The authorities have reduced the lag in reporting the CPI to one month.

iv. There is paucity in labour statistics. Wage statistics are almost nonexistent, although some wage indicators are available from the social security national insurance trust. UNDP and ILO have been providing technical assistance in the design and compilation of labour statistics to the Ministry of Employment.

V. The Ghana Statistics Service is the agency responsible for compiling national accounts statistics. With assistance from DFID, GSS publishes national accounts with weights from the 1993 GLSS.

c) Nigeria

Mr. Moses Ajayi, Assistant Director, Research Department, Central Bank of Nigeria presented the position of statistics in Nigeria.

i. Compliance with IMF GDDS

Efforts are being made to comply with the requirements of the IMF GDDS in Nigeria.

ii. Money & Banking Statistics

Deposit money banks (DBMs) are statutorily required to report accurately and promptly on their activities in prescribed formats for mid-month, monthly, quarterly and semi-annual returns. Such designated returns are forwarded to the Central Bank of Nigeria (CBN) not later that 5 days after the 15^{th} day of each month for mid-month returns, 10 days after the end of each reporting month in the case of monthly returns, and 14 days after the end of each quarter in the case of quarterly returns. Submissions are made in diskettes in addition to the hard copies. A computer System, the Banking Analysis System (BAS) supports the processing of the returns.

The consolidation of the Central Bank and DMBS' balance sheets to generate the monetary survey is done with a lag of about one month. This notwithstanding, money and banking statistics are the most reliable and timely data in the system. Monthly reports on monetary developments are written with about one-month lag.

iii. External Sector Statistics

The BOP is compiled in line with the 5th Manual while exchange rate data are compiled on daily basis by the CBN.

iv. Government Finance Statistics

The Federal Ministry of Finance (FMF) coordinates statistics on government fiscal operations. The budgetary estimates on Government revenue and expenditure are obtained from the FMF. Actual data on government activities are also obtained regularly with a lag of about 1 quarter. Data on Government Fiscal Operations are published in CBN reports, Annual Reports, Statistical Bulletins, etc.

v. Real Sector Statistics

The Federal Office of Statistics (FOS) is responsible for producing data on inflation rate, which is supplied to the CBN with a maximum lag of 2 months.

The current base period for the consumer price index (1985) would soon be updated in line with the recent household expenditure survey conducted by the FOS. The coverage includes food; accommodation, fuel and light; transportation; as well as other household expenditure items. The food index constitutes about 70% of the composite CPI. Both the urban and rural areas are covered.

The National Planning Commission (NPC) and the FOS are responsible for generating real sector statistics. For instance, GDP data are computed by the NPC while the FOS generates data on employment.

d) Sierra Leone

Mr. Jalloh, Bank of Sierra Leone, delivered the current status of statistics in Sierra Leone.

i. Compliance with IMF GDDS

Sierra Leone is currently applying international standards in the compilation of its statistical data. These standards include for example those relating to the 4th edition of the Balance of Payments manual, monetary and financial statistics manuals of the IMF and the Systems of National Accounts. The country has not adopted the General Data Dissemination System, but current practice seems to approximate the requirement under the GDDS. However, steps have been taken to adopt the GDDS. The Bank of Sierra Leone has communicated its commitment to the IMF to use the GDDS as a framework and has nominated a country coordinator for the system. The country is actively participating in the IMF GDDS project for Anglophone Africa. Sierra Leone was represented at the preparatory meeting of the project in Gaborone, Botswana in December 2001 and has nominated an official to participate in the GDDS Workshop in Namibia in February 2002.

ii. Money and Banking Statistics

Harmonisation of banking and monetary statistics is largely reflected in the monetary survey compiled monthly for publication in the IMF international financial statistics. The Bank of Sierra Leone takes full responsibility for compiling these data. The difficulties in reporting relate to the submission of banking statistics by deposit money banks despite prudential requirements for them to do so by the 20th of each succeeding month in the case of monthly statements of assets and liabilities. Instances of inaccurate data reporting are not uncommon.

Interest rate data are submitted weekly by the DMBs and published in almost all reports of the research department (monthly economic review, quarterly and half-yearly bulletins).

iii. Real Sector Data

Consumer Price Index
The CPI coverage has been limited to the capital, Freetown. Although the coverage is now extended to the provincial towns of Bo and Kenema, the reporting is done in isolation. The base year is relatively less recent compared to Ghana for example. Sierra Leone has amended the index calculation method to the Laspeyres formula.

National Accounts
National accounts are compiled by the Central Statistics Office (CSO) and made available annually. The CSO follows the new system of national accounts (SNA93).

iv. External Sector Statistics

The balance of payments statistics are compiled with a long lag because of difficulties encountered with the Customs Department's submissions. The compilation standards follow the 1986 IMF BOP guide. The country is still to update its compilation method to the BPM 95 standards.

