On the Computation and Essence of the Nominal Convergence Criteria for Africa Currency Union: ECOWAS in Perspective

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Abstract

The ECOWAS in a quest to form a currency union prompted the set out nominal convergence criteria for member states. The study seeks to delineate the importance of the nominal convergence criteria to ensure price and exchange rate stability. In this context, the revised ECOWAS convergence criteria were elaborated to unveil the degree of convergence. Also, the study computed for the realistic nominal convergence targets supposing the union is formed and suggested ex-ante steps to fast track convergence. Additionally, the study showed the exigency for trade and institutional convergence through policy coordination. The study concludes that countries should commit to attaining the convergence criteria in the shortest possible time to aid in the realization of the policy. The study recommends that relatively exposing the large informal sector, ensuring political ramification, and encouraging savings is key to achieving the nominal convergence criteria.

Keywords: nominal convergence criteria, currency union, large informal sector, Optimal Currency Area, inflation, public deficits, public debts, reserves.

INTRODUCTION

The Economic Community of West African States (ECOWAS) was established as a Regional Economic Community (REC) per articles 3 and 51 to 55 on 28 May 1975 under the treaty of Lagos, as a free trade area (FTA) to achieve intra-regional commerce and economic integration. It was signed by 16 member countries namely: Nigeria, Cote D'Ivoire, Ghana, Burkina Faso, Togo, Benin, Mali, Niger, Guinea Bissau, Senegal, Guinea, Liberia, Sierra Leone, Gambia and Cabo Verde with Mauritania opting out in 2000. Article 27 of the Treaty, asserts a long-run aim of establishing a community citizenship for all members to remove obstacles of free movement of people, capital, and goods. The initial plan of adopting a single currency in ECOWAS sub-region was, to begin with, the West Africa Monetary Zone (WAMZ), in the year 2000 and later emerging with the West Africa Economic and Monetary Union, which had the CFA XOF as a common currency for eight countries. An initial ten convergence criteria were set out to ensure all countries in the sub-region attained a level of macroeconomic outlook to reduce the risk associated with forming a currency union. The criteria were set out to ensure price stability, sound public finance, exchange rate stability, and convergence in the long-term interest rate. However, the member states were incapacitated in attaining the nominal convergence criteria which led to the four-consecutive postponement of the ECO currency and other achieved targets unsustainable (Sakyi, 2013). According to the IMF, the ten convergence criteria set out in the year 2000 by integrators were over-ambitious and overboard to achieve in the shortest possible time. Article 8 of the Supplementary Act (2012) in line with Article 1 of the ECOWAS treaty, outlined the convergence criteria to achieve the target by 2020. In 2018, The ECOWAS laid out six realistic macroeconomic convergence criteria. The laid down convergence criteria mandates all member states to achieve the nominal convergence targets before the year 2020 so the commencement of a currency union.

The ECOWAS sub-region is plagued with trade and non-trade barriers leading to the low level of trade in the sub-region (AfDB, 2018). In this background, intra-regional trade in West Africa is consistently below 12% of total trade (UNCTAD database; ECOWAS, 2015). The non-trade barriers consist of smuggling, bribery, and corruption, embezzlement of national coffers, security-related issues, wrong invoicing among others. (US State Department, 2013; Adenira, 2015 cited by AfDB, 2018). These non-trade barriers increase the cost of trading and culminate in the large informal sector. Other significant barriers to trade in West Africa are tariffs, import restrictions, and export restrictions utilizing bans and quotas (Roquefeuil, 2014; World Bank, 2015). Additionally, the large informal sector has led to about 70% of trade in the West Africa sub-region not recorded (AfDB, 2018). Additionally, there is the exigency for developing countries to integrate due to the global experience of decline in FDI resulting from the 2008 international crises hitherto the pending danger of climatic change on the agriculture sector of developing countries. In the space of the reliance of FDI inflows exposes the economies to greater external shocks. Moreover, GDP across Africa is expected to reduce by 2% - 4% by 2040 according to the Intergovernmental Panel on Climate Change (IPCC). This would represent a loss of about $ 653 million to about $1 billion in 2040 using exchange rates in 2018. Currency union has proven to be a panacea for these ills.

A currency union is a union to which two or more economies belong and that has a central decision body, commonly a currency union central bank (CUCB), endowed with the legal authority to conduct a single monetary policy and issue currency of the union according to the Currency Union Technical Expect Group (CUTEG) of International Monetary Fund (2005). According to IMF (2005), 52 members out of 184 members participated in currency union signaling the impact of joining a currency union. In light of this, currency union is viewed as a panacea of struggling economies so ECOWAS deems it fit to strengthen ties of member countries further to improve the standard of living through trade stimulation. Evidentially, the advantages associated with countries using a common currency includes savings due to elimination of transaction cost and usurious taxes which helps small-scale industries, accelerated investment and certainty due to reduction in cross border trade cost in line with FDI inflow within member states, exchange rate stability ensures price transparency which equalization across countries, competitive and transparent market, and minimizes business risk, prevention of devaluation and speculation which in turn attracts potential investors to gain confidence, portfolio diversification due to reduction in exchange rate and currency risks, increase tourism due to relatively low travel cost, job creation in industries, better access to capital due to financial integration and employment, deepened money and capital market, formation of larger markets for goods and services, allows free movement of goods and services, reduces external shocks, strengthen political ties, discipline against inflation among others.

