Monetary Union in West Africa: An Agency of Restraint for Fiscal Policies?

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Publication: October 2002
34 pages

Abstract
Could a monetary union in West Africa (either an informal monetary union of the non-CFA countries, or a possible future monetary union of all ECOWAS members) be an effective "agency of restraint" (Collier, 1991) on fiscal policies? We discuss the ways, both positive and negative, that monetary union could affect fiscal discipline and the arguments for explicit fiscal restraints considered in the EMU literature, and consider their applicability to West Africa. The empirical evidence, EMU literature and CFA experience all suggest the possibility that monetary union could create the temptation for fiscal profligacy through prospects of a bailout, or costs that are diluted through the membership. We conclude that a monetary union in West Africa can be an effective agency of restraint on fiscal policies only if the hands of the fiscal authorities are also tied by a strong set of fiscal restraint criteria, applicable not just for accession to monetary union, but throughout the life of the union.

Descriptors: Economic Integration, Regional Integration, Monetary Areas, Fiscal Policy, CFA Zone, Fiscal Administration.

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