ASSOCIATION DES BANQUES CENTRALES AFRICAINES

ASSOCIATION OF AFRICAN CENTRAL BANKS

Annex 1

ASSOCIATION OF AFRICAN

CENTRAL BANKS (AACB)

36th ORDINARY MEETING OF THE

ASSEMBLY OF GOVERNORS

(Algiers, Algeria, August 30, 2012)

SYMPOSIUM FOR YEAR 2011 ON THE THEME «IMPACT OF THE INTERNATIONAL FINANCIAL CRISIS ON MONETARY UNIONS: THE CHALLENGE OF COORDINATING BUDGETARY AND MONETARY POLICIES IN AFRICA»

(Lilongwe, Malawi, August 11, 2011)

REPORT

1. INTRODUCTION

1.1. The Association of African Central Banks (AACB) organized, as usual, its Symposium on August 11, 2011 in Lilongwe, Malawi on the theme «Impact of the international financial crisis on monetary unions: the challenge of coordinating budgetary and monetary policies», ahead of the 35th Ordinary Meeting of the Assembly of Governors, scheduled for August 12, 2011.

2. OPENING CEREMONY

2.1. The highlight of the opening ceremony was the four addresses delivered respectively by Dr. Perks Ligoya, Governor of the Reserve Bank of Malawi (RBM) and Vice Chairman of the AACB, Dr. Maxwell Mkwezalamba, Commissioner for Economic Affairs at the Africa Union Commission (AUC) representing the Chairman of the AUC, Mr. Jean-Baptiste Compaoré, Deputy Governor of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) representing the Chairman of the AACB, and His Excellency Hon. Ken Kandodo, Minister of Finance of the Republic of Malawi, who officially opened the proceedings.

2.2. Dr. Perks Ligoya thanked Dr. Kandodo for accepting to preside over the opening ceremony of the Symposium. He invited the Minister of Finance to convey RBM's gratitude to His Excellency, Prof. Bingu wa Mutharika, President of the Republic of Malawi, for the support the Bank gets from the Malawian authorities for the organization of the Annual Meetings. He said the Minister's presence and the support of the Malawian authorities mirror the country's strong committed to African integration. He also thanked all the participants for attending the meeting and said he was delighted and proud to welcome them.

2.3. Then he stressed the relevance of the theme of the Symposium. In essence, he highlighted the significance of coordination of budgetary and monetary policies in solving crises. He also observed that central banks need to play a crucial role in the development agenda of their nations.

2.4. On behalf of the Chairperson of the AUC, Dr. Mkwezalamba greeted the participants in the Symposium. He underlined the relevance of the theme of the Symposium. He stated that the Symposium provides an excellent opportunity to reflect on the conduct of monetary union in Africa on the basis of lessons learned from the experiences of the European Economic and Monetary Union (EMU). In essence, he pointed out the need to strictly adhere to convergence criteria to address macroeconomic differences and avoid the inherent risks associated with contagion in a monetary union. In this regard, he commended calls by the Governors of AACB's member Central Banks for African economies to make steady progress towards macroeconomic convergence in line with the African Monetary Cooperation Programme (AMCP). He also highlighted the need of proper coordination between the monetary policy of the union and individual member countries' budgetary policies.

2.5. Making reference to the ongoing work to establish the African Central Bank (ACB), Dr. Mkwezalamba suggested that the Symposium reflect on issues such as crisis management. He also underlined the need of coordination between the ACB and the African Monetary Fund (AMF) which is being established in Yaoundé. He informed the Symposium about progress on work leading to the establishment of the Fund, including the adoption of AMF's Protocol. Further he underscored the necessity of high quality statistics for better coordination of budgetary and monetary policies in Africa. In this connection, he informed the Symposium of AUC's initiatives for statistical development in Africa and call for full support to these initiatives.

2.6. Dr. Mkwezalamba concluded by congratulating the Government of Malawi and the RBM for hosting the Symposium, then he wished successful deliberations to participants.