The reductions in the exchange rate and inflation risks lower the country's cost of borrowing in the global capital markets (Plumper and Troeger, 2008). According to Rose (2000) currency union stimulates intense trade within countries than among countries, therefore, increasing intra-regional trade. Additionally, an increase in intra-regional trade can help attenuate external global shocks (Ncube et al, 2014). In the nutshell, currency union is best for countries that lack microeconomic and macroeconomic restrain. The main disadvantages associated with currency union have to with the loss of monetary sovereignty, cost of adopting new currency, negative spillovers of fiscal policy if not properly coordinated, language barrier, and dealing with asymmetric shocks. Contrarily, language is not a barrier to trade in the ECOWAS sub-region. The cost and benefit analysis empirically steels the desire to form a currency union.

Eco-skeptics clamours that the region is not well-positioned to implement a single currency, and the failure of the WAMZ in meeting the macroeconomic convergence criteria was a justifying factor. Others are of believing it can be implemented but some decades ahead and a greater tendency for relatively small countries to lose. Contrarily, countries of the status quo with initial lower per capita income tend to grow faster, thus experiencing real appreciation of the currency. Empirically, a recent evaluation of ex-ante convergence criteria depicted that, countries were heterogeneous in terms of response to shocks and more specifically the OCA convergence criteria with some criteria converging among member states (Amoah 2013, Kamara 2015, and Mensah 2016). Contrarily, these nominal rigidities are minimal compared to developed countries. Also, the source and the extent of shocks can be well evaluated in a currency union since sovereign currencies intensify shocks in developing countries and have a direct effect on currency performance. Moreover, the business cycle criterion can only be synchronized among members' ex-post currency union because the intra-trade over the past has been low. The synchronizing of the business cycle will attenuate shocks by increased trade flows among members. The OCA convergence criteria will be achieved ex-post than ex-ante for developing countries but the need for the nominal convergence to have complied. However, there was a real exchange rate convergence among ECOWAS countries indicating optimality for the creation of a currency union. (Sugimoto, 2008; Sireh-Jallow, 2013). Hypothetically, the existing studies failed in acknowledging the significant role in unearthing the large informal sector to relatively fast track convergence among members. Also, the existing failed to capture that the ECOWAS sub-region is not a fully-fledged common market which could compound to greater trade potential. Moreover, the fundamentals of the OCA theory failed to acknowledge existing currency unions as a good candidate in the formation of a currency union even though trade was imminent notably the European Monetary Union (EMU). Also, the OCA fails to capture the difference in development and structures due to real convergence criteria therefore developing countries will find it challenging to be an OCA. Frankel & Rose (1998) argued that countries with different levels of economic growth should first undertake structural and institutional changes by adhering to settled convergence criteria. The striking advantage of developing countries in forming a currency union has to do with relatively lesser nominal rigidities, relatively small public sectors compared to EMU, greater trade potential based on economic and geographic fundamentals, the ability to easily navigate shocks compared to developed countries and the elimination of greater cost associated with the use of sovereign currencies. Theoretically, currency union is most suitable for relatively small economies therefore the exigency for ECOWAS countries to integrate further to form a currency union hence achieves the nominal convergence criteria.

2.0 Literature Review

2.1 Nominal convergence criteria

Undeniably, certain economic conditions must be satisfied by member states to ensure the proper functioning of a currency union. The Optimal Currency Area criteria was propounded by R.A. Mundell, P.B. Kenen, and R.I. McKinnon, as theoretical determinants of a smooth functioning of a currency union. Consequently, a set of criteria for defining, establishing, and quite smooth functioning a currency union have been formulated. The Treaty of Maastricht defines a currency union following the concept by E. Appeal who claims that a monetary union can be formed if certain specific conditions are satisfied: 1) currencies are totally and irreversibly convertible; 2) capital movements between member states are fully liberalized; 3) financial markets between member states are completely integrated; 4) exchange rate fluctuations without any margin are irreversibly fixed; 5) a common monetary policy is conducted by a central bank. The factors which can reduce vulnerability to shocks include a diversified production structure, similar economic structures, and rates of inflation. A set of factors that can increase the ability to absorb shocks includes the mobility of factors of production, flexible wages and prices, fiscal and political integration.

This theory enabled the formulation of a set of criteria to be met so that the Monetary Union in the European Union could be correctly created and function. The nominal convergence criteria are compatible with the new theory of optimum currency areas.

Empirically, Obaseki (2005) indicates the convergence criteria have not been met by member states. From the empirical evidence, it is observable that West Africa achieving the convergence criteria ex-ante would take decades for key players to achieve all primary convergence criteria ceteris paribus. Also, Ofori-Abebrese (2006) threw light on the Eco and the Economic Development of West Africa, analyzing the macroeconomic convergence and the state of the member countries in the zone. The study further dived into the historical background of the West African Monetary Union and the economic performance of the various stakeholders. It concludes that when the nominal convergence is achieved West African countries will ensure the maximum benefit of the union. Moreover, Asongu (2012) investigate the proposed African monetary union in the context of OCA using data from 1981 to 2009. The methodology used was a dynamic panel GMM to test for convergence which indicates there is a lack of convergence therefore the need for countries to work towards eliminating cross country differences to ensure convergence.
Additionally, Amoah (2013) undertook a feasibility study of a single currency for the West African Monetary Zone accessing the performance of the WAMZ countries using Macroeconomic Convergence Criteria (MCC) from 2001 to 2011. It used time-series data from 1980 to 2011 based on Ghana, Nigeria, and the Gambia. The study put forward that, the WAMZ is not ready to form a monetary Union hitherto not an optimum currency area. Also, Ekpoh &Udoh (2013) studied the ECOWAS using Exploratory Convergence Criteria from 2005 to 2010. The study indicates that monetary union is possible at the expense of the price of monetary policy and that ineffectiveness is boosting output. Furthermore, Saka et al (2015) examined the convergence criteria of the ECOWAS countries using panel least squares and beta convergence. The data used covered from 2000 to 2008. The study showed that income was converging even though the pace of growth is different among the economies but there was the need for more integration to achieve a steady-state therefore with more integration monetary union would be feasible.