VI. ROUND TABLE DISCUSSION ON HARMONISATION OF STATISTICS IN THE WAMZ

The presentation by Richard Walton on EU's preparations on the harmonisation of statistics and the various Member country positions, were followed by a round table discussion. Below is a summary of the main issues:

VI.1 The WAMZ in the IMF General Data Dissemination System

Member countries acknowledged that the GDDS provides a comprehensive framework for reporting economic, financial and socio-demographic data. Only The Gambia is currently an active participant in the GDDS. Nevertheless, it does appear that other member countries are willing to participate in the system. It may therefore be necessary for WAMI to coordinate with the countries to ensure transmission of their intentions to the IMF and undertake necessary follow up.

VI.2 Issues in Country Statistics

a) Real Sector Data
In the case of the consumer price index, countries differ in the treatment of the various characteristics underlying the measurement of the index. These include computational method, weighting, price outlets, base year, sampling and the basket. A clear need for

harmonisation was therefore identified, more so given the importance of this indicator in monitoring price stability, the monetary policy objective of the union.

b) Government Fiscal Operations

The need for comparability of fiscal deficit among countries in the WAMZ was well emphasized. The key issues raised concerned the treatment of central government transfers to lower tiers of government in a federal setting like Nigeria, and the need to focus on central government budget and not the entire federation. In the case of the EU, the fiscal operations are consolidated; therefore WAMI needs to be very clear on these issues in its statistical manual.

c) Money and Banking Statistics

It was observed that the EU placed so much attention on harmonising money and banking statistics. Concern was therefore raised as to whether harmonisation of money and banking statistics should precede fiscal and national accounts harmonisation in the WAMZ. The consensus was that monetary statistics are the most stable and timely data collected in the zone. Also given the present reporting schemes in member countries, harmonisation of statistical reporting in this area may not be very difficult. However, WAMI needs to pay attention to all economic statistics, which will support the task of convergence monitoring as well as the eventual responsibility of managing a common monetary policy once the WACB is established.

VI.3 Main Task for WAMI

The session broadly confirmed that statistics must be aggregated to cover the West African Monetary Zone and that such aggregation requires harmonisation of country data since these data must be sufficiently alike to permit such exercise. The Institute should therefore set out its framework for harmonising statistics. This should bring out its statistical requirements covering the standards for the supply of data, which should include frequency, timeliness, quality and availability. The reporting population needs to be clearly defined and responsibilities of the various stakeholders identified. Such a framework could be well articulated and discussed at a WAMZ experts meeting.

SESSION 4

VII. FINANCIAL STABILITY AND BANKING SUPERVISION ISSUES

RESOURCE PERSONS: Bill Allen and Richard Walton, Bank of England

The representative of the Central Bank of Guinea, Mr Daouda Bangoura, Director General, Banking Supervision Department, chaired the session. Presentations on banking supervision by the different representatives of the WAMZ central banks set the pace for this session followed by discussions and comments by the resource persons from the Bank of England. Against the background of the various country experiences, issues on the pursuit of financial stability and financial stability statistics were explored.

BANKING SUPERVISION IN THE WEST AFRICAN MONETARY ZONE

Banking Supervision in Nigeria.

The promotion of monetary stability and sound financial system are among the core functions of the Central Bank of Nigeria. To discharge this responsibility, an effective supervisory and regulatory mechanism that is capable of coping with growth in the sector should be in place.

The financial liberalisation introduced following the Structural Adjustment Programme in 1986, which fostered the competitiveness in financial intermediation led to tremendous growth in the number and variety of financial institutions, and volume and complexity of operations as well as a number of products and services offered. This deregulation of financial and economic activities were legally fortified in a revised banking framework embodied in CBN Decree N° 24 and Bank of other Financial Institutions Decree (BOFID) N° 25 both of 1991. Thus, the number of commercial and merchant banks increased from 30 and 12 in 1986 to 66 and 55 in 1991 respectively. The number of branches rose from 1394 to 2477 during the same period. With the expansion of the supervisory mandate of the CBN from January, 1997, 1368 community banks, 6 development banks and 286 Primary Mortgage Institutions, in addition to about 800 finance companies, 5 discount houses and over 200 bureaux-de-change came under the Bank’s supervisory purview.

In spite of the significant achievement made, the sector witnessed important distress in the early 1990s to the mid 1990s, which manifested in the large number of technically insolvent and in some cases, failed institutions, liquidity problems, default in meeting depositors /creditors obligations, large portfolio of non-performing credits, and shareholders conflicts. However, with the measure taken to sanitise the financial system, the number reduced to 64 and 24 commercial and merchant banks by the end of 2000 respectively. The number of community banks also dropped to below 800 while the operational primary mortgage institutions and finance companies in the system dropped to 76 and 93 respectively.

