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The Franc Zone of West and Central Africa

A Satellite System of European Monetary Union

In the francophone countries of West and Central Africa a currency system has long been in place which was originally based on the French franc and is now based on the euro. A look at how this system has operated over the years may highlight some useful experiences for the countries on the eastern and southern periphery of the euro area that are now considering pegging their national currencies to the euro and could help to clarify the opportunities and risks arising for both these countries and the present participants of European Monetary Union.

For a long time after its establishment the euro showed weakness on the international foreign exchange and financial markets. This tendency has only recently been broken by a considerable and lasting appreciation of the euro vis-à-vis the US dollar. But paradoxically even during the phase of weakness the euro exhibited attractive qualities mainly in the smaller countries on the eastern and southern periphery of the euro zone. The "euroisation" of the monetary systems of these countries[1] is by no means surprising, as the economies involved are in a fragile state. Their fiscal and monetary institutions as a rule lack practical experience and political credibility, and the public consequently has real doubts that the national currencies will be able to fulfil their functions. In this situation a strong tie between the national currencies and the euro seemed to be an expedient means to import reliability and credibility into a weak monetary system.

Influential economists have recommended the institution of a currency board as an adequate solution to this problem.[2] The main properties of this regime are the maintaining of a stable rate of exchange and full convertibility vis-à-vis the anchor currency (the euro) and the full covering of the issued national currency by reserves of foreign exchange (the anchor currency). This involves giving up national autonomy in monetary (and fiscal) policy.[3] Experience has shown that this offers an expedient means of importing stability and thus also lowering transaction costs and risk premiums. That in turn provides a favourable climate for further enhancing stability and for economic growth. On the other hand, by forfeiting their monetary sovereignty currency-board countries also lose a substantial amount of room for manoeuvre in other areas of economic and social policy, especially as regards wage levels.

In view of this, only a few of the smaller transition economies (Bosnia-Herzegovina, Bulgaria, Estonia and Lithuania) have so far introduced currency boards to peg their currencies first to the deutschmark, then to the euro. Certain other countries such as Malta and Cyprus have established a firm peg to the euro.[4]

The debate on the opportunities and risks arising for these countries, and also for the existing participants in European monetary union, often tends to overlook the fact that a currency system has long been in place in the francophone countries of West and Central Africa based originally on the French franc and now on the euro, following France's accession to EMU on 1 January 1999. A look at how this system has operated over the years (since 1973 in its current form) may highlight some useful experiences for the other countries now planning to peg to the euro. Of course, the African franc zone countries differ from the European transition countries in a number of specific characteristics stemming from the history of France's relations with its former colonies. However, factors such as these change nothing in the fundamental conditions determining the success of a pegging arrangement between currencies. This article will therefore discuss the structure and operation of the franc zone in more detail, keeping in mind the "magic triangle" of monetary policy.

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[1] Cf. Henrik Müller: From Dollarisation to Euroisation, in: INTERECONOMICS, Vol. 34 (1999), pp. 286 ff., esp. pp. 294-95.

[2] Rüdiger Dornbusch: The Euro: Implications for Latin America. Paper prepared for the World Bank, Cambridge, Mass. 1999.

[3] Cf. Michael Frenkel, Lucas Menkhoff: Stabile Weltfinanzen? Die Debatte um eine internationale Finanzarchitektur, Berlin, Heidelberg, New York 2000, pp. 11 ff.

[4] Henrik Müller, op. cit., p. 295 (Table 2).

Composition and History of the Franc Zone

Viewed in the light of the theoretical prerequisites for establishing an optimum currency zone,[5] the franc zone in Africa was not exactly an ideal candidate. The zone is patently political in origin, and was eventually formed in 1939 as an instrument of France's policy of economic autarky. The country had been seeking since 1929 to back up its protectionist stance on foreign trade with a dedicated currency zone for its colonies.[6] The CFA franc was finally introduced as a common currency for France's African colonies in 1939; the new currency was fully convertible into French francs at a fixed exchange rate. Convertibility was assured by a special account maintained by the French exchequer, in which all convertible currency reserves held by the colonial territories had to be deposited.[7]