3.0 Methodology and Data

The study deployed regional averages of dataset obtained from the various sources. Inflation and Gross reserves were obtained from International Monetary Fund (IMF), budget deficit data was obtained from the various banks in the sub-region, and Public debt to GDP was sourced from the various banks.

3.1 Explanation and Computation

The strength of a currency depends on the interest rate, fiscal, monetary policies, degree of public debts as well as the stability of the government. In this background, a fall in the value of the currency increases the cost of trading amongst countries and their participation in international trade. The goal of the Central bank is to achieve price stability, economic growth, low unemployment, and a sound balance of payment. In essence, the convergence criteria are to smoothen the policy channel through which policies are coordinated within the sub-region.

The **nominal convergence criteria** include the inflation rate, public debt, and public deficit whereas the **real convergence criteria** include symmetry of shocks, business cycle synchronization, the quantity of potential inter-trade flows, and the convergence of per capita income. The ex-ante convergence criteria focus on nominal convergence whereas the theory of Optimal Currency Area criteria focuses on the **convergence of real economic variables of the countries** in forming a currency union.

Price stability would be considered with adopting inflation targeting of 10%. It will be measured per the agreed consumer price inflation. The price-performance should be sustainable and the inflation should average over a year not too distanced from the best performing economies in the sub-region. The sound financial system would be considered with a budget deficit of less than 3%, budget deficit financing of less than 10% by Central Bank and public debt per GDP not more than 70%. It focuses on government deficit and debt. In this context, the economies should not be under excessive deficit procedure during the period of examination.

Exchange rate stability would be considered as a key component by nominal exchange rate variation of ±10%. The exchange rate was measured in terms of exchange rate development in the Exchange Rate Mechanism of the countries in the zone. Countries should participate in the Exchange Rate Mechanism for the years under review without any serious stress. The durability of the convergence was also outlined with gross reserves that can finance at least three months of imports and achieving a long-term interest rate. This would be measured in terms of achieving the long-term interest rate target. The rate at some best performing ECOWAS countries in terms of price stability over a year before the examination.

The **growth pact or the Stability Pact** would ensure members practice fiscal discipline in meeting the convergence criteria. The growth pact would be signed either ex-ante or ex-post by members. However, the growth pact can be signed ex-ante to achieve the laid down nominal convergence for developing countries to ensure fiscal discipline. The convergence criteria annual report heightened the performance of the member states in the attainment of the macroeconomic criteria.

Table 1.0: Convergence Criteria outlined for West African Countries

ECOWAS	
Primary Convergence	**Secondary convergence**
average annual inflation of not more than 10% with a long-term goal of 5% by 2019 a budget deficit of not more than three percent; and Gross reserves can finance at least three months of imports.	public debt per GDP of not more than 70%; central bank financing of budget deficit not more than 10% of the previous year tax revenue; and Nominal exchange rate variation of plus and minus 10%.
WAEMU	
Primary Convergence	**Secondary Convergence**
Basic fiscal balance/nominal GDP ratio greater or equal to zero. An average annual inflation rate of less or equal to 5%. Outstanding domestic and external debt/GDP less or equal to 70%.	Non-accumulation of payment arrears of the current period's all outstanding arrears. Wage bill/tax revenue less or equal to 35%. Internal funded public expenditure /tax revenue equal to 20% or more Tax revenue/GDP ratio equal to 17% or more The real GDP growth rate of 7% or more
WAMZ	
Primary Convergence	**Secondary Convergence**
Single-digit inflation Fiscal Deficit to GDP of not less or equal to 4% Central bank financing of fiscal deficit of the previous year's tax revenue of 10% or less Gross external reserves to at least three months of import cover.	prohibit new domestic default payments and liquidize the existing ones setting a wage bill to tax revenue equal to or greater than 35%, Tax revenue equal to 20% of GDP or more Public investment to revenue of 20% or more Achieving a stable real exchange rate and a positive real interest rate

Source: harmonization of convergence criteria (Revised by Author)

