West African
Monetary Agency
(WAMA)

WAMA BULLETIN

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Editorial

The WAMA bulletin provides information on the activities of the Agency as well as information pertaining to topical economic issues. It is therefore a pleasure to bring you yet another edition of the bulletin.

In this issue, readers will have the opportunity to take a peek into the curriculum vitae of the new Director General of the WAMA, Mr. Momodou Bamba Saho who assumed office in August 2016. Readers will also learn about the progress thus far, with respect to the implementation of the ECOWAS Monetary Cooperation programme. The spotlight will be shined on the challenges arising from the process of implementing the ECOWAS single currency programme. The Bulletin will also provide an update on the harmonisation of the provisions on current account transactions and capital controls within ECOWAS as well as discussing exchange rate policy and regulation in ECOWAS and the nexus between economic growth and inflation in the Community. The Bulletin concludes with an overview of macro-prudential policy as a tool for stabilising the financial system and the possible fallout of Brexit for ECOWAS countries.

We hope that the information provided in this issue would be beneficial to readers and stakeholders of the ECOWAS Monetary Cooperation Programme. We happily welcome your views, which would certainly enable us improve the quality of future editions.

May, 2017

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Biographical Information

Momodou Bamba Saho
The New Director General West African Monetary Agency

Mr. Momodou Bamba Saho assumed the position of Director General of the West African Monetary Agency (WAMA) on 08 August 2016. Before joining WAMA, he served as Alternative Executive Director, then as Executive Director for the Africa Group 1 Constituency at the IMF during the period November 2010 to October 2014. At the IMF, he represented and defended the interests of 22 Sub-Saharan Africa countries on the Executive Board as well as contributed to oversight of the IMF to ensure it discharged its mandate effectively. Mr. Saho also chaired the Ethics Committee of the Executive Board.

Prior to joining the IMF, Mr. Saho was the Governor of the Central Bank of The Gambia from August 2007 through October 2010. He worked for the Central Bank for twenty seven years. The positions he held during this period include that of First Deputy Governor, General Manager and Director Banking Services. During this period, he contributed to improving the Central Bank's work in the areas of monetary operations, public debt, payment systems, currency management, financial reporting, information systems development and monetary policy.

Among other things, following a period of economic crisis in 2001-2003, Mr. Saho oversaw policy and operational reforms related to the conduct of monetary policy, financial sector supervision, central bank independence, and accounting, budgeting and management practices that contributed to enhancing the Central Bank's credibility, contributing to the restoration of macroeconomic stability.

From 2007 to 2009, Mr. Saho was the Chair of the Gambia Divestiture Agency. He was also a member of the National Planning Commission of The Gambia from 2007 to 2010 as well as Chair of the Gambia Telecommunications Company from 2008 to 2010.

Mr. Saho graduated with a Bachelor's degree in Economics from the International Islamic University in Malaysia in 1988, a MSc. in Analysis, Design and Management of Information Systems from the London School of Economics in 1992 and qualified as a professional accountant with the Association of Chartered Certified Accountants of the UK in 1993.

ECOWAS Single Currency Agenda and Implementation Challenges

By Alieu O. CEESAY
(Principal Economist)

Introduction

The establishment of the Economic Community of West African States (ECOWAS) in 1975 witnessed several events which preceded its creation.It would be recalled that a former Liberian President (William Tubman) is usually credited with developing the idea of creating a West African Economic Community.His idea spurred the signing of an agreement among Cote d'Ivoire, Guinea, Liberia and Sierra Leone in February 1965. However, this agreement has been described in some quarters as more of a formality than an actual call to action.April 1972, General Gowon of Nigeria and General Eyadema of Togo reintroduced the idea.These generals drafted proposals for a new community and then spent July and August of 1973 traveling to 12 countries in West Africa to assess interest and garner support.

The draft treaty was further examined at a meeting of potential member states in Lomé, Togo, during December 1973; at a meeting of experts and jurists in Accra, Ghana, during January 1974; and at a meeting of ministers in Monrovia, Liberia, during January 1975., on May 28, 1975, 15 West African countries met in Lagos, Nigeria, to sign the ECOWAS Treaty, also known as the Treaty of Lagos.These fifteen countries were Benin, Burkina Faso (then known as Upper Volta), Cote d'Ivoire, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo.The ECOWAS Treaty, which created the Economic Community of West African States, was intended to promote cooperation and integration within West Africa and to eventually establish an economic and monetary union.years later, in 1977, Cape Verde became the sixteenth member of ECOWAS, while Mauritania opted out along the way in favour of the Maghreb Union.accelerate economic integration, the revised treaty outlined the necessary steps for the establishment of a common market and a single currency.Some of the steps, as stated in the revised treaty, call for the study and research of monetary and financial developments, the promotion of activities ensuring convertibility of national currencies, and the establishment of an optimum currency area.ECOWAS Monetary Cooperation Programme (EMCP) was later adopted towards the finalization of these processes.

Adoption of the ECOWAS Monetary Cooperation Programme (EMCP) and a Set of Convergence Criteria

The Authority of ECOWAS Heads of State and Government, with their unflinching desire of creating the ECOWAS single currency, adopted an ECOWAS Monetary Cooperation Programme (EMCP), via Authority Decision A/DEC.2/7/87. However, the implementation of the EMCP remained challenging which necessitated a new approach to expedite the process. Towards this end, a set of ten convergence criteria (four primary and six secondary criteria) was adopted by the 22nd Session of the Authority of ECOWAS Heads of States and Government held in Lomé, Togo, 9-10 Dec 1999. The relevant primary and secondary criteria are detailed below:

Primary Criteria

- Budget deficit (commitment basis, excluding grants)/ GDP=4.0% (by 2002)
- Inflation Rate=5.0%; (by 2003)
- CBank Financing of Budget Deficit =10.0% of the previous year's tax revenue;
- Gross External Reserves = (6) months of imports cover (by 2003).

Secondary Criteria

- Arrears: Prohibition of new internal and liquidation of all existing arrears;
- Tax Revenue/ GDP=20.0%;
- Wage Bill/Tax Revenue:=35.0%;
- Capital Expenditure/Tax Revenue:=20%;
- Real Exchange Rate Stability: to be maintained by each country;

Positive Real Interest Rate.

The target date for the launching of the ECOWAS single currency was 2004 subject to meeting the agreed criteria. Furthermore, an ECOWAS multilateral surveillance mechanism was also established in December 2001 in order to help promote policy convergence and harmonization of the respective national economies. However, the road towards the attainment of single currency in ECOWAS was still marred with a number of obstacles.

Creation of the West African Monetary Zone

With their increasing determination to accelerate the monetary integration process, the Heads of States of The Gambia, Ghana, Guinea, Nigeria and Sierra Leone signed an agreement, creating the West African Monetary Zone[1], whose currency (the eco) was to be launched by January 2003. Despite this determination, the takeoff date for the launching of the second regional currency was rescheduled three times[2]. Due to the series of postponements of creating the second regional currency as well as the other challenges that continued to militate against advancing the ECOWAS single currency agenda, the summit of the Authority of ECOWAS Heads of States and Government held in Abuja on the 15 of June 2007 directed the ECOWAS Commission, in collaboration with regional institutions like WAMA, WAMI and the UEMOA Commission, to review the monetary integration process with a view to expediting the creation of the ECOWAS single currency. The series of technical meetings that followed this Authority Decision culminated in what is currently referred to as the ECOWAS Single Currency Roadmap, which was adopted by the Convergence Council on 25th of May 2009.

The ECOWAS Single Currency Roadmap

Given that the ECOWAS is not an optimum currency area (OCA)[3] which is a prerequisite for the adoption of a single currency, implementation of the programed activities under the roadmap, which is expected to deliver the OCA dividends, would be critical. It was expected that before the launch of the ECOWAS single currency in 2020, the WAMZ single currency (the eco) would have been launched by 1st January 2015. To facilitate effective implementation of the Roadmap

1 *Liberia initially had an observer status for a decade but became a full-fledged member in 2010*

2 *From January 2003 to December 2005, December 2005 to December 2009, December 2009 to 1st January 2015, which has also been missed*

3 *An Optimum Currency Area, is a geographical region suitable for the establishment of a single currency*

activities, the Authorities urged for better inter-institutional coordination, to elicit active participation of all the regional institutions and member central banks involved in the ECOWAS Monetary Cooperation Programme. Specifically member states have been urged to expedite implementation of monetary, fiscal and structural policies. This would help improve macroeconomic convergence and ensure achievement of other policy harmonization benchmarks under the single currency roadmap.