As France's colonies began to gain their independence from 1958 onwards, two central banks were established in 1962, initially in Paris, to serve the West African and Central African territories – the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) and the Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun (BCEAC), respectively. The currency issued by these central banks was the Franc Communauté Financière Africaine (FCFA). On the basis of cooperation treaties between France and its former colonies in sub-Saharan Africa, the two central banks were "Africanised" in 1972 and 1973 by relocating the BCEAO to Dakar, Senegal and the BCEAC, now renamed Banque des Etats de l'Afrique Centrale (BEAC), to Yaoundé, Cameroon. Though both retain their initials FCFA, the respective banks have issued two different currencies since that time, the "Franc Communauté Financière Africaine" for West Africa and the "Franc de la Coopération Financière en Afrique Centrale" for Central Africa. Until 1993, the two currencies remained mutually convertible, and had the same exchange rate with the French franc.

The franc zone today encompasses 14 countries, and the two regional blocs are now termed the Union Monétaire Ouest-Africaine (UMOA) and "la zone BEAC".[8] The main tasks performed by the two central banks are issuing CFA franc notes and implementing monetary policy in their respective zones. The BCEAO has the more centralised set of policy instruments: it maintains representative offices in each of the UMOA member countries whose job is to execute the monetary policy measures drawn up in Dakar at the national level. The BEAC zone has a less centralised organisation: although there is a two-tier structure in place here too, the BEAC's national representative offices have a certain amount of policy-making autonomy vis-à-vis the Yaoundé headquarters, especially as regards setting interest rates. The central bank boards responsible for implementing monetary policy are bound by instructions issued by conferences of the heads of state and the appropriate councils of ministers. The central banks are also responsible for pooling convertible currency reserves in their respective zones, maintaining bank accounts for the member states' treasuries, and supervising all banks and financial institutions operating in their zones. Finally, they perform services for the member states which include representing them in international financial bodies, advising them on structural economic reforms, and providing personnel training at both entry and advanced levels.[9]

The external value of the FCFA is determined by the monetary cooperation mechanisms between the African central banks and the French state.[10] The cooperation is based on four principles contractually laid down in 1972 and 1973, namely:

(1) A fixed parity between the FCFA and what was then its reference currency, the French franc (FRF)

(2) The free movement of capital within the franc zone

(3) The pooling of convertible currency reserves and harmonisation of exchange controls: at least 65% of the two central banks' foreign currency income is required to be deposited in accounts held at the French exchequer – one for each bank. The deposits earn a market rate of interest. Gains made on fluctuations between the FRF (now EUR) and International Monetary Fund's special drawing rights (SDRs) are credited to the African central banks, whereas losses incurred on the same cross rate are reimbursed by the French exchequer.

(4) The French exchequer guarantees convertibility of the FCFA, being obliged to exchange it for FRF (now EUR) at all times. The implication of this is that the special accounts held with the French exchequer, which function as the commercial accounts for the franc zone countries' external transactions, can be overdrawn without

[5] Cf., e.g., Alexander Juchems: Theorie optimaler Währungsräume, dissertation, Würzburg 1994.

[6] Cf. Heiko Körner: Kolonialpolitik und Wirtschaftsentwicklung: Das Beispiel Französisch West-Afrikas, Stuttgart 1965, pp. 53 ff.

[7] On the following, cf. Modibo Khane Camara: Die Finanzsektorreform in Afrika. Das Beispiel der Franc-Zone, Frankfurt am Main 1998, pp. 13 ff.

[8] Present members of the UMOA are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. Those of the BEAC zone are Cameroon, Central African Republic, Chad, Equatorial Guinea, Gabon, and the Republic of the Congo. Almost all of these countries fall into the category of highly indebted, least developed countries producing mainly raw materials. Per capita GDP in the majority of these countries is still well below the average for low-income countries ($2,130 in 1998). Cf. IMF: World Economic Outlook, May 2001, Washington, D.C. 2001, p. 83 and the World Bank: World Development Report 1999/2000, Oxford & New York 2000, pp. 276-77.