ECOWAS: Macroeconomic Stabilization

3.1 Primary Convergence

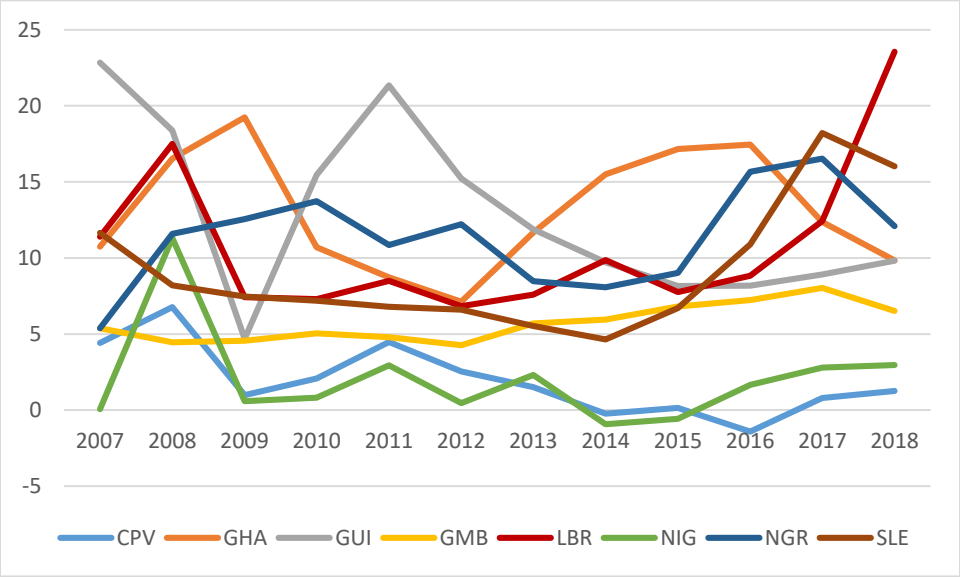
3.1.1 An average annual inflation of not more than 10% with a long-term goal of 5% in 2019.

The West Africa Central bank will adopt inflation targeting to achieve price stability with the sole aim of low inflation to improve the welfare of the populace. Inflation convergence is a key indicator of the structural synchronization between countries. Differences in inflation could be due to regional heterogeneities in the relative productivity growth of the tradeable versus then non-tradeable sectors (Balassa-Samuelson effect). The relevance of low inflation is underpinned in its contribution to economic stability through efficient use of resources, savings, investment, and international competitiveness to prevent arbitrary redistribution of income and wealth. Firms can easily predict costs and prices, therefore, encourage investment and competitiveness. The West Africa Central bank would attenuate high levels of inflation by raising the interest rate, decreased money supply among others. However, some inflationary pressures are beyond the Central bank, therefore, the need to stimulate trade by diversifying the economy to attenuate the adverse effect of external inflationary pressures. The higher the inflation rate, the more volatile a currency will be thereby adversely affecting investment and trade in the sub-region. Moreover, empirical evidence has shown that exchange rate volatility harms inflation notably importing countries (Honohan and Lane, 2003; 2004; Busetti et al., 2007). In this background, forming a currency union would attenuate the adverse effect of exchange rate volatility on inflation.

Descriptive Analysis

Figures 1 and 2 presents the inflation rates over 2007–2018 for fifteen countries in the ECOWAS, as measured by the percentage change in the consumer price index. The figure shows that the differentials of inflation pattern for countries in the WAMZ and the WAEMU, which forms the ECOWAS. This was done to show the difference in inflation patterns for countries with a common currency and countries that use sovereign currencies.

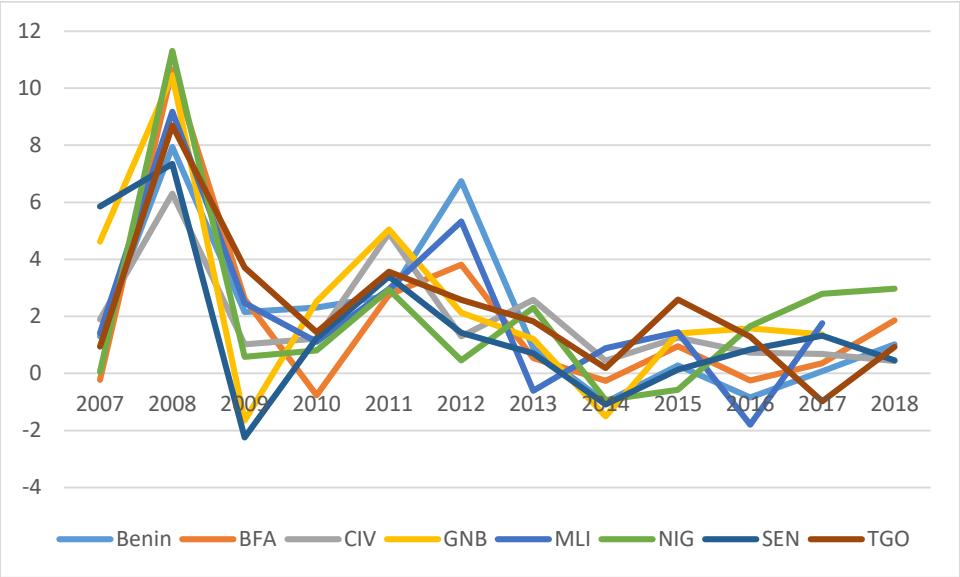
Figure 1: WAMZ



Source: IMF database

Figure 1 shows that countries that use sovereign currencies are more characterized by a lack of macroeconomic restrain.

