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Perspectives on the European Monetary Union: Lessons for the Economic Community of West African States (ECOWAS)

J. E. L Sagbamah*

The attainment of the European Monetary Union (EMU) under the auspices of the European Union (EU) was a product of effective planning and sequencing of programmes. The establishment of political institutions such as the European Council, Assembly, Court of Justice and, particularly, the European Commission provided the general framework and direction for the achievement of the EMU. In addition, specialized institutions such as the Sectoral Commissions, European Monetary Institute (which was later transformed into the European Central Bank) and the European System of Central Banks provided technical support for driving the EMU project. These institutions nurtured and fostered the political, social, market, financial, infrastructural, production, economic and monetary sectors of integration. The EU experience had significant integration implications for currency, money market, capital market, foreign exchange market, reserves management and economic policy. It also had implications for the non-EMU members referred to as the derogation countries. The overall EU experience has profound and important lessons for the Economic Community of West African States (ECOWAS) in its drive to provide the needed political will, social enlightenment campaign and mobilization for the acceptance of integration, as well as the provision of standardized products and financial markets. It also reveals the levels of basic infrastructure, production and overall economic structure that are needed to be in place, before transiting into a monetary union.

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I. Introduction

For about 30 years of its existence, the Economic Community of West African States (ECOWAS) has been saddled with the task of integrating the economies of member countries. The initial programme envisioned for ECOWAS integration was to achieve a common market, a much higher level of integration than a free trade area or a customs union.

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However, the ultimate ambition of the founding fathers was to transit further from a common market to an economic and monetary union, the highest level of integration. At the level of a common market, ECOWAS members were expected to dismantle tariffs, ensure free movement of goods and services, free mobility of labour and capital. These would foster the exchange of ideas, improve financial intermediation, promote technological advancement, ensure efficient resources allocation and engender higher level of production of goods and services for a larger market that will emerge in the sub-region. Such an enlarged market will provide the benefits of comparative advantage and economies of scale. These were the ideals and other basic architecture which the European Union (EU) provided before implementing the monetary union.

In the case of the ECOWAS, the progress made since its establishment through the Treaty of Lagos on May 28, 1975, has been unimpressive. For instance, the ECOWAS trade liberalization scheme intended to free trade, facilitate human and capital mobility has met with limited success. Tariffs have not been dismantled by members who have continued to administer different customs declarations and valuation methods. As such, few countries that have complied with the tariffs and customs harmonization are losing revenue. In deed, those losing revenue are not being compensated to encourage them in implementing the scheme further. Numerous check points exist on roads and ports where taxes of various descriptions are extorted from commuters. Also, the lack of transportation and telecommunications networks, linking member states, have not only impeded trade but also increased the cost of doing business. Furthermore, the non-harmonization of trade and investment policies in the sub-region has discouraged investors in establishing businesses in member states. Some member countries still pay allegiances to their colonial masters and thus, maintaining strong trade links with Europe rather than with regional members. Consequently, intra-regional trade has been limited in scope. The inefficiency of the existing clearing system, the lack of political will on the part of ECOWAS member states and the existence of other sub-regional monetary unions within the ECOWAS, have all contributed to the poor performance recorded thus far.

In the light of the above constraints to the integration process in the West African sub-region, this study provides a comprehensive review of developments in the EU and more importantly, the various landmarks on the roadmap for achieving the European Monetary Union (EMU). It also provides a comparative analysis from which to draw lessons of experience to guide and also to inspire ECOWAS member states to attain a monetary union in the sub-region.

To achieve the objectives of this study, the paper is organized into seven parts, with this introduction as Part I. It is followed by Part 2 which provides a theoretical framework for regional integration, while Part 3 traces and highlights the evolution and institutional developments of the EU. Part 4 discusses in details the major programmes, projects and polices which led to the attainment of the EMU; Part 5 undertakes a comprehensive review of ECOWAS integration efforts, thus highlighting the historical evolution, institutional development and drawing a comparative analysis of EU's lessons of experience for the ECOWAS and also indicating the sequencing of integration. Part 6 highlights policy recommendations for the ECOWAS sub-region, while Part 7 summarizes and concludes the study.

II. Theoretical Framework for Regional Integration

The term "regional integration" is an aspect of international economics, but its usage according to El-Agraa (1999), quoting Machlup (1977), was relatively unknown until 1942. Schiff and Winters (2003) however note that the practice of regional integration has been in existence for hundreds of years. For instance, in 1664, France proposed a customs union, while Austria signed free trade agreements with five neigbouring countries in the 18th and 19th centuries. Indeed, the authors asserted that preferential trade agreements were the basis for colonial empires, while customs union arrangements led to the creation of the states of Germany, Italy and the United States.

By the 1950s, the term became widely used and defined by economists as "a state of affairs or process which involves the amalgamation of separate economies into larger free trading regions" (El-Agraa, 1999). More specifically, El-Agraa defines regional integration as the "discriminatory removal of all trade impediments between at least two participating nations and with the establishment of certain elements of cooperation and coordination between them".

II.1 Reasons for Regional Integration

Countries forming regional integration agreements are usually persuaded by a number of reasons which can be broadly classified under political and economic reasons.

II.1.1 Political Reasons for Regional Integration

The amalgamation of countries to form a monolithic entity through a regional integration agreement creates a formidable political group governed by regional laws, rules and regulations. As a group with a large territorial boundary, market, economic opportunities and pooling of sovereignty, it commands respect between and among other nations. It could use its bloc power for negotiations and achieve better bargains than if such negotiations are undertaken by individual countries. Therefore, small countries under the regional bloc stand to benefit. This was one of the major considerations when the idea of the EU was conceived by the founding fathers. Indeed, the political unity of Europe was very paramount in the EU architecture in order to foster peace and security, strengthen their ideological perspective and also compare favourably with other large nations such as the United States of America.

Furthermore, under a cover of regional integration block, smaller countries are strengthened against any external threat or aggression. Also, following the application of common regional rules and regulations, these countries adopt democratic best practices in governance which facilitate and sustain internal peace and security. The benefits of these political factors are given higher weights when some countries enter into regional integration agreements.

II.1.2. Economic Reasons for Regional Integration

For other countries, the raison d'etre for entering into a regional integration agreement is largely economic. As a group, the region provides a large market with lots of potentials for member states than the small markets of individual countries. Apart from the large market size with inherent potentials, the security of market and access following the removal of trade barriers for member states are relative advantages they have over other countries in the rest of the world. The market size will encourage increased production, competition, enhance efficiency and thus promote trade – these, according to Schiff and Winters, are the explicit objectives in the treaties establishing some regional integration agreements. As countries increase production to meet market demands or requirements, this promotes economies of scale which leads to lowering of prices and cost of production. Other economic benefits that could arise following market competition are application of technological advances and promotion of factor mobility. The combined effects are the production of cheaper products for member states which enhance intra-regional trade and also secure improved terms of trade with third countries. Furthermore, as competition improves to take advantage of market potentials, coupled with regional common policies and complemented by domestic policies to provide an enabling investment-friendly environment that attracts foreign investment and technology, particularly foreign direct investment (FDI), these will boost the productive capacity of countries in the region.

Under the cover of a regional group, this provides member countries the opportunity to act in concert to undertake domestic economic reforms and implement sound policies to achieve better economic management. Overall, countries will benefit from high economic growth and development, increased employment opportunities, high incomes and better standard of living for their citizens.

El-Agraa (1999), however, warns that there is no guarantee that these economic gains could be achieved; much will depend on the choice of regional integration and the competitive behaviour existing prior to regional integration; otherwise, regional integration could worsen the situation.

II.2 Types of Regional Integration

Regional integration agreements vary in type, structure and scope. These include free trade area, customs union, common market, economic union and monetary union. Each of these, in terms of structure and scope, is an improvement and of a higher level than the other.

II.2.1 Free Trade Area

In Free Trade Areas (FTAs), member states agree to abolish internal tariffs and other quantitative restrictions within the group. However, each participating state is allowed to maintain its tariff against third countries. Essentially, the sole objective of FTAs is to promote trade. Examples of FTAs are the European Free Trade Association (EFTA), the Preferential Trade Area (PTA) for Eastern and Southern Africa, the North American Free Trade Agreement (NAFTA), Association of Southeast Asian Nations (ASEAN), etc.

II.2.2. Customs Union

Customs Unions (CUs) share similar characteristics as FTAs, these involve the removal of internal tariffs and other discriminatory measures against trade; but in addition, member states erect common external tariff (CET) against the rest of the world. The dissimilarity between FTAs and CUs are the application of CET and rules of origin if a member in FTA indulges in trade deflection. Trade deflection takes place when a member in FTA with the least external tariff imports goods from a third country and re-exports them to member states. Customs unions, therefore, guarantee free trade for members and also erect protective barriers through CETs. The CETs give rise to the incidence of trade creation and trade diversion. Trade deflection differs significantly from trade creation (TC) which is the import of cheaper products from a partner country than expensive ones from a third country. The inverse of TC is trade diversion (TD) which represents the import of expensive products from a partner country than cheaper ones initially imported from a third country. Examples of CUs are the Mano River Union (MRU), the Southern African Customs Union (SACU), Arab Common Market, Caribbean Community and Common Market (CARICOM), etc.

II.2.3 Common Market

In addition to the complete removal of internal tariffs and erection of CETs, common markets (CMs) include factor mobility of labour (persons), capital, investment, technology, industry, etc, and the introduction of common rules to ensure fair competition and standards. Thus, CMs are higher levels of regional integration than FTAs and CUs. Examples are European Union (EU), Arab Magreb Union (AMU), etc.