2.7. To begin, Mr. Compaore gave a word of thanks to the Malawian authorities as well as to Dr. Perks Ligoya, Governor of the Reserve Bank of Malawi, and his colleagues for their fraternal welcome to the participants as well as for the excellent facilities they had put at their disposal. He noted particularly that the theme chosen for the Symposium was relevant and timely, for it created an opportunity for the forum to draw lessons from the recent global financial crisis and think ahead about the difficulties that an African Monetary Union may face in the future.

2.8. In that regard, Mr. Compaore used the case of the Euro zone countries to underline the challenges to tackle, including that of coordinating a common monetary policy with an emphasis on keeping down inflation and preserving financial stability, and then watching national budget policies in countries wishing to support their economies amid the crisis. He said basically that the governments and central banks in these countries were responding to the crisis in ways that severely degraded public finance in most of them, leading to a budget and public debt crisis. Moreover, the severe gaps in the multilateral control system were creating fertile ground for non-accountable public management practices in some States.

2.9. After going over these points, Mr. Compaore reviewed and commented on the various sub-themes and agenda of the Symposium. He ended his address with a call on the participants in the Symposium to see that their discussions contribute in taking forward efforts towards the African Monetary Union.

2.10. Dr. Kendodo first welcomed the participants in the Symposium. Then he underlined the relevance and timeliness of the Symposium's theme in connection with the recent international financial crisis. He indicated that Africa's recovery from the crisis is well underway, with some variations among country groupings. He said also that Malawi's economy has weathered well the global economic storm.

2.11. However, he warned against an emerging risk with the advent of another sharp increase in fuel and food prices likely to lead to higher inflation in most countries and to deteriorating current account deficits in a number of fuel importers. In this regard, he underscored the immense importance of regional and sub-regional policy responses to the global financial crisis. He also pointed out the need for African countries to preserve the hard-won gains of recent years, including macroeconomic stability, without aggravating the impact of the slowing external demand on domestic activity.

2.12. He ended by thanking the Governor of the RBM, the Executive Secretary of the AACB, and the speakers for their contribution and declared the Symposium officially open.

3. PLENARY SESSION ONE: REVIEWING THEORETICAL ASPECTS

3.1. This session was held under the chairmanship of Dr. Lounceny Nabe, Governor of the Banque Centrale de la République de Guinée. The session moderators were Dr. Austin Mwape, Deputy Governor of the Bank of Zambia, and Mr. Bondombe Assango, Deputy Governor of the Banque Centrale du Congo. The proceedings covered two sub-themes:

- *«Coordination of monetary and budgetary policies: Challenges for African central banks»;*
- *«Impact of the financial crisis on monetary unions: Lessons to be learned ».*

3.2. **Sub-theme One:** «Coordination of monetary and budgetary policies: Challenges for African central banks».

3.2.1. The presentation was made by Dr. Ellias Ngalande, Executive Director of the Macroeconomic and Financial Management Institute (MEFMI). It focused on the rationale for coordination, monetary and fiscal policies coordination mechanisms, the challenges of monetary and fiscal policies coordination and monetary and fiscal policy coordination in Africa.

3.2.2. With respect to the rationale for coordination, Dr. Ngalande put forth the interdependence of monetary and fiscal policies, and the time inconsistency of considerations dealt with by these two policies. He also underscored the impact of fiscal deficit on monetary policy especially when this deficit is financed by the banking system. Further, he indicated the need for coordination in the development of financial markets and in structural reforms and liberalization of the financial sector. Financing strategy and the monetary policy stance aligning requirement was also mentioned.

3.2.3. Turning to monetary and fiscal policies coordination mechanisms, Dr. Ngalande said that macroeconomic policy coordination is involved from the policy identification stage through to the decision stage and onto the implementation stage. He added that coordination is also important at the monitoring and evaluation stage.

3.2.4. Then he presented alternative models of coordination. These include the "single unified policy maker", characterized by the control of monetary and fiscal policy by a single stabilization authority, and the model of two uncoordinated policy makers vested with balanced powers. He also mentioned the "leader-follower Arrangements" under which one policy maker always leads and the «One Party Follows Non-Reactive Rule» largely motivated by the desire to free central bank from pressure to monetize budget deficits.