Figure 2: WAEMU

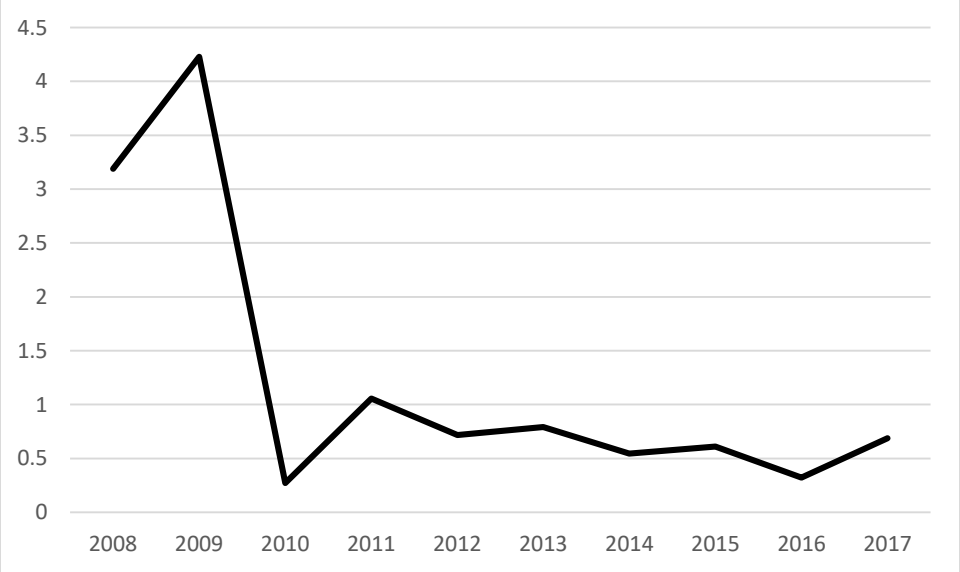


Source: IMF database

Fig 2 shows that there is relative uniformity or stability band in the movement of the inflation rate in the WAEMU compared to the WAMZ (Fig.1).

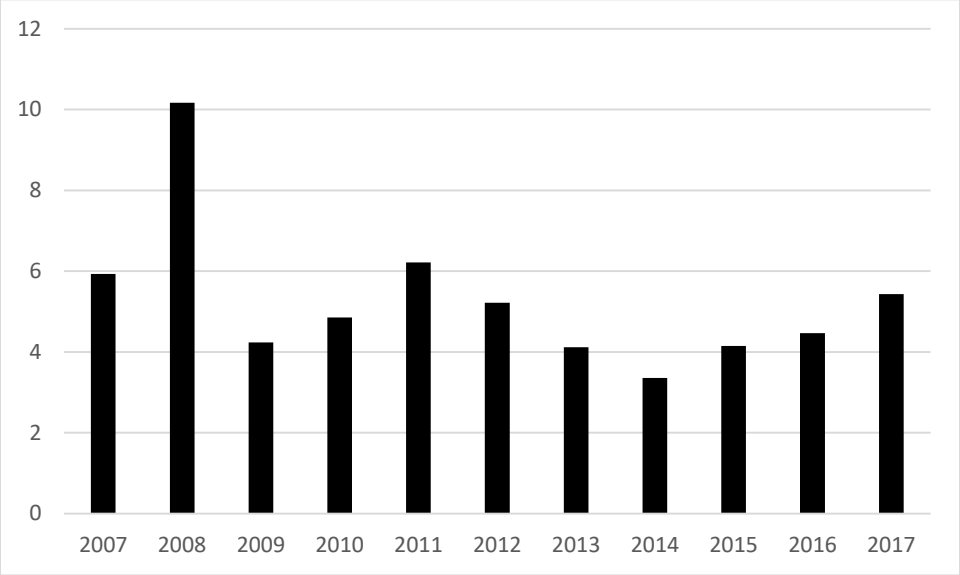
Assessing inflation convergence

Figure 3: ECOWAS



Inflation dispersion between the Economic Community of West African States. Inflation dispersion is calculated as the standard deviation of inflation between 15 members of the ECOWAS countries.

Figure 4: ECOWAS average inflation



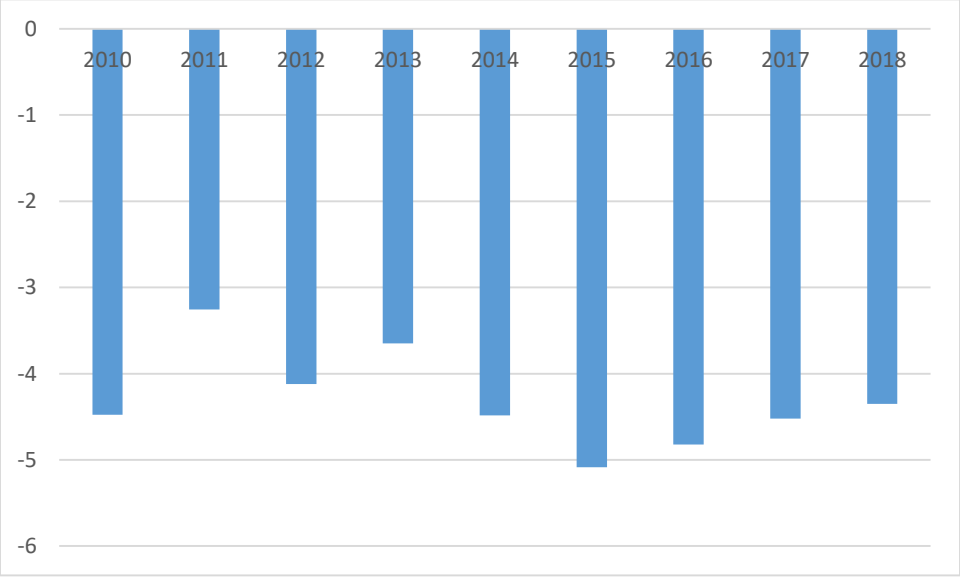
Source: IMF database

Figure 4 shows the annual average inflation rate in the ECOWAS sub-region. The 2008 international financial crisis led to the highest inflation rate in the sub-region. The year 2014 recorded the lowest inflation rate. The overall average will signal the possible inflation target within the currency union.