The following challenges have been identified after an assessment report on the implementation of Roadmap activities in Lagos in October 2013: insufficient financial resources, inadequate quantity and quality of human resources, low capacity to produce quality data (reliable, up-to-date and high frequency data) by member states, poor sensitization of the population as well as other key stakeholders among others. To address the above challenges and to speedily realise the ECOWAS Single Currency agenda, there is the urgent need to implement the following recommendations:

- *Pool both financial and human resources of regional institutions (for synergy) to guard against duplication of functions and maximize impact given the limited resources available;*

- *Enhance collaboration with regional training institutions such as WAIFEM and COFEB to improve the capacities of staff of regional institutions, central banks and other key stakeholders at the national levels. Towards this end, Memorandum of Understanding with these training institutes could be signed;*

- *Enhance the production of reliable statistics, Technical Assistance to member States could be requested from AFRISTAT and the IMF;*

- *Establish a Community Financial Solidarity Fund to help mitigate the effects of external/asymmetric shocks.*

Setting up of the Presidential Taskforce

To expedite the implementation of the ECOWAS Monetary Cooperation Programme by addressing challenges identified above, a presidential task force, spearheaded by the Presidents of Niger and Ghana, was constituted. The Presidential Taskforce was later expanded to include the Presidents of Nigeria and Cote d'Ivoire given the large economic size of these countries. The role of the taskforce is basically to give relevant policy advice to the two heads of states on the monetary integration agenda. The taskforce recommended a shift from the two-track approach to a single-track approach with 2020 as the target date for the launch of the ECOWAS single currency. The convergence criteria have since been harmonized and adopted by the 45th Extra-Ordinary Session of the Authority of ECOWAS Heads of States and Government, held in Accra, Ghana on the 10th of July 2014 as detailed below:

Primary Criteria

- *Budget Deficit (commitment basis, including grants)/ GDP: = 3.0%;*
- *Average annual inflation rate: < 10%; and = 5.0% by 2019;*
- *CBank Financing of budget deficit: =10.0% of the previous year's tax revenue; and Gross External Reserves: = 3 Months of imports cover.*

Secondary Criteria

- *Public Debt /GDP: = 70.0%.*

Nominal Exchange Rate Stability: Fluctuation Band of ± 10.0%;

Conclusion

The road to monetary integration in ECOWAS therefore continued to be marred with a number of obstacles, although synergy and better coordination might drive the process to its logical conclusion. The movement towards harmonization of the convergence criteria which have recently been adopted, efforts at harmonization of monetary policy frameworks and supervisory practices, statistics and methodologies for compilation of BOP and IIP as well as taxes (such as the Common External Tariff) are efforts in the desired direction. The renewed political will could also accelerate the process and one can only hope the authorities might deliver the ECOWAS Single Currency to the populace. Besides, the adoption of a single track approach would help bring synergy, avoid duplication of efforts and maximize impact. It will also avoid a situation where another currency is created, with the supporting structures, only to be destroyed few years later to create another currency (i.e the ECOWAS single currency). Therefore the adoption of a single track approach and convergence criteria at the level of ECOWAS would greatly enhance the policy harmonization process and by extension the processes leading to the adoption of the ECOWAS Single currency. Given that a lot of resources have already been committed to this, all hands must be on deck to ensure that the dream of delivering the ECOWAS Single currency will not remain elusive. If this dream remains elusive, history will not judge all those who have been involved in these processes lightly.

EXCHANGE RATE POLICY AND REGULATIONS: EXPERIENCES IN ECOWAS

Dr. Andalla Dia
(Chief Economist)

The article intends to assess the regulations and laws on exchange rate regimes and policies in the various ECOWAS countries working towards the proposed monetary integration. It describes the objectives, operational framework and structural constraints as well as effectiveness of the exchange rate policy in UEMOA countries, WAMZ and Cape Verde.

UEMOA Countries

In UMOA, the exchange rate policy and regulations governing external financial relations of Member States are conducted within the framework of a fixed exchange rate regime with the CFA franc pegged to the Euro. These regulations are also related to member countries of the Union to the franc zone and their accession to Article VIII of the IMF Statutes. This exchange rate regime is underpinned by the principles of monetary cooperation, namely: guaranteed convertibility of the CFA franc into Euro by the French Treasury, freedom of transfers within the zone and centralization of foreign exchange reserves of UMOA member States by BCEAO, with the obligation to deposit part of these reserves with the French Treasury.

The UMOA Council of Ministers determines the exchange rate policy of UMOA in consultation with the Governor of BCEAO, ensuring compliance with the international commitments entered into by the member states of the Union. BCEAO is responsible for the implementation of exchange rate policy, in addition to its core mandate consisting in;

- defining and implementing monetary policy within UMOA, the primary objective of which is price stability;
- ensuring stability of the financial system of UMOA;
- fostering smooth operation and ensuring effective supervision and security of payment systems in UMOA; and
- managing the official foreign exchange reserves of UMOA member states.

In discharging its mandate, BCEAO's operating principle is the independence of its organs in the choice of instruments, financing sources and type of internal organization.

Regulations governing external financial relations of Member States of the Union comprise a set of legal texts adopted at the Community level to ensure harmonization or even standardization of the rules applied in Member States of the Union.

With regards to provisions relating to current account transactions, it was mainly observed that the current rules enshrine total freedom of current account payments, which are carried out upon submission of supporting documents if required. To feed the common pool of UEMOA's foreign exchange aimed at hedging payments, it is required of any resident exporter to repatriate its export earnings in foreign currency through a bank of the Union, which has the obligation to surrender at least 80% of the foreign currency to BCEAO.

However, there is partial freedom when it comes to capital account transactions. Whilst capital inflows and outflows for debt repayments or the transfer of proceeds from liquidation are free, investments outside UMOA by residents require an authorization from the Minister of Finance and must be financed up to 75% by foreign borrowing.

WAMZ Countries
BCRG (Central Bank of the Republic of Guinea)

The exchange rate policy in Guinea is a floating regime, to the extent that the exchange rate of the Guinean franc is determined by supply and demand in the banking system, through daily currency auctions. The interbank foreign exchange market was officially established in March 2005.

The exchange rate regime in Guinea has evolved considerably over the years. Following the massive turmoil in the foreign exchange market inherited from the military transition (2009-2010), the monetary authorities took bold measures to control bank liquidity, strengthen foreign exchange reserves and stabilize the value of the Guinean franc (GNF) against the major currencies, in particular the US Dollar and the Euro.

The relevant authorities have set up an interbank foreign exchange market through which the BCRG sells foreign exchange to local banks and authorized foreign exchange bureaus to meet the needs of their customers (notably for import purposes). The interbank market has succeeded in stabilizing the exchange rate, strengthening reserves and controlling liquidity and inflation.

However, following the outbreak of the Ebola virus disease, which resulted in the flight of investors and capital among others, BCRG had to intervene further on the inter-bank market to stabilize the value of the GNF. It also supported the government in its investment program in priority sectors such as energy and public works. This contributed to reducing the BCRG's foreign exchange reserves, making it difficult for the BCRG to intervene in order to stabilize the exchange rate. The gap between the rates of the two markets (official and forex bureaus) began to widen, reaching 13% in December 2015. It was against this backdrop that the BCRG replaced the inter-bank foreign exchange market with a new bilateral auctions system in January 2016. The BCRG has reintroduced the 7-day bills for monetary regulation and persuaded the Treasury to manage Treasury operations on a cash basis, whilst activating monetary policy instruments to possibly mop up excess liquidity. The following actions should also be implemented:

- Operationalization of the injection window by tender to determine the interest rate of the central currency;
- Strengthening the local currency interbank market.

Central Bank of Liberia

The exchange rate regime in Liberia has evolved over the years from a fixed exchange rate regime to a managed floating exchange rate regime. The pegging of the Liberian dollar to the US dollar, with one-to-one parity since 1962, was abolished in 1999 by the Central Bank of Liberia Act 1999. Liberia's economy is partially dollarized, with both the US dollar and the Liberian dollar being used as legal tenders.