II.2.4. Economic Union

Economic Unions (EUs) add to the features of CMs, the harmonization of social and economic policies. In other words, economic policy harmonization involves the setting of targets on fiscal, monetary, exchange rate policies for member states. In effect, member states apply the same policies across. EUs are much higher level of regional integration than FTAs, CUs and CMs. Before the introduction of the euro on January 1, 1999, the EMU was indeed an economic union. Also, the West African Monetary Zone (WAMZ) and ECOWAS are still implementing FTA, CU, CM and EU in pari passu.

II.2.5. Monetary Union

Monetary Unions (MUs) possess all the characteristics of EUs but the distinguishing feature are the phasing away of all members' national currencies, adoption of a single currency (which El-Algraa (1999) referred to as exchange rate union) and the establishment of a common central bank to conduct a common monetary policy. Examples of monetary integration or union are the West African Economic and Monetary Union or Union Economique El Monetaire Ouest Africaine (UEMOA) and the most prominent and influential among all regional integration is the European Monetary Union (EMU).

III. The Historical Evolution and Institutional Development of the European Union

III.1 Historical Evolution of the European Union and European Monetary Union

The journey to the formation of the EMU commenced in 1951, when the governments of six European nations, namely Germany, Belgium, France, Italy, Luxembourg and the Netherlands signed the Treaty of Paris for the establishment of the European Coal and Steel Community. By 1957, the same countries signed the Treaty of Rome which founded the European Economic Community (EEC). The EEC which was later re-named the European Union (EU), however, commenced effectively in 1958. The objectives of the EEC included the integration of European economies into a common market to promote higher economic growth and development, ensure regional stability, increase the standard of living of its people and develop closer relations among member states. To actualize these lofty objectives of the EEC, four major institutions were established, these are the Assembly, Council, Commission and Court of Justice. Of these institutions, the Commission and the Council had and still have the responsibility for the development of economic and political ideals of the EEC. The Commission makes all proposals for the ratification of the Council (Adedeji, 1990 and Dolan 1990).

Among the early proposals, was the removal of tariff barriers to pave way for the transition to a common market. Though tariffs were removed in the 1960s, the 1970s and early 1980s, not much progress was made to achieve the goal of a common market. Indeed, other than some relative growth in intra-European trade, European markets were still subdivided along national configurations. In spite of these problems which militated against the smooth transition to a common market, the political ambition of the founding fathers of the EEC was to transform Europe into a gigantic economic power, a United State of Europe (USE), an equivalent of the United States of America (USA). The move for the realization of this dream was imitated in 1970. Popularly known as the Werner's Plan, named after the then Prime Minister of Luxembourg, the plan was conceptualized and designed for Europe to attain a monetary union in that decade. The plan included the establishment of an European Community Central Bank which would foster and nurture a European monetary Union. On the basis of this plan, the European Commission on October 30, 1970, submitted a memorandum which proposed the establishment of an European Economic and Monetary Union. Though, a monetary union could not be realized in that decade, it led to the establishment of the European Monetary System (EMS) in March 1979. The EMS comprised three major parts, namely an Exchange Rate Mechanism (ERM), European Currency Unit (ECU) and European Monetary Cooperation Fund (EMCF). They were established to ensure monetary stability and close monetary cooperation amongst member countries. Furthermore, in 1986, the introduction of the Single European Act, which specified the removal of physical, technical and fiscal barriers to ensure complete realization of a common market, brightened the prospects of EMU, and by 1990, the Schengen Agreement eliminated border checks.

In 1992, the Maastricht Treaty set the conditions necessary for the formation of an economic union, a major foundation preceding the introduction of EMU. It was in this same year, specifically February 7, 1992, that the EEC adopted the name European Union. The treaty specified criteria which member countries should achieve in order to participate in the EMU. These criteria referred to as the convergence criteria, included low inflation, long-term interest rate, budget deficit to gross domestic product (GDP) ratio, national debt to GDP ratio and adherence to the existing ERM arrangement. The reference ratios for inflation and long-term interest rates, budget deficit and national debt to GDP set for 1996 were 2.3, 9.1, 3.0 and 60.0 per cent, respectively. The performances of member countries in 1997 were used to set the figures for interest and inflation rates in 1998; and by May 1998, on the basis of each country's performance, the European Council decided which of the countries qualified to join EMU on January 1, 1999. At the level of the EMU, participating countries lost their national powers over some economic policies, especially monetary policies, for adopting a single currency. These powers were transferred to a supranational body (the European Central Bank (ECB)) to formulate and coordinate such policies for the entire region. Consequently, the European Monetary Institute (EMI) which was established on January 1, 1994, to serve as the forerunner transformed into the ECB with the responsibility of conducting monetary policy.

Of the 15 member countries of the EU in 1998, 11 of them (Germany, France, Belgium, Luxembourg, Italy, Netherlands, Spain, Ireland, Austria, Portugal and Finland) were adjudged by the European Council to have met the convergence criteria set for the formation of the EMU. Britain has since opted out of the EMU project owing to the arrangement to adopt a single currency other than the Pound Sterling. The other three countries that could not meet the criteria for joining the EMU were Denmark, Sweden and Greece. Greece subsequently qualified. The EMI which was transformed into the ECB in 1998, made all the necessary preparations for the historic launching of the single currency called the Euro on January 1, 1999, to signal the commencement of EMU. On this day, the German mark, French franc, Italian lira, Austrian shilling, Belgium franc, Luxembourg franc, Dutch guilder, Spanish peseta, Portuguese escudo, Irish punt and Finish markka were determined at 1.95, 6.56, 193, 6.27, 13.76, 40.34, 2.20, 166.39, 200.48, 0.79 and 5.95 to one euro, respectively. However, the euro did not go into physical circulation until the year 2002. It was only used for non-cash transactions, such as payments by cheques, credit cards and bank transfers. In 2002, eight euro coins and seven euro notes were introduced and circulated side-by-side with the national currencies (Guardian, 2002). The transition period was from January to June, 2002, after which, all national currencies were withdrawn from circulation. In effect, on July 1, 2002, the euro became the only legal tender among the participating countries.

Ten new countries were admitted into the EU in May, 2004, thus raising the total membership to 25. These countries, comprising Cyprus, Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia and Slovenia are, however, not in the euro zone area, bringing to 14 the total number of countries outside the euro area. On January 1, 2005, Greece was admitted to join the EMU; consequently the non-EMU members outside the euro zone have reduced to 13.

III.2 Institutional Development of the European Union and European Monetary Union

The EU march towards the realization of the EMU, progressed successfully through the establishment of necessary institutions which served as the pivots for rapid integration. These institutions designed, formulated and provided logistic support for the implementation of policies, programmes and projects.

III.2.2 Political Institutions

These are the Council, Assembly, Court of Justice and Commission.

The Council: The executive arm comprising Presidents/Heads of State and Government that make decisions for the smooth operations of the EU and EMU.

The Assembly: The legislative arm that enact laws for governing the region

The Court of Justice: The judicial arm that interprets laws and adjudicates between and among participating states.

The Commission: This is the think-tank for major policies, programmes and projects proposals and implementation.

III. .2.3. Specialized institutions

These include Sectoral Commissions, European Monetary Institute (EMI), European Central Bank (ECB) and the European System of Central Banks (ESCB).

Sectoral Commissions

Under the Commission, there are nineteen (19) sectoral commissions headed by commissioners (Financial Times, July 10, 2000) who oversee the development of the following sectors: (a) Commission Reform; (b) Parliament/Energy/Transport; (c) Competition; (d) Agriculture; (e) Information/Society; (f) Internal Markets; (g) Research; (h) Monetary Affairs; (i) Development; (j) Enlargement; (k) External Affairs; (l) Trade; (m) Consumer/Food Safety; (n) Regions; (o) Budget; (p) Environment; (q) Justice/Home Affairs; (r) Employment/Social; and (s) Education/Culture

The European Monetary Institute (EMI)

The EMI was established on January 1, 1994. It was based in Frankfurt, Germany. It served as the forerunner to the emergence of the ECB and the formation of the ESCB. The EMI was therefore charged with the responsibilities of developing a set of monetary instruments for the ESCB, the setting-up of a statistical databank and the preparation of euro bank notes. Also, the EMI served as the coordinating central bank among national central banks until it was succeeded by the ECB in May 1998.

The European Central Bank (ECB)

As discussed above, the EMI was in May 1998, transformed into the ECB. Statutorily, the ECB's main function is to design, formulate and implement European-wide monetary policy, using policy instruments, particularly the money market interest rate. The ECB is an independent central bank. The Maastricht Treaty forbids it to be accountable to any European government or politicians. It is designed specifically to target inflation and ensure price stability.

The European System of Central Banks (ESCB)

The ESCB is made up of members of the ECB and the central banks of EMU member states. The ESCB functions, among others, include issues on the operational aspects of central banking, such as the regular money market operations, funds transfer, management of international reserves of member states, issuance of euro bank-notes, lender-of-last resort and prudential supervision, etc. The ESCB members guide these roles, particularly, the right to conduct money market operations in order to safeguard their respective local financial markets.

Other Specialized Agencies

These include the European Regional Development Fund (ERDF) which provides financial and technical assistance to its overseas dependencies such as the Yaoundé and Lome Conventions; the European Investment Bank (EIB) provides funds for the development of projects in the backward areas of the union; European Social Fund (ESF) financial support to workers displaced in the integration process; member states financed the development of infrastructures such as roads, rails, air and water transportation as well as telecommunications to link Europe; European research and development (R&D) activities led to the successful development of ESPRIT (aeronautics), RACE (satellite), BRITE (computer), ARAINE (satellite), EUROPE AIRBUS, European Atomic Energy Community (EURATOM) (Adedeji, 1990).