3.2.5. With respect to challenges for African Central Banks, Dr. Ngalande enumerated the lack of Central Bank independence, weak fiscal space, proliferation of quasi-fiscal operations and Central Bank losses, and over-reliance on Central Bank financing of government deficits. He mentioned also the unsustainable levels of public debt, the limited policy sustainability and credibility as well as weak institutional set-ups and coordination frameworks.

3.2.6. Lastly Dr. Ngalande observed that most African policy coordination frameworks are commonly unstructured, informal and based on "personal" relationships between fiscal and monetary authorities. He recalled that coordination is prerequisite for successful policy formulation and implementation. Then he called for appropriate formal arrangements for budgetary and monetary policies coordination in Africa.

3.3. **Sub-theme Two:** «Impact of the financial crisis on monetary unions: Lessons to be learned»

3.3.1. Two presentations were given on this sub-theme by Mr. Michael Atingi-Ego, senior Adviser at the African Department of the International Monetary Fund (IMF) and Professor Ben Oumar Ndiaye, Director General of the West African Monetary Agency (WAMA).

3.3.2. The presentation delivered by Mr. Michael Atingi-Ego, was based on the experiences of existing and potential Monetary Unions (MUs), notably Euro Area, the Eastern Caribbean Currency Union (ECCU), the West African Economic and Monetary Union (WAEMU), the Economic and Monetary Community of Central Africa states (CEMAC in French), and the Cooperation Council of the Arab States of the Gulf (GCC). Mr. Michael Atingi-Ego first highlighted the impact of the Global Financial Crisis (GFC) on MUs and then drew key lessons.

3.3.3. With respect to the impact of the GFC, Mr. Atingi-Ego said that some MUs were hit more than others. In particular, output effect of the GFC was relatively mute in member countries of WAEMU and CEMAC. This was due to a combination of factors including relatively more favorable initial conditions and policy buffers, the shift in the direction of their trade from Europe and the United States towards more resilient partners such as emerging countries, and limited integration of the banking system to the global financial markets. This notwithstanding, progress in meeting the convergence criteria is uneven in both WAEMU and CEMAC member countries.

3.3.4. Turning to the section on lessons to learn from the European Union Experience, Mr Attingi Ego first exposed weaknesses that explain why the crisis impact was relatively important in this zone. These are, among others, weak institutional framework that mirror difficulties of coordinating the centralized monetary policy and decentralized fiscal ones, feeble ability of the fiscal framework to manage shocks, unsustainability of fiscal and debt as well as problem of reliability of fiscal variables in some European countries.

3.3.5. Lessons underlined by the presenter focused on flexibility of fiscal frameworks, detection of emerging imbalances and taking timely corrective actions, acute attention to fiscal and debt sustainability, strengthening and harmonization at national and regional levels of frameworks for contingency and crisis management, risk assessment. They concerned also the need for regional supervisors with centralized power, setting up national regulations for financial institutions, based on harmonized and strengthened set of financial standards and supervisory practices. The importance of the harmonization of macroeconomic and financial statistics was also underlined.

3.3.6. Lastly Mr. Atingi-Ego gave information about the support that MUs may expect from the IMF. He put forth namely provision of policy advice, technical assistance to build capacity on fiscal, monetary and financial sector issues, as well as financial aid subject to economic policy credibility.

3.3.7. Professor Ndiaye's presentation focused on the economic impacts of the financial crisis in the Economic Community of West African States (ECOWAS), performance on monetary convergence criteria in ECOWAS Member States, and the factors of resilience to the financial crisis in these countries.

3.3.8. Professor Ndiaye affirmed that with an increase from 5.7% in 2007 to 5.8% in 2008, economic growth in ECOWAS countries suffered no major repercussions after the food, energy and financial crises observed between late 2007 and early 2008. The ECOWAS economies suffered instead from the price hikes that resulted from global inflationary pressures, because ECOWAS countries depend heavily on foodstuff imports.

3.3.9. The impacts of these inflationary pressures from the food and energy crises, and the measures that ECOWAS countries later put in place to attenuate them, left the majority of the countries facing a deterioration in their public finances, as seen in the overall budget deficit.

3.3.10. No systemic crisis was observable in the banking sector, being that the sector has a marginal position in the global financial system and is hardly exposed to high-risk financial products. It was the stock markets that took a beating from the crisis, given the financial links that exist between markets in the sub-region and the other financial centres across the world.