3.1.2 A budget deficit of not more than three percent

The sub-region was characterized by a large informal sector averaging about 70% of total trade. As a result, the tax base is relatively small to finance the budget of the countries. As a result, countries run their budget into deficits due to the high demand for infrastructural development and other pressing needs due to low production and health-related issues. The deficit is often financed by borrowing from international markets due to low savings which compound on the debt stock of the member states. Moreover, countries lack micro and macroeconomic restraint with an annual budget deficit above 3% which compound to the debts stock. Empirically, debt servicing emit downward pressure on the exchange rate, therefore, reduces the value of the currency. Additionally, the stock of debts affects the flow of capital and Foreign Direct Investment thereby reduces the gains from international trade since investors are uncertain about the business environment, profits, and tax system valuation in the countries hitherto Balance of Payments problems. The Budget deficit of 3% can easily be attained with a strict fiscal cap Act. The stock of debts will require bailouts and renegotiations to reduce the adverse effect of debt stock on international trade hence the value of the proposed ‘eco’ currency. Ball and Mankiw (1995) argued that budget deficits adversely affect savings, interest rates, investment, exchange rates, and long-term growth. Countries should devise policies to stimulate savings in line with exposing the large informal sector, to accumulate additional revenues to finance budget.

Figure 5: Budget Deficit of the ECOWAS countries

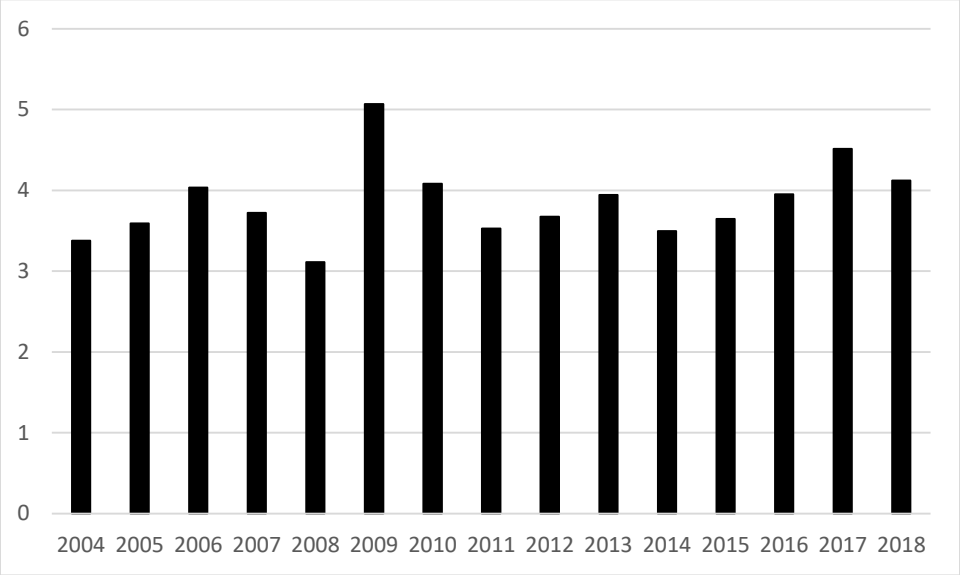


Source: BCEAO, Bank of Ghana, Central Bank of the Republic of Guinea, Central Bank of the Gambia, Central Bank of Liberia, Institut National de la Statistique du Niger, Central Bank of Nigeria and World Bank. Note: Data was unavailable for Guinea Bissau.

3.1.3 Gross reserves that can finance at least for three months of imports

Reserve is an indicator that shows the economic health of countries in the ECOWAS sub-region. It is a source of security for the governments in an unpredictable economic stance. It helps control and manipulates exchange rates for currencies from speculation attacks. Countries with a significant export volume in global trade would have a huge stock of reserve. Gross reserves are countries external assets including bonds and currency deposits held by central banks and monetary authorities, gold and Special Drawing Rights (SDR). The size of the reserve shows the ability of a country to honour external debts. These reserves are mostly held in the US dollar attributing to the US dollar been a primary reserve currency, therefore, most suitable for trading. However, countries in the WAEMU hold their reserves in the Euro due to the monetary union treaty with France. Countries in the ECOWAS experience volatility in the volume of reserves due to the seasonality of the primary production and the lack of microeconomic and macroeconomic restrain. In this context, currencies of countries depreciated due to a decline in exports which led to a decline in reserves (World Bank, 2012). However, there exists a tradeoff between investing in reserves and the economy. According to the IMF, gross reserves comprise foreign currencies, gold reserves, special drawing rights (SDRs), and IMF reserve positions. Therefore attaining the criteria will require intense discipline with the level of imports and diversification to ensure the accumulation of reserves.