Majority of the corporate and government transactions (such as taxes) are conducted in US dollars, while most street and retail transactions are in Liberian dollar. The Investment Incentives Code allows the transfer of investment funds, including profits. There are no restrictions on conversion or transfer of investment funds. The Central Bank of Liberia (CBL) carries out weekly foreign exchange auctions up to $ 1 million in order to stabilize the exchange rate, facilitate imports and keep inflation low.

Liberia's capital account is highly liberalized. In addition, as a small open economy with a high degree of capital mobility, a managed float exchange rate regime seems to be the best option for Liberia. The Central Bank of Liberia intervenes intermittently on the foreign exchange market and does not have an explicit target or band that it communicates to the public.

However, the Bank monitors exchange rate movements on a daily basis, with a depreciation margin of 5 per cent set as an implicit signal for the Bank's intervention. There is a huge demand for foreign exchange to finance imports. Given the primary nature of Liberia's exports, they are not sensitive to currency depreciation. The lack of a capital market and the small size of the money market remain a challenge to Liberia's monetary policy and exchange rate policy.

Central Bank of Nigeria

The exchange rate regime in Nigeria has evolved from a fixed exchange rate regime prior to 1986 to a floating exchange rate regime from 1986 onwards. The exchange rate policy of the Central Bank of Nigeria is disseminated through memoranda and circulars, advertorials, journals and books, as well as through the Bank's website.

By way of exchange rate validation, feedbacks from the foreign exchange market are collected by the relevant departments and presented to the Bank on a monthly basis. Information on exchange rate policy and other policies is provided based on feedback from Bankers Committee meetings held on a bi-monthly basis. The Central Bank of Nigeria conducts periodic exercises to assess the impact of exchange rate policy.

It would be recalled that the Decree on Foreign Trade Monitoring enacted in 1995 contributed to opening up the foreign exchange market in Nigeria. Nigeria adopted a Wholesale Dutch Auction System (WDAS) in February 2006, in line with its plan to liberalize the foreign exchange market. WDAS provides better control of the foreign exchange market, although the Central Bank has maintained its role as market supervisor.

The Central Bank of Nigeria used to intervene on the foreign exchange market through the official window, namely the interbank market and the bureaus de change (BDC); but this type of intervention has been changed. Since February 18, 2015, intervention is done only through the interbank segment of the market, which takes place on a weekly basis. The Central Bank conducts auctions of foreign currencies to customers through their banks, which provide the names of their clients, the amount requested in US dollars, the purpose of the request, the type of transaction and the name of the bank. Recently, 41 items were excluded from the auction on the grounds that the Central Bank cannot provide foreign exchange for their imports. The volume of intervention in the market is based on the availability of foreign exchange.

Recent foreign exchange policy reforms include restrictions on the use of Naira cards abroad, with a revision of the limit from $150,000.00 to $ 50,000.00 per person, per annum, with a daily limit of $ 300.00 per day. Since the merger of the retail Dutch Auction System (rDAS) and the interbank market, the Naira has remained relatively stable; however, the rate at the Bureaus de Change (BDC) segment of the market has depreciated more than the interbank rate.

Bank of Ghana

Ghana operates a flexible exchange rate regime with an exchange rate determined by the interbank foreign exchange market and foreign exchange bureaus. Banks trade among themselves at freely determined rates. The Bank of Ghana buys and sells foreign currencies to banks at the interbank exchange rate. The exchange rate regime used during the 1960s, 1970s until the mid-1980s was a fixed exchange rate regime with foreign exchange rationing.

Liberalization was gradually introduced in 1988 and the subsequent introduction of the foreign exchange market and foreign exchange bureaus led to the abolition of forex rationing. However, this liberalization was confronted with high volatility of exchange rates, which led to higher inflation with negative consequences on growth. External shocks in the international commodity market and unpredictable foreign exchange flows pose challenges in effectively managing exchange rate volatility. The abolition of surrender requirements is among the strategies implemented by the Bank of Ghana to deepen the foreign exchange market.

The 2006 Foreign Exchange Act (Act 723) is the main legislation that deals with foreign currency or foreign exchange transactions.

Bank of Sierra Leone

Sierra Leone operates a floating exchange rate regime. The exchange rate has undergone a series of adjustments, notably from 1964, when the Leone was pegged to the British Pound, to 1990, when the exchange rate was liberalized and foreign exchange bureaux were allowed to operate. The objective of Sierra Leone's exchange rate policy is to ensure exchange rate stability, in line with its monetary policy objective.

Sierra Leone adopted Article VIII of the IMF's Articles of Agreement in 1995, lifting all restrictions on international current account transactions. Capital account transactions are either restricted or subject to authorization by the Bank of Sierra Leone (BSL). Certain capital account transactions, however, are not limited, including inward FDIs conducted through a licensed commercial bank. The BSL monitors the requirements on net foreign assets (NFA) and involuntary excess liquidity to guide the action of the Central Bank in the weekly foreign exchange auction.

There are no legal restrictions on the acquisition of foreign exchange. The Central Bank frequently carries out foreign currency auctions, usually on a weekly basis, but limits single bidders to the amount of $ 100,000.
The challenges faced by BSL in the implementation of its foreign exchange policy include the low level of foreign exchange reserves of the Central Bank, high demand for imports and transfers as well as the large size of the informal foreign exchange market.

Central Bank of The Gambia (CBG)

The Gambia uses a freely floating exchange rate regime. The exchange rate of the Dalasi is determined in the foreign exchange market. The Central Bank of the Gambia (CBG) intervenes periodically in the foreign exchange market by selling and buying foreign exchange. Such interventions are carried out to either increase international reserves or reduce volatility in the exchange rate movements.

The CBG conducts a review of the foreign exchange market on the last working day of each week, with the participation of commercial banks and foreign exchange bureaus. During this session, the average market rate for the week is announced as the rate to be applied to government transactions and customs valuations the following week. Commercial banks and foreign exchange bureaus are free to engage in transactions among themselves or with customers on the basis of exchange rates agreed upon by the parties. The CBG only deals with commercial banks.

Central Bank of Cape Verde

Cape Verde has a conventional currency pegged agreement. The Ministries of Finance and the Central banks of Portugal and Cape Verde are the institutions that can decide to change the exchange rate regime. Since 1998, Cape Verde has pursued a fixed exchange rate policy by pegging the CVE (Cape Verdean Escudo) to the PTE (Portuguese Escudo) and, since January 4, 1999, to the Euro, at a rate of CVE 110.27 per Euro.

Cape Verde benefits from the absence of exchange rate risks in relation to the Euro. There is no official bid-ask spread in Euros. The official rate is used for accounting and valuation. The monetary policy framework is therefore anchored on the exchange rate vis-à-vis the Euro. This fixed exchange rate arrangement is maintained through a credit facility allocated by Portugal to Cape Verde, called the Credit Facility Contract. It is managed jointly by the Exchange Rate Cooperation Agreement Commission.

Both residents and non-residents may hold foreign currency accounts, subject to government approval and regulation. Most transfers are subject to controls.

RELATIONSHIP BETWEEN ECONOMIC GROWTH AND INFLATION IN ECOWAS

Dr. Andalla Dia
(Chief Economist)

1. Introduction

The ECOWAS region experienced an appreciable macroeconomic performance over the past 15 years. However, inflation ballooned in four member countries namely Guinea Bissau, Ghana, Nigeria and Sierra Leone (see table 1). Based on economic theory, peaks in inflation are likely to slow economic growth and increase poverty, given the fiscal implications. Like growth, inflation depends on a variety of factors, ranging from macroeconomic imbalances to supply and external constraints.

The aim of this paper is to provide a descriptive analysis of the relationship between inflation and growth in ECOWAS during the period 1970-2015. It aims to provide causes for the observed trends and be a reference material for deeper empirical analysis. It adopts descriptive analysis to evaluate changes in average rates of inflation and growth. It first describes the changes in average rates of inflation and growth before analyzing jointly these two components.

