

**EXCHANGE RATE VOLATILITY AND EXPORT PERFORMANCE IN THE
WAMZ**

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ABSTRACT

The West African Monetary Zone (WAMZ) countries moved away from import substitution industrialisation policies adopted during the immediate post-independence years to export-led growth policies in the late 1980s. To this end, exchange rate policy reforms were undertaken that brought about a shift from fixed exchange rate regimes to floating regimes. Series of currency devaluations heralded complete deregulation and liberalisation of the foreign exchange market in these economies. Since the floating of member countries' exchange rates in the late 1980s and early 1990s, the nominal and the real exchange rates have witnessed appreciable fluctuations. More specifically, the real exchange rate fluctuated but with a trend showing appreciation during the period 1990 – 2010 in The Gambia, Ghana, Liberia and Sierra Leone. In Guinea and Nigeria, however, the real exchange rate fluctuated but with a trend depicting long-term depreciation during the same period. Clearly, the real exchange rate and its volatility may have implications for export performance but very little is known about this in the WAMZ countries.

This study, therefore, investigates empirically the impact of exchange rate volatility on export performance in the WAMZ countries by employing GARCH measures of volatility within a cointegration framework of analysis. The long-run relationship between exchange rate volatility and exports is established using Johansen cointegration techniques, while the speed of adjustment to a long-run equilibrium is captured in the model of short-run dynamics. From a simple Keynesian theoretical framework in a world of risks and uncertainties, the study identifies terms of trade, GDP of the domestic economy, GDP of the rest of the world, and real exchange rate as control variables in the regression models. A priori, interesting results are expected. Exchange rate volatility which captures the risk premium associated with external trade is expected to have a negative impact on exports of the WAMZ countries during the study period. Real exchange rate impact on exports is indeterminate a priori, while terms of trade, domestic GDP and GDP of the rest of the world are expected to impact exports positively.

The findings of this study are very relevant not only in terms of contributions to the existing literature but also to the development of the WAMZ Exchange Rate Mechanism (ERM) in the immediate future and exchange rate policy formulation ex-post the formation of the monetary union in 2015.