[9] Cf. Mobido Khane Camara, op. cit., pp. 16 ff.

[10] Cf. Jean-Marie Gankou, Dieudonné Bondoma Yokono: Gestion du taux de change et politique d'ajustement dans les pays africains membres de la zone franc, Paris 1998, pp. 5 ff., 25 ff.; Rémi Godeau: Le franc CFA, Saint-Maur 1995, pp. 59 ff.

limit by the two African central banks if their own convertible currency reserves are inadequate.

Thus the franc zone effectively operates as a credit mechanism organised by the French state which, while serving to maintain the guaranteed convertibility of the CFA franc, simultaneously grants all holders of CFA francs access to the international capital markets. So the characteristics of a currency-board type of monetary system are in place. However, the Banque de France is not involved in formal terms, and the fixed CFA franc exchange rate is guaranteed instead by the unlimited overdraft facility enjoyed by the two African central banks, fulfilled by the French ministry of finance and administered by the exchequer. This credit creation mechanism is in turn derived from the system in which the French exchequer traditionally also functioned as the bank for the state and local prefectures, and given the limited autonomy of the central bank it was thus in a position to force increases in the money supply. This was entirely compatible with the overall philosophy of economic and monetary policy prevailing in France at the time.

However, during the 1970s the French government gradually adopted a more realistic view of the stability problems associated with any system of this kind. The autonomous powers of the African central banks in determining monetary policy were therefore restrained by "stability clauses" which granted the French minister of finance rights of consultation and veto over the formulation and implementation of monetary policy in the franc-zone member countries. At the same time, a number of protective mechanisms were established with the aim of preventing the African central banks from overdrawing their exchequer accounts for sustained periods.[11]

In the event, a lax tendency in enforcing these stability devices developed in the second half of the 1980s, to serve France's foreign policy interests. As a result, inflationary credit expansion was the order of the day in a number of African franc zone countries. Almost simultaneously, Africa's raw material producers were hit by falling prices on world markets and a corresponding deterioration in the terms of trade. Exporters in the franc zone also suffered because their competitive position relative to a number of rival African economies was further eroded as these other countries had devalued their currencies in the course of structural adjustment programmes[12] while the FCFA remained firmly pegged to the French franc. The real revaluation of the FCFA ultimately caused not only foreign trade but also domestic economic activity to collapse,[13] as both commercial and public-sector banks were forced to concede that they would have to write off most of their lavish sovereign and private-sector loans. The two central banks proved virtually powerless to cope with problems on this scale: not only was their supervision of the banking sector relatively ineffectual, but they were also unable to prevent governments from borrowing more and more to cover their increasing deficits.[14] The franc-zone model now proved counter-productive, as the initial inflationary potential gave way to a flagging real economy, only exacerbated by the inability to adjust exchange rates. This was a situation in which devaluation would have offered the only way out.

In the years that followed, the African countries embarked on domestic consolidation programmes, under pressure from the French government, the World Bank and the IMF. The prime components of these programmes were reforms in the commercial banking sector, improved banking supervision, consolidation of the public-sector budget, and the liberalisation of key markets.[15] However, at the African countries' own request, no devaluation of the FCFA was yet undertaken even though the overall situation called for one, so what remained was a rather watered-down form of structural adjustment programme. This omission, motivated entirely by prestige considerations, meant that the countries remained relatively uncompetitive internationally. At the same time, recessionary tendencies in their domestic economies persisted, and this was accompanied by a rapid decline in foreign direct investment and growing capital flight.

By January 1994, the point was reached when the economic situation in the franc zone countries had deteriorated so badly that, under pressure from the IMF and the French government, the FCFA was devalued by 50% relative to the French franc.[16] At the same time, the local currency's convertibility into the FRF was restricted for residents of the franc zone countries. Further structural reforms followed in the publicly-owned and commercial banking sector, and new instruments were introduced to manage the money supply (minimum reserve requirements and securities repurchase operations). These measures were supplemented by the virtual abolition of the instrument known as allocative credit policy which had previously been used to promote activities considered to take priority in development terms.