IV. Major Programmes, Projects, Policies and the Implications for the Achievement of the European Monetary Union

Under this section, major programmes, projects, policies and their implications which contributed significantly to the achievement of the EMU would be discussed and analyzed in details.

IV.1. European Monetary System (EMS)

It was not until March, 1979, that the drive towards a monetary union was firmly initiated through the introduction of the EMS. The EMS was the first practical step towards ensuring some degree of monetary cooperation and stability among member states. The EMS was structured into three major units, namely, the European Currency Unit (ECU); the European Exchange Rate Mechanism I (ERM I); and the European Monetary Cooperation Fund (EMCF) (Bundus, 1990).

The ECU was an artificial currency that linked member states' currencies and played very important role in exchange rate management, and also ensured monetary stability. Each member state had defined units of its currency in relation to the ECU. Thus, the ECU served as a common denominator for the conversion of members' currencies to settle transactions. The ERM I on the other hand provided the mechanism for ensuring exchange rate stability among currencies of member countries to guide against currency volatility. In this regard, the specified band which defined the margins of fluctuation was a plus or minus 2.25 per cent; though Italy opted for a wider 6 per cent band. The band was revised upwards in 1993 to a plus or minus 15 per cent. The methods of intervention varied from the application of various domestic policies to outright buying and selling of national currencies which was supported through the provision of credit facilities.

Bundus (1990) and Phillips (1990) highlighted the credit facilities which were classified into three categories, namely **the very short-term facility, the short-term monetary support facility** and **the medium term financing facility**. While the very short term facility required the participating states' central banks to provide unlimited and automatic credit to a member whose exchange rate required immediate intervention, the short term monetary support credit facility, on the other hand, was based on the value of an assigned creditor quota or debtor quota when faced with temporary balance of payments deficit or a sudden short-fall in external reserves. The medium term financial assistance also provided loans for supporting a more serious balance of payments problem. The credit fund provided was ECU 25 billion, comprising ECU 14 and ECU 11 billion short-term monetary support and medium term financing facilities, respectively. The EMCF was an ECU fund established to facilitate the settlement of transactions. In other words, the fund was used for providing ECUs for gold and dollar deposits. According to Lopex-Claros (1987), average inflation rate for all members of the ERM fell steadily from 11.3 per cent in 1980 to 2.5 per cent in 1986. Phillips (1990) concluded that, the EMS facilitated increased convergence in areas of prices, real output and money supply. Therefore, the EMS enhanced exchange rate management, stability and greater monetary cooperation among member states.

IV.2 Introduction of the Single Act

The Single Act which was ratified in 1985 was aimed at eliminating all factors capable of inhibiting the realization of a common market. The act targeted the removal of fiscal, technical and physical barriers that lingered on after tariff barriers had been dismantled in the 1960s. The Single Act also amended portions of the European treaties, of which the most significant was the scrapping of the use of veto power or obtaining unanimity of members on any issue. This was replaced with a single majority voting to accelerate the speed of decision-making (Dolan, 1990). Also, sanctions were swiftly imposed to accelerate the speed of implementation all over. It is important to note here that, prior to the Single Act (and in spite of the success achieved in the removal of tariff barriers), most of Europe still retained the identities of their national markets. Thus, the Single Act was crucial for the development of an

Europe-wide market that fostered and deepened financial intermediation across boundaries. It was also designed to promote Europe-wide money and capital markets that are necessary requirements for the effective conduct of monetary policy and overall policy coordination.

IV.3. The Strategic Plans of the Delors' Committee

In 1988, the Heads of Government constituted a technical committee of central banks' governors which was headed by the then President of the European Commission, Mr. Jacques Delors, to draw up concrete plans that could lead to the attainment of the EMU (Bundus, 1990). The Delors' Committee proposed a three-prong approach to an EMU. First, the Committee proposed a plan for the EEC members (now EU) who were not in the ERM (e.g. United Kingdom, Portugal, Spain and Greece) to join. France, Italy and Belgium; Spain and Ireland; and Portugal which had not completed the requirements of the Single Act in 1986 were requested to abolish completely vestiges of exchange and capital controls by 1990, 1992 and 1994, respectively.

The second plan of the Delors' Committee was the development of an European System of Central Banks (ESCB) fashioned like the Federal Reserve System of the United States (US). It also included the strengthening of policy coordination, as inspired by the EMS scheme, through the setting of economic targets and rules on budget deficit for member states.

The third plan required the establishment of a common central bank that would be charged with the responsibility for the design, formulation and implementation of monetary policy on behalf of member states. The plan also included the introduction of a single currency which would symbolize the attainment of a complete monetary union. Given the necessary approval for the plans, the Delors' Committee published the planned strategies in 1989 and commenced the implementation of the plans in stages from 1990. Consequently, in 1992, a major step taken by the European Commission, which was supported by Mr. Helmut Kohl of Germany and Francois Mitterrand of France who provided the political will to spearhead the integration efforts, was the introduction of the Maastricht Treaty.

IV.4. The Maastricht Treaty of 1992

The Maastricht Treaty was an important landmark in the build-up towards the attainment of the EMU. Elements of the Maastricht Treaty referred to as the "convergence criteria", included targets for inflation, long-term interest rate; budget deficit, national debt and exchange rate which partly represented details of the Delors Committee's second stage plan. Member states willing to form EMU must pursue macroeconomic policies that would meet the target of 2.3 and 9.1 per cent for inflation rate and long-term interest rate, respectively, by 1996. The long term interest rate should not be more than 2 percentage points more than the average for the states. Also, participating countries must trim budget deficits to 3 per cent of their GDPs; and the ratio of gross national debt to GDP should not be higher than 60 per cent. Finally, the exchange rates of participating states must conform with the requirements of the EMS, particularly the ERMI in 1996.

The Maastricht Treaty requirements were directed at ensuring that countries embarked on economic reforms or restructuring exercises which would harmonize the economic indicators of member states to the same base level. In other words, macroeconomic aggregates of member countries must on the average be homogenous to facilitate a healthy commencement of a monetary union. The convergence criteria, therefore, served as a leveler and provided a level playing field for the economies of member countries, such that the effects of the application of common monetary and exchange rate policies would be measured and evaluated based on the same macroeconomic fundamentals. If such economic cleansings were not done in order to smoothen out the existence of divergent macroeconomic aggregates of member countries, the application of the same policy measures across would have varying degrees of impact. Those that had bad economies in place would be worse hit by common policies than those with relatively healthier ones. The possibility of wide variation of policy impacts could therefore trigger problems of incompatibility among the participating states. While some will be growing and progressing faster, others could be lagging behind or retrogressing as the case may be.

IV.5. The Drive to The Attainment of The European Monetary Union (EMU)

The basis for participating in EMU was the achievement of the convergence criteria. The most controversial aspect of the convergence criteria was the requirement for governments to reduce considerably their budget deficits. To reinforce the blue-print of the Maastricht Treaty's budget deficit requirement of not more than 3 per cent of GDP, unless a country was under an exceptional circumstance when its GDP was falling at an annual rate of 2 per cent, the EU introduced the "Growth and Stability Pact".

The Growth and Stability Pact

The Growth and Stability Pact, which was agreed upon in December 1996, was ratified by the European Council in June 1997. The pact provides that any country that circumvented the rule faces a heavy fine through a majority vote of member governments. The limit placed on public borrowing was to ensure policy complementarity between fiscal and monetary policies. Specifically, it was designed to curb governments easing of fiscal policy through budget deficits capable of undermining the effectiveness of monetary and exchange rate policies. However, in the face of rising levels of unemployment, declining capacity utilization and growth, some of the participating governments were unhappy with the rigidity or strictness of the stability pact. Facing such economic circumstance, they require budget as a means of stabilizing their economies through deficit financing. Since they had no control over monetary policy, the Stability Pact rather constrained the flexibility with which they could use fiscal policy to address a number of domestic problems. This led to various complaints, for instance, Germany's former Finance Minister, Mr. Oskar Lafontaine resigned his appointment after he had challenged the ECB openly on this matter. Most of the governments have chosen to raise taxes in order to escape the stability pact penalty.

On November 25, 2003, the penalty for violating the Growth and Stability Pact failed to pass the acid test, as France and Germany, which had exceeded the 3 per cent minimum deficit requirement, lobbied other member states to overturn the punitive measures recommended by the European Commission. This dimension established a dangerous precedence for which the embattled Commission has decided to take a legal action in order to upturn that political decision.

EMU Convergence Criteria Test and the Cessation of the EMI

In spite of the controversy generated by the Growth and Stability Pact, participating countries strove hard to meet the convergence criteria by 1996, the reference year. However, the test to determine which countries qualified to participate in EMU was fixed for May, 1998, using the performance of 1997(see Table 1). The European Commission and the EMI in March 1998 submitted their recommendations to the European Council which selected 11 out of the 15 members of the EU that met the test requirements.

The Position of Non-EMU Countries

As discussed in part 2, only three countries, namely Britain, Denmark and Sweden were outside the EMU construct before the admission of the 10 new members to the EU. As for Denmark and Sweden, they opted for EMU but failed the eligibility test as indicated by the outcome of their convergence criteria performance. Consequently, they needed to improve on their performances in order to gain admission into the EMU. Greece in 2005, formally scaled through the hurdle and was admitted into the EMU. Britain, on the other hand, opted out of EMU arrangement largely on account of being unable to reach a political consensus on EMU. Among the reasons adduced is the loss of its national sovereignty and identity, as well as the nationalistic sentiments attached to the British pound sterling. If the pound sterling would not be adopted as the single currency and will be phased out, Britons find it hard to admit the reality of parting way with the sterling regarded, not only as a symbol of unity and economic strength, but also the pride of losing one of the foremost reputable currencies of the world. Besides, there is still an on-going controversy on the merits and demerits of joining the EMU (Wall Street Journal Europe and The Economist, 1999). Those opposing Britain's entry into the EMU often argue that the application of a common monetary policy for economies of varying conditions of boom and slump, limitation of the stability pact and the inflexibility of labour and product markets in Europe, will create more strains on these economies.