2. Changes in Average Rates of Inflation and Growth

ECOWAS countries experienced some fluctuations in economic growth and inflation over the period 1970-2015. The analysis of inflation and growth rates over the period under review shows that UEMOA countries experienced lower level of inflation than WAMZ countries. However, in terms of growth, the experience is mixed. To better describe the changes in real growth rates and inflation, the review period is divided into three episodes: 1970-1990, 1991-2000 and 2001-2015. The average annual real GDP growth and inflation rates over these periods are presented in Table 1.

During the period 1970 to 1990, ECOWAS member countries witnessed low average economic growth and high inflation.. Countries that contributed to this poor performance in growth are Niger, Ghana, Sierra Leone and Liberia. With regard to inflation, Guinea Bissau, Ghana, Guinea, Nigeria and Sierra Leone contributed to the weak performance, due to the combination of several factors, including deteriorating terms of trade, the negative effects of the second oil shock (except Nigeria) and socio-political crises in some countries.

It was however observed that between 1991 and 2000, ECOWAS countries witnessed better performance in terms of growth and inflation. The average annual growth rates of member countries increased with the exception of those of Cote d'Ivoire, Guinea Bissau, Togo, The Gambia, Nigeria and Sierra Leone. With regard to inflation, all countries experienced moderation with the exception of Benin, Guinea Bissau, Togo, Liberia, Nigeria and Sierra Leone. In addition to macroeconomic instability and external shocks, political instability in some countries also weakened the performance of member countries.

During the period 2001 and 2015, growth increased in a context of declining inflation, alleviated by exogenous shocks (food, oil and financial crises). It should be noted that during this period ECOWAS countries benefited from a favorable environment for investment and economic growth, due in particular to the implementation of institutional and regulatory reforms in many sectors of the economy as well as eligibility of some countries to receive financing under the Highly Indebted Poor Countries initiative (HIPC) and the Multilateral Debt Relief Initiative (MDRI) programs, which aim at reducing poverty and achieving sustainable growth.

With respect to inflation, between 2001 and 2015, ECOWAS economies were affected by external shocks, notably food and energy crises in 2008. The internal shocks related to the poor harvests of 2001 and 2005 due to low rainfall, difficulties in supplying cereal products, locust invasion and harmonization of VAT rates in the UEMOA. These various shocks had a negative impact on the trend in the general level of prices in the zone.

3. Analysis of the Relationship between Inflation and Growth

In the analysis of the relationship between inflation and growth within ECOWAS, three groups of countries emerged (See Table 1). In the first group of countries, convergence is observed in the evolution of the two variables. These are Benin, Togo and The Gambia. For these countries, it can be observed that inflation and growth have positive relationship. Such a relationship might suggest a linear relationship between the two variables.

In the second group of countries, there is divergence in the evolution of the two variables. These countries include Burkina Faso, Mali, Niger, Senegal, Ghana, Guinea, Liberia, Nigeria and Sierra Leone. Indeed, the inflation rates of Burkina Faso, Mali, Niger, Senegal and Ghana were generally on a downward trend, after reaching over 40% for Ghana and 5% for the other countries. At the same time, their real GDP growth rates also increased over the period. This is contrary to the performance of Guinea, Liberia, Nigeria and Sierra Leone, where the rise in inflation between the first two periods was accompanied by a decline in growth, while in the third period a decline in inflation was accompanied by an increase in growth and vice versa.

The third group of countries shows a mixed relationship, where there is a convergence between inflation rates and growth during one period and a divergence during another. This situation is observed in Côte d'Ivoire, Guinea Bissau, and Cape Verde. For these countries, inflation followed a downward trend. However, Cote d'Ivoire and Guinea Bissau recorded an increase in growth between the first two periods and a decline between the last two periods, unlike in Cape Verde. The sharp reduction in inflation in Guinea Bissau, after 1997, was mainly due to its membership to the UEMOA zone in 1997.

These findings led us to examine graphically the link between inflation and growth.

According to the chart, there is a non-linear relationship between inflation and growth in ECOWAS countries. The graph suggests that ECOWAS countries with an average economic growth rate above 3.5% (average over 1970-2015) have an average inflation within the range of 4.6% to 18%. The country with the highest average growth rate (6.7%) has an average inflation of 6% and the country with the highest average inflation (30.9%) has an average growth rate of 3.8%.

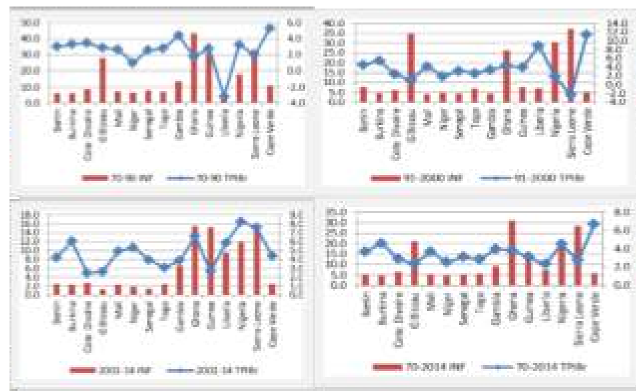
It should also be noted that a comparison between inflation in ECOWAS countries and the weighted inflation of their trading partners yields interesting results. The graph below shows that during the period 2000-2015, UEMOA countries and Cape Verde recorded an average inflation lower than that of their trading partners in the order of 2.5% on average. On the other hand, the WAMZ countries had a higher rate of inflation than that of their trading partners in the order of 7% on average.

Table 1: Average Inflation and Growth in ECOWAS

Country	Real GDP growth rate				Inflation rate			
	1970-1990	1991-2000	2001-2015	1970-2015	1970-1990	1991-2000	2001-2015	1970-2015
Benin	3.0	4.5	4.2	3.7	8.2	7.8	2.5	5.4
Burkina	3.3	5.4	6.0	4.6	8.2	4.5	2.4	4.6
Cote D'Ivoire	3.5	2.4	2.5	2.9	8.7	6.3	2.8	6.3
Guinea Bissau	2.9	1.1	2.6	2.4	28.0	35.0	1.1	21.2
Mali	2.7	4.1	4.9	3.7	7.5	4.1	2.3	5.1
Niger	1.0	1.9	5.3	2.5	8.8	4.8	1.9	4.7
Senegal	2.5	3.1	3.9	3.1	8.0	4.5	1.5	5.2
Togo	2.8	2.6	3.1	2.8	7.0	7.2	2.5	5.6
The Gambia	4.4	3.3	3.8	4.0	13.5	4.3	6.6	9.3
Ghana	1.8	4.3	6.6	3.8	43.3	26.4	15.5	30.9
Guinea	2.8	3.9	2.7	3.1	30.9	7.7	15.3	15.9
Liberia	-3.2	8.8	5.9	2.3	3.8	7.1	9.5	7.3
Nigeria	3.3	1.9	8.3	4.5	17.8	30.6	11.9	18.8
Sierra Leone	2.0	-2.3	7.6	2.8	33.2	37.2	15.4	28.8
Cape Verde	3.3	11.5	4.4	6.7	11.1	5.1	2.5	6.0
Average	2.5	3.8	4.8	3.5	15.6	12.8	6.3	11.7

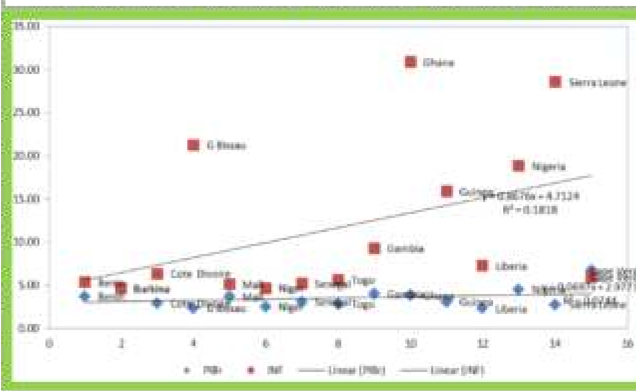
Sources: Computations of the author based on WAMA and IMF data