[11] Cf. Mobido Khane Camara, op. cit., pp. 21-22.

[12] For the general issues, cf. The World Bank: Adjustment in Africa, New York, Toronto 1994.

[13] For a thorough discussion of this episode, cf. James A. Boughton: The Economics of the CFA Franc Zone, in: P.R. Masson, M.P. Taylor (eds.): Policy Issues in the Operation of Currency Areas, Cambridge, UK 1993, pp. 96 ff.

[14] Cf. Gervasio Semedo, Patrick Villieu: La Zone franc: Mécanismes et perspectives macroéconomiques, Paris 1997, pp. 96ff.; Alain Delage, Alain Masiera: Le Franc CFA, bilan et perspectives, Paris 1994, pp. 86 ff.

[15] Cf. Banque de France: La Zone Franc. Note d'information No. 106, March 1997.

[16] The exchange rate prior to 12th January 1994 was FRF 1 = FCFA 50, and after the devaluation it was FRF 1 = FCFA 100.

That made the central banks more independent of governments, allowing them better to pursue stability-oriented monetary policies.[17]

The exchange-rate realignment helped to stabilise the performance of the economies in the CFA franc zone.[18] Though to differing degrees, all of the countries again recorded positive GDP growth in the 1996/97 period. The balance of payments position also improved, particularly in the West African countries, and almost all the member states managed to boost convertible currency reserves. Nevertheless, growth in effective domestic demand, especially from private investors, remained subdued, leading to a considerable accumulation of liquidity in the commercial banks which the central banks were unable to soak up.

It was during this phase of economic consolidation from a low base – as chance would have it, also coinciding with the CFA zone's sixtieth anniversary – that the substitution of the euro for the French franc as the reference currency came "riding on to the scene". This consequence of France, the monetary guarantor, entering into EMU gave rise to heated debate, particularly in terms of the political implications.[19] The French government eventually won the day with its view that the transition to Economic and Monetary Union on 1st January 1999 could not in any way be permitted to invalidate France's monetary cooperation treaties with the franc zone countries, which is why France alone, rather than the European Central Bank (ECB) retains the responsibility for monetary policy in the franc zone.[20] This left the African countries concerned little option but to welcome the arrangements. In November 1998, for example, the BCEAO's governor Charles Konan Banny declared that the franc zone's attachment to EMU could only strengthen the stability guarantees already in operation. This, he said, would provide an even firmer foundation for stability-oriented monetary policy in the CFA countries.[21]

The Franc Zone and the Euro

The only practical consequence of France's entry into EMU was the recalculation of the FCFA's peg so that the exchange rate was quoted in euros instead of French francs,[22] while the CFA franc zone system, its instruments and its *modus operandi* all remained unchanged. The legal basis for the changeover was provided by Article 109 (5) of the Treaty of Maastricht. This documents the sovereign right of EMU participant states to negotiate in international bodies with non-EMU countries on economic and monetary matters and to enter into treaties with them. Thus in a strictly legal sense France's approach was within the EU's rules, since the country has political cooperation agreements with the francophone African countries which do not touch on the Banque de France's monetary sovereignty. As described earlier, the special accounts which form the backbone of France's cooperation with the CFA franc zone are held at the French exchequer (for which the ministry of finance is responsible), not at the Banque de France. Thus the assignment of powers from the Banque de France to the ECB leaves monetary policy in the CFA franc zone – managed via the exchequer clearing accounts – unaffected.[23]

However, the question needs to be discussed whether the monetary policy of the ECB, despite its lack of any formal involvement, is not in fact affected by the operations of the French exchequer. To begin with, we need to ask whether the money supply within the monetary union might be affected by ebbs and flows in the CFA zone accounts at the French exchequer. In principle, this is indeed the case, but in volume terms these operations are likely to remain immaterial given that the FCFA accounts for only about 2% of the central bank money stock circulating in France. Similarly, the global deficit on the two exchequer accounts pales into insignificance when viewed alongside France's total budget deficit.[24] So this aspect of the problem, though present, is of marginal significance. A more fundamental issue for the proper functioning of euro-zone monetary policy is to what extent the exchequer might be able to actively influence the ECB's money supply operations by allowing the two CFA franc-zone central banks to overdraw their accounts *ad infinitum*. However, this is restrained by Article 104 of the Treaty of Maastricht which forbids member states to run up "excessive governmental deficits". In combination with the convergence criteria laid down in the European Stability Pact, this ought to ensure that the French exchequer is closely restrained.[25] So on those two counts, the existence of the franc zone in Africa is hardly likely to jeopardise the internal stability of EMU.