Figure 6: Gross Reserves in months of Imports (WAMZ)



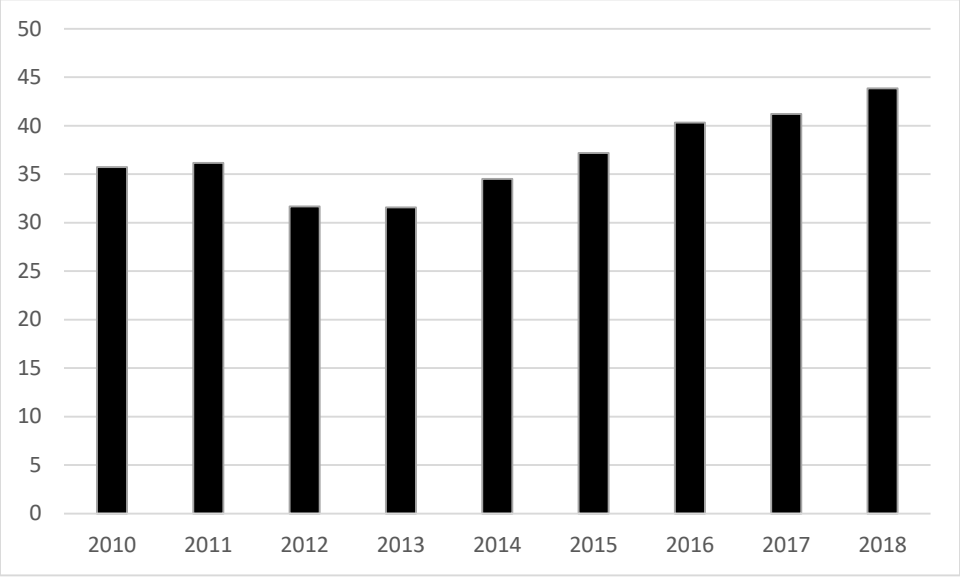
Source: IMF **Note: The WAEMU stores their reserve in the Euro**

3.2 Secondary Convergence

3.2.1 Public debt per GDP of not more than 70%

Public debt per GDP measures the ability of countries to pay their debts by comparing the debts of the country and its annual economic output. It shows the number of years to service debts when GDP is dedicated to debt-servicing. The economy will creep out when a country continues to pay relatively high interest on its debts. A higher public debt per GDP will make it difficult to pay external debts therefore relatively high interest charged by creditors due to the risk involved. Also, a higher debt to GDP hurts the value of the currency (Ajayi & Choi, 1993). Additionally, higher debt to GDP also affects the level of inflation and foreign direct investment since investors will be burdened with usurious taxes. According to the World Bank, relatively higher debt to GDP ratio impedes growth. Hypothetically, the high debt to GDP ratio affects the growth of the financial market most notably the growth of the capital market. In this background, most financial assets in countries of high debt to GDP ratio are short term hence more liquid. This can be attributed to the greater short term influences on the money supply of the status quo. Therefore, the essence of the criteria was to ensure a sustainable debt level over the years. According to Chudik et al (2018) argues that a higher public debt per GDP slows down growth in the long run. A remedy to reducing public debt is to increase the sale of securities to foreigners.

Figure 7: Public debt per GDP of ECOWAS countries



Source: BCEAO, Bank of Ghana, Debt Management office Nigeria, Banco de Cabo Verde, Central Bank of The Gambia, Central Bank of the Republic of Guinea.

Note: ECOWAS members except for Mali and Guinea Bissau due to data availability

3.2.2 Central bank financing of budget deficit not more than 10% of the previous year's tax revenue.

The Central bank finances budget deficit by increasing the money supply which may lead to inflation. Even though the monetary expansion tends to increase the fiscal impact on demand, the increase in money supply mostly leaves the system as withdrawals due to the number of foreign firms, in line with the high demand for imports. Therefore, the West African Central bank activities will be coordinated in line with the government's policies. Over the years, the governments over-rely on the Central bank in the financing of budgets since domestically budget financing crowd out the private sector. However, recent evidence disputes the crowding out of the private sector with claims of foreigners holding a greater percentage of domestic debts affecting the growth of the economy in the long-run.

3.2.3 Nominal exchange rate variation of plus and minus 10%

The nominal exchange rate shows how a currency exchange for another. Countries do not have a bilateral nominal exchange rate due to the non-convertibility of currencies in the sub-region. Most trade activities are facilitated by the use of foreign currencies hitherto intra-regional trade. In this background, this has led to the sprawled black markets for currency with which currencies are exchangeable at some transaction costs. The range stipulated can help attenuate exchange rate volatility among member states in the sub-region. Countries must comply to achieve a common currency otherwise competing with countries in a currency union will lead to inflation in that country due to devaluation and speculation. Developing economies will creep out if countries do not integrate to ensure trade. In this background, climatic change, population growth, declining FDI inflow from advanced countries due to stiffing trade policies by advanced countries would creep out the economies. Additionally, developed countries trade less with developing countries as a result of the relatively high average cost of trading compared to other developed countries. To add up, Honohan and Lane (2003, 2004) and Busetti et al. (2007) found that exchange rate fluctuations can have strong effects on inflation.