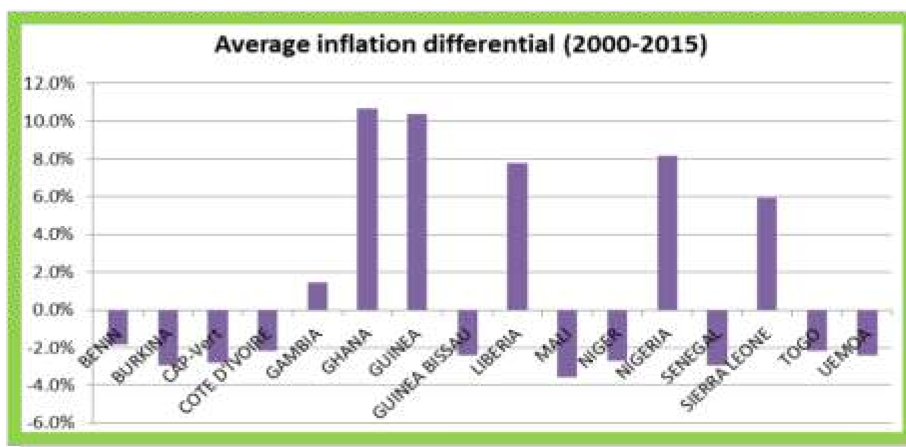
Graph 1: Average growth and inflation rates



Sources: Computations of the author based on WAMA and IMF data

Graph 2: Inflation – growth in ECOWAS





This state of affairs could affect the competitiveness of member countries in different ways. WAMZ countries, where inflation rates are much higher than those of their trading partners, run the risk of experiencing depreciation of their exchange rates; thereby affecting their competitiveness compared to that of UEMOA countries. Moreover, it is also important to note that high inflation could contribute to the depreciation of real exchange rates and create an imbalance in that component.

4. Concluding Remarks

In light of the foregoing, it would seem that there is an intermediate level of inflation that would be optimal for each country or zone and for ECOWAS as a block. Indeed, since these graphic representations do not take account of factors other than inflation, which could have an impact on economic growth and thus skew the graphically identified threshold margin, an empirical investigation should be carried out in order to grasp more accurately this relationship within ECOWAS.

Overall, ECOWAS member countries are required to give special attention to developments in their inflation and real GDP growth rates and take necessary actions to facilitate the achievement of economic and monetary integration.

HARMONIZATION OF REGULATIONS GOVERNING CURRENT ACCOUNT TRANSACTIONS AND CAPITAL FLOWS IN ECOWAS

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1. Introduction

Harmonization of regulations governing current and capital account transactions in ECOWAS member states remains a challenge, evidenced by differences in payments arrangements and capital transactions, dissemination and acquisition of stocks/shares etc. These disparities do not only signal weak growth outlook, but have the propensity to impede effort to deepen financial markets and deliver many financial products at a relatively low costs. WAMA (2013) proposed a framework for harmonization and liberalization of current and capital account transactions through a study, which was discussed and adopted by the committee of experts and the Committee of Governor to drive the process of harmonization. Member states have however continued to slowly comply with the process of harmonization with impediments still lingering. The AfDB (2014) indicated that regional efforts continue to overemphasize harmonization without significantly emphasizing elimination of impediments to capital flows.

Despite a number of reforms initiated to improve regulations governing current and capital transactions, the absence of harmonized regulations lingered in the region, which makes some of the existing prudential requirements in member states to skew investment in domestic assets, including restriction on foreign stock ownership. That notwithstanding, considerable progress has been accomplished in member states of ECOWAS mainly facilitated by the conduct of Stabilization Programmes as well as the accession to Article VIII and Article XIV of the IMF Statutes relating to payments and transfers for current international transactions.

Considering the IMF Annual Report (2015) on the Exchange Arrangements and Exchange Restrictions on financial transactions in ECOWAS member, this article highlights similarities on arrangements for payments and receipts, mechanisms for import and export payments as well as receipts, controls on capital transactions, and provisions specific to the financial

sector. The emphasis is on eliciting commonality, in terms of regulatory policies amongst ECOWAS member states. The article does not capture the actual regulatory policies practiced in a few of those countries that tend to differ from majority. This is because such data is not found in the 2015 IMF Annual Report on Exchange Arrangements and Exchange Restrictions. The main questions to consider are: Are there a harmonized arrangement for payments among the ECOWAS member states? How do ECOWAS member states view issues such as control on imports payments and exports proceeds as well as invisible and capital transactions?

2. Emerging issues

2.1 Arrangement for payments and receipts: More than two-thirds of the ECOWAS member states (UEMOA, Gambia, Ghana, Nigeria) do have prescribed agreement and specific rules for payments to one another using particular currencies based on common consensus. But the payment arrangements in the region are perceived to be more effective among the UEMOA member states of ECOWAS and two non-UEMOA countries (Nigeria and Ghana). All of the UEMOA and three non-UEMOA members (Cabo Verde, Liberia and Nigeria) have control on credit operations such as commercial and financial credits. Most of the countries do have control on external trade in gold, but few (Sierra Leone, Nigeria and Guinea) do control domestic trade in gold.

2.2 Imports and Imports payments: Policies vary in all of the member states of ECOWAS governing imports and import payments to facilitate trade. Advanced payments are commonly used as financing requirements for imports. Nigeria and Guinea institute minimum financing requirements for imports. Measures for the allocation of foreign exchange for imports differ from one country to the other. The resident requirement and pre-shipment requirement are considered in all of the UEMOA countries and Guinea. Togo and Cote D'Ivoire are based on pre-shipment inspection, letter of credit and import licenses. Letter of credit as pre-requisite for release of foreign exchange for imports is required in The Gambia, Sierra Leone, Togo, Ghana, Cabo Verde, Nigeria and Guinea. All of the member states however have restrictions on imports of substance on negative list.

2.3 Exports and Exports Proceeds:

Several ECOWAS member countries have policy for repatriation of exports proceeds. All of the UEMOA and non-UEMOA countries such as Guinea and Sierra Leone require domiciliation. Letter of credit is applicable in Cote D'Ivoire, Sierra Leone and Guinea. Pre-shipment is requirement in Liberia. Pre-shipment and Letter of credit are applicable in Togo and Nigeria. Guarantees are only considered in Guinea. Exports proceeds are surrendered mainly to central banks and authorized dealers in ECOWAS member countries, except in The Gambia and Liberia. However, none of the ECOWAS countries reported to have financing requirements in place for exports and exports proceeds. Most of the ECOWAS countries without quotas operate using export licenses. Only Cote D'Ivoire operates using export licenses with and without quotas. Guinea operates using the licenses with quotas. Mali, Ghana and Cabo Verde operate without either of quotas.

2.4 Payments for Invisible Transactions and Current Transfers: Almost all of the ECOWAS countries, except The Gambia and Liberia, control transfers of payments for invisible transactions and current transfer. The most widely used, in terms of control on trade related payments is indicative limits or bona fide test. Proceeds from invisible transactions are required to be repatriated through two channels: surrendering to the central banks and authorized dealers. All of the countries in the UEMOA zone consider the two channels for repatriation of proceeds from invisible transactions, except the non-UEMOA states.

2.5 Capital Transactions:
Capital transactions as well as capital and money market instruments are widely controlled by all of the member states of ECOWAS, except Liberia. Most of these countries also exhibit control on capital and securities as well as personal capital transactions. In Guinea and countries in the UEMOA zone, capital is repatriated through both central banks and authorized dealers. The countries mainly in the UEMOA zone and Sierra Leone generally institute control on bonds or other debt securities. Shares and other securities as well as money market instruments are controlled in UEMOA countries, Guinea and Sierra Leone. In Ghana, the control is only on shares whereas Nigeria controls money market instruments. Collective investment securities as well as derivatives and other instruments are also controlled in UEMOA, Guinea and Sierra Leone. Most of the countries, in particular Gambia and those in the UEMOA zone control commercial credit by residents to non-resident. With the exception of the Gambia, Ghana and Liberia, most of the countries in ECOWAS have regulations on guarantees, sureties and financial backup facilities by residents to non-residents. Generally, the countries in the region control inward and outward foreign direct investments. Liberia, The Gambia and Nigeria do not fall in either of the categories.

