

# WAMI NEWS

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## **Mission Statement**

*To Establish a Common Central Bank  
with a Single Currency for the Economic Prosperity  
of the West African Monetary Zone*

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## **GOVERNOR KOROMA COMPLETES TERM**

Mr. J. Sanpha Koroma has completed his five-year term as Governor of the Bank of Sierra Leone. Mr. Koroma was a strong advocate of the monetary integration of the countries of the West African Monetary Zone (WAMZ). His strong commitment to the WAMZ was acknowledged by his colleagues at the meeting of the Committee of Governors of Central Banks of the WAMZ in Banjul, The Gambia on May 7, 2003. The Governor of the Central Bank of Nigeria, Chief (Dr.) J.O. Sanusi **CON** informed his colleagues of the departure of Mr. Koroma on completion of his term of office. Chief Sanusi alluded to the untiring efforts of Mr. Koroma on the WAMZ Programme and the fact that he would be missed by all. Members agreed with him and recalled that Mr. Koroma pursued the objectives of the WAMZ with vigour. The Governors wished Mr. Koroma success in his future endeavors and advised that he should continue to be of assistance to the WAMZ. The committee also welcomed his successor, Dr. James D. Rogers and asked him to convey its good wishes to his predecessor. Dr. Rogers promised to convey the wishes to Mr. Koroma

At its meeting, the Convergence Council of Ministers and Governors of Central Banks of the WAMZ expressed appreciation for the

services rendered to Council by the former Governor. It directed that the Chairman of the Committee of Governors write on behalf of Council to convey its appreciation to the former Governor. Council wished Mr. Koroma success in his future endeavors, noting that he could continue to be of useful service to the West African Monetary Zone (WAMZ). The new Governor of the Bank of Sierra Leone promised to sustain the interest and zeal with which Mr. Koroma handled issues relating to the WAMZ.

## **WAMZ INSTITUTIONS HOLD MEETINGS IN BANJUL**

The institutions of the West African Monetary Zone (WAMZ) held a series of meetings in Banjul, The Gambia from May 5-9, 2003. The meetings were called to consider various reports prepared by WAMI. Some of these reports were on macroeconomic developments and convergence for 2002, performance on qualitative aspects of the convergence process during the first quarter of 2003, country programmes for convergence 2003 – 2005 and Annual Report and Statement of Accounts of WAMI for 2002.

A thorough assessment of the economic performance of member countries in 2002 and during the first quarter of 2003 showed that

performance dropped on the average from the position in 2001. The major factor causing the deteriorating trend was identified as fiscal dominance which needed to be tamed if member countries were to make progress and move rapidly toward convergence. The Convergence Council of Ministers and Central Bank Governors noted the poor performance of member countries in 2002 but were confident that the situation could be reversed as member countries were applying various measures to be on the path of convergence. It was also observed that the countries were confronted with difficult external economic conditions in 2002. However, member countries were urged to redouble their efforts so that they could satisfy the convergence benchmarks to enable monetary union to commence as scheduled. The Council welcomed the outcome of the Finance Ministers' Forum of the WAMZ held in Abuja, at which the issue of fiscal dominance and the need to curtail it was emphasized. Council reiterated the need to abide by the decisions of the Forum on applying the available revenues as binding constraint on expenditure in order to obviate the need to resort to the Central Bank for accommodation. Council directed member countries to implement a medium term budget framework which captures the steady state of revenues and expenditure. This would ensure that assured revenues are applied in making

projections for expenditure. This implies a balanced budget framework.

The Convergence Council commended the efforts of WAMI in drafting the Country Programmes for Convergence and requested member countries to make their observations available to WAMI so that the programmes could be finalized before the end of May 2003. Member countries were urged to start implementing the programmes as soon as possible. The finalized Country Programmes would be the basis for WAMI's surveillance of member countries' economies during the extended timeframe for monetary union. Council urged the member countries and WAMI to strengthen their relationships with the multilateral institutions so that the Zone would benefit from best practices in macroeconomic management.

The Council directed that the WAMZ ERM should be reviewed to make it more functional, especially in the context of the extension of the WAMZ programme. The review should encompass its principles and objectives, the obligations of participating members, the central parity rates, fluctuation bands, intervention modalities and monitoring of the ERM's operations. Council directed that the reviewed WAMZ ERM should be presented at the next

meeting of WAMZ institutions in Abuja, Nigeria in August 2003.