According to the group in favour of Britain joining the EMU, the sterling will be opened to speculative attacks as long as it remains pegged to the euro; Britain will lose about 40 per cent of direct investment (The Economist, April 1999), companies in Britain will face exchange rate risks and high transaction costs. Britain will lose out in the proposed merger of the London and Frankfurt stock exchanges with the head office in London, and its influence will dwindle in the continent it if fails to join the EMU. The result of an opinion pool reported in the Economist (April 1999), indicated that 65 per cent of Britons favoured joining the EMU; and by late 2001 or in 2002, it was expected that Britons would go to the poll to decide whether or not Britain should join the EMU. This has not happened. The ten new states which joined the EU in May 2004, will also have to pass the convergence criteria test to be admitted into the EMU.

The Exchange Rate Mechanism II (ERM II)

The importance of exchange rate stability for promoting intra-European trade and investment cannot be over-emphasized as evidenced in the EMS arrangements.

However, with the introduction of the euro, the ECU and ERMI arrangements ceased; but the exchange rates of the non-EMU countries could be volatile, transmitting negatively on the EMU zone. Consequently, the ERM I arrangement was transformed into ERM II for the non-EMU countries, referred to as the derogation countries (countries that are outside the EMU zone). The necessity for the ERM II arrangement stems from the fact that, it would discourage the derogation countries from embarking on deliberate devaluation with a view to securing competitive advantage over the EMU members. Such actions would not only undermine the competitiveness of the EMU countries, but will also create undue tension in the EU. Consequently, the ERM II, which was ratified by the European Council in December 1996 for the derogation countries, commenced effectively in January 1999 after the introduction of the euro. The euro, therefore, became the anchor currency which the currencies of the derogation countries are fixed to with margins of plus or minus 15 per cent. Fluctuation outside the margins would require intervention by the central banks of the non-EMU countries and serves as a condition for joining the EMU by the derogation countries.

The Design and Introduction of the Euro

A major hallmark of a complete monetary integration is the introduction and use of a single currency by all participating countries. There are two options to this. The countries either agree to adopt a strong currency of a member country or design a new currency for member countries. In the case of the EMU, member countries opted for a new currency and in 1995, the European Council in conjunction with the EMI and the European Commission selected the name euro among other names. By December 1996 and June 1997, the designs of the euro bank notes and coins by the EMI in conjunction with the European Commission were ratified by the European Council. Consequently, seven bank notes and eight coins of various denominations were approved for circulation. The coins are 1, 2, 5, 10, 20, 50 euro cents, 1 and 2 euros, while the notes are 5, 10, 20, 50, 100, 200 and 500 euros. Thereafter, the official ECU ceased to exist, the ERM II became operational, and the ECB commenced operations to discharge its mandate, the conduct of a common monetary policy in the euro zone.

IV.6. The Implications of the Introduction of The Euro

The withdrawal of national currencies for the euro, which remains the only currency for the union, had some implications. These are discussed below:

Currency Implications

On January 1, 2002, the formal exchange of the national currencies of the 11 participating countries for the euro had serious currency implications. All national currencies were on July 1, 2002, withdrawn from circulation, leaving the euro as the only currency of transactions and, thus, the legal tender of a population of over 304 million people, comparable to the 260 and 125 million people for the United States dollar and Japanese yen, respectively. The amount of euro that was received by individuals and corporate bodies depended on the balances of national currencies outstanding to their credit and the relative strength of these currencies' exchange rates to the euro. The EMU countries bore the costs of introducing the euro which included legal, administrative, old notes withdrawal, automatic teller machines replacement, retraining of staff and publicity campaigns. The transactions cost of contracts or projects were redenominated in euro according to the worth of the former national currencies, while prices of goods and services declined after the change in currencies to levels where similar products and services were offered at competitive cheaper rates. Also, the payments system remained unchanged, using existing facilities, particularly the SWIFT technology, and was further enhanced by the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) introduced to achieve settlement of same day payment under any circumstance. These were expected to increase the efficiency of intra-European cross-border payments and ensure the smooth conduct of monetary policy in the EMU.

Implications for the Money Market

The introduction of the euro integrated the inter-bank markets, increased the size and reduced costs associated with different inter-bank markets. Under the same monetary policy for all institutions, the money market in Europe became the second largest market following that of the United States. Furthermore, the variety of money market securities and products that now exist further deepened the EMU money market. These products and securities were reconciled among banks through the instrumentality of the ECU Banking Association (EBA), renamed Euro Banking Association, which represents the institution for banks' clearing system. The existing interest rates were realigned as the strong economies with low interest rates exerted considerable influence on the interest rates structure, thus reducing interest rates to converge on Euribor (European Inter-bank Offer Rate).

Implications for the Capital Market

The immediate implication for the capital market was the conversion of the existing share prices into euro, while new shares are being quoted in euro. In effect, the existing stock exchanges maintained their identities within the European capital market. However, an European-wide capital market competition certainly brought about the harmonization of market conventions, which not only ensured efficiency and market deepening, but also led to the consolidation or mergers of some of the 39 existing stock exchanges. Besides, the elimination of exchange rate risks, declining costs of trading and settlement, as well as low inflation rate, attracted capital inflow, thus, enlarging the European capital market which competes favourably with the New York and Tokyo stock exchanges.

Implications for the Foreign Exchange Market

The introduction of the euro and the withdrawal of the old national currencies had significant impact on the foreign exchange market. First, costs associated with differences in exchange rates were eliminated; second, exchange rate risks which were associated with the fluctuations in exchange rates of national currencies were also removed. These savings influenced the reduction of prices in member countries. Foreign exchange transactions and record-keeping are more simplified in the euro zone as all member countries are dealing with a single currency, the euro. The prospects of well developed and competitive money and foreign exchange markets further promoted and deepened the activities of the derivatives market.

Implications for Reserves Management

The euro is not only floating against other international currencies (dollar, Yen, etc), but also pegged against the currencies of the derogation countries (non-EMU members). In the light of these, the ECB needs foreign reserves backing for the effective management of the euro in the foreign exchange market to achieve the objectives of monetary policy. Consequently, national central banks had to transfer some of their reserves holdings to the ECB to facilitate the discharge of its mandates. The percentage contribution by member countries was arrived at through the estimation of their respective reserves/imports ratios. This estimation provided the initial required reserves needed for the EMU project, which was proportional to each member's national reserves.

Implications for Policy Formulation and Implementation

In order to lay a solid economic foundation, the EMU countries strengthened their economic base through a package of convergence criteria implemented by all countries. These were stringent economic measures designed to smoothen all countries' economies across board, preparatory for the introduction of the euro and, thus, the conduct of monetary policy. To achieve them, the countries had to undertake a number of economic reforms, which included government budget rationalization. Also, they had to surrender their national powers to the ECB in the design and implementation of monetary and exchange rate policies. These portend serious policy implications to national governments in some respects. For instance, if a government has every justifiable reason to run a budget deficit, it does not control the monetary instruments to complement its efforts. Besides, attempt at borrowing could lead to higher interest rate for other countries.

Implications for the CFA Franc Countries

France and its colonies had since the 1930s maintained a monetary cooperation arrangement which metamorphosed into the introduction of a common currency, the CFA franc in 1948. The CFA franc which is issued separately by both the Western African Economic Monetary Union (UEMOA) and Central African Economic and Monetary Union (CEMAC) was pegged at a fixed parity against the French franc; this implicitly indicated a fixed exchange rate regime for the two monetary unions existing in the CFA zone. The agreed fixed exchange rate can be adjusted only if some adverse economic conditions exist and a mutual agreement for an adjustment is reached between the colonies and France. France also provides a guarantee for the CFA franc, thus, conferring on it the status of a convertible currency (Hadjimichael and Galy, 1977). However, the replacement of the French franc for the euro to which the CFA franc was pegged, has some important implications for France and its colonies. Specifically, what happens to the peg and the guarantee of France? Will the EMU countries accept these arrangements between France and its colonies? The ERM II arrangement is designed to facilitate currency cooperation between the EMU and the derogation countries. Besides, the EMU provisions allow for the negotiation of any currency arrangement with a country or group of countries. In these regards, the EMU can accommodate the CFA countries on terms and conditions agreed by both parties. Indeed, the CFA zone countries are willing to maintain the peg and France guarantee of the convertibility status of the CFA franc. Maintaining the peg to the euro does not constitute any problem as any adjustment in the fixed rate was based on the rate at which the French franc had been converted into the euro.

However, the area of problem is guaranteeing the convertibility of the CFA franc, as this may have some implications on France and the EMU countries. The guarantee arrangement is supported by France's Treasury rather than its Central Bank. In other words, under a tight budgetary condition, France may have to borrow from the domestic economy to meet euro obligations of its colonies. This could have adverse effect on domestic interest rate and, thus, interest rate management by the ECB. However, as long as the above condition does not exist and France meets the financial requirements of its colonies, the replacement of French franc with euro has little or no implications on the EMU.