Apart from Burkina Faso, the rest of the ECOWAS member states control liquidation of direct investment. Cote D'Ivoire, Burkina Faso, Togo and Cabo Verde control acquisition of direct investment of real estate transactions purchased/sold locally by non-resident, purchased abroad by residents and sold/issued abroad by residents. Guinea and Sierra Leone control acquisition of real estate direct investments purchased/sold locally by non-residents and purchased abroad by residents. The rest of the countries, excluding Liberia, Gambia and Nigeria, regulate acquisition of real estate direct investment that is purchased/sold locally by non-resident. Controls on gifts, endowments, inheritances and legacies are widely practised by member states of ECOWAS. Most of the countries in UEMOA as well as Guinea and Sierra Leone control debt settlement abroad relative to transfer of assets and transfer abroad by emigrants, except Liberia and The Gambia. All the member states of ECOWAS control transfer of gambling prize earnings.

2.6 Specific Provisions for Financial Sector: The financial sector in ECOWAS member countries is operated with significant control over specific provisions of commercial banks and other credit institutions, except Liberia. Slightly over half of the countries in ECOWAs have control over borrowing from abroad and control maintenance of accounts abroad as well as lending to residents. All of the other ECOWAS countries do have policy against lending locally in foreign exchange, except Liberia. Majority of the countries in ECOWAS do exhibit control on the purchase of locally issued securities denominated in foreign exchange. Policy on differential treatment of deposit accounts in foreign exchange is widely implemented through reserve requirements and credit controls in ECOWAS member states.

Regarding deposit accounts held in foreign exchange, the credit control and reserve requirement policies are broadly used in the UEMOA countries. The credit control, interest rate controls and liquid assets requirements are applied in Guinea. The liquid assets requirements are considered in Nigeria.

The insurance industry in almost half of the ECOWAS member states (Cote D'Ivoire, Senegal, Burkina Faso, Niger, Togo, the Gambia and Liberia) is covered, in most instances, by regulations particularly with limits on securities and portfolios. Looking at the pension fund, the regulations cover few of the countries in ECOWAS, notably Cote D'Ivoire, Ghana, Guinea and Burkina Faso.

3. Concluding Remarks

In ECOWAS member states, notable disharmony relating to arrangements for payments and receipts, mechanisms for import and export payments and receipts, invisible and capital transactions, as well as provisions specific to the financial sector still loom. In most of the non-UEMOA countries, there are weak arrangements for payments and control on credit operations. In spite of the lack of financing requirements for exports and exports proceeds, policies governing imports and import payments as well as repatriation of exports proceeds vary across the member states. The countries generally reflect variations of control on capital and securities, personal capital transactions, bonds or debt securities, shares and other securities, money market instruments, collective investment securities, gambling prize earning and gifts. Direct investments as well as liquidation of direct investment are controlled in most of the countries.

In the same vein, the financial sector is controlled in over half of the countries, especially borrowing from abroad, maintenance of accounts abroad and lending to residents. Thus, Member states should therefore accelerate the removal of impediments, strengthen infrastructures and capital markets as well as buttress regional cooperation to facilitate harmonization which is important pre-requisite for transitioning to single currency.

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Macro-prudential policy as a decisive factor in the stability of the financial system

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Introduction

Financial liberalization since the 1980s has dramatically increased the volatility of the financial system, which is struggling to build resilience and reduce imbalances. To protect banks from systemic risk and to reduce the risk of a banking crisis contaminating the rest of the financial system and the real economy, the international financial regulators successively adopted the Basel I and II Agreements. In the absence of differentiation between regulated banks and the shadow banking system, regulatory arbitrage as well as unbridled and uncontrolled financial innovations by banks quickly made these micro-prudential regulations insufficient or ineffective, as shown by the global financial crisis in 2007. In the wake of the crisis, a consensus emerged among researchers and policy-makers on the need for financial regulation to take on a macro-prudential approach (Hanson et al., 2011).

This article which aims at analyzing the macro-prudential dimension of financial regulation is structured into 3 main points: (1) the objectives of macro-prudential policy, (2) the tools of the macro-prudential and (3) some policy recommendations for proper implementation of the macro-prudential mechanism.

2. Macro-prudential policy Objectives

The macro-prudential approach aims to curtail the risk of financial crisis affecting the whole system, in order to control the cost at the macroeconomic level. Unlike a micro-prudential approach that favors partial equilibrium and resilience of individual financial institutions, the macro-prudential approach emphasizes general equilibrium and seeks to ensure overall financial stability.

The purpose of a macro-prudential policy is to prevent the emergence of systemic risk and thereby reduce the likelihood of a financial crisis occurring or limit its impact if it is impossible to prevent it from occurring. These macro-prudential policies, which are complementary to micro-prudential policies, are defined on the basis of two elements: (1) their analytical scope, which is the financial system as a whole, including interactions between the financial and the real sectors of the economy; 2) the instruments of their actions and their use. Depending on the analyses made of the financial system as a whole, macro-prudential policy instruments can be very different.

3. Macro-prudential Policy Tools

Given the numerous channels through which macroeconomic developments affect the stability of the financial system, several types of tools are used to implement a macro-prudential approach. A macro-prudential tool should be considered as long as it reduces the likelihood of a systemic financial risk. The recent global financial crisis has led the Basel Committee on Banking Supervision to review the Basel I and Basel II Agreements, which have many weaknesses.

The objective of the Basel Committee is to reduce the tendency of the banking system to amplify the fluctuations of economic cycles by an excessive supply of credit during periods of prosperity and their exaggerated compression when tensions emerge. In response, the authorities remain in line with the Basel I and II Agreements, namely ***that minimum capital requirements increase*** from 8% to 10.5% (6% of "Tier 1" and 2% for "Tier 2") including a capital buffer equal to 2.5% of the weighted assets. This dashboard, consisting of ordinary shares and reserves, may be mobilized during periods of tension.

This tool, which can be called a micro-prudential tool, is thus complemented by a new macro-prudential instrument: the ***introduction of a compulsory counter-cyclical capital buffer, from 0% to 2.5%.*** Banks will have to create a counter-cyclical cushion in the ascending phase of the financial cycle, to use them when a downward phase occurs, in order to neutralize the adverse effects. Bank branches would only begin to create their counter-cyclical cushion once the credit-to-GDP ratio is above a threshold of 10% and would only use them after they have incurred losses or observed a dangerous decline in the supply of credit. More than limiting the risk of a banking crisis, such an instrument will control the original boom, moderating credit growth in times of expansion.

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A micro-prudential measure with a macro-prudential component, namely surveillance of the leverage of financial institutions, saw the light of day with Basel III. A high leverage increases the potential profitability of a bank as well as its risk of losses. Under the Basel rules, capital ratio is applied to risk-weighted assets based on their respective level of risk. Large banks are allowed to determine their risk weights themselves, which is not without negative effects, as they may be tempted to allocate lower coefficients to their assets in order to increase their leverage.

Basel III tackles this problem by introducing a ceiling on leverage, limiting the total amount of assets a bank can own based on its equity. The leverage ratio is calculated by dividing Tier 1 capital by total assets. This ratio, which does not take the weighting into account, amounts to 3% (i.e. a total of balance sheet and off-balance sheet exposures not exceeding 33 times the banks' Tier 1 capital). This tool limits risk taking by financial institutions, which is not appealing to banks that invest primarily in low-risk assets because they consider that such a cap would slow down their activity. Moreover, many banks are opposed to the idea of publishing their leverage.

Finally, Basel III introduced two liquidity ratios in 2015 in order to limit maturity transformation by banks, which consists of borrowing in the short term using liquid instruments and investing the funds thus obtained in long-term non-liquid assets . This liquidity gap allows banks to earn a margin corresponding to the spread between short and long term interest rates, which increases with the spread between maturities. On the other hand, they run the risk of liquidity, manifested in difficulties in financing at the end of short-term borrowings, forcing them to sell long-term assets at marginal prices. The two liquidity ratios require banks to maintain a minimum liquidity reserve. The first is a liquidity coverage ratio, which requires banks to hold sufficient liquid assets to hedge expected net cash outflows over the next thirty days. The second is a net stable funding ratio, the purpose of which is to ensure that banking institutions have sufficient resources to cover the financing needs of the next twelve months. It is important to note that liquidity problems can be the symptom of more fundamental problems, such as investor mistrust as to the solvency of a bank.