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[17] For a detailed account, see Mobido Khane Camara, op. cit., pp. 139 ff.

[18] The World Bank: World Development Report 1998/99, Oxford & New York 1999, Tables 1, 15, 16.

[19] Cf. Rémi Godeau, op. cit., pp. 178 ff.

[20] Cf. Jean-Marie Gankou, Dieudonné Bondoma Yokono, op. cit., p. 89.

[21] "La BCEAO confiante dans lavenir du franc CFA", in: Actualités internationals, 11th Nov. 1998.

[22] On the basis of the fixed conversion rate of EUR 1 = FRF 6.55957 and the post-devaluation exchange rate of FRF 1 = FCFA 100, the CFA franc has been pegged to the euro since 1st January 1999 at EUR 1 = FCFA 655.957.

[23] Cf. Michael Lelart: La construction monétaire européenne, Paris 1994, pp. 198 ff., esp. p. 199.

[24] Gervasio Semedo, Patrick Villieu, op. cit., p. 147.

Nevertheless, the Community did need to take certain formal measures. On the one hand, proper provision had to be made to allow France to uphold its agreements with the two central banks and the member states in the franc zone. On the other, in its conduct of the franc zone France needed to be committed to the stability criteria agreed upon for the euro zone. To secure these aims, a Council decision elucidating Article 111 (3) of the EU Treaty, taken on 23rd November 1998, confirmed that France would be able to shape its relations with the franc zone in any way it wished provided that there was no impact, whether direct or indirect, on the stability of the euro or the policies of the ECB. However, the French government was at the same time required to regularly inform the EU Commission, the ECB and the European Parliament's Committee on Economic and Monetary Affairs about any relevant decisions concerning the country's cooperation with those of the franc zone. Moreover, any major changes to the treaties surrounding the CFA system were made conditional upon prior consultations with the ECB and the approval of the Council. The latter proviso applies especially to the admission of new member states to the franc zone and to any changes in the exchange-rate regime as such.[26] The Council also expressed the opinion that neither the ECB nor the EU member states should share with France any of the responsibility for guaranteeing stability in respect of the franc zone central banks, as France alone functions as their treaty counter-party and manager of the system.[27]

On the French side, the situation is a complex one at first sight from the stability point of view. After all, it is unlikely that the French exchequer would be able or even wish to build up the same reputation for stability as the independent ECB. In principle, it is always possible that the exchequer and the French government may choose to behave opportunistically towards their African treaty partners. However, the cabinet agreed in 1998 on a reform of France's policy towards cooperation and the South, and this has tended to lead to a reduction in direct political intervention and a gradual financial disengagement in the francophone African countries.[28] Moreover, the French government, and hence the exchequer, have had a commitment to a stability orientation imposed upon them by the EU Council decision of 23rd November 1998, which cannot be breached without attracting sanctions. So at the end of the day, even the EU Commission's recommendations for the Council decision stated that it was unlikely these agreements would have any material impact on common monetary and exchange-rate policy within the euro zone.[29] Once again, the overriding goal of monetary stability would not appear to be jeopardised from this angle.

