Importance of the Euro in West Africa[#]

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Introduction

The EU remains the most important trade partner for Africa and the EU also plays an important role for the economic integration inside Africa. In the case of West Africa, the first economically integrated zone, the Franc Zone (FZ), was created through a French initiative after the end of World War II. The objective from the French side was to secure the economic stability in its colonial countries in West and Central Africa. The first step was to introduce a common currency (the CFA Franc) in West Africa (Benin, Burkina Faso, Cote d'Ivory, Guinea-Bissau, Mali, Niger, Senegal and Togo) and in Central Africa (Cameroon, Central Africa, Republic of the Congo, Gabon, Equatorial Guinea, Chad) respectively and to create the FZ comprising of these two regions. The second step was to peg the CFA Franc to the French Franc (FRF) so that these particular African economies would not be affected by the devaluation of the FRF. When the Euro was introduced in Europe and in France in 1999, the CFA franc instead became pegged to the Euro.

This paper is organised along five chapters. The first chapter describes the historical preconditions for establishing both the FZ and the West African Economic and Monetary Union (WAEMU). It characterises the conditions for introducing the FZ and explains the advantages of currency pegging. It also shortly informs about the failure of the FZ and the new arrangements that needed to be put in place for improved efficiency of the financial policy between the CFAF countries and France. The second chapter presents the classic and contributing theories of the Optimal Currency Area and discusses various criteria for creating a successful monetary union. Despite the fact that the criteria of an OCA are far from fulfilled, a common currency is already introduced in the WAEMU. The

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second chapter looks at the FZ, analysing the fulfilment of the OCA criteria before and after the establishment of the WAEMU. The third chapter looks at the impact of the pegging of the CFAF to the Euro on the macro-economic stability of the WAEMU member countries. It also tries to compare with the situation when the CFAF was pegged to the FRF. The article uses data elaborated by the IMF together with statistical computing of different studies regarding the trade development, changes in foreign direct investments, productivity and inflation for the WAEMU. Since the development of these indicators is sensitive to price volatility the third chapter also examines the development of different exchange rate indicators. The fourth chapter describes importance of Euro on the regional economic and monetary integration in West Africa. The establishment of the Economic Community of West African States (ECOWAS) founded in 1975 was a result of a boost in regional integration in Africa during the 1970s. As it is characteristic for Africa, the ECOWAS also consists of several sub-regional co-operations - the WAEMU that was created later in 1994 by members of the FZ and the West African Monetary Zone (WAMZ) that was formed in 2000 of the Anglophone countries of the ECOWAS. The WAMZ includes Nigeria with Africa’s largest population and thanks to its large production of petroleum it has after South Africa the second largest impact on the economic development of Sub Saharan Africa. But unlike the WAEMU, the WAMZ has not so far reached the WAEMU’s level of economic harmonisation and this chapter looks at the question whether a monetary union within ECOWAS should be introduced and if the Euro can play any significant role as an example for the ECOWAS further integration. The fourth chapter compares the results of the fiscal and monetary policy of both the WAEMU and the WAMZ. The last, fifth chapter concludes.

1. The Franc Zone

The formal establishment of the Franc Zone (FZ) in 1939 was a political decision by France concerning its colonies in West and Central Africa respectively. The countries were organised into two regional groupings, each with its own single currency. The West African members of the FZ (today Benin, Burkina Faso, Guinea-Bissau, Ivory Coast, Mali, Niger, Senegal, Togo) introduced the CFA franc (Communauté Financière d’Afrique) and the Central African members of the FZ (today Cameroon, Central African Republic, Chad, Republic of the Congo, Equatorial Guinea, Gabon) introduced the CFA franc (Coopération

Financière en Afrique Central). The central banks of both regions maintained the same parity of their CFAF against the French Franc (FRF) and free capital movement between the two regions. In 1948 France pegged the exchange rate between the CFAF and the FRF. The aim was to calm the economic situation in the region while France still represented the region's most significant trade partner. But the weakness of the French franc after World War II and its strong devaluation could damage their economies.