3.3.11. At the external level, the ECOWAS current account surplus, in percentage of GDP, shrank drastically from 11.7% in 2008 to 7% in 2009, then to 0.1% in 2010. Public transfer payments stayed on a stagnating trend. Remittances from migrant workers continued to be on the positive side, except in Côte d'Ivoire, which was experiencing political instability in the reporting period. Net direct investments also maintained a positive trend even though most countries observed a drop in the ratio of direct investments to GDP.

3.3.12. The unfavourable international context in 2008 caused ECOWAS Member States to perform poorly on convergence criteria. The poor performance trend was seen particularly in the criterion for inflation, which only one Member State was able to fulfil. Performances in 2008 however showed some improvement, except in the case of criteria for public finance.

3.3.13. Regarding the factors of resilience to the crisis, Professor Ndiaye talked about natural (or structural) factors of resilience and economic factors of resilience. The natural factors were tied to the very nature of the economies in ECOWAS countries and sometimes to their level of performance at the time of the crisis. For, several ECOWAS countries were on a high growth trend in the years preceding the crisis, and the elasticity of growth in West Africa was comparatively lower than economic growth at the global level. Further, there were the economic factors of resilience, such as the crisis attenuation measures taken by different countries and the international community's support measures, particularly the SDR allocations made in 2009 by the International Monetary Fund.

3.4. **Summary of the Discussions**

3.4.1. After the presenters, the participants heard from the moderators of the session, namely Dr. Austin MWAPE, Deputy Governor of Bank of Zambia, and Mr. Bondompe Assango, Deputy Governor of the Banque Centrale du Congo (BCC).

3.4.2. Dr. MWAPE congratulated the presenters on the quality of their work and used the occasion to emphasize that monetary Unions need to put in place appropriate surveillance frameworks for detection and prevention of distortions to macro-economic efficiency.

3.4.3. The Deputy Governor of BCC, on his part, invited the participants to consider why the crisis was persisting. In his view, some States were particularly hit by the adverse effects of the economic crisis because they had a narrow economic base. In the case of Congo, the global crisis led to an increase in inflation that was induced by the money-financed public deficit. The Deputy Governor told the participants about the BCC experience in coordinating budget and monetary policy. He said basically that the Bank put in place an appropriate framework, leaning on the lessons learned from poor policy coordination in the past, particularly the poor control of inflation and the slippages in budget control objectives. He said also that arbitration between budget policy and monetary policy was handled by the Prime Minister.

3.4.4. After the presentations, participants gave their remarks and questions on the following:

- Independence of central banks: some participants pointed out that the independence of central banks would boost coordination of monetary and budgetary policies. But, they wondered how these banks could free themselves from State supervision on monetary policy, whereas they depend financially, especially for their capitalization, on national public treasuries;

- Coordination of fiscal policies in the monetary zone: participants wanted to know how the coordination of national budget policies could be done efficiently without an independent supra-national authority;

- The participants talked also about ways to address asymmetric shocks, about the possible channels that countries under International Monetary Fund programmes could use to lead a flexible fiscal policy like the one used by the developed countries to mitigate the effects of the crisis, and about the modalities for implementing the European Financial Stability Facility (EFSF) concomitantly with IMF facilities.

3.4.5. The facilitators' responses to these concerns from participants may be summarized as follows:

3.4.6. Central bank independence is a delicate issue because there are two co-existing authorities vested with powers. Under these conditions, it is vital that an authority at a higher level supervise these two authorities.

3.4.7. There is no problem with central banks providing financial support to national Treasuries. On the other hand, central banks cannot envisage independence unless they are autonomous financially.

3.4.8. The EFSF faces challenges in mobilizing resources. European countries might have to continue using IMF resources until this mechanism is put in place.

3.4.9. To have an efficient common monetary policy in a framework with decentralized fiscal policies, there has to be an agent overriding all budgetary policies.

3.4.10. Implementing economic and financial programmes is compatible with the implementation of a flexible fiscal policy to mitigate the effects of crises, on condition that the country involved has an adequate budget margin. Even if this were the case, it would be necessary to take measures towards fiscal consolidation at the end of the crisis.