4. Some policy recommendations for the implementation of macro-prudential policies

The introduction of a comprehensive supervision of the financial system beyond Basel III is an operational and analytical challenge in a macroeconomic and financial environment with increasing uncertainty.

A major difficulty for regulators in the implementation of macro-prudential policies is that an accurate assessment of the effects of macro-prudential instruments is difficult, as their scope of action and dimensions are highly diverse, complicating the choice of instruments by regulators. The latter face several dilemmas (Lim et al., 2011): (1) do we need just one or more instruments? (2) should the instruments be more targeted or have a broad scope? (3) Must the chosen instrument have a fixed or variable value over time? (4) should a set of rules be followed in the use of instruments or should it be discretionary?

To address such dilemmas, regulators should

- *Develop within the macro-prudential policy, a set of instruments insofar as the combination of several tools offers the advantage of addressing the same failure from different angles, and thereby ensuring greater efficiency.*

- *Use the tools in a versatile and differentiated way to better prevent financial systemic risks.*

- *Adjust the tools based on cycles;*

- *Use the instruments for clear regulatory purposes with a view to reducing uncertainty and ensuring better effectiveness of the policies put in place;*

- *Ensure that the institutional framework includes a robust regulatory framework and credible macroeconomic policies;*

- *Clarify the relationships and differences between macro-prudential policies and micro-prudential policies in order to avoid redundancies and ambiguities.*

Conclusion

The financial crisis that has affected the global economy has made it a pressing need for effective banking supervision and for the implementation of new prudential policies, robust risk management practices and Improvement of financial communication. This crisis has revealed deficiencies in risk management, governance and due diligence that the private sector will have to address.

Drawing on the lessons of the financial crisis, the Basel Committee sought to ensure that shocks induced by a financial crisis could be absorbed by banks in order to avoid the risk of spreading to the real economy. The new Basel III mechanism is macro-prudential in order to mitigate the systemic risk.

Implementation and application of Basel III standards will improve the quality and level of bank capital, reduce systemic risk and anticipate a sufficient timeframe for the transition to the new regime, while avoiding unforeseen circumstances. At the same time, international liquidity requirement is an important element that would protect banks against possible illiquidity.

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Brexit: Possible Trade Implications for ECOWAS Countries

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Introduction

In June 2016, following a referendum, the British opted for the United Kingdom to leave the European Union popularly known as Brexit According to most analysts, Brexit could lead to a weakening of the economies of the UK , the Eurozone and even the global economy.

Answers to questions about the shape of future trade relations between the United Kingdom and African countries in general and those of ECOWAS in particular are still unknown. What is certain is that a significant number of trade agreements including the Economic Partnership Agreements (EPAs) between the United Kingdom and African countries via the European Union (EU) will have to be renegotiated if the United Kingdom loses access to the European Common Market. The main ECOWAS countries that would be most affected in this scenario would be Nigeria, Ghana, Côte d'Ivoire and to a lesser extent Senegal. The uncertainty that already exists during this negotiation phase is likely to continue with the implementation of the new agreements. Thus, the slowdown in the UK economy resulting from this situation could have a detrimental effect on trade between the United Kingdom and the ECOWAS countries.

The objective of this write up is to analyze the possible implications of Brexit on trade relations between the United Kingdom and the ECOWAS countries. In this regard, the paper is organized in two parts: the first part presents the existing trade links between the United Kingdom and ECOWAS and the second part deals with the possible implications of the UK's exit from the European Union on trade with ECOWAS.

1. Existing Trade Links between the United Kingdom and ECOWAS

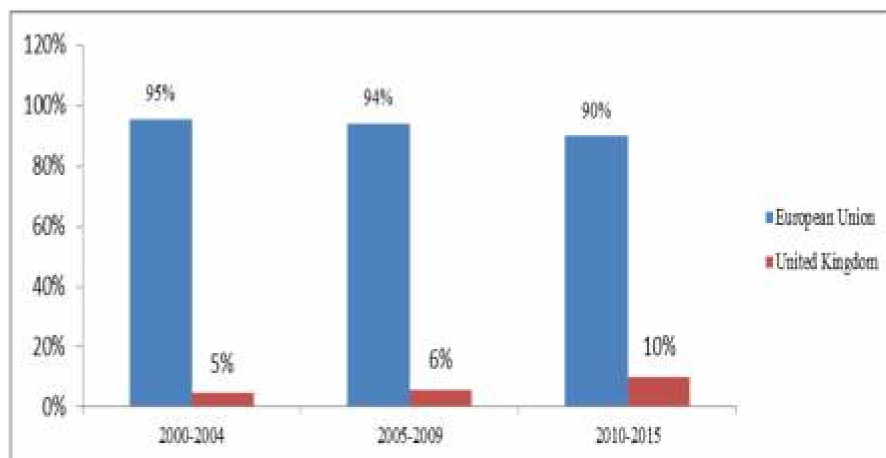
The European Union remains the main trading partner for the countries of ECOWAS. We shall highlight the share of trade of ECOWAS countries with the United Kingdom and the EU, focusing on the United Kingdom because we believe that it is trade agreements between the latter and the countries of the bloc which are likely to change in the aftermath of Brexit.

ECOWAS exports to the United Kingdom

ECOWAS countries generally export mineral products (petroleum, gold, uranium etc.) and agricultural produce (cocoa, coffee, groundnuts, bananas, rubber and cotton) to the United Kingdom. Exports of services consist mainly of tourism, transport and other services.

Between 2000 and 2015, on average, 30% of ECOWAS exports went to the European Union, compared to 70% for the rest of the world. Chart 1 shows the average share of total ECOWAS exports to the European Union between 2000 and 2015. Of all the exports from the EU-bound areas, there is an increase in the share of exports to the United Kingdom from 5% to 6% and to 10% for the periods 2000-2004, 2005-2009 and 2010-2015, respectively. Between 2010 and 2015, about 10% of the zone's exports went to the United Kingdom while the rest headed to other EU countries.

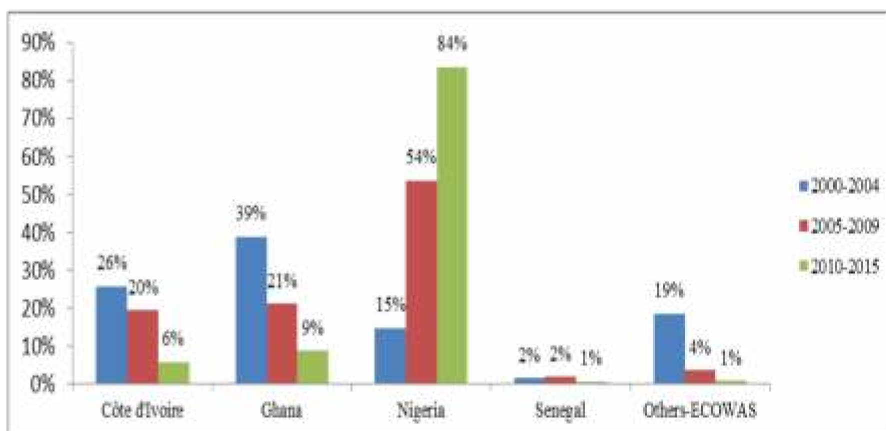
Chart 1: Average Shares of ECOWAS Exports to the European Union and the United Kingdom



Source: Calculations of the author based on DOTS statistics of the IMF, July, 2016

Within ECOWAS, the countries that export the most to the United Kingdom are Nigeria, Ghana, Côte d'Ivoire, and Senegal. Chart 2 shows the percentage share of exports from these ECOWAS countries to the United Kingdom. Nigeria emerges as the UK's main trading partner in ECOWAS with 84% of the country's exports going to the United Kingdom between 2010 and 2015. Ghana, Côte d'Ivoire and Senegal follow Nigeria, in order of magnitude.