What are the benefits of a fixed exchanged rate? According to theory a fixed exchange rate may help to solve time inconsistency problems (Kydland and Prescott, 1977) i.e. when the decision-maker's preferences change over time. It may also prevent self-fulfilling currency crises (Davies and Vines, 1995). According to Ghosh et al. (1995) and Fielding and Bleaney (1999) research also indicates that countries that have made a realistic commitment to a fixed exchange rate policy do have lower average inflation rates. The currency board (the monetary authority) requires that each member country commits itself to no devaluation. In case of the FZ the exchange rate the parity can only be changed through the unanimous agreement of the member countries together with France. The fixed exchange rate of the CFAF to the FRF was changed only once after 1948, namely in 1994 when the exchange rate was changed from 50 to 100 CFAF for 1 FRF (a sharp devaluation to help African exports). The CFAF was convertible to the FRF. The convertibility was guaranteed by the French Treasury while the two central banks of the FZ had to deposit 65 % of their foreign exchange reserves in their operations accounts at the Banque de France.

Until 1994 the currency pegging within the FZ was not very effective for the economical development of the region. This was partly because the region comprised of very heterogeneous economies with a low diversification of traded commodities and industries together with a low level of intra-regional trade. The fixed exchange rate was also criticised to undermine the region's competitiveness through low prices on the international markets. The strong appreciation of the FRF against the USD automatically led to the appreciation of the CFAF and the CFAF was overvalued by 20 up to 60 % (Dearden, 1999) making it difficult for the region to compete with its products on the world markets. According to Dearden the average yearly GDP growth rate of FZ member states fell from 1.9 % in the 1980s to 0.7 % in the first half of the 1990s. The poor economic performance and the accumulating budget deficit was the reason for the devaluation of the CFAF in 1994. In the same year, the West African members of the FZ created the WAEMU and in 1996 the Central African countries formed the Central African Economic and Monetary Community (CEMAC). The failure of the FZ in terms of delivering economic growth can also be seen as a result of poor governance and lack of common economic policies. This led to the common aim of the WAEMU member states to aim to harmonize monetary and fiscal policies.

2. The Theory of an Optimal Currency Area (OCA)

In order to better understand the effectiveness of the Franc Zone this chapter analyses the theoretical assumptions for an Optimal Currency Area (OCA) according to different theories. It will compare the characteristics of an OCA and compare them with the WAEMU. The definition of an OCA basically characterises conditions for a geographical region in which it would be possible to maximise economic efficiency within the entire region by sharing a single currency. The classical OCA criteria says that two countries or regions would benefit from forming a monetary union if they are characterised by a high similarity of business cycles, have strong trade links, and if they possess an efficient adjustment mechanism that can mitigate the adverse effect of asymmetric shocks. The theory of the OCA was pioneered by Mundell (1961) acknowledging the advantages of a common currency. He also stressed the importance of both inter-regional and inter-industry mobility that suggests that a successful currency area must have a high degree of internal openness that could be measured by the marginal propensity to import or the ratio of tradable to non tradable goods in production or consumption (Mundell 1961, p. 659). McKinnon's criteria for an OCA are highly open economies with the ability to achieve both internal and external balance. "More open economies should maintain internal fixed exchange rates and external exchange rate flexibility". Kenen claims that a diversified national economy will not have to implement changes in trade as often as a national economy dependent on a single product. The less diversified economies may need the exchange rate flexibility. More open economies create together a more diversified economic area that should have fixed exchange rates (Presley – Dennis, 1976, pp. 24-25). Frankel and Rose (1998) open a large debate on the endogenity of the fulfilment of OCA criteria. They presented the argument that closer trade links could lead to business cycle synchronisation and thus increase the symmetry of shocks.

According to traditional points of view, e.g. Krugman (1993), the opposite effect should prevail – international trade increases specialisation, making shocks more asymmetric (Babecký, 2003, s. 4).