Council adopted the Annual Report and Statement of Accounts of WAMI for 2002 and advised that progress in the other areas of the convergence process should be sustained. Council endorsed the recommendation of the Committee of Governors that the payments systems development project of the WAMZ should be pursued to its logical conclusion by conducting a feasibility study in all the member countries. WAMI was directed to prepare the Terms of Reference for the study and commence the process of selecting a Consultant to undertake the study through international competitive bidding.

The Council advised the ECOWAS Secretariat to define a precise timeframe for addressing the trade issues in the sub-region. In particular, the trade component of the Fast Track Approach to integration in ECOWAS should be revamped through the resuscitation of the Committee on Trade Issues. This is critical if monetary union is to be meaningful.

The Director General, Dr. M. O. Ojo addressed a Press Conference in Accra, Ghana on May 15, 2003 at which he presented the highlights of the Banjul meetings. He informed the media

practitioners that the WAMZ programme during 2003 – 2005 would focus on effective macroeconomic surveillance, the sensitization of stakeholders and the design of an optimal architecture for WAMZ monetary union. He noted that the authorities of the WAMZ were determined to achieve the objective of the programme and urged the press to continue to assist in sensitizing the public on the WAMZ Programme.

#### **WAMI ATTENDS ADB'S ANNUAL MEETING**

The West African Monetary Institute (WAMI) participated at the 38<sup>th</sup> Annual Meeting of the African Development Bank (ADB) and the 29<sup>th</sup> Annual Meeting of the African Development Fund (ADF), jointly held in Addis Ababa, Ethiopia from June 3 – 5, 2003.

Preceding the Annual Meeting was a Symposium held on June 2, 2003 on “Poverty Reduction, Social Development and the Millennium Development Goals (MDGs) in Africa.” The symposium reviewed the performance of African countries in the implementation of the MDGs adopted by the UN in 2002 to provide a framework for meeting the development challenges facing humanity in the 21<sup>st</sup> Century. The conclusions of the

symposium were that the growth rate of Africa which averaged 3 – 3.6 percent in the last couple of years and which is one of the fastest in the world was below the MDGs’ target of 6 – 8 percent. The targeted growth rate was expected to help reduce poverty and hunger by 50 percent by 2015. The challenge posed by the symposium was how African countries can establish the conditions for the achievement of high and sustainable economic growth in the region of 6 – 8 percent in the next couple of years. To achieve the laudable objectives, the symposium concluded that African countries should intensify efforts at improving the investment climate and internalize the MDGs in their development plans.

At the end of 2002, the financial statements of the ADB showed that its operating surplus rose to \$257 million owing largely to efficient Treasury management. The Bank secured the replenishment of its concessionary lending window, the African Development Fund (ADF) to the tune of \$3.5 billion in September 2002 after negotiations with the 24 non-African shareholders. Out of this amount, only \$1 billion was disbursed in 2002. The Board of the ADB approved the signing of a Cooperation Agreement with ECOWAS to produce a framework for future collaboration between the two institutions on regional integration.

The Board of Directors noted the critical role the ADB was playing in the NEPAD programme through infrastructural development and the development of banking standards in conjunction with the NEPAD Secretariat. The major outcomes of the Annual Meeting were the decision to open more regional and country offices to ensure the effectiveness of the Bank’s operations, rationalization of the activities of the Bank by reducing the number of sectors and projects financed in each country with more emphasis on the provision of direct budgetary support to countries.

#### **ECA SUB-REGIONAL OFFICE FOR WEST AFRICA HOLDS SEMINAR IN BANJUL**

The 6<sup>th</sup> meeting of the intergovernmental committee of experts of the ECA sub-regional office for West Africa was held in Banjul, The Gambia from May 16 – 24, 2003. The meeting was preceded by a Seminar on Trade Liberalisation in West Africa from May 19 – 21, 2003. The conclusions of the seminar were that trade liberalisation in ECOWAS has been slow and this has impacted on the implementation of the ECOWAS Trade Liberalisation Scheme (ETLS). ECOWAS should have evolved into a customs union from 1990 to 2000 from a free trade area, and finally a common market.