The next question that arises is how much the bond now established between the euro zone's stability-oriented monetary system and the CFA franc zone will be able to stabilise economic development in the latter's West and Central African member states. Political observers tend to take a positive view of this. Members of the European Parliament have expressed their conviction that the indirect bond between the franc zone and EMU will bring a variety of benefits, including:

- improved stability via the peg to a strong anchor currency
- the elimination of exchange risk in dealings with the most important trading partners in Europe
- easier access to European financial markets
- enhanced attractiveness of the franc zone countries for foreign direct investment
- heightened awareness of the need for economic and also policy convergence among African countries.[30]

It is as well to apply a pinch of salt to statements of this kind as they are inclined to accentuate the positive. Nevertheless, a stability-oriented monetary policy in the franc zone now appears firmly established in two main ways. Firstly, France has a contractual right to a say in how the African central banks' monetary policy is devised and implemented. This applies especially in instances when the central banks' convertible currency reserves fall below a critical level. Secondly, the Banque de France maintains close cooperation with the franc zone central banks in areas such as passing on economic and monetary information, advice on policy-making, and technical and personnel assistance. In light of these links, the African central banks are not altogether free to monetarise their deficits in euros.[31]

However, a closer look at the two parts of the franc zone shows two differing situations in qualitative terms.[32]

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[25] Cf. Rémi Godeau, op. cit., p. 178.

[26] Council Decision of 23rd November 1998 concerning exchange rate matters relating to the CFA Franc and the Comorian Franc, Official Journal of the European Communities, No. L 320, 28th Nov. 1998, pp. 58-59; for a commentary, see Bernd Krauskopf, Christine Steven: Einführung des EURO in außereuropäischen Territorien und währungsrechtliche Regelungen im Verhältnis zu Drittstaaten, in: Europäische Zeitung für Wirtschaftsrecht, No. 21 (1999), reprinted in: Deutsche Bundesbank: Auszüge aus Presseartikeln, No. 14, 20th March 2000, pp. 20 ff., esp. pp. 23-24..

[27] Cf. Chiara Zilioli, Martin Selmyr: The External Relations of the Euro Area: Legal Aspects, in: Common Market Law Review, Vol. 36 (1999), pp. 273 ff., esp. pp. 330-31.

[28] Cf. Andreas Mehler: Neue Regeln, altes Spiel; warum man die Reform der französischen Afrikapolitik näher betrachten sollte, in: Entwicklung und Zusammenarbeit, Vol. 40 (1999), pp. 339 ff.

[29] Commission of the European Communities: Recommendation for a Council Decision concerning exchange-rate matters relating to the CFA franc and the Comorian franc, COM (1998) 412 final, Brussels 1998, p. 7 (General considerations).

[30] Cf. European Parliament, Committee on Economic and Monetary Affairs and Industrial Policy: Report on the recommendation for a Council Decision concerning exchange rate matters relating to the CFA franc and Comorian franc (COM(98)0412 – C4-0558/98), Opinion of the Committee on Development and Cooperation, 3. The expected economic impact of the transition to the euro, Brussels, P.E. 228.235 final, 8th December 1998.

In West Africa, under the aegis of the BCEAO, the countries cooperate economically via the Union Economique et Monétaire Ouest Africaine (UEMOA). Internal tariffs among members states in this grouping have been substantially cut, and they maintain other common institutions in the form of a central office of statistical monitoring and a joint court to deal with trade issues. The Union issued uniform commercial laws in 1998, and subsequently set to work on establishing convergence criteria concerning budget deficits and levels of government debt. Thus, compared with other African trade arrangements, institutional integration is now well developed in the UEMOA zone, so it is only fitting that the economies themselves have made quite good progress in integrating. Trade between member states expanded during the nineties to account for some 11% of the UEMOA countries' total exports.[33] When the EU enters into a Regional Economic Partnership Agreement (REPA) with the UEMOA in the context of the Cotonou Agreement,[34] this will undoubtedly boost the competitiveness of West African producers and thus generate keener incentives for direct investment by EU-based firms. Since 1994, there has indeed been a substantial flow of foreign direct investment, particularly into Côte d'Ivoire but also into Benin, Mali and Senegal.[35]

By way of contrast, the Communauté Economique et Monétaire de l'Afrique Centrale (CEMAC) has not progressed nearly as far. While the earlier quotas on trade among the member countries have been cut back, there has not yet been any tariff harmonisation, either externally or internally. This has kept trade among the CEMAC member states close to its earlier low level. [36] Only Cameroon and the oil producers Equatorial Guinea and Gabon benefit from any appreciable foreign direct investment.[37] The situation in the Central African part of the franc zone, then, is not on a firm footing, whereas in West Africa an integration zone has developed that has what it takes to function properly, and is currently showing positive economic performance by African standards.