After the major legislation of 1990 and 1991, a few others have been enacted between 1993 and 1997. In 1998, the CBN Decree N° 37 and the Banks and Other Financial Institutions (Amendment) Decree N° 38 were promulgated. The two Decrees effected fundamental changes in both legal and regulatory framework of the CBN. In January 2001, Universal Banking was adopted.

Banking Supervision in Sierra Leone

Banking supervision in Sierra Leone is performed by the Central Bank. Before 1994, banking supervision was not given the desired attention. It was only a unit in the banking department of Bank of Sierra Leone. Following the financial sector reform program in 1994 and the resulting restructuring, a full-fledged banking supervision department was created, headed by a Director with three divisions: Commercial and Rural Supervision; Other Financial Institutions Supervision; Policy, Special Investigation and Follow-up.

The financial system comprises banks and other financial institutions. The banking system presently consists of the Central Bank, five commercial banks and eight rural banks. The other financial institutions are those that are not commercial or rural banks.

To ensure the continued soundness of the banking sector, the Central Bank reviewed the legal and regulatory framework, within which it was operating. To this end, a new Bank of Sierra Leone Act 1999 and the Banking Act 2000 were enacted while the Banking Regulations 2001 were passed. These banking Acts and Regulations give more powers to the Central Bank to supervise and regulate the banks in accordance with international standards and practices. The Other Financial Services Act 2001 was enacted empowering the Bank of Sierra Leone to regulate and supervise the other financial institutions excluding insurance companies, which are governed by a separate Act, the Insurance Companies Act 2000.

Banking Supervision in The Gambia.

The Central Bank of The Gambia is the sole supervisor of all financial institutions in The Gambia. This includes the supervision and the regulation of six commercial banks, eight insurance companies and fifty-one micro finance institutions.

The central Bank's statutory objectives include:

- Strengthening the supervisory system consistent with trends in the financial sector;
- Harmonizing standards and practices for the regulation of financial institutions by promoting consistent and effective supervisory standards which enables the supervisory authority to monitor more effectively events and trends within the financial community and take appropriate measures to ensure a stable financial environment;
- Contributing to the development and implementation of appropriate policies and regulations to foster a sound legal and regulatory framework;
- Ensuring compliance with the legislation by preventing insider abuse and addressing conflicts of interest and ownership issues; and
- Supervising the operations of financial institutions through on-site and off-site examinations.

The central Bank is quite advanced in the adoption of the key elements of the Basle Core Principles with the view of enhancing its regulatory framework for a sound financial system in The Gambia.

In line with IMF surveillance objectives for an improved macroeconomic framework through steady performance in the real economy, the Bank has instituted an enhanced regulatory framework designed to effect structural changes to deepen financial intermediation and increase efficiency in the financial sector.

Banking Supervision in Ghana.

The banking supervision in Ghana is performed by the Central Bank. Section 18 of the 1989 Banking Law, empowers the Bank of Ghana to have the overall supervisory authority in all matters relating to banking in Ghana. The supervisory function is carried out by the Banking Supervision Department (vide section 27 of the Banking Law) which on continuous basis, monitors operations of banks and enforcement of prudential regulations, policies and practices. The objective of supervision is to ensure the existence of generally sound, safe and stable banking system as means to protecting depositors, maintaining monetary stability and promoting competition and efficiency.

The supervisory methodology adopted by the Bank of Ghana is based on off-site surveillance and on-site examination. The on-site surveillance is concerned with on going analysis and review of prescribed prudential returns submitted by banks. The on-site examination enables the supervisor to have access to primary data and records, it also affords the supervisor the opportunity to obtain on-the-spot clarification and also holds discussions with management and operational staff without resorting to time-consuming and energy-sapping correspondence.

Banking Supervision in Guinea

The Central Bank of Guinea is the sole supervisor of all financial institutions. This include the supervision and regulation of seven commercial banks with their twenty five branches, four insurance companies and four micro finance institutions.

The promotion of monetary stability and sound financial system are among the core functions of the Central Bank of Guinea. The reform in the financial sector introduced in 1986, with the aim of setting up a market economy led to the liquidation of six State owned banks which were in a state of insolvency. New banks with foreign participation were established. The establishment of these banks was accompanied by the reorganisation of the Central Bank and the promulgation of two laws on the Central Bank statute and the regulation of financial institutions (banking Law). These two laws empower the Central Bank of Guinea to have the overall supervisory authority in all matters relating to banking activities in Guinea; among there are:

- The administrative authority for the Central Bank to authorise the establishment of new banks.
- The regulation authority for the Central Bank to define the plan and accounting procedures as well as management and prudential norms applicable to financial institutions.
- The Control authority through which the Banking supervision Department of the Central Bank organises and carries out the off-site surveillance and on-site examination of banks.
- The sanction authority which the banking Law on confers on the Central to sanction, institutions under its control without prejudice to other sanctions from the judiciary.