3.4.11. The independence of the two entities responsible for monetary and budgetary policies has to be officialised by the coordination framework.

3.4.12. Flexibility in convergence is a necessity, for convergence is to be considered as an objective.

3.4.13. To conclude this session, the Chair applauded the quality of the presentations given and the depth and breadth of the debates and discussions that followed these presentations. He summed up the major lessons from the financial crisis that the presentations and remarks had brought out, emphasizing that the coordination of monetary policy and budgetary policy is a key first step for macro-economic stability and economic growth, and then hammered on the importance of prudential surveillance.

4. PLENARY SESSION TWO: AACB SUB-REGIONS' EXPERIENCES

4.1. This session was chaired by Dr. Perks Ligoya, Governor of the Reserve Bank of Malawi and Vice-Chairman of the AACB. It was moderated by Dr. Natu Mwamba, Deputy-Governor of the Bank of Tanzania and Mr. Millison Nahr, Deputy Governor of the Bank of Ghana. Two presentations were given on Sub-regions' experiences by the Banque Centrale des Etats de l'Afrique de l'Ouest and the Banque des Etats de l'Afrique Centrale (BEAC). Further, the Central Bank of Egypt presented the findings of a study on the theme «A currency union in Africa: lessons to be learned from other experiences».

4.2. The BCEAO's experience

4.2.1. The presentation on the BCEAO's experience was given by Mr. Jean-Baptiste Compaore, Deputy Governor of this Institution.

4.2.2. In giving the presentation on BCEAO, Mr. Jean-Baptiste COMPAORE, Deputy Governor of the said Institution, reviewed the monetary cooperation experience in West Africa Monetary Union (WAMU) Member States, from the inception of WAMU to the advent of the West Africa Economic and Monetary Union (WAEMU), and then highlighted the lessons learned in WAEMU from the recent global financial crisis and the sovereign debt crisis.

4.2.3. Cooperation among WAMU countries, from inception in 1962 to 1994, revolved basically around monetary issues. But by the late '80s, the poor coordination in macro-economic policies during this period resulted in ever-growing distortions in the components of economic policy. The economic and financial crisis that ensued led Member States to see they had to urgently pursue more converging macro-economic policies and performances.

4.2.4. It is in this respect that WAMU Member States, in 1993, instituted the Convergence Council to strengthen coherence and convergence between national budget policies and the common monetary policy. To make their integration complete, they followed this up in 1994 with the establishment of WAEMU, and subsequently with the institution of the WAEMU Commission, which is responsible for surveillance and coordination of Member State economic policies, among other things. The Member States also adopted the WAEMU Convergence, Stability, Growth and Solidarity Pact, which came into force in 2000. To facilitate multilateral surveillance, they set out two categories of convergence criteria. The more salient criteria, called primary criteria, comprised basic fiscal balance, inflation, outstanding debt and payment arrears. In the event of non-compliance with any of these criteria, WAEMU Council of Ministers formulates explicit recommendations for the Member State concerned to follow. The second category of criteria was termed secondary criteria. It is by implementing this multilateral surveillance mechanism that the States have been able to reinforce convergence in their budget stabilization efforts. However, progress still needs to be made in terms of real economic convergence.

4.2.5. On the second point in the presentation, Mr. COMPAORE said that the global financial crisis hit economies in the Union mainly by reducing foreign demand and export commodity prices, and by contracting migrant remittances and other financial flows into the Union. The BCEAO played an active role in community-wide measures to mitigate the impacts of the crisis. It also led some targeted initiatives on its own, such as reinforcing dialogue and consultation with the banking sector, encouraging more flexible monetary policies, providing support to Member States, and establishing a Financial Stability Committee.

4.2.6. Leaning on the lessons learned from the Greek debt crisis, and specifically on the need for monetary unions to have an adequate institutional framework and crisis management instruments, BCEAO accelerated efforts to establish a mechanism for the production of exhaustive, reliable and harmonized statistical data. These initiatives led the Union's Council of Ministers to adopt a Regional Statistics Committee in June 2010.

4.2.7. To conclude, Mr. COMPAORE invited African Central Banks to go beyond their fundamental mission for price stabilization and help States address the challenges facing the economies on the continent.