In West Africa the chances of monetary stability being maintained are good, as both institutional capacity and economic potential provide the wherewithal to pursue stability-oriented monetary policies. So in spite of the weaknesses that it is impossible to ignore, the key criteria[38] for a potentially successful monetary union are fulfilled here: the French exchequer is bound by stability criteria, while the West African central bank's FCFA is also restrained by disciplinary rules, creating a convergence in the two currencies' stability orientation. Thus, considered theoretically, this currency board-like satellite system of the euro has good chances of functioning well according to expectations.

However, this prediction cannot be made without a few provisos. The success of the system will crucially depend on whether the central banks really do operate independently of the member states' governments – not just in a formal sense – and in conformity with the stability criteria. In addition, government budgets will have to be managed with stability in mind, while the commercial banking system, in a process of financial deepening, must be organised effectively enough to allow the instruments of monetary control to efficaciously steering the liquidity creation according to the inflation rate compatible with the principle of the currency board throughout the integration zone. In practice this will prove to be very difficult, and thus the West African central bank's credibility in fact appears to be somewhat dubious.[39]

It should be noted that currency boards are not normally a lasting solution because of their inflexibility when economic shocks require fast and radical adjustments. Recently the foundering of the Argentine currency board has proven that a government that firmly commits itself in this way without any alternative deprives itself of virtually any room for manoeuvre.[40] In this case the "magic triangle" of monetary policy will need to be restored in another way, namely by abandoning the currency peg to create the basis for an independent, stability-oriented monetary policy. With these difficulties in mind it would be wise if the authorities of the West African central bank contemplated a later change to a more flexible hard currency regime in West Africa.

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[31] Cf. Banque de France, Rapport Exercice 1998, p. 195.

[32] On the following, cf. European Commission: EU-ACP Negotiations. Commission staff working paper for Negotiation Group 3: Economic and trade cooperation, synthesis of the studies of the impact of the EU's REPA proposal on ACP sub-regions, Brussels, 14th June 1999, CE/TEN/GCEC3/36-EN, pp. 11 ff.

[33] The World Bank: World Development Indicators 1999, Washington, D.C. 1999, p. 337.

[34] Cf. Heiko Körner: The Future of the ACP Countries, in: INTERECONOMICS, Vol. 35 (2000), pp. 31 ff., esp. p. 33.

[35] UNCTAD World Investment Report 1999, New York & Geneva 1999, Table B6, pp. 515-16.

[36] The World Bank: World Development Indicators 1999, op. cit., p. 337.

[37] UNCTAD World Investment Report 1999, op. cit., Table B6, pp. 515-16.

[38] Cf. Theresa Theuerl: Perspektiven der Europäischen Währungsunion nach dem Gipfel von Brüssel, in: Theresia Theuerl, Christa Randzio-Plath: Nach dem Euro-Gipfel. Perspektiven der Europäischen Währungsunion, HWWA Discussion Paper No. 63, Hamburg 1998, pp. 5 ff., esp. pp. 7-8.

[39] Cf. Ole Janssen, Armin Rohde: Monetäre Ursachen der Arbeitslosigkeit in Currency Board-Systemen?, Ernst-Moritz-Arndt-Universität Greifswald, Wirtschaftswissenschaftliche Diskussionspapiere No. 2, 2002.

[40] Cf. Helmut Wagner: Monetary Policy in Transition Economies: On Central Bank Independence and Nominal Anchors, Fernuniversität Hagen, Diskussionsbeiträge Wirtschaftswissenschaft, No. 270, 1999, esp. pp. 18 ff. The case of Argentina is discussed by Michael Frenkel: Argentiniens Currency Board mußte zusammenbrechen, in: Volkswirtschaftliche Korrespondenz der Adolf-Weber-Stiftung, Vol. 41 (2002), No. 4.