However, this could not be achieved. The lull in the ECOWAS programme partly contributed to the decision of the WAEMU to adopt its own Common External Tariff (CET). It is critical that the implementation of the ETLs is fast tracked to bring all ECOWAS countries under the same trade arrangement.

On comparative basis, the seminar concluded that progress made by ECOWAS on trade integration had been lower than those of UEMOA, CEMAC and COMESA. In all ten papers dealing with trade, monetary integration, food security and sustainable development, information infrastructure, the work programme of the ECA office and the development for peace programme in the Mano River Union were presented. The paper on monetary integration reviewed the ECOWAS Monetary Cooperation Programme (EMCP) traced its inability to meet its objectives to low executive capacity and inability of member countries to apply appropriate policy measures to accelerate progress towards convergence. Data problem was identified as a major factor undermining successful surveillance activities in the sub-region. The ECA sub-regional office is favourably disposed to providing technical assistance to WAMI in the area of statistical harmonization.

## **WAMI UNDERTAKES TECHNICAL ASSISTANCE MISSION TO THE IMF**

A mission from the West African Monetary Institute (WAMI) was at the International Monetary Fund (IMF) from June 9 – 13, 2003. The mission was at the Fund to discuss areas where the Fund could provide technical assistance to the Institute and finalise arrangements for the delivery of the assistance. Areas for possible technical assistance were identified when a Fund mission on regional consultation of West Africa visited the Institute in December 2002. The identified areas were communicated to the African Department of the IMF for follow-up action. The ensuing discussions between the Institute and the African Department resulted in this mission. Various meetings were held at the Fund with the Executive Directors, Africa Groups 1 and 11 constituencies and Middle East constituency, Director, African Department, Staff of the African Department, the IMF Institute and the Fiscal Affairs Department. The Fund Staff agreed to provide technical assistance to the Institute on issues relating to macroeconomic management. The Fund advised WAMI to prepare the outlines of the studies on payments systems development and the unit of account for the WAMZ in addition to the Terms of Reference for the payments systems

development study for its review. The Fund would thereafter decide on the aspects of the studies it could offer technical assistance.

The Fund Staff agreed with WAMI that it was important to link up the desk officers for WAMZ countries in the Fund and at the Institute for synergy and exchange of information. It was agreed that the current contacts could be sustained and improved upon. Information could be exchanged through e-mail and telephone. In addition requests for information should be copied to other staff members so that the absence of a particular staff does not create a communication gap. On the training needs of WAMI, the IMF Institute promised to be of assistance as soon as such needs were made available to it.

Some of the technical issues discussed were the measurement of fiscal deficit and treatment of HIPC relief. It was agreed that the seasonality of revenue and expenditure should be ascertained in order to determine fundamental problems associated with the flows as the sectoral factors could be reversed. In addition, it was agreed that all factors causing fiscal deficits should be considered in the measurement of fiscal deficits. On the treatment of grants and HIPC relief, the nature of the relief should be determined. In respect of HIPC, it should be ascertained

whether the HIPC assistance is in terms of grants, rescheduling of maturities falling due or debt stock reduction. In all cases, fiscal deficits should be computed with and without grants and HIPC relief.

The Fund Staff welcomed the idea of joint missions with WAMI but advised that although it did not have any objection, the initiative should come from the member countries. Once a member country requests such a joint mission the Fund would oblige. It was agreed that the next regional consultation with WAMI would take place in December 2003 or January 2004. An understanding was also reached that the period for consultation should be extended to two working days for more thought to be given to critical issues on the WAMZ programme. The report on the 2003 consultation would capture the macroeconomic developments in the WAMZ in addition to the activities of WAMI and would be more robust than the 2002 report.

During the Mission to the Fund, the WAMI delegation visited WAMZ Embassies in Washington DC to explain the reasons behind the extension of the timeframe for monetary union, the performance of the countries on the WAMZ programme and the need to sustain efforts at macroeconomic adjustment so that the

stipulated convergence criteria could be attained for monetary union to commence on July 1, 2005.

All the WAMZ missions expressed the commitment of their respective countries to the WAMZ programme and the determination of their governments to continue to apply the right adjustment policies to ensure that they make progress towards convergence.

