X P Guma: Formation of a Monetary Union – perspective on the Swaziland economy

Address by Dr X P Guma, Deputy Governor of the South African Reserve Bank, at the official launching of the Skills Corporate Centre, Mbabane, Swaziland, 28 February 2007.

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1. Introduction

Your Excellency, Honourable Prime Minister of the Kingdom of Swaziland; Mr A.T. Dlamini: Honourable Minister, L.E. Dlamini M.P. – Minister of Enterprise and Employment and other Ministers here present, Master and Mistress of Ceremonies, fellow speakers, distinguished guests, ladies and gentlemen: it is indeed a rare honour to me to be able to address you this evening on this auspicious occasion. It is also a distinct pleasure to be able to do this at the invitation of Ms Sibongile Mdluli, Deputy Governor of the Central Bank of Swaziland, to whom I extend my congratulations for having been selected as Business Woman of the Year 2006. Congratulations Madam!

The Corporate Skills Centre, whose objective, I have been informed, is to build capacity of young professionals on cross-cutting short-term courses to meet the skills gaps which have been identified in the constantly evolving business environment, is a laudable initiative; and I am particularly honoured to be able to offer my support at its inception. With continued support from tonight's main sponsor and the REDI, success is almost assured.

2. Formation of a Monetary Union

I have been asked to speak about the formation of "Monetary Union, Perspective on the Swaziland Economy": – a matter which I addressed in 1992 in a paper which was presented under the title "Questions regarding Monetary Management: aspects of recorded experience in a quasi-optimal currency area"[1]. In that paper, I argued thus:

… Having shed the status of being a protectorate of Great Britain upon obtaining independence in 1968, Swaziland could have refashioned its orientation in a number of ways; including at one extreme complete isolation (pure self reliance) or, at the other extreme, incorporation into a larger unit and management by some authority other than Britain.

The nature of the problem, I argued

… is to find that institutional framework within which to maximise national, social welfare… subject to the constraints which are imposed by the decisions which all other countries have made: for it is these decisions which define the universe within which choice must be exercised.

I also asserted that,

… for a small, emergent economy with limited bargaining power, the option of refashioning the global economy in order to maximize national welfare does not exist, whereas such an option does exists for the large, mature economies which created the Bretton Woods institutions and the post-war economic order.

Although this was stated in the previous century, I believe it to be true still.

In the event, the authorities have made choices: most importantly, in this regard, by participating actively in the institutions of the African Union and the Southern African Development Community, the essence of whose programmes are described below.

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[1] See X. Guma (1992) "Questions regarding Monetary Management: aspects of recorded experience in a quasi-optimal currency area", Harare, Zimbabwe : Southern African Foundation for Economic Research

3. Monetary Union in Africa

Article 44 of the Abuja Treaty calls for the harmonisation of economic policies across the African continent and emphasises two important pillars of economic integration: the promotion of intra-Africa trade and the enhancement of monetary cooperation. The latter is guided by the African Monetary Co-operation Programme (AMCP) which seeks to operationalise the monetary cooperation mandate of the Abuja Treaty and the Constitutive Act of the African Union. In the main, this involves a single monetary area, encompassing a common currency and a common central bank by the year 2021.

In terms of the AMCP monetary union in Africa is to be achieved in six stages starting in 2002/2003 and culminating in stage VI in 2021 with the introduction and circulation of the common African currency. During these six stages, African governments and central banks will have to work towards harmonisation and coordination of macroeconomic and monetary policies, the harmonising of interconnected payment and clearing systems, the strengthening and harmonisation of banking and financial supervision and the observance of increasingly strict macroeconomic convergence criteria.

3.1 The African Monetary Cooperation Programme (AMCP)

Stated in point form, the stages of the programme are as follows:

Stage I (Year 2002-2003)

- Establishment of Sub-regional Committees of the AACB where they do not exist and revitalisation of existing Committees.
- Adoption by each Sub-region of formal monetary integration programme.

Stage II (Year 2004-2009)

- Harmonisation and co-ordination of macroeconomic and monetary policies.
- Harmonisation of Concepts and Methodologies including statistical frameworks.
- Gradual liberalization of the capital account.
- Gradual interconnection of payments and clearing system.
- Fostering the development of Banking and Financial Systems, including promotion of African banking networks.
- Promotion of sub-regional and regional stock exchanges.
- Strengthening and harmonisation of banking and financial supervision and regulation.
- Observance of the following macroeconomic indicators by year 2008:
    - Budget deficit/GDP ratio not exceeding 5 per cent.
    - Central Bank credit to government not exceeding 10 per cent of previous year's tax revenue.
    - Single digit Inflation rate.
    - External reserves/import cover of at least 3 months.
    - Reduction of Current Account Deficits (excluding grant) as percent of GDP to sustainable level.
    - Pursuit of Debt reduction initiatives on Public debt as percent of GDP to sustainable level.
    - Achieving and maintaining High and Sustainable rate of Growth of real GDP.