In case of the FZ and its member states, they do not have any deeper trade linkages and industrial mobility. The share of WAEMU's intra-trade of its total trade estimates ca 10 % (IMF, 2005). It is partly a consequence of the current level of regional infrastructure, similar composition of export commodities, poor trade diversification and trade orientation towards the rest of the world rather than towards neighbour countries. Mundell's main assumption is not fulfilled since these countries have a low degree of internal openness. The above mentioned McKinnon criteria regarding the fixation of exchange rates are based on the openness of economies and flexible external exchange rates. The importance of the flexibility of the external exchange rate is claimed by Kenen too. But the FZ started as a political project with the co-operation of France. During 1948 – 1994 the CFA Franc was pegged to the FRF and the exchange parity was managed by the French Treasury that guaranteed the CFAF full convertibility via an account called "compte d'opérations". It was a unique budgetary arrangement between the Francophone African states and the French Treasury but not a monetary arrangement with the Bank of France. However, the FZ and the pegging of the regional currency to FRF were criticised for overvaluing the CFA franc resulting in uncompetitive export prices on the international level and accumulating deficits. Notwithstanding the fact that fixed CFAF parity to the FRF could have had a negative impact on the economic performance of FZ member states their government representatives became aware of the weaker regional economic co-operation and the very different development level between member states of the region. The next plans of the FZ members took in consideration the need of further convergence of economies and closer economic co-operation. Inspired by the EU model their goals should be met through the establishment of two monetary unions, each for a specific region. The West Africa created the WAEMU that came into force in 1994 and Central Africa created the CEMAC in 1996. The programme agreed by the WAEMU, the WAEMU's Convergence, Stability, Growth, and Solidarity Pact, was based on similar arrangements as in the EU.

The Pact of Convergence, Stability, Growth, and Solidarity requires annual fiscal balances to be in surplus or in balance, a limitation of the domestic and foreign debt ratio to 70 % of GDP and a reduction of the average annual inflation rate to 3 % per a year. The second criteria requires the ratio of the wage bill to tax revenue under 35 %, the ratio of domestically financed public investments to tax revenue must be minimally 20 %, the ratio of external current account deficit (grants excluded) can not exceed 5 % and the tax-to-GDP ratio must be greater than 17 % (see Tab. 1).

Tab. 1: Convergence criteria of WAEMU and WAMZ

Primary convergence criteria of WAEMU	2006	%
Fiscal balance % nominal GDP	–0.4	> or = 0
Average annual inflation (%)	1.5	< or = 3
Total public debt (%)	55	< or = 70
Secondary convergence criteria of WAEMU	**2006**	**%**
Salaries, Wages (% fiscal budget)	37	> or = 20
Capital expenditure for internal financing (% fiscal budget)	23.8	> or = 20
Fiscal budget (% nominal GDP)	15.9	> or = 17
Current balance excl grants (% nominal GDP)	–3.7	> or = –5
Primary convergence criteria of WAMZ	**2006**	**%**
Budget deficit excl grants (% nominal GDP)	–8.3	< or = 4
Inflation in %	9.8	< or = 5
Budget deficit financed by CBF	1.7	< or = 10
Secondary convergence criteria of WAMZ	**2006**	**%**
Fiscal budget (% nominal GDP)	9	> or = 20
Wage bill (% fiscal budget)	29.5	< or = 35
Public investments (% fiscal budget)	8.4	> or = 20

Source: WAEMU (2006).

Even if OCA standard criteria were not fulfilled from the beginning, the homogeneity of economies within the WAEMU should gradually be guaranteed by establishing the monetary union, achieving the convergence criteria and harmonising fiscal politics. Fulfilling the criteria would contribute to economic convergence of WAEMU's members and a more open homogeneous regional economic community with deeper economic linkages between its members. This would contribute to the internal balanced economic growth and strengthening of the external position and competitiveness of the region. So far, it is not possible to talk about any OCA in case of the WAEMU even if its level of economic convergence is the best among Sub-Saharan Africa (SSA) countries and constitutes a model for other regional economic communities in Africa planning to create their own monetary union.