A single interest rate will not be suitable as earlier stipulated as a secondary criterion for the ten convergence criteria, due to differences in countries response to asymmetric shocks. In this background, a single interest rate will not be suitable therefore the need for a range in terms of the interest rate. Moreover, rising debt levels make countries more vulnerable to high-interest rate, therefore the exigency for greater control to the debt to GDP. This underlines the importance of building buffers against financial stocks. Moreover, price stability, sound public finances, and exchange rate stability aid in the convergence in the long-term interest rate. When good policies are implemented to the financial market, there is a greater tendency the long-run interest rate will be achieved with the sale of government bonds and securities. Countries will grow relatively faster while they maintain a stable macroeconomic key indicator such as inflation, interest rate, and exchange rate.

The national numerical fiscal rules

To be a good tool for adjusting economic processes, fiscal policy must be effective. Unfortunately, some aspects that rein in its ability to be effective and which are arising from a reduced flexibility due to information, political and social reasons, such as (Bukowski, 2006):

1. The insufficient information that government has about the evolution of economic growth;
2. Difficulties in achieving a parliamentary consensus concerning the changes in the size of the fiscal deficit and budget structure;
3. A long time for preparing and discussing fiscal changes;
4. Social barriers in increasing taxation or limiting the government expenditures;
5. The specificity of government expenditures due to their ease of growth at the expense of reduction.
6. The contradictory situation between the political cycle and the rational fiscal

Realistic Convergence Criteria in the ECOWAS Currency Union

Nominal Convergence Criteria	Realistic targets
Inflation Rate	5%
Budget deficit	-4%
Government debt as a % of GDP	37%
Gross reserves that can finance at least three months of imports	attainable

Source: Author **Computation**: the overall average of the yearly average of the individual variables per data.

Steps to ensure nominal convergence ex-ante / ex-post currency union

1. Countries should seek maximum debt bailout ex-ante and renegotiate of the payment plan of debts
2. Initiate policies to attenuate the effect of the large informal sector and coordination of national policies.
3. Renegotiations on contracts related to valuable resources that can have long-term benefits on the economy
4. Domestic debts of financial institutes should be held by the indigenes
5. Small-scale industries should be listed and heavily funded based on a well-laid down criteria.
6. Rigorous education on the need for bad practices to be curtailed to the populace
7. Standardizing the price of resources and digitalizing all prices across countries to ensure comparison.
8. Ignite the policies to ensure the achievement of a common market and well documentation of tourists' sites.
9. Invest in research on climate, transportation, soil, manufacturing, cheaper clean energy sources, and health.
10. Forming a cartel of the indigenous private sector investors and producers, and stimulate domestic holdings or shares of large foreign firms and industries.
11. Creating a platform for inventions, systems that resolve conflicts, formalize tourist sites, and coordinate regional festivals.
12. Stimulating policies that will increase the level of savings especially the formal sector

13. Free Trade Area Agreements must be signed exclusively for machinery supplies and railway.
14. Setting up regional policymakers' independent of political swing.
15. Developing a strong security map out plan through past criminal records and open incentivized portal for suspicions and relevant information.

Introducing Trade Convergence and Institutional Set up as Convergence Criteria

Trade convergence can help increase production through diversification to reduce the level of importation. For developing countries to adopt a common currency, there is a need for trade convergence criteria to be set. The criteria should be based on the comparative advantages and the trade potential of the countries. In this background, the convergence will map out the road map to diversify the economies and increase the current economic capacity. As a result of the world being a global village, trade convergence will ensure countries undertake exclusively key infrastructures. Trade convergence will require thorough research on the types of soil and climatic conditions to inform all possible products that can grow well on it.

Institutional convergence posits countries in developing countries would experience tremendous growth with indigenes owning about 50% of businesses in the country. This institutional convergence is policy-oriented and easily implemented. The government can categorize the small scale industries and provide loans at minimal interest rates. Thus, economic activities that induce greater FDI outflows should be partly substituted with local production or indigenes should be allowed to be shareholders. Firms should sign contracts under social responsibility to contribute to nation-building in line with government incentives for companies excelling in their jurisdiction and improving the living standard of the populace. In this view, countries would be able to sustain the nominal convergence. Countries should focus on adding value particularly to resources and the tourism sector since it can induce FDI at an exponential rate. In conclusion, the nominal convergence criteria are relevant for countries to maximize the effect of joining the union. Therefore, ECOWAS should provide technical aid to countries in attaining the convergence criteria. To escape from the 'cobweb of poverty', there is the need for laid down procedures in attaining the convergence criteria to realize the policy of currency union.

Political ramification would be significant if the Eco is to be successful which would lead to welfare statism. The argument vindicates that currency union could serve as a panacea therefore the need to soldier on by unearthing the relatively large informal sector to ensure greater transparency. The study emphasizes the need to follow a stringent regulatory framework to ensure nominal convergence. Currency union is a means of reducing the trade cost to stimulate international trade. The study recommends that countries should focus on exposing the informal sector. In this context, the government will increase the tax base hence accrue relatively additional revenue for development. Furthermore, the currency union encourages savings due to a reduction in transaction costs. Therefore countries should stipulate policies to induce more Foreign Direct Investment from the ECOWAS member states through stimulating private sector involvement across sub-region to encourage domestic savings. Moreover, due to greater public debt to GDP, countries should bailout on contracts that withdraw greater FDI outflows and other contracts detrimental to the long-term growth of the sub-region.