Stage III (Year 2009-2014)

Assessment of macroeconomic performance and negotiation for the establishment of a common Central Bank (Year 2015). At this stage, countries would be required to consolidate achievements made at the third stage. The activities under this stage would include:

- Continued observance of macroeconomic indicators of convergence including:

- Inflation rate of less than 5 per cent.
- Overall Budget deficit/GDP ratio (excluding grants) of less than 3 per cent.
- Elimination of Central Bank financing of Budget deficits.
- External reserves of equal to or more than 6 months of imports of goods and services.
- Reduction of Current Account Deficits (excluding grant) as Percent of GDP to sustainable level.
- Pursuit of Debt reduction initiatives on Public debt as percent of GDP to sustainable level.
- Achieving and maintaining High and Sustainable rate of Growth of real GDP.

- Assessing the macroeconomic indicators of each country/sub-region against the convergence criteria. A comparative analysis would be made thereafter to the Convergence Council.
- Commissioning of a study on the establishment of an African Exchange Rate Mechanism **(2010).**
- Review of commissioned study on the African Exchange Rate Mechanism **(2011).**
- Observance of the following macroeconomic indicators by year 2012:
  - Budget deficit / GDP ratio not exceeding 5 per cent by 2012.
  - Elimination of Central Bank credit to government.
  - External reserves / imports cover of equal or greater than 6 months.
- Finalisation of arrangements required for the launching of the African Monetary Union.
- This is the completion stage before the take off of the common Central Bank. The following activities are expected to be undertaken:
  - Preparation of institutional, administrative and legal framework for setting up the common Central Bank and currency of the African Monetary Union. This includes
    a) Achieving and maintaining good governance and
    b) Achieving central bank autonomy, particularly with regard to instrument, personnel and financial independence.
  - Adoption of the institutional, administrative and legal framework for the setting up of the common Central Bank and currency of the African Monetary Union.
  - Operationalisation of Exchange Rate Mechanism.
  - Appointment of key officers of the Common Central Bank.
  - Preparation for the introduction of a common currency.
  - Recruitment of staff of the Bank.
  - Mid-term assessment of country performance.
  - Final assessment of countries' performance against convergence criteria.

Stage IV (Year 2015-2021)

- Launching of the African Central Bank (ACB).
- Introduction and circulation of the common African currency (**2015**).

A transitional period during which sub-regional currencies would operate alongside the African currency is envisaged.

As the programme has progressed, so adjustments have been made, and the current statement of the programme envisages completion by 2015: not 2021 as in the original thinking.

3.2 The SADC region

Within the SADC region, the movement towards monetary integration and eventual union is guided by the Committee of Central Bank Governors (CCBG) which has pledged support for the AMCP.

The CCBG was established in 1995 with the specific purpose of achieving closer cooperation and integration in the area of monetary policy among SADC central banks. The work of the CCBG has contributed to major developments towards regional monetary cooperation such as significant progress in the harmonisation of the payment and clearing systems, the approval of Memoranda of Understanding on Cooperation, Coordination of Exchange Control Policies in SADC, and Cooperation in the area of Information and Communication Technology. The CCBG has also contributed to the coordination of training for central bank officials in SADC and the creation of a Training and Development Forum.

As at April 2005, the integration programme envisaged the establishment of a SADC monetary union by 2016

- Finalise preparation of institutional, administrative and legal framework for setting up a SADC Central Bank by 2016;
- Launch a regional currency for the SADC Monetary Union by 2018.

3.3 The Common Monetary Area (CMA)

Lastly, the possibility of establishing a central bank for the Common Monetary Area (CMA) countries is raised from time to time: the CMA comprising Lesotho, Namibia, South Africa and Swaziland. A study was conducted in 2005 under the auspices of the CCBG outlining the costs and benefits of the creation of a common central bank for the CMA countries. As is normal, decisions in this regard will be taken by the political leaders of the CMA countries, rather than by central bankers.

In short: Programmes intended to achieve monetary union exist at the continental (AU), regional (SADC) and intra-regional levels (CMA): and Swaziland participates in them all.

Conclusion

The questions which policy makers will have to continue to address are clear. They include the following. Should we continue down this path? Do the programmes have realistic time frames? Are they on target?

Fortunately, I don’t have to wrestle with them: and any assessment by me would be not only discourteous but also presumptious. I have sketched the issues in broad outline, and thank you all for your attention.