3. The impact of the Euro on the macro-economic stability of the WAEMU

The creation of the EMU (European Monetary Union) has been a long-term process achieving a higher stage of EU integration. The common currency, the Euro, abolishes currency exchanges in the Eurozone and simplifies the business while minimizing risk of currency fluctuations. The Euro has a growing role as an important international investment and reserve currency and the euro is now the second biggest currency in the world (ECB, 2007). Besides of being used as the exchange and payment currency it is more used in investments. Investors start diversifying their portfolio using this new currency and there are even expectations of increase in the public use of euro as a reserve. But the introduction of the Euro was also important since many countries have pegged their currencies to the Euro. In case of Africa it concerns 14 countries. In 1999 the CFAF became pegged to the Euro at 655.957 CFAF per 1 Euro. The role of France remains important in the CFAF convertibility that is still secured by the French Treasury. A possible endeavor to change the CFAF's exchange parity to Euro has to be unanimously agreed by all WAEMU states and all members of the Eurozone. The potential risks of the CFAF's peg to the Euro were seen in a stronger and volatile development of this European currency (Africa Recovery, 1999). An appreciation of the Euro's REER would mean decreased competitiveness for the FZ. Negative views were expressed with concerns of an international growth of the Euro and its potential to become the strongest currency in the world. According to Asante (1999) the ECOWAS will benefit from spill over effects. He also saw it as a beginning of a stronger economic harmonisation within the ECOWAS that would ensure an earlier fulfilment of convergence criteria and the creation of a common monetary union.

This chapter tries to outline the impact on the macro-economic stability of WAEMU member countries of the pegging of the CFAF to the Euro instead of to the FRF. Data elaborated by the IMF are used together with the statistical computing of different studies. It shows how the WAEMU fulfilled convergence criteria since the introduction of the Euro, it describes the real GDP growth of the WAEMU, the trade developments, changes in foreign direct investments, productivity and inflation. Since the development of these indicators is sensitive to price volatility different exchange rate indicators are evaluated.

Primary convergence criteria

1. The compliance of the WAEMU's fiscal balance criteria is demonstrated in Table 1. After the devaluation in 1994 there was an improvement in a decreasing fiscal deficit. The best performance was in 1996 with a balanced fiscal expenditure. Since 1996 the fiscal deficit has declined but still reaching – 0.4 % of GDP in 2006. It means that member countries were not in compliance (Adedeji – Williams, 2007).

2. The WAEMU has had a long lasting problem of high levels of external public debt. The public external debt has to be kept under 70 % of GDP. Since 1994 when the public debt reached over 100 % of GDP the value has been gradually decreasing. In 2004-2005 the WAEMU members together achieved the stated limit of 70 % GDP (Adedeji – Williams, 2007).

3. From 1994 the inflation rate started to fall and in 1999 reached its lowest level around 0 %. Thanks to fixed exchange rates and the strength of the Euro the inflation in the FZ under the maximum 3 % is one of the strong positive effects of the monetary union (Adedeji – Williams, 2007).

Economic indicators for the WAEMU

The development of the real GDP in the WAEMU has been very volatile. After 1994 the real GDP growth was declining until 2001. After the GDP growth was very volatile again but finally stabilised around 4 % (Table 2). At present the GDP growth of WAEMU member states are lower than the SSA average. The volatility of GDP growth strongly depends on the volatility of the prices of primary commodities. The GDP per capita growth has increased since 2002 but compared to Latin

America, SSA, Emerging Asia and CEMAC the per capita GDP still remain the lowest (Adedeji – Williams, 2007).

Tab. 2: WAEMU's real economic growth

	1997-2001	2002	2003	2004	2005	2006
WAEMU	3,3	1	3,1	2,8	4	3,1

Source: Ramirez – Tsangarides (2007).

When it comes to productivity in the WAEMU the IMF's productivity index during 1980-2005 shows a downward trend. With the exception of 1994-2000 the productivity index has stagnated. This is a very important factor influencing the economic growth for each country. An interesting fact is that the WAEMU region has the lowest level of productivity even in comparison with other SSA countries. The decreasing productivity can have a negative influence on wage increases and finally lead to the depreciation of the REER (Ramirez – Tsangarides, 2007).