THE PURSUIT OF FINANCIAL STABILITY

– Bill Allen, Bank of England

The paper draws largely from the experience of the WAMZ countries on bank's supervision and regulation and its importance in ensuring that bank failures are avoided and disruptive "lender of last resort" operations are not undertaken. It focused on financial stability, why it matters, issues of financial crises and how they spread.

Mr. Allen referred to financial crisis as a state of affairs in which there are doubts about the ability of a borrower to meet his or her financial obligations, which are so serious that the borrower is unable to borrow new funds from commercial sources.

On why financial stability matters, he said that monetary stability, or macro- economic stability, cannot be divorced from financial stability. Inappropriate monetary policy threatens financial stability and financial instability threatens macro economic stability.

The damage caused by financial crisis spreads through contagion, because financial businesses are often substantially exposed to each other as investors do in similar financial assets. The payment and settlement systems have in the past been one of the most important channels through which contagion can spread. In that way, financial distress can be transmitted from one institution to another through the infrastructure of the system. The solution is to re-design the infrastructure. Improvements of this kind in the financial infrastructure not only to reduce the risk of contagion, but also make it more likely that financial problems in individual institutions come to light more quickly, because they make it harder for institutions to use the infrastructure to gain covert access to unsure credit. Central Banks have an important role in developing the financial infrastructure in this kind of way.

The following issues were further discussed:

The evolution of supervision in UK

Supervision originally grew out of the Bank of England's direct involvement in markets, though the responsibility has now been transferred to the Financial Services Authority. A crisis that encompassed a range of secondary banks in the UK 1973-74 prompted a new look at the Bank of England's supervisory role. The Bank of England responded to their difficulties by organizing a support operation. The episode demonstrated the need for a more formal framework for the supervision of banks, and led to the 1979 Banking Act. A key aspect of this Act was the new requirement that all deposit-takers be authorized and supervised by the Bank of England. In 1998, responsibility for supervision of financial institutions of all kinds in the UK was transferred to the newly created Financial Services Authority. Thus the Bank of England lost its responsibility for supervising banks. The Bank of England, however, retained responsibility for the stability of the financial system, though not of individual institutions. Arrangements have been made to allow for communication on financial stability issues between the Bank of England, the Financial Services Authority and the Treasury, which would need to be intense in the event of a crisis.

The purpose of supervision:

Two purposes of supervision were highlighted:

- Reducing the risk of loss to depositors as a result of a failure of individual institutions; and
- Reducing systemic risks, that is the risk of disruption to the financial system and the economy as a result of the failure of individual institutions.

Protecting the system

Supervision is the primary defense of the financial authorities against systemic instability. Through setting, and monitoring the observance of minimum standards for capital adequacy, liquidity and the concentration of risk, they can ensure that banks maintain some reasonable measure of protection against adverse developments which gives them time to respond before their financial situation becomes critical.

The roles of government agencies in the pursuit of financial stability

The way in which government organizes supervision of financial institutions varies from country to country. In many cases, the Central Bank is responsible for supervising commercial banks and for financial stability in a more general sense. In the case of Britain, the Bank of England since 1998 retained responsibility for the overall stability of the financial system as a whole, including: Stability of the monetary system, including managing the liquidity of the money market; Financial system infrastructure, including payment systems; Broad overview of the financial systems; In exceptional circumstances providing official support; The efficiency and effectiveness of the financial sector.

Principals of last resort assistance

Five principles were identified:

First: Central bankers and regulators will explore every option for a commercial solution before committing public funds.

Second: Government and central banks should not provide public subsidy to private shareholders.

Third: The authorities aim to provide liquidity, but they will not in any normal situation support an institution that they know at the time to be solvent.

Fourth: The authorities need to look for a clear exit.

Fifth: The authorities usually try to keep even the fact that they are providing systemic support secret at the time, if possible.

Statistics for Monitoring Financial Stability

The session was an expose on what the Bank of England is currently doing in the area of financial stability statistics. It re-emphasized that in all situations, timely, consistent and reliable monetary and financial statistics are required for effective and efficient bank supervision and monetary management. The issues in developing macro-prudential indicators as currently been explored in the Bank of England were shared with participants.

VIII. CLOSING SESSION

The Director General of WAMI delivered the closing remarks emphasizing the usefulness of the seminar and the need for continued collaboration with the Bank of England.