In summary, so long as EMU supports currency cooperation arrangement, and the replacement of French franc with euro has no adverse implications, coupled with the fact that the monetary unions in the CFA zone maintain 65 per cent of their reserves in the French Treasury, France and her colonies have continued to wax stronger in sustaining the currency cooperation agreements.

V Ecowas Monetary Integration Efforts and the Lessons from the EU Experience

V.1 Historical Evolution of the Economic Community of West African States

The processes that were undertaken to achieve the EMU are indeed very instructive. It is worthy of note that it took the European countries 13 years (1957-1970) to initiate the need to advance further into a monetary union following the implementation of a common market. Thereafter, Europe attained the EMU in 29 years (1970-1999); however, if we count from 1957 when the idea was mooted and the processes commenced, then it took Europe 42 years (1957-1999) to achieve the EMU.

In the West African sub-region, the Economic Community of West African States (ECOWAS) was established on May 28, 1975. Sixteen (16) countries, namely, Benin, Burkina Faso, Cape Verde, Cote d'Ivoire, The Gambia, Liberia, Guinea Bissau, Guinea, Ghana, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone and Togo signed the membership of ECOWAS. Following the withdrawal of Mauritania in December 2000, the membership dropped to fifteen (15). The major objective of ECOWAS is to establish a common market and create a monetary union.

Both the common market and the need for a monetary union commenced concurrently in 1975. The establishment of the West African Clearing House (WACH) in 1975 was aimed at promoting some degree of monetary co-operation. In other words, it has taken ECOWAS 30 years in pursuing the ideals of a monetary union. As against the EU experience, the ECOWAS integration process inadvertently commenced simultaneously with a limited degree of monetary union (monetary co-operation programme). However, the formal move for the formation of a monetary union was agreed in May 1983, which led to the reinforcement of the existing monetary co-operation programme into a comprehensive ECOWAS Monetary Co-operation Programme (EMCP) in July, 1987. The formation of the EMCP was preceded by the works of a study group, commissioned by the Committee of Governors of Central Banks, aimed at proposing in concrete terms, the methodology for achieving a monetary union. The report of the study group and the implications thereof, which were submitted in 1984, proposed a number of measures for the establishment of a common currency and, hence, a monetary union. Thereafter, a supplementary study aimed at articulating the various adjustment issues, such as fiscal, monetary, reserves and currency convertibility, which should be undertaken by member states, was also commissioned. This report which was submitted in 1986, proposed a five-year transitional period for the attainment of a single monetary zone by 1992.

In 1987, the ECOWAS Heads of State approved the EMCP, but opted for a gradual and phased approach to a monetary union. Consequently, the EMCP was phased into short, medium and long term programmes for the implementation of reforms and adjustment issues towards achieving a single currency by 2000. The short term programme which had a time frame of 1991-1994, was aimed at strengthening and improving the operational efficiency of the WACH through measures which included, the settlement of WACH trade arrears, introduction of new payment instruments (ECOWAS Traveller's cheque and Bills of Exchange), establishment of a credit guarantee fund, the transformation of WACH into a specialized monetary agency (which is now known as the West African Monetary Agency (WAMA) and the removal of non-tariff barriers(Obaseki 2001). These measures were introduced to boost the capacity and thus the operational capabilities of the WACH.

Furthermore, the medium term programme which had a time frame of 1994-1997, was intended to achieve regional currency convertibility and market-based exchange rates. This also included the intensification of the complete implementation of the trade liberalization measures, and the implementation of the monetary, fiscal and external adjustment measures. The long term programme envisaged that, between 1997-2000 time frame, all the adjustment issues for meeting the convergence criteria, which were necessary for the introduction of a single currency for the sub-region, would have been completed. However, unfortunately, the EMCP programme of actions was not realized by the terminal date of 2000. Thus, the terminal date was revised to 2005, while members were expected to expedite actions and implement speedily, all outstanding measures for the establishment of a common bank (West African Central Bank) and the introduction of a common currency to facilitate intra-regional trade and the conduct of a common monetary policy.

V.2 Institutional Developments of the ECOWAS

The institutions to achieve the objective of ECOWAS are the Authority of Heads of State and Government, the Council of Ministers; the Parliament; the Court of Justice; the Convergence Council; the Committee of Governors of Central Banks; the Technical Monitoring Committee, the Joint Secretariat of WAMA and the ECOWAS Executive Secretariat; National Coordinating Committees (NCC); the Executive Secretariat; and specialized institutions such as the West African Clearing House (WACH), transformed into the West African Monetary Agency (WAMA). Other specialized institutions are the ECOWAS Bank for Investment and Development Group and the West African Health Organisation; the West African Institute for Financial and Economic Management (WAIFEM) and the West African Bankers' Association (WABA).

V.2.1 Political Institutions

The Authority of Heads of State and Government

The highest ruling body that makes decisions on policies, programmes, projects and critical issues affecting the development of ECOWAS regional integration.

The Council of Ministers

Deliberates to fine-tune and presents policies, programmes and projects for the approval of the Authority of Heads of State and Government and also takes responsibility for ensuring that policies, programmes and projects are developed to achieve the objectives of ECOWAS.

ECOWAS Parliament: Enacts laws for governing the operations of the Community.

ECOWAS Court of Justice: It adjudicates cases between and among member states.

ECOWAS Executive Secretariat: Prepares and implements the decisions of the Authority of Heads of States and Government, and also the regulations of the Council of Ministers.

V.2.2 Technical Institutions

The Convergence Council

The Council comprises Ministers of Finance and Governors of Central Banks of member state and is empowered to conduct multilateral surveillance of the convergence criteria of member states. The Convergence Council reports to the Authority of Heads of State and Government.

Committee of Governors of Central Banks

They direct the technical committee of experts on issues to facilitate the implementation of decisions and overall development of monetary integration. They are directly responsible to the Convergence Council and the Council of Ministers.

Technical Monitoring Committee

The Committee, which consist of representatives of the Ministers of Finance and Directors of Research of central banks of member states, shall monitor the convergence process of member states and supervise the work carried out by WAMA, ECOWAS Executive Secretariat and the National Coordinating Committees on the implementation of the convergence programme. The Committee shall prepare progress reports for the Convergence Council.

Joint Secretariat (WAMA and ECOWAS Executive Secretariat)

The Joint Secretariat prepares meetings of the Technical Monitoring Committee and the Convergence Council on multilateral surveillance mechanism database and prepares half yearly progress reports to the Technical Monitoring Committee and the Convergence Council.

National Coordinating Committees (NCC)

The NCC shall assist WAMA and the ECOWAS Executive Secretariat in the collection, processing and analysis of data on economic policies and the performance of the convergence criteria. The NCC shall forward the report of its activities to the Executive Secretariat on quarterly basis. Indeed, the Convergence Council, the Committee of Governors of Central Banks, Technical Monitoring Committee and the

NCC Constitute the institutions for regional surveillance mechanism for the purpose of coordinating national economic policies to achieve the convergence of national economies.

V.2.3 Specialized institutions

The West African Clearing House (WACH)

This was established on June 25, 1975 to serve as a clearing house for the settlement of payments made for goods and services, using local currencies of member states. It commenced operations in July 1976 in Freetown Sierra Leone, but inability to promote and also achieve the major objective of monetary cooperation resulted in its transformation into the West African Monetary Agency (WAMA) on August 8, 1996.

The West African Monetary Agency (WAMA)

To achieve the mandate of promoting monetary cooperation, WAMA has the expanded responsibility or objective of promoting trade liberalization, harmonizing fiscal and monetary policies, managing exchange rate system and ECOWAS Travellers' Cheque system, and providing multilateral surveillance mechanism to achieve monetary cooperation and, thus, monetary union.

ECOWAS Bank for Investment and Development Group (EBID)

The EBID which comprises two subsidiaries, namely **the ECOWAS Regional Investment Bank (ERIB)** for private sector financing and **the ECOWAS Regional Development Fund (ERDF)** for public sector financing, metamorphosed from ECOWAS Fund for Cooperation, Compensation and Development (ECOWAS Fund). The failure of ECOWAS Fund to achieve the objectives of financing the execution of development projects, providing grants for feasibility studies and guarantees for foreign investments, facilitating the mobilization of internal and external resources for member states and providing compensation to member states which suffer losses as a result of the implementation of the integration policy, contributed to the transformation into EBID. However, the Fund's problems were attributed largely to the inability to function as a international financial institution to cope with the volume of activities in the ECOWAS sub-region, poor institutional capacity owing to staff quota system, lack of corporate culture and managerial expertise, low financial resource mobilization and limited project execution (EBID Group, 2005). Thus, the two subsidiaries would therefore mobilize for the Community both internal and external financial resources for financing both private and public sectors' projects and promote the development of the sub-region.

West African Institute for Financial and Economic Management (WAIFEM): It is set up to build capacity on economic and financial management for member states.

West African Bankers' Association (WABA): An umbrella association for bankers in the subregion to promote their activities.

West African Health Organisation (WAHO): The organization promotes matters on health, especially HIV/AIDS, malaria, etc.

Special Technical Commissions

There are eight commissions which prepare Community programmes and projects and coordinate their implementation after approval. These are Food; Industry, Science & Technology and Energy; Environment and National Resources; Transport, Communication and Tourism; Trade, Customs, Taxation, Statistics, Money and Payments; Political, Judicial & Legal, Regional Security and Immigration Affairs; Human Resources, Information, Social and Cultural Affairs; and Administration and Finance (EBID) Group, 2005).