The terms of trade affect the REER and in that way the level of wealth. If there are positive externalities of trade that increase the economic performance of a particular country it will contribute to a higher domestic demand. Such a development will assist to a depreciation of the REER. In case of the WAEMU the volatility of trade is too high. Concerning WAEMU's trade development there is a clear evidence of a relatively high level of intra-trade within the region. According to Martijn and Tsangarides (2007) the intraregional trade in WAEMU has marginally increased by ca 1% up to 12%.

The trade relations between the FZ and the EU have been declining both in terms of exports and imports during this period of 1991-1997 (Irving, 1999). A short turn on the FZ's imports happened after the CFAF devaluation to FRF. The imports have been rising until 1996. Almost the same development was seen on FZ's export side. The IMF statistic data from 2007 show total decline in trade balance since 2002 until 2006 reaching –1.7 % GDP and –0.1 % in GDP in 2007.

Africa suffers of a very low share of foreign direct investments (FDI). Poor governance and legal stability together with the current low level of education and economic development are the main obstacles for investors. The WAEMU countries represent small economies with relatively few educated peoples. All other regions get more investment from abroad than Africa gets. While investment contributes to the supply side it is important to be aware of the high import content and its increase in the investment share of GDP so that it doesn't shift spending towards traded goods and contribute to a depreciation of the REER. The low competitiveness of African products and services hamper to prosper from the Euro potential. The statistics doesn't show any difference in FDI shares between the period of the CFAF-peg to FRF and Euro respectively.

REER (Real effective exchange rate)

The REER is calculated by dividing the home country's nominal effective exchange rate (NEER) by an index of the ratio of average foreign prices to home prices. The values of REER may change even if there is no change in the exchange rate. What the indicator tells us is that the value of the real exchange rate is not certain. On the other side it does not give as the answer whether the current rate is the equilibrium. This part analyses the case when the REER is defined as the nominal exchange rate adjusted for price level differences between different countries: WAEMU versus EU or SSA. The volatility of the REER was significant after the CFAF devaluation in 1994 (see Tab. 3). The devaluation made the WAEMU's products more competitive and led to a later appreciation of CFAF during 1999-2006 as a result of the strengthening of the Euro's position as the new international currency.

Tab. 3: Real Effective Exchange Rate (index 1993=100)

	1993	**1994**	**1996**	**1999**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
EU	100	60	76	75	74	73	72	75	74	74
WAEMU	102	55	73	72	68	70	73	75	72	73
Rest of SSA	102	51	66	68	65	75	74	75	65	68

Source: Ramirez – Tsangarides (2007)

The Tab. 3 shows that when the CFAF was pegged to the Euro there was less volatility of the REER. From 2001 there was a slight CFAF appreciation and lower volatility of the REER. The REER values of each member of the WAEMU showed similar trends except for Mali. Since 2001 the REER of all countries was slowly increasing with almost the same misalignments of volatility. Since 2001 the REER volatility of each WAEMU member state is lower than during 1994-2001. Since the volatility of the REER was lower after the Euro was introduced we can claim that the impact of the Euro was more positive than with the FRF when it comes to real exchange rates.

Ramirez G. and Tsangarides C. G. (2007) in their research constructed a unified regional exchange rate (URER) in nominal and real terms (URNEER and URREER) treating each region as an economic unity to measure the volatility of the CFAF in an international comparison. They compared the volatility of international currencies and their results are presented in Tab 4.