4.3. The BEAC's experience

4.3.1. Mr. Tahir Hamid NGUILUIN, Deputy Governor of BEAC gave the presentation on his institution's experience. He looked at the transmission mechanisms that landed the financial crisis on the sub-region's economy, the short-term effects of the crisis, the mitigation measures that were put in place, economic and financial trends in 2010 and prospects for 2011 in the BEAC Sub-region, and the lessons to learn from the crisis.

4.3.2. Trade flows were the main transmission mechanism that landed the financial crisis on the sub-region's economy, as seen particularly in the sharp drop in commodity prices, crumbling foreign demand for CEMAC products, and receding investments and other financial flows.

4.3.3. The financial crisis reduced growth by a percentage point to 1.8% in 2009. It deteriorated public finances, as a result of the drop in oil prices, and thus induced a decrease in oil revenue and a deficit for the first time in ten years. After the food and energy crises in 2008, BEAC Member States faced difficulties curbing inflation in 2009 and their external current account balance dropped, taking down foreign assets.

4.3.4. To mitigate the crisis, the Sub-region took measures to enhance vigilance on banking system exposure, especially for financial institutions at risk, and to implement a flexible monetary policy with relaxed Central Bank interest rates. Aware that excess liquidity in CEMAC financial institutions was trending upwards, and noting the dearth of financing in Member State economies, BEAC took steps to increase its contribution to the capital of Banque de Développement des Etats de l'Afrique Centrale (BDEAC) and to accelerate the Project for Issuing Public Securities with Free Subscription in the CEMAC zone. It also put in place a financial stability board and adopted new rules and regulations for the Deposit Guarantee Fund.

4.3.5. In 2010, the financial and economic trends in BEAC Member States showed improvements in growth levels, receding inflation, and good budget and external account indicators. For 2011, the Sub-region expects economic growth to remain strong, the profile of its public finances, external current account and key debt ratios to improve, and monetary indicators to put up a good showing. Inflation rate, which is expected to trend upwards in relation with sustained domestic demand and increasing commodity prices, would be relatively low (2.1%).

4.3.6. The lessons to learn from the financial crisis are that high exposure to exogenous shocks impairs macro-economic performance in the Sub-region. Reform in monetary policy instruments is necessary to address systemic excess liquidity. And, it is necessary to pursue thinking on channels for transmitting monetary policy on the real economy as well as on the mechanisms for sustaining financial stability in the Sub-region. There is an urgent need also for reforms that can make the CEMAC banking system more efficient in financing economies, and for closer coordination between the common monetary policy and budgetary policies in CEMAC Member States.

4.4. **A currency union in Africa: lessons to be learned from other experiences**

4.4.1.The presentation was made by Mrs. Mariana RIZK, Economist Analyst at the Central Bank of Egypt. Its objectives were, among others, to identify the appropriate setup of countries for the establishment of a successful currency union (CU) in Africa, and to evaluate, the African Sub-regions to determine suitable building block(s). Besides the introduction the rest of the presentation was organized in five sections.

4.4.2. The first one dealt with Optimum Currency Area (OCA) defined namely by Mundell (1961) and McKinnon (1963) as the optimal domain of a single currency or several national currencies with mutually fixed rates (multiple currencies). Establishing an OCA needs some essential criteria which measure the degree of convergence among countries in both nominal and real terms. The nominal criteria include the exchange rate, inflation rate, monetary aggregates, interest rate and fiscal deficit (debt) to GDP ratios. The real criteria include the symmetry of shocks (resulting in co-movements in the members' business cycles).The choice of exchange rate regime should depend on the size of the economy and its degree of openness. The decision to join a currency area involves the abandonment of an independent national monetary policy to follow a unified one.

4.4.3. The second section was about the experiences of the European Monetary Union (EMU) and the CFA Zone regarding the applied convergence criteria, the impact of external shocks on the stability of the CU, and the degree of co-ordination between the monetary and fiscal policies.