#### **EXPERTS MEET ON HARMONISATION OF ECOWAS COMMUNITY TEXTS**

A meeting of Experts on Ad-hoc Ministerial Committee on the Harmonisation of ECOWAS Community Texts was held in Abuja, Nigeria from June 16 – 20, 2003. The Institute was represented at the meeting which was held to consider the revised ECOWAS Treaty Protocols and Conventions, identify deficiencies in the community texts and propose amendments.

After exhaustive deliberations on all the issues involved, the Committee made a number of recommendations, the most important of which are as follows:

- i. The revised Treaty of ECOWAS should be amended so that the Council of Ministers could make regulations and

directives to facilitate the integration progress in the sub-region;

- ii. The exact dates for the entry into force of Regulations and Directives should be specified to make them imputable and less ambiguous;
- iii. It would not be necessary to obtain prior approval of Council for cooperation agreements relating to the implementation of specific programmes involving a principal counterpart imputable to ECOWAS;
- iv. The protocol relating to the community Court of Justice should be amended to accord individuals and corporate bodies access to the court;
- v. The amended protocol of the Court of Justice should include provisions relating to enforcement. Staff of the Community should also be allowed to resolve disputes in the court where all other sources for redress had been exhausted;
- vi. The protocol on the Community Parliament should be amended to

provide for a Secretary General and a Deputy Secretary General;

- vii. The Work Programmes of the Departments of the Community institutions and specialised agencies should be examined by the appropriate technical Commissions which shall make appropriate recommendations to the relevant authorities.

#### **WAMI AND WAMA COMMENCE STUDY ON HARMONISATION OF WAMZ AND ECOWAS EXCHANGE RATE MECHANISMS**

The West African Monetary Institute (WAMI) and the West African Monetary Agency (WAMA) have commenced a study on the harmonization of WAMZ and ECOWAS Exchange Rate Mechanisms. The inaugural meeting of the joint WAMI/WAMA Committee was held in Freetown, Sierra Leone from July 14 – 15, 2003.

The meeting reviewed the salient features of the WAMZ and ECOWAS Exchange Rate Mechanisms. The two exchange rate mechanisms are largely similar with differences in respect of the bandwidth, anchor, financing facility and conditions for entry and exit. The WAMZ Exchange Rate Mechanism has no

explicit financing facility beside the need for countries to apply appropriate policy measures to keep their exchange rates within the prescribed fluctuation margins. There are also no first level entry conditions for WAMZ Exchange Rate Mechanism, whereas, a set of criteria are to be fulfilled for entry into ECOWAS Exchange Rate Mechanism.

The meeting was informed that WAMI was working on the review of WAMZ Exchange Rate Mechanism as directed by the last meetings of WAMZ institutions in Banjul, The Gambia.

The Committee discussed a paper on “Operationalisation of ECOWAS Exchange Rate Mechanism: A review of Outstanding Issues” prepared by WAMA. The paper reviewed the major differences between WAMZ and ECOWAS Exchange Rate Mechanisms. After elaborate and exhaustive deliberations, the Committee agreed as follows:

- I. The WAMZ Exchange Rate Mechanism should continue to be anchored on the USD dollar while ECOWAS Exchange Rate Mechanism should be anchored on the SDR in view of the future merger of the WAMZ and CFA franc Zone;

- II. Central parity rates for both Exchange Rate Mechanisms should be based on market rates in view of their practicality and ease of operation;
- III. The entry conditions of the ECOWAS Exchange Rate Mechanism should be eliminated. However, the member countries should exhibit commitment to remain in the Exchange Rate Mechanism; and
- IV. There was need for a financing facility but owing to financial constraints on the part of member countries, prudent demand management measures should be applied to enable member countries remain on the Exchange Rate Mechanism.

#### **PRELIMINARY STUDY REPORT ON BANKING SUPERVISION IN THE WAMZ PRESENTED**

The West African Monetary Institute (WAMI) obtained technical assistance from FIRST Initiative of London on banking supervision in the WAMZ with the objective of repositioning the member countries towards a Central Supervisory framework, the West African Financial Supervisory Authority (WAFSA). A Consultant from FIRST Initiative and a staff of WAMI undertook a stocktaking exercise of

member countries and prepared a report on compliance with the Basle Core Principles (BCPs) on banking supervision. The report identified the level of compliance of member countries and prescribed actions that could be taken to move towards full compliance.