Tab. 4: Nominal Effective Exchange Rate (Index 1993=100)

	1993	**1994**	**1996**	**1999**	**2002**	**2003**	**2004**	**2005**	**2006**	**2007**
EU	100	50	50	50	50	50	50	50	50	50
WAEMU	96	50	64	62	69	64	65	70	79	78
Rest of SSA	58	60	60	60	71	79	80	85	102	100

Source: Ramirez – Tsangarides (2007)

After 1994 both tables show the appreciation of the CFAF compared to the rest of the SSA. From 1995-1998 the CFAF depreciated against the rest of SSA. A slight appreciation of the CFAF was seen from 1998 until the CFAF’s peg to the Euro. After 1999 the relation between the currencies of the rest of the SSA and CFAF zone varied until 2005 when a clear CFAF zone appreciation is noticed. In case of the CFAF zone against the EU the CFAF clearly depreciated against the EU in 1997-1998 with a slight CFAF appreciation before the Euro introduction. While the volatility of the Euro region was minimal the CFAF depreciated since 1999 followed by a new appreciation from 2002-2005. Since 2003 the WAEMU’s REER and EU’s REER experienced very low deviations in their volatility to each other. These results could confirm the positive impact of CFAF-peg to the Euro in terms of exchange rate stability. At the other hand a stronger Euro caused CFAF’s appreciation compared to other SSA countries. This moment could have a negative impact on WAEMU's price competitiveness of their primary products.

4. Euro's impact on ECOWAS integration

In the 70ties the process of regional integration started in Africa. It was a process striving to solve Africa's problems of poor competitiveness and to strengthen its position on the international level. The result was a dozen of regional cooperation that appeared on the African continent and started to overlap each other. The West African countries have also expressed their aim to establish regional economic communities. Such a treaty was signed on 28 May 1975 between the West African Francophone countries (current members: Benin, Burkina Faso, Cote d' Ivory, Guinea-Bissau, Mali, Niger, Senegal and Togo) and the Anglophone countries (Gambia, Ghana, Guinea, Nigeria, Sierra Leone, Liberia and Cape Verde). In the same year the treaty to establish the West African Monetary Zone (WAMZ) came into force. This political and economic community, Economic Community of West African States, consists of fifteen members of which only three are non-LDC (Least Developing Countries): Cote d' Ivory, Ghana and Nigeria. All other member countries belong to the poorest in the world with very weak institutions and ineffective governance. Since the establishment of the Economic Community of ECOWAS its economic integration was slow (Zouhon –Nielsen, 2007). This fact led the Francophone members of ECOWAS, which constitutes the FZ at the same time too strengthen the cooperation within the FZ. The elementary aim was to accelerate the economic cooperation within the already existing Franc Zone with the common currency CFAF and later spread it to the whole ECOWAS community. This way was seen as faster and more effective in a situation when there were large differences among countries in the achieved level of economic integration. Inspired by the EU's monetary integration, in 1999 WAEMU members adopted a regional Pact of convergence, stability, growth and solidarity. The role of this Pact consisted of guaranteeing a deeper regional cooperation and stronger economic performance by fulfilling a set of convergence indicators. The following year the WAEMU countries introduced a customs union. It eliminated the tariffs on intra-regional trade and set up a common external tariff (CET) on imports from third countries. The Anglophone non-WAEMU countries (Gambia, Ghana, Guinea, Nigeria, Sierra Leone, Liberia) has also became inspired by the model of the EU and formed the WAMZ with the aim to establish their own monetary union with a single currency by 2009. The WAMZ currency, Eco, should later slowly merge with the CFAF. The WAMZ defined their own convergence criteria that are less strict than those of WAEMU. The requirement of fiscal deficit (excluding grants) should not exceed 4 percent of GDP, inflation should be inferior to 5 percent, monetary financing of the current period of fiscal deficit has to reach maximally 10 percent of previous period fiscal revenue and gross external reserves need to be greater or equal to six months of imports (Hefeker, 2003).

The EU remains the most important trade partner in Africa. Therefore the Euro as a currency takes an important place in WAMZ trade and economy. But according to ECOWAS Handbook of International Trade (2003) the share of ECOWAS total export to EU is very volatile and declined from 42 % in 1996 to 31 % in 2001. The ECOWAS share of its total imports also declined from 47 % to 45 %. Concerning that fact the role of the Euro has not had significant impact on this region in terms of trade. When it comes to WAMZ exchange rates, all members have been maintaining their own national monetary policies. Now each currency's exchange rate in WAMZ members needs to be maintained against the US dollar within a ±15 % target band around a central rate. But no member despite Nigeria has fulfilled this requirement yet. Even so, choosing US dollar puts the Euro beside.