4.4.4. In the EMU's case the presentation pointed out vulnerability due to fiscal criteria violation by some member countries because of the asymmetry of shocks, and "Institutional Asymmetry" problem, due to the divergence between achieving price stability as the primary objective of the European Central Bank (ECB) and the other economic objectives of the fiscal authorities. The unbinding character of the Broad Economic Policy Guidelines (BEPGs) was also pointed out as source of vulnerability. This led EMU's authorities to undertake an in-depth review of the existing framework for fiscal policy co-ordination.

4.4.5. The review of the case of the CFA Franc Zone showed that in the Western African Economic Monetary Union (WAEMU), convergence criteria were set in October 1999 because of a deterioration of the CU due to the lack of co-ordination between the monetary and fiscal policies and the pegging of the CFA Franc vis-à-vis the French Franc. In the Central African Economic and Monetary Community (CEMAC), to achieve convergence among member countries, surveillance criteria were set in 2001 to address volatile economic business cycles, caused by shocks to terms of trade and real effective exchange rates.

4.4.6. The third section reviewed empirical literature, with a focus on the issues of degree of convergence and symmetry of shocks. Regarding the degree of convergence, the papers reviewed include, among others, that by Karfakis and Moschos (1990) who investigated the nominal linkages between Germany and some European countries and found no evidence of co-integration in monthly data from 1979 to 1988, and that by Hafer and Kutan (1994) who adopted the multivariate co-integration framework with short-term interest rates and found evidence of partial policy convergence among five European countries. They include also the study by Haug et Al (2000) who employed the Johansen" approach on twelve countries, among which Denmark and the UK were deemed ready to successfully join the EMU, and that by Carmignani (2005) who highlighted the existence of partial convergence among the members of the Common Market for Eastern and Southern Africa (COMESA).

4.4.7. With respect to the issue of the symmetry of shocks, the papers reviewed include, among others, that by Bayoumi and Eichengreen (1993) who analyzed the symmetry of shocks in 11 European countries and found that, though the shocks were idiosyncratic across these countries, some of them experienced shocks of similar magnitude. They include also that by Christodoulakis et Al. (1995) who assessed the response shocks from a VAR system for a group of 13 European countries and found some differences in shocks and business cycle mechanisms, and that by Carmignani (2005) who applied the hypothesis of Enders and Hurn (1994) to COMESA Sub-region and found exposure to asymmetric shocks.

4.4.8. The fourth section presented the results of descriptive approach and formal tests used to determine the degree of convergence in the African Sub-regions in order to arrive at the building block of a successful currency area. The descriptive approach analyzes some economic, social, political and institutional features of the four main African Sub-regions, namely COMESA, Economic Community of Central African States (ECCAS), Southern African Development Community (SADC) and Economic Community of West African States (ECOWAS). As for the formal test, the Johansen co-integration approach was used to test for nominal convergence in the three Sub-regions. This was followed by a simple correlation coefficient test for the degree of real convergence among the sets of countries that are converging nominally.

4.4.9. The conclusions and policy recommendations drawn from the findings of both the formal and informal tests were presented in the fifth section of the presentation. They are as follows:

4.4.10. Whereas most literature argue that developing countries should adopt a fixed regimes, the experiment of CFA franc zone proved the failure of such assumption, especially after facing fatal external shocks concerning the deteriorated terms of trade and real exchange rate shocks. Adopting a flexible exchange rate regime would neither safeguard the CU from potential shocks.

4.4.11. Different sets of countries are successful candidates to constitute a CU as a building block in Africa. Seven SADC countries (Madagascar, South Africa, Tanzania, Malawi, Zambia, Mauritius and Seychelles) relatively fulfill the nominal and real convergence prerequisites. Further, two countries from COMESA (Kenya and Uganda) can successfully integrate with SADC.

4.4.12. In ECOWAS, only two out of the non-member countries (Ghana and Nigeria or Ghana and Gambia) can join at a time. Second, both WAEMU and non-WAEMU countries exhibit full nominal convergence, which is proved for both inflation rate and monetary base indicators. Therefore, revisiting the proposal that WAMZ and WAEMU can create one monetary union seems to be feasible with further co-operation and policies harmonization actions in the future.