V.3 ECOWAS' Programmes and Projects

ECOWAS Trade Liberalization Programme

The ECOWAS trade liberalization Scheme (ETLS) commenced on January 1, 1990. The Scheme aims at developing a customs union for a period of 15 years (Owolabi, 2004). Thus, the ETLS seeks to eliminate customs duties, taxies and other non-tariff barriers to facilitate the free flow of trade in the subregion. The continued existence of different customs declarations and valuation methods, numerous check points on roads and sea ports, lack of transportation and telecommunication networks and non-harmonisation of trade and investment policies have impeded trade in goods and services as well as human and capital mobility. These inadequacies are a reflection of countries unwillingness to implement the ETLS faithfully.

ECOWAS Travellers' Cheque Scheme

To enhance payment mechanism in the sub-region and promote trade, the ECOWAS Travellers' Cheque (ETC) was introduced in 1998 as a settlement instrument. The operations of the ETC have been suspended and efforts are being made to transfer its operations to the private sector. The ETC was denominated in the West African Unit of Account (WAUA) which facilitated the conversion between and among local currencies through cross rates.

ECOWAS Energy and Highway Projects

Two major energy projects are being implemented in the sub-region. These are the **West African Gas Pipeline** and the **Energy Power Pool** projects. The West African Gas Pipeline project (WAGP) is being constructed by Nigeria and its joint venture partners (Chevron, Texaco and Shell Petroleum Development Company); the Volta River Authority of Ghana; the Sobe Gas of Benin; and the Soto Gas of Togo. The project which is estimated to cost about US$530 million will supply gas from Nigeria to the Republics of Benin, Togo and Ghana (Nwachukwu and Etentuk, 2004). It is envisaged that the West African Gas Pipeline Company (WAGPCO) will in the future extend the pipeline to other West African Countries, thus reducing the cost of energy to consumers in the sub-region. Similarly, arrangements are on-going under the energy power pool to construct and interconnect electricity grid lines throughout the West African sub-region. Another major project that has reached an advanced stage is the construction of the **West African Highway Project** from Nigeria to Senegal. These are intended to provide infrastructural development for the promotion of productive activities in the sub-region.

ECOWAS Common Policies

The Community has approved Common Agricultural Policy (CAP) and Common Industrial Policy (CIP) to provide level playing fields for agricultural and industrial activities across the sub-region.

Regional Security

The Community has implemented a number of peace initiatives, including the peace keeping force called ECOWAS Monitoring Group (ECOMOG). In this regard, the Community has successfully intervened in the wars and crises in Liberia, Sierra Leone, Cote d'Ivoire, Guinea, etc.

V.4 The Fast Track Approach to Integration and the Birth of The West African Monetary Zone (WAMZ)

The difficulties in achieving the ECOWAS monetary integration owed partly to the entrenched dichotomies among the Francophone, Anglophone and Portugese colonies in the sub-region. The Francophone countries have a West African Economic and Monetary Union known as UEMOA, which is regarded as more viable than any other integration arrangement involving other countries in the sub-region. Therefore, its members undermine efforts at achieving the ECOWAS integration. To meet the challenges posed by the Francophone UEMOA, the Anglophone countries and Guinea, which though a Francophone colony but not a member of UEMOA, thought it fit to have their own parallel umbrella union not only to serve as a basis for comparison, but a necessary antidote that would foster an early convergence, fusion and attainment of an ECOWAS-wide monetary union. Consequently, in its meeting held from 20th - 21st December, 1999, popularly known as the Accra declaration, Nigeria and Ghana initiated the Fast Track approach to integration. Since then, the participating countries have risen to six, which include the Gambia, Guinea, Liberia and Sierra Leone; and in December 2000, the West African Monetary Zone (WAMZ) was established as the second monetary zone.

The objective is to facilitate rapid integration of the non-UEMOA countries into a monetary union. The convergence criteria which the six countries must satisfy to form the second monetary union include a single digit inflation rate of 5 per cent, a budget deficit/GDP ratio of 4 per cent, reduction of Central Bank deficit financing to 10 per cent of the previous year's tax revenue and a healthy reserves to imports ratio of 3 to 6 months. These were to be achieved by 2002 and a common currency was to be introduced in 2003 to commence the monetary union. However, the failure to achieve the convergence criteria has led to series of postponements from 2003 to 2004, 2005 and now to December 1, 2009. According to Ashante (2001), the Fast Track group commands about 69 per cent (152 million people) of the population, 66 per cent of the gross domestic product ($52,475 million), 68 per cent of total trade ($29,534 million) and 65 per cent of reserves within the ECOWAS group. Thus, the Fast Track group now represents a formidable arm of the ECOWAS group.

V.4.1 Institutional Developments for the WAMZ

V.4.1.1 Political and Technical Institutions

In the WAMZ group, some of the institutional arrangements discussed under the ECOWAS group are also replicated. **These are the Authority of Heads of State and Government, the Council of Ministers or Forum of Finance Ministers, the Convergence Council, the Committee of Governors of Central Banks, the Technical Committee, Joint Secretariat (WAMI and WAMZ Secretariat) and the National Sensitization Committee (NSC).** The **NSC** is the equivalent of the **ECOWAS NCC**, but it is also mandated to carry out sensitization campaigns in each member state.

Under the WMAZ group, they **constituted Expert Working Groups** to tackle specific technical issues. The meetings of the three **Expert Working Groups** deliberated on the WAMZ Work Programme and proposed action plans for the successful implementation of the Work Programme before December 1, 2009, date for monetary union.

Expert Working Group 1: It worked on macroeconomic convergence, statistical harmonization and database development, financial integration, creation of customs union and programmes for promoting regional development and integration.

Expert Working Group 2: It examined the development of zonal payments and settlements systems for cross border transactions, preparation towards the introduction of ECO and the national sensitization programmes.

Expert Working Group 3: It discussed the action plans for the ratification of the WAMZ legal instrument and the activation of the WAMZ institutions such as the West African Central Bank (WACB), the West African Financial and Supervisory Authority (WAFSA), the Stabilization Cooperation Fund (SCF) and the WAMZ Secretariat.

The implementation of these action plans would lead to the achievements of the Real time Gross Settlement (RTGS) System as a payments mechanism, common macroeconomic database, capital account liberalization, regional currency convertibility, harmonization of financial and banking laws, common external tariff, ECOWAS trade liberalization scheme, harmonization of customs and ports procedures, sensitization, currency design and introduction of currency on December 1, 2009. Each policy, programme and project initiated by the expert working group passes through the hierarchy from the Technical Committee, Committee of Governors, and Council of Ministers for fine-turning before presentation to the Authority of Heads of States and Government for approval.

V .4.1.2 Specialized Institutions of the WAMZ

West African Monetary Institute (WAMI)

The Institute which was established in 2001, is saddled with the responsibility of preparing the grounds for and expected to metamorphose into the West African Central Bank (WACB) to conduct monetary and exchange rate policies, manage reserves, provide banking statistics and ensure an efficient payments system when the second monetary zone would have commenced operations. By 2009, the existing monetary unions (UEMOA and WAMZ) are expected to decide on a formal date for a merger to form a single monetary zone with a common currency and central bank for the ECOWAS.

West African Central Bank (WACB)

The Bank with proposal to locate its headquarters in Ghana is expected to commence operations on December 1, 2009. It will be responsible for the conduct of monetary policy for the WAMZ group.

West African Financial Supervisory Authority (WAFSA)

The WAFSA is to be located in Nigeria and will coordinate other activities of central banking such as banking operations, supervision, etc.

Stabilization and Cooperation Fund: The Fund will be used to provide credit facilities for countries in temporary balance of payments crisis.

***WAMZ Secretariat*:** The Secretariat which is being proposed for Guinea will provide administrative functions to facilitate effective implementation and coordination of the WAMZ programmes.

V.5 Comparative Analysis and the EU'S Lessons of Experience for the ECOWAS

The foregoing analysis provides a brief historical background of the ECOWAS efforts at integrating its economies into a monetary union. What follows is a comparative analysis of the EU and ECOWAS integration processes to monetary unions in which the lessons of experience from the EU success story would be drawn to guide the ECOWAS integration. To do these, the analysis would be segmented into different levels of integration.

Political Integration

The integration of nations into a political and economic entity requires enormous political will on the part of the leadership. The will to carry the people along, implement common decisions, open territorial boundaries for citizens of other countries to undertake socio-economic activities and surrender some aspects of their national sovereignty is critical and important if any integration must succeed. This is indeed challenging, as the implementation of common policy measures could contradict a nation's internal political and economic interests. Political integration provides the force which unites, facilitates and generates interest in implementing common policy measures. In the EU experience, France and Germany spearheaded and provided the leadership drive that galvanized and encouraged the leaders of others countries to embrace and promote the ideals of the EU integration. Even when Britain opted out, the leaders of these two countries sacrificed themselves to provide needed political leadership for others to follow and achieve political integration at both national and intra-regional levels.

In the ECOWAS sub-region, most leaders lack the political will and competence to implement their own national economic policy reforms let alone those prescribed at regional level. These are the direct results of poor leadership selection methods that breed frequent crises which are common phenomena in the sub-region. The consequence being the emergence of leaders who lack the political will and commitment, fail to provide the basic needs of the people, but in perpetual conflict and crises with the followership and pay lip service rhetorically to the ideals of a monetary union. Furthermore, the strong tie of countries in the sub-region to their colonial roots (Francophone, Anglophone and Portuguese territories) has tended to fractionalize countries into these dichotomies, leaving behind a political vacuum that is inimical to political integration.