While there is a will to create a common monetary union in ECOWAS the Euro's impact will be important as the example for the African regional integration. Beside the economic diversity of ECOWAS members there are several other questions to answer. Until now the WAMZ members do not peg their currencies to Euro and their currencies should guarantee a floating to USD. One of the questions is if the Eco will be pegged to the Euro or to another world currency by establishment of the ECOWAS monetary union? Another question is if the Eco-peg will be guaranteed by any country as it is in case of the ECOWAS? Or should the Eco use flexible exchange rates currencies?

Conclusion

The creation of the EMU included a long preparatory process and setting up necessary monetary arrangements in terms of convergence criteria that had to be strictly adhered by each country before their membership in the

EMU. All this had to be fulfilled in connection with achievement of the economic stability by their disciplined monetary and fiscal policy. It was a process reflecting the need to harmonize economies and find an optimal equilibrium of exchange rates. The main economic theories about conditions for such establishment highlighted importance of next requirements. Member countries composing a monetary union had to be open economies with a high effective level of trade cooperation and deep intra-relations. The common currency wanted to abolish currency exchange in the Eurozone and decrease risk of fluctuation between international currencies. Notwithstanding, its growing role represents an important international investment and reserved currency.

In case of Africa the process of creating monetary unions happens under different circumstances. In West Africa the first common currency, CFAF was introduced by French initiative. While the CFAF-peg to FRF was not successful from the beginning the solution was seen in a need of harmonization of regional economies. The weak economic performance and heterogeneity were considered as the reason of bad success. While members of FZ already introduced common regional currency pegged to FRF (later to Euro) they decided to deepen their economic relations by creating own monetary union. The WEAMU was one of two monetary unions that started to operate. According to the EU, the convergence criteria have been specified but so fare no one of its members has fulfilled all criteria. However, the results show that monetary union had a positive impact on economic harmonization of the region. Since the CFAF-peg to the FRF was changed to the euro in 1999 there hasn’t been a significant evidence of positive or negative impact of Euro on WAEMU’s macro-economic performance. It could be caused by the remaining heterogeneity of the region, low level of intra-trade, productivity and unsatisfied fiscal policy. WAEMU’s economic performance remains volatile in terms of trade, economic growth, low flow of FDI and fulfillment of convergence criteria. A slight evidence of positive Euro impact was seen in CFAF’s REER development. Since the Euro’s introduction the CFAF’s REER has been less volatile. On the other side, further Euro’s appreciation compared to US dollar could disadvantage the price competitiveness of products with WAEMU’s origin. Latter gain from Euro is his role in the WAEMU and its further regional integration with the WAMZ members. While Euro’s dominating in the WAEMU’s economy it can be an important example for its integration policy in ECOWAS. The Euro is unique result of monetary policy of the EU with a lot of inspirational aspects for this region. Until now it is not clear if the new ECOWAS monetary union will have pegged or floating currency regime to the Euro or another currency. However, it is obvious that the EU and its currency will influence ECOWAS economy while representing Africa's biggest trade partner.

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Importance of the Euro in West Africa

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ABSTRACT

Europe continues to play a significant role in relations with West Africa. In particular, a strong economic linkage remains between France and Africa's Francophone countries for which France created a CFA Franc zone in 1945. The WAEMU (West African Economic and Monetary Union), established in 1994 and its single currency, the CFA Franc, was firstly pegged to the French Franc and later to the Euro with its introduction January 1, 1999. This paper presents the importance of the pegging to the Euro on the macro-economic stability in the WAEMU. It examines how much integration does the exchange rate peg to the Euro deliver to the union's macro-economic stability while comparing with the situation when the exchange rate was pegged to the French Franc. The article also summarises the WAEMU's current macro-economic performance compared to the WAMZ (West African Monetary Zone) member states that are planning to introduce a single currency with the WAEMU.

Key words: Convergence; Currency pegging; Monetary Union; OCA.

JEL classification: F33.