4.4.13. Countries sharing strong intra-trade regional relations are not necessarily qualified to form a CU.

4.5. **Summary of the Discussions**

4.5.1. After the presentations, Mr. Mwamba, Deputy Governor of BOT, congratulated the presenters on the quality of their papers. He underlined that having an appropriate institutional framework is a key step towards efficient multi-lateral surveillance. He shared the East Africa Community's experience in this regard, adding that it had put several committees in place, including a committee of Finance Ministers in the Zone. But, the Community was facing challenges to reach the macro-economic objectives it had set, owing to the impact of exogenous factors.

4.5.2. Mr. NAHR, like the Deputy Governor of BOT, applauded the high quality of the presentations given earlier, before delving into the BOG experience on the theme of the Symposium. He pointed out that although Ghana's legislation enshrines the independence of BOG, past efforts to coordinate monetary policy had faced challenges due to the high deficits in fiscal performance. Among other things, the Ministry of Finance and BOG regularly organize meetings to coordinate fiscal and budgetary policies, and have reinforced these efforts since the national economy started feeling the effects of the global financial crisis.

4.5.3. After these remarks from the moderators, the participants engaged in further discussions that may be summarized as follows:

4.5.4. The formation of a monetary union comes at the price of losing sovereignty and secures the dividend of increased stability. The price to pay is by far lower than the benefits to reap. To better appreciate these benefits, one has to compare the impact the global financial crisis has today on member countries of monetary unions to what their fate would have been if they were not in an integrated body. To ensure that member countries maximize the benefits of monetary unions, more attention has to be placed on such issues as symmetric shocks, governance, fiscal discipline and compensation for the loss of earnings inherent in regional economic bodies.

4.5.5. More analysis needs to be done also on what anchor currency to use in potential monetary unions, so that the particularities of African economies and aspirations of the people are addressed properly. Reports show, for example, that the business entrepreneurs in some countries like Mauritius wish to have their national currency pegged at a fixed rate to a major currency.

4.5.6. African Central Banks should work to achieve Africa's development goals besides their traditional mission of ensuring price stability and financial stability. This means therefore that these institutions, whose raison d'être is not just to make profit, should play a more active role in financing development. To do so, they need to distance themselves from the money-related economic literature emanating from the developed countries. For, it does not usually include the financing of development. Some African Central Banks, such as BCEAO, BEAC and the Central Bank of Nigeria, are already playing an active role or intend to contribute more substantially in financing development. Some Central Banks, as a contribution to the efforts being made to mitigate the effects of the global financial crisis, have been supporting States through flexible monetary policies, a step that would not have been possible without a low level of inflation and the exogenous nature of this latter.

4.5.7. Making central banks independent from States, which are the major shareholders, is a challenge. However, this challenge can be addressed by putting in place an appropriate regulatory framework and following its relevant provisions in a strict manner. Monetary Unions are meant to reinforce the independence of central banks insofar as the decision making process involves several States.

4.5.8. To conclude this session, Governor Perks LIGOYA underlined that African Central Banks need to make development a core part of their mission. He invited the participants to give more thought to the conditions for creating an African monetary zone, and recommended that Central Banks and Finance Ministries tighten their relations to improve coordination of budgetary and monetary policies.

5. CONCLUSION

5.1 At the end of the proceedings, Mr. Jean-Baptiste COMPAORE said emphatically that he wanted to thank all the participants for the profound presentations and discussions at the meeting. He especially thanked the presenters for the quality of their papers and the moderators for the pertinent contributions they had made. He then went on to summarize the major conclusions from the discussions, as follows:

- To implement robust monetary frameworks in Africa, institutional mechanisms for reducing fiscal dominance have to be put in place.
- Adopting clear rules for budget management in States will lend more credibility to the monetary policies designed to achieve price stability.
- The Euro zone's sovereign debt crisis shows that having fixed rules in place is not enough to coordinate a common monetary policy and national budgetary policies.
- It shows that the lack of community mechanisms for crisis management can jeopardize the sustainability of the system.
- It also underlines that a degrading macro-economic situation in one country, even a small country in the monetary union, can jeopardize long-term reliability in the entire system. This makes it necessary to enhance economic governance and institute solidarity between the Member States.

5.2 To conclude, Mr. COMPAORE went over WAEMU initiatives that were consistent with the conclusions and recommendations of the forum, and invited the participants to take proper measures to implement these conclusions and recommendations.