The preliminary report prepared after the visits showed that the member countries were at various levels of compliance with the BCPs. The report identified what each member country was required to do to move towards full compliance. The modalities for operationalising a centralized banking supervision framework for the WAMZ and in deed the implementation of the WAFSA were articulated in addition to the various institutional structures under which WAFSA could be operated. The draft report was adopted in principle by the supervisors at a meeting in WAMI, Accra, Ghana from July 17 – 18, 2003, while noting some aspects which should be strengthened. The final report is to be presented to a meeting of banking supervisors of the WAMZ from September 15 – 16, 2003 in Accra, Ghana for deliberations.

#### **WEST AFRICAN MINISTERIAL SYMPOSIUM HELD IN DAKAR**

A symposium on conflict management and resolution was organised in Dakar Senegal,

from July 22 – 23, 2003 at the instance of the Department of State of the United States Government as part of its efforts to support the capacity of sub-regional organisations in general and ECOWAS in particular. The African Centre for strategic studies, a department of the National Defence University of the United States served as the medium for organising the symposium.

The symposium brought together Ministers of Foreign Affairs and Defence, Chief of Defence Staff, ECOWAS leadership and representatives of international organisations to exchange views on conflict management in the sub-region and the ECOWAS security architecture with regard to conflict management.

The Institute was represented at the symposium that consisted of plenary sessions and group discussions under a strict policy of non-attribution. The Executive Secretary of ECOWAS, Dr. Mohammed Ibn Chambas, addressed the symposium on peace and security issues in West Africa. He stressed that the main challenge for ECOWAS was the establishment of peace and security in the West Africa region. ECOWAS, he highlighted, has to devise ways and means of dealing with bad governance, violations of human rights, ethnic and religious polarisation, cross border insurgency, banditry

and sheer criminality, social violence, illicit trade on mineral and other natural resources, drug trafficking and gun running to finance mercenaries and numerous imported military advisers, all engaged in a vicious circle of hostilities. Dr. Chambas also lamented the paucity of resources of his organisation citing the inability of member states to contribute and participate effectively. On the way forward, the Executive Secretary reiterated the commitment of the Authority of Heads of State and Government of ECOWAS not to recognise seizure of power by armed groups. He also acknowledged that the Authority was committed to good governance in West Africa.

Dr. Margaret Aderinsola Vogt, Special Assistant to the Assistant Secretary General for Political Affairs at the United Nations also addressed the symposium. She made two presentations: Partnerships for enhanced conflict Management in West Africa and Managing Regional Security in West Africa: The Challenges for ECOWAS. Ambassador Pamela E. Bridgewater, Deputy Assistant Secretary of State for Africa also addressed the symposium. She stated that the United States was willing to support and assist programs aimed at enhancing peace and security in West Africa. She further stated that the United States was committed to coordinating its

assistance to ECOWAS with those from European donors.

The presentations were followed by questions from the participants. Most of the questions focused on the situation in Liberia and the urgent need for the United States to assist in the resolution of the conflict. Many participants observed that peace was brought to Sierra Leone by the British, and by the French in the Cote D'Ivoire. It was therefore obligatory for the United States to do the same in Liberia.

The group discussions that followed were essentially to come up with practical recommendations for the conflict management in the West African sub-region. The recommendations included; the need to strengthen the capacity of ECOWAS in conflict management through the commitment of more resources by donors; the need for member states to pay the community levy; the urgent need for a stand-by force to be supported by donor assistance in the short term and in the long term by member states of the sub-region; the need to strengthen the early warning signals put in place by ECOWAS; strong commitment by member states and the International Community not to recognise any government that came to power by unconstitutional means; the need to stop the proliferation of arms in the sub-region; and the

need for the integration process to be pursued and intensified, including the establishment of the institutions of the community such as the ECOWAS Court, Parliament, Central Bank, among others, with support from strategic partnerships of ECOWAS.

### **WAMI CONCLUDES FIRST HALF 2003 ASSESSMENT OF WAMZ MEMBER COUNTRIES' ECONOMIC PERFORMANCE**

The Institute undertook the second quarter and first half 2003 assessment of the economies of member states of the West African Monetary Zone (WAMZ) from July 21 – 31 2002. The member countries recorded improved performance on macroeconomic convergence vis-a-vis the status at the end of December 2002.

