POLICY COORDINATION FRAMEWORK FOR THE PROPOSED MONETARY UNION IN ECOWAS*

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DRAFT FOR PRESENTATION
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ABSTRACT

There is no doubt that regional economic integration and eventual monetary union would be generally beneficial to the economies of West Africa. Each country in the sub-region conceptualizes and implements its own monetary, fiscal and exchange rate policies, among others. There have been attempts in recent years by some countries to design such policies in line with efforts to meet both primary and secondary criteria for convergence. However, these policies seem not to be properly coordinated. They remain country specific and focused thus defeating the essence of moving towards a monetary union. This paper attempts to show analytically that stability can be achieved through monetary union but at a cost; loss of ability to exploit monetary policy to boost output. However, effective risk-sharing mechanisms and economic policy coordination within a holistic framework would smooth the process towards a successful monetary union.

JFL Classification:
Keywords: monetary union, ECOWAS, policy coordination

1. Introduction

Since the European Monetary Union Euro experiment of 1999, there has been increasing interest in monetary Union and common currency areas. The Economic Community of West African States (ECOWAS) was established in 1975 with the central goal of monetary and economic integration in West Africa. ECOWAS Monetary Cooperation Programme (EMCP) was established in 1987 with the intention to form one monetary zone and one common currency. The ECOWAS zone has two main blocs, namely Francophone and Anglophone countries. The Francophone countries established a monetary union in 1948 known as the WAEMU and adopted a common currency called CFA franc. The CFA zone maintain a fixed
exchange rate with the CFA franc tie to the French franc at fixed parity, which was altered only once in 1994. Five non-WAEMU countries, in particular Nigeria, Ghana, the Gambia, Guinea and Sierra Leone, are in the process of forming the second monetary union to be known as the West African Monetary Zone (WAMZ) and adopting a common currency. Although the formation of a full-fledged WAMZ and a single-currency area has suffered many delays because the WAMZ member states failed to achieve the convergence criteria, it is believed that by forming a common currency, the zone can benefit immensely from enhanced trade, investment, fiscal discipline, economic growth and price stability.

In recent times, the ECOWAS countries, those within the proposed WAMZ in particular, have embarked on series of macroeconomic reforms to improve macroeconomic management of their domestic economies to attain the convergence criteria for monetary union and a common currency area. However, these reforms are not coordinated. A coordinated approaching to policy is required to guide member states towards the attainment of the convergence criteria for the monetary union and thereafter for the smooth operation of the monetary union.

The main aim of this paper is to propose an economic policy coordination framework for the intended West African monetary union and common currency area. The experience of the European Monetary union has shown the economic policy coordination is essential for the success and sustainability of the monetary Union. The paper is organized thus: following the introduction, section 2 reviews the literature on monetary union and optimum currency area while section 3 presents the theoretical model. Section 4 focuses on the historical and institutional background of economic integration in West Africa. In section 5, the experience of European Union
with economic policy coordination is discussed while section 6 summarizes useful lessons for the proposed ECOWAS monetary union. Concluding remarks are provided in section 7.

2. Literature Review

The traditional literature on monetary union and optimal currency areas discusses the costs of forfeiting monetary policy autonomy and the corresponding importance of alternative adjustment mechanisms for external imbalances. In his pioneering study, Mundell (1961) emphasized labour mobility, as a crucial adjustment mechanism for idiosyncratic shocks, and therefore a key precondition for forming an optimum currency area (OCA). Price and wage flexibility were also seen as important for coping with idiosyncratic demand shocks. Because shocks were more likely to be similar among highly integrated economies, McKinnon (1963) suggested the degree of openness as a key indicator in forming an OCA.

Completing the trilogy of classic OCA studies, Kenen (1969) introduced product diversification as an element of an OCA emphasizing that regions with a highly diversified production base should be better equipped to maintain a currency union than regions with low diversification because the latter were more vulnerable to asymmetric disturbances. In addition, he pointed out fiscal integration among regions as a mitigating factor because of the implied risk sharing.

More recent literature extended the basic economic insights from the classical OCA approach to incorporate new dimensions, including the effectiveness and credibility of monetary policy (Beetsma and Bovenberg, 1999), the centrality of shock
correlations (Alesina, Barro and Tenreyro, 2002), and the endogeneity of OCA adequacy.

While it is generally understood that a higher correlation of shocks between countries makes monetary union more beneficial, Melitz (1991) shows that even if countries face identical shocks, they might still need different policy responses given different initial economic positions and country-specific transmission mechanisms.

Because OCA criteria are endogenous to the creation of a monetary union, a number of studies have suggested that monetary integration may be self-validating. Frankel and Rose (1997) argue that openness (degree of integration) and income correlation are linked because the correlation of business cycles across countries depends on trade integration. Frankel (1999) notes that the endogeneity of OCA criteria means that some parameters such as openness and income correlation are not irrevocably fixed, but instead they can change over time in response to countries’ fundamental policies and to exogenous factors.


Debrun, Masson and Pattillo (2005) integrate traditional arguments against monetary union with potential benefits by modelling explicitly the substitutability between monetary integration and domestic institutional reforms. The DMP model
compares the costs of sharing a single monetary policy in terms of foregone stabilization