Chart 2: Average export Shares of ECOWAS countries to the United Kingdom



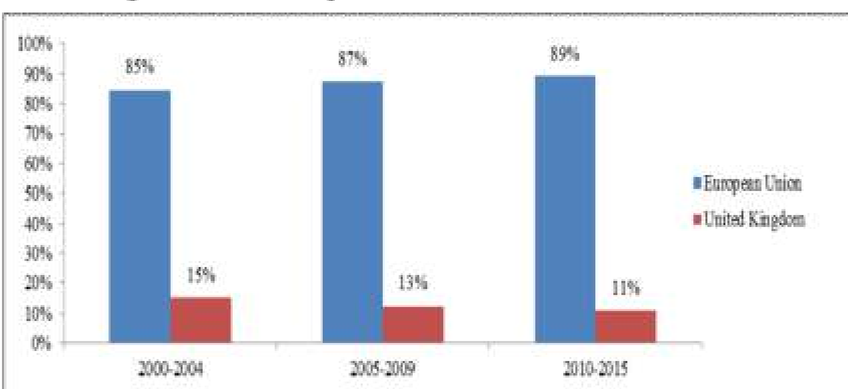
Source: Calculations of the author based on DOTS statistics of the IMF, July, 2016.

ECOWAS Imports from the United Kingdom

Between 2000 and 2015, on average 28% of ECOWAS imports came from the European Union, while 72% came from the rest of the world. Chart 3 shows the share of the United Kingdom and other EU countries, from the total ECOWAS imports from the EU. Of the total imports from the EU, there was a 15%, 13% and 11% decline for the period 2000-2004, 2005 and 2009 and 200-205. Over the entire period, more than 11% of ECOWAS inbound imports from the EU came from the United Kingdom, while the remainder coming from the rest of the EU.

United Kingdom appears to be an import source for some ECOWAS countries such as Nigeria, Ghana, Benin, Côte d'Ivoire, The Gambia, Sierra Leone and Senegal. The countries that source the most from the United Kingdom are Nigeria, Ghana, Côte d'Ivoire, and Senegal. Chart 4 shows the shares of imports from ECOWAS countries from the United Kingdom. Nigeria appears to be the main partner of the United Kingdom with 60% of imports from 2010 to 2015, followed by Ghana, Côte d'Ivoire and Senegal in order of magnitude

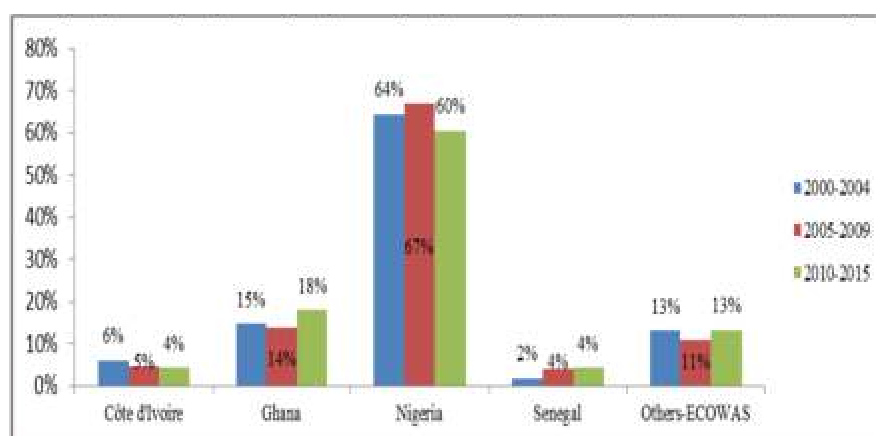
Chart 3: Average shares of ECOWAS imports from the EU and the UK



Source: Calculations of the author based on DOTS statistics of the IMF, July, 2016.

In sum, trade between ECOWAS and the United Kingdom averaged $ 4991.6 million between 2000 and 2015. Overall, ECOWAS trade balance with the United Kingdom was in deficit between 2000 and 2015 and averaged $ 909.6 million during the period. This indicates that ECOWAS countries import from the United Kingdom more than they export to that country.

Chart 4: Average shares of imports of ECOWAS countries from the United Kingdom



Source: Author's calculation from IMF DOTS data, July 2016

In view of trade relations between the United Kingdom and some ECOWAS countries on the one hand and between ECOWAS countries and the EU on the other, any shock that might lead to the slowdown of the economies of the UK, the Eurozone or the global economy could have an impact on the current account balance and the fiscal balances of the ECOWAS countries.

2. Implications of Brexit on trade relations between the United Kingdom and ECOWAS

Brexit could lead to worsening economic conditions in some ECOWAS countries and, at the same time, create some opportunities. Its likely implications could be either a direct result of a slowdown in the UK economy or indirectly a slowdown in the euro area economy or the global economy.

Slowdown of the British economy

All forecasts indicate a slowing of the economy in the aftermath of Brexit even under the most optimistic assumption about future trade agreements between EU countries and the UK (Ebell et al., 2016. IMF, July 2016). In the long term, Brexit could lead to a reduction in the UK's GDP by about 2 to 3% in the best case scenario, whereas in the worst-case, WTO scenario, a GDP reduction of around 5% is to be envisaged. (Ebell and AL., 2016).

In the short term, trade agreements between the United Kingdom and ECOWAS will not change immediately. In the medium and long term, Brexit could weaken trade between the United Kingdom and the countries of the European Union, on the one hand, and between the United Kingdom and the ECOWAS countries, on the other. Particularly, if the British lose access to the EU common market, they will have to negotiate new trade agreements with ECOWAS countries. The process could take several years and this could yield negative consequences for trade. Some ECOWAS countries such as Nigeria and Ghana that have significant trade ties with the UK may suffer in the short to medium term from the consequences of Brexit if forecasts of the slowing British economy are come true. A slowdown in the UK economy could dampen the country's export demand from ECOWAS countries, which could impact current accounts and fiscal balances of the latter.

Slowdown of the euro area and world economies

ECOWAS is a key trading partner of the European Union. Nigeria, Côte d'Ivoire, Ghana and Senegal account

for more than 80% of West Africa's exports to the EU. The Eurozone accounts for about 16% of the world economy, while the United Kingdom accounts for around 3.7% (Hove and Wakeford, 2016). In the short term, uncertainty affects global economic conditions. As the UK is the second largest economy in the EU, Brexit could weaken the prospects for economic growth in the euro area. Consequently, the slowdown in the euro area could weaken the rate of growth of the world economy, which could affect African countries in general and those of ECOWAS in particular, by reducing demand for exports and weakening world trade. The slowdown in world trade could in turn weigh on commodity prices and thus affect income and tax revenues in commodity-exporting countries. This situation could lead to a slowdown in economic activity and deterioration in the terms of trade as well as deterioration in the current account and budget deficit of the exporting countries.

Opportunities

Brexit could also create opportunities for some ECOWAS countries. One might note, for example, that Britain in its strategy of seeking new opportunities and markets in West Africa might consider intensifying its relations with fellow countries of the Commonwealth (Nigeria, Ghana, The Gambia and Sierra Leone). Secondly, Brexit seems to have triggered a jump in gold prices because gold is a safe haven value in times of uncertainty. This situation could make it possible for ECOWAS countries that export gold to benefit from it. Third, the weakening of the British currency could have positive effects due to a reduction in costs of imports.

Conclusion

This paper has analyzed the possible effects of Brexit on trade relations between the United Kingdom and ECOWAS countries. In terms of trade relations, ECOWAS countries' exports to the United Kingdom are made up of raw materials, while imports from the United Kingdom consist mainly of energy products and capital goods. The UK has important trade ties with some ECOWAS countries such as Nigeria, Ghana and Cote d'Ivoire. The implications of Brexit on trade relations between the United Kingdom and ECOWAS countries could be the result of a slowdown in the UK economy and / or a slowdown in the euro area economy as well as the global economy. A slowdown in the UK economy could curb UK demand for exports from ECOWAS countries, which could have an impact on the current account and fiscal accounts of the countries in the Zone. A slowdown in the euro area economy and the global economy could lead to a slowdown in economic activity, deterioration in the terms of trade and deterioration in the current account and budget deficits of ECOWAS countries. Within ECOWAS, the majority of countries meet the convergence criteria for gross foreign exchange reserves in months of imports and outstanding debt. However, a continuing deterioration in the current account and fiscal accounts could lead to lower reserves and increase debt. In addition, Brexit could create opportunities for some ECOWAS countries. However, if trade relations between ECOWAS and the United Kingdom or the European Union become complicated as a result of Brexit, ECOWAS countries should look to China, and other countries such as Brazil and India to compensate for the attendant losses.

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