Social Integration

Even if the integrating countries have the political will and provide the leadership required for a well-focused integration process, their ability or inability to carry the people along would have profound effect on the success of the integration programmes. In this regard, the enlightenment and full participation of citizens of the integrating countries are basic requirements for eliciting their support, and gain their confidence in the integration process. Thus, social integration of the people involves massive media enlightenment campaigns designed not only for sensitizing people on the programmes of integration, but also for drawing attention on the need for integration and the various benefits derivable in order to gain their total support for the programmes. This is extremely weak in ECOWAS countries, particularly the WAMZ countries. The mobilization exercise should embrace people of all professions, including market women, trade unions, business associations and the academia. The EMU countries had this experience which fostered support for the integration process and provided the basis for articulating and resolving some fears and social concerns. To allay the fears of minorities, the EU distributed institutions, infrastructural facilities, projects and development programmes in an even and equitable manner. Also, the location and staffing of the institutions and sectoral commissions were fairly distributed to encouraged relatively weaker nations. For instance, the European Investment Bank is cited in Italy, the structural funds (consisting of regional, social and agricultural guidance funds) are located in Spain and the Integrated Mediterranean Programmes which were aimed at galvanizing support for integration were directed at depressed areas of Europe, including Southern France, Greece, Spain and Portugal.

Institutional Integration

The importance of institutional support for a successful implementation of any programme cannot be over-emphasized. Indeed, institutions are the veritable medium for decision-making, policy and programme implementation, monitoring, evaluation and coordination. The significance of institutions and programmes for achieving the lofty objectives of the EU and EMU informed the need for the systematic discussions on the various institutions and programmes in parts 2 and 3 of this paper, respectively. Besides, the creation of an enabling environment for facilitating programmes implementation within and among countries are also products of institutions.

In the ECOWAS sub-region, and particularly the WAMZ zone, institutional requirements and capacity for a monetary union are being established, while existing ones are also undergoing reforms. The major political institutions for overall integration coordination in ECOWAS are, Authority of Heads of State and Government (the Council in EU), ECOWAS Parliament (the Assembly in EU), Council of Ministers, Convergence Council, Committee of Governors and ECOWAS Secretariat (play the role of Commission in EU) and ECOWAS Court of Justice (Court of Justice in EU). In the EU, the Commission through Sectoral Commissioners propose policies, programmes and projects for the ratification of the Council, they are, therefore, the heart beat of the integration process. In ECOWAS, the Technical Committee, Special Technical Commission, export working groups play the role of Sectoral Commission in the EU. However, if the Authority of Heads of State and Government/ Council of Ministers in ECOWAS lack the political will, commitment and drive, which their EU counterparts had and still have, then the integration process in ECOWAS will remain illusive. Furthermore, other important specialized institutions such as EMI, ESCB, ECB and EBA provided technical or specialized functions to facilitate the integration process. The counterparts of these specialized institutions in ECOWAS are WAMI/WAMA (EMI in EU), the West African Financial Supervisory Authority (WAFSA) which is ESCB in EU) proposed for Nigeria and the West African Central Bank (WACB, which is ECB in EU) proposed for Ghana are still in the process of being established. Apart from WAMI which is already functional, the WAFSA and WACB will commence operations only at the threshold of WAMZ/ECOWAS becoming a monetary union. The basic differences between the EU institutions and their counterparts in ECOWAS are that ECOWAS institutions suffer from lack of commitment, inadequate funding and staffing, thus becoming glorified institutions. Nevertheless, it would be merely wishful to think that WAMI alone can bring about a monetary union. Indeed, WAMI only provides technical guides and relies entirely on sovereign governments on which it has no statutory powers to enforce compliance to perform. Furthermore, as in the EU arrangement, each national central bank retains its independence to perform other operational aspects of central banking such as money market operations, funds transfer, issuance of banknotes, management of reserves, lender of last resort, prudential supervision, etc, which are distinct from the conduct of monetary policy that would be ceded to the WACB when it commences operations in December 2009. Furthermore, the national central banks will form the WAFSA as the central body for the coordination of their operational functions which will provide inputs for feeding the WACB. Therefore, as the EU model indicates, the existence of the proposed WACB does not extinguish or eliminate the role of national central banks, rather the arrangement still retains a decentralized central banking structure.

It is worthy of note to mention here that the system of appointing adhoc committees or expert working groups to tackle or handle policies, programmes and projects for regional development in the WAMZ should be replaced with permanent Sectoral Commissions or Sectoral Departments that could be held accountable for developments in their respective sectors. In this regard, such Sectoral Commissioners or departments will handle matters on common banking supervision, payments and settlement system, transportation, communications, trade, agriculture, industry, etc.

Market Integration

One of the fundamental objectives of every economic integration is the achievement of a single large market. National markets, which are usually inaccessible, owing to the existence of many barriers which are created to meet the economic, social and political interests and other exigencies of countries, are opened up through market integration. The process requires the removal of all barriers that are both tariff and non-tariff in nature, to facilitate trade in goods and services, capital and labour mobility, as well as promote investment and production. The larger the size of the market, the greater the level of competition and industrial output resulting from large scale production. The EU achieved the removal of tariffs in the 1960s, but non-tariff barriers were eliminated in the late 1980s when the "Single European Act" was introduced in 1986. The Schengen Agreement of 1990 was a follow-up for the elimination of any form of border check. In the ECOWAS, the trade liberalization scheme has not been fully implemented by many countries. There are still many trade restrictions, border and road checks, and other corrupt practices by immigration, customs and other security personnel which militate against market integration.

Financial Integration

A well-developed financial market, consisting of vibrant money and capital markets, is essential for the promotion of trade, output growth and overall economic development. Fortunately, the European financial markets in London, Frankfurt, Paris, Brussels, etc are highly developed and competitive, with currencies that were internationally and regionally convertible before the introduction of the euro. The computerization of financial services and the introduction of a variety of financial products, internet and e-mail have improved efficiency and service delivery. With the introduction of the euro, cross-border funds transfer is facilitated through the use of the Trans-European Automated Real-Time Gross Settlement Express Transfer (TARGET) which automatically debits and credits parties to all transactions across Europe on real time basis.

In this area, the ECOWAS countries have poor money and capital markets, which are limited by non-convertible currencies, inefficient and outdated payments and settlement system, weak and absence of uniform banking supervision and capital market conventions. These are further constrained by poor power supply, telecommunications and computer facilities, all of which constitute barriers to trade.

Infrastructural Integration

Infrastructure play important role in promoting intra-regional trade and development. The conscious and collective efforts aimed at standardizing the development of roads, rail, air and water transportation, energy, water supply and telecommunications across Europe have aided trade and economic development. They are indeed critical for rapid trade, financial and production integration in

Europe. On the other hand, poor power supply, bad roads, poor telecommunications, lack of ships and planes for water and air transportation, lack of trains for rail transportation among the ECOWAS countries are serious impediments to effective integration.

Production Integration

This involves the harmonization and standardization of all production activities in a region. This led to the rationalization of industries in Europe and the introduction of common sectoral policies such as Common Agricultural Policy (CAP), Common Industrial Policy (CIP), Common Iron and Steel Policy under the European Coal and Steel Community, etc and supported by research and development institutions and programmes such as RACE, and ARAINE, BRITE, EURATOM, etc, for satellite, computer and energy, respectfully. The rationalization and standardization of production through common sectoral policies and supported by research and development institutions and programmes are issues which have not been sufficiently addressed in the ECOWAS.

Economic Integration

The processes of institutional, market, financial, infrastructural and production integrations are the forerunners which lay a solid bedrock of economic integration. In the case of the EU, these are further supported by specialized funds such as the European Regional Development Fund, European Agricultural Guidance and Guarantee Fund, European Investment Bank, European Social Fund, etc, all of which promote economic growth and development, thus, facilitating economic integration. However, the transformation into an economic integration takes place when the economies of member countries are further harmonized into a large economy through a set of convergence criteria. The criteria which were contained in the Maastricht treaty of 1992 were implemented by member countries. The failure in achieving institutional, social, market, financial and production integration, which serve as basic foundations, has constituted a serious constraint to economic integration in the ECOWAS. Consequently, meeting the set convergence criteria by member countries has been a herculean task. Indeed, there have been no consistent efforts toward realizing the convergence criteria. The performances of countries have fluctuated remarkably from one year to another; even to the extent that the record of achievement of two criteria in a country for a particular year may be reversed in the following year, indicating worsening conditions.

Monetary Integration

In addition to the requirements for economic integration, the introduction of a common currency which would necessitate the withdrawal of national currencies constitutes a monetary integration or monetary union. At this level of integration, the conduct of monetary policy, in which the direction of inflation, interest and exchange rates are critical performance indicators, is vested in a supranational central bank, while the national central banks perform the functions of banking operations, supervision, etc. In the case of the European Union, the introduction of the euro and the establishment of the European Central Bank marked the commencement of the European Monetary Union. In the ECOWAS sub-region, the planned introduction of a single currency and, thus, a single monetary zone in 2005 was evidently not feasible, largely because of the poor foundation of economic parameters on which to advance to monetary integration.

Sequencing of Integration Process

The various layers or structure of integration discussed above is a deliberate effort to show generally a sequence which a monetary integration process should take. The political decision of governments to form a monetary union can only be realized when the people are mobilized and the right institutions created to drive the integration process. Thus, political, social and institutional integration provide adequate capacity for integration.

Following the provision of adequate capacity, we can then proceed to lay the critical foundation for success. First and foremost, is to achieve market integration. The EU spent about three decades to achieve a common market. A common market is the bedrock which inevitably stimulates and encourages financial and infrastructure integration. The combined effects of these accelerate production integration; because, the size or extent of market determines the overall level of production. If these which collectively provide a critical foundation for a successful monetary integration are non-existent, then calling for convergence criteria and introduction of a single currency are like placing the cart before the horse; and certainly as this proverb goes, a house that is built on a sandy or shaky foundation does not stand. The poor countries' performances with respect to the convergence criteria reveal or reflect the weak foundation on which ECOWAS or WAMZ integration process stands. ECOWAS or WAMZ member countries dissipate energy integrating in all fronts without a clear focus or a direction of integration.