The **Gambia** was confronted with macroeconomic instability arising from excess liquidity in the banking system which has sustained the pressure on domestic prices and the exchange rate of the dalasi. The Government and the central Bank have taken appropriate measures to reduce the financing gap in the budget and the growth in reserve money. In addition, indirect monetary policy tools have been deployed to influence a reduction in domestic credit and make government debt

instruments and savings attractive to help reduce the level of currency outside banks.

In spite of the difficulties, The Gambia satisfied three of the four primary convergence criteria, missing only the inflation target. However, the satisfaction of the criteria should be interpreted with caution as the reserves at the end of June 2003 could finance only 4.0 months of imports against 5.4 months at the end of December 2002. In addition, the government has a large financing gap which may necessitate borrowing from the Central Bank if donor funds are not forthcoming. Overall, the performance of The Gambia was remarkable as the country moved up on the convergence scale from two criteria in 2002 to three in June 2003.

**Ghana** recorded improved performance during the review period. Owing to better management of the economy, the level of broad money supply declined although reserve money grew owing to the increase in Net Foreign Assets of the Central Bank following favourable external balance. However inflation rose on account of increase in the prices of petroleum products early in the year. The fiscal operations of government was also more prudent resulting in refrain from borrowing from the Bank of Ghana which consequently led to the drop in the net domestic assets of the Bank at the end of June

2003. Ghana achieved two of the four primary convergence criteria, central bank financing and fiscal deficit/GDP ratio while it narrowly missed the criterion on reserves/import cover. The case of Ghana is interesting and remarkable as the country did not satisfy any of the criteria in 2002. The rebound is expected to be sustained following improved policy framework.

**Guinea's** macroeconomic performance deteriorated from the level at the end of December 2002. The rate of inflation edged upward to 16.1 percent from 2.6 percent in June 2002 and 6.1 percent in December 2001. This is not encouraging for a country that has traditionally had a low inflation record of single digit. Central Bank financing of fiscal deficit was the only criterion satisfied by Guinea at end of June 2003. Although Guinea satisfied one criteria as it did at the end of 2002, the fiscal overhang experienced during the first half of 2003 which resulted in the rapid growth in domestic prices and the depreciation of the Guinean franc could pose serious difficulties in re-establishing stability.

Fiscal expansion continued to pose a problem for macroeconomic stability in **Nigeria**. Although the situation at the end of June 2003 was manageable at a fiscal deficit/GDP ratio of

2.3 percent, the financing of part of the deficit by the Central Bank encouraged the expansion in fiscal operations. If the trend was allowed to continue in the second half of 2003, the impressive gains recorded by Nigeria at the end of the first half of 2003 could be undermined. Nigeria's performance on the convergence scale improved from three convergence criteria in 2002 to four at end of June 2003. Inflation dropped from 12.2 percent in 2002 to 8.7 percent at the end of June 2003. The inflation performance was also better than WAMI's benchmark of 9.0 percent for Nigeria for 2003. Although Nigeria satisfied the criterion on central bank financing of fiscal deficit at 0.3 percent of previous year's tax revenue, this was a deterioration from the zero financing recorded in 2002. The reserves also dropped from 9.9 months of import in 2002 to 8.8 months at the end of June 2003. The fiscal overhang explained the deterioration in the criteria. The situation should be re-dressed so that Nigeria would be on track to satisfy the four primary convergence criteria at the end of 2003.

In **Sierra Leone**, economic performance continued to improve although a surge was recorded in domestic prices. The drop in the general price level, in 2002 on account of the liberalisation of external trade which reduced tariffs, was reversed at the end of June 2003 as

domestic prices moved from -2.9 percent in December 2002 to 6.8 percent in June 2003. The rise in domestic prices was attributed to the pressure on the external sector, which led to the depreciation of the leone, irregular food supply and increase in the price of petroleum products. At the end of June 2003, Sierra Leone satisfied two primary convergence criteria, inflation and reserves import cover. The criterion on Central Bank financing of fiscal deficit was satisfied at the end of April 2003 but data are not available to make a firm assessment at the end of June 2003. Also, the fiscal data are not complete and as such definitive assessment could not be made on fiscal deficit/GDP ratio.

All the countries of the WAMZ, except Guinea largely satisfied the benchmark targets set in the country programmes for convergence, 2003 – 2005. Specifically, Ghana over performed on most of the benchmarks.