It is only when a solid foundation has been laid that we can commence the application of harmonization of policies. These include the implementation of convergence criteria policy for economic integration and introduction of a common currency to commence monetary policy.

VI Policy Recommendations for the Ecowas Subregion

Arising from the foregoing analysis are policy recommendations to address the problems undermining the achievement of ECOWAS monetary union.

A major policy thrust emerging from the analysis above is the need for the leadership of every member country to provide the political will and commitment needed for the implementation of ECOWAS policies and programmes for integrating the subregion. Furthermore, the expected merger of the two unions will require the concerted efforts of countries such as Nigeria, Senegal, Ghana and Benin Republic to provide the needed leadership and total political commitment for other countries to follow.

An appropriate framework for mobilizing the people who are the agents for achieving economic reforms and integration is absolutely necessary. It may be difficult to mobilize hungry people. Therefore, the ECOWAS governments should provide jobs, affordable housing, improved healthcare services, education and water supply under various policies and programmes in order to form the basis for effective social integration to attract the people's support, confidence and participation. The sensitization programme should include seminars/workshops, rallies, posters, bill boards, banners, radio/television jingles, and radio/television discussions.

The right institutions should not only be created but should be empowered in order to make them effective in driving the integration efforts. Therefore, WAMA/WAMI, WACB, WAFSA, WABA should be well-funded and staffed to provide the technical support for nurturing the ECOWAS integration. The setting up of permanent sectoral commissions or departments to facilitate the speed of policy proposal, implementation and supervision, evaluation and reviews is extremely important for the WAMZ group, rather than addressing sectoral issues on an adhoc expert committee basis.

To make the sub-region market accessible as the bedrock of integration, ECOWAS needs to review the trade liberalization policy as was the case with the EU's Single Act. It should effectively eliminate all tariff and non-tariff barriers, enforce the protocol of free movement of goods, capital and persons across countries. It should stipulate appropriate penalties or sanctions for non-compliance through a simple majority voting.

There is need for the harmonization of financial market (money and capital) conventions and best practices including banking consolidation and supervision, efficient payments system, computerization, standard telecommunications facilities such as the Real Time Gross Settlement (RTGS) System that is being implemented by some ECOWAS countries and should be complemented by internet, e-mail, telex and fax machines services to facilitate same time cross border transactions and settlements.

The provision of adequate infrastructure promotes trade and rapid integration. Therefore, member countries should place priority in the provision of standardized strategic roads, rail, air and water transportation; general telecommunication facilities as well as energy and water supplies, all of which are basic requirements for successful integration. In this connection, a major ECOWAS road being constructed from Nigeria through the sub-region to Senegal for the free flow of vehicular movement and the West African Gas Pipeline/West African Energy Power Pool projects to provide energy are indeed commendable. Similar steps should be taken to provide water, air and rail transportation.

To facilitate production integration, ECOWAS should promote common agricultural, industrial, research and development policies as well as regional development programmes and projects. In these contexts, the Common Agricultural Policy (CAP) and Common Industrial Policy (CIP) already approved should be seen to be implemented by all countries to ensure standards for the sub-region.

The effective application of appropriate mix of internal monetary, fiscal, exchange rate and debt management policies by member countries to promote economic development and achieve the convergence criteria set for the WAMZ area is crucial for attaining economic integration of member states.

The existing economic structure and macroeconomic indicators in ECOWAS are still weak, and should be strengthened to provide a basis for the introduction of a single currency for the commencement of a monetary union. Indeed, these limitations informed the postponement of the introduction of the ECO currency in the WAMZ area to 2009.

With respect to the sequencing of integration, ECOWAS/WAMZ should place more emphasis on achieving the requirements of a common market as recommended in (iv). This is a prerequisite and necessary foundation which determines the success of other higher levels of integration.

VII Summary and Conclusion

The paper discussed the historical evolution of the EEC, now known as the EU, which progressed from a free trade area, customs union and to a common market. At this stage, the vision of the founding fathers was to transit into a monetary union, comprising a conglomeration of the national economies of Europe into a monolithic entity (the EU) which was earlier suggested as the United States of Europe. By the mid 1980s, the Single Act agreement removed all the barriers militating against the attainment of a common market, and prepared the stage for advancement into an economic union. Thus, the 1992 Maastricht Treaty, which specified the convergence criteria for all participating countries, was a remarkable advancement into an economic union. By 1998, when the economies of most of the participating countries were adjudged to have met all the convergence criteria and certified as an economic union, the stage was set for the most memorable event of the march towards attaining a monetary union. Following the design and adoption of a single currency and the necessary preparations, the EU launched the European Monetary Union on January 1, 1999 when the single currency, the euro, was introduced.

The introduction of the euro had some significant implications for the entire region, these included currency, money market, capital market, foreign exchange market and reserves management as well as implications for the UEMOA Francophone countries. These countries' monetary union is anchored on the CFA franc with a fixed parity to the former French franc, and now the euro. The relevance of these implications in the context of an ECOWAS monetary union cannot be overemphasized; adequate preparations should, therefore, be made to provide a basis for ECOWAS effective integration. The EU's lessons of experience indicated that the integration processes leading to the achievement of the EMU, was a great feat that was well planned and implemented progressively from one level to the other. Political integration was necessary to provide the leadership will and drive, which was reinforced by the appropriate social integration aimed at sensitizing and mobilizing the people to realize the desired objectives. Institutional integration was the pivot for directing the course of integration and also for realizing market, financial, infrastructural, production, economic and monetary integration.

These processes must be given adequate consideration, articulated properly, well sequenced and focused to achieve the ECOWAS' objectives if it desires to spend fewer years to attain its monetary union.

Appendix

Table 1: EMU Convergence Criteria

	Inflation (%)					Long Term Interest Rate (%)				Government Balance (% GDP)			
	1996*	1995	1996	1997	1998	1995	1996	1997	1998	1995	1996	1997	1998
EMU Reference Value	2.6	3	2.3	2.8	3.3	9.7	9.1	8.4	7.9	-3.0	-3.0	-3.0	-3.0
Belgium	1.8	1.6	2.5	2.3	2.2	7.5	6.5	6.0	5.9	-4.1	-3.3	-3.0	-3.0
Denmark	1.9	2.1	2.1	2.2	2.5	8.3	7.2	6.3	6.4	-1.6	-1.5	0.7	0.5
Germany	1.2	1.8	1.4	1.6	1.8	6.8	6.2	5.9	5.9	-3.5	-3.9	-3.2	-3.2
Greece	7.9	9.0	8.2	5.0	4.0	17.4	14.8	11.3	10.0	-9.1	-7.6	-5.7	-5.0
Spain	3.6	4.7	3.6	2.3	2.5	11.3	8.7	6.8	6.3	-6.6	-4.4	-3.3	-2.9
France	2.1	1.8	2.0	1.7	1.9	7.5	6.3	5.8	5.9	-4.8	-4.1	-3.2	-3.0
Ireland	na	2.5	1.7	1.7	2.0	8.3	7.3	6.4	5.9	-2.4	-1.5	-1.1	-0.5
Italy	4.0	5.4	3.8	2.0	2.4	12.2	9.4	7.3	6.6	-7.1	-6.8	-3.8	-3.5
Luxembourg	1.2	1.9	1.4	1.8	2.0	7.6	6.5	6.0	5.9	1.5	1.5	0.8	0.5
Netherlands	1.5	2.0	2.1	2.3	2.2	6.9	6.1	5.9	5.9	-4.0	-2.2	-2	-1.7
Austria	1.8	2.2	1.9	1.7	1.9	7.1	6.3	5.9	5.9	-5.9	-3.9	-3.0	-3.0
Portugal	2.9	4.1	3.1	2.7	2.7	11.4	8.6	6.8	6.4	-5.1	-4.0	-3.1	-2.9
Finland	1.5	1.0	0.6	1.2	1.8	8.8	7.0	6.3	6	-5.6	-2.9	-1.7	-0.7
Sweden	0.8	2.5	0.5	1.0	2.0	10.3	8.0	6.9	6.9	-8.1	-3.5	-2.5	-1.0
United Kingdom	na	2.8	3.0	2.7	3.0	8.2	7.8	7.3	7.0	-5.6	-4.4	-2.8	-2.7

	Government Debt (%of GDP)				E M S	Criteria Met			
	1995	1996	1997	1998		1995	1996	1997	1998
EMU Reference Value	60	60	60	60	E M S				
Belgium	134	131	128	125	YES	2	1	3	3
Denmark	72	71	67	65	YES	3	4	4	4
Germany	58	60	61	62	YES	3	3	2	2
Greece	112	109	105	102	NO	0	0	0	0
Spain	66	68	68	67	YES	0	1	2	3
France	53	55	57	58	YES	3	3	3	4
Ireland	86	80	76	71	YES	4	4	4	4
Italy	124	123	121	121	NO	0	0	2	2
Luxembourg	6	5	4	4	YES	4	4	4	4
Netherlands	80	78	75	72	YES	2	4	4	4
Austria	69	71	69	69	YES	2	4	4	4
Portugal	72	70	68	67	YES	2	2	3	3
Finland	60	61	61	60	YES	0	1	2	3
Sweden	79	78	77	76	NO	1	2	3	3
United Kingdom	54	56	57	57	NO	3	2	4	4

Harmonized indices of consumer prices. *Source: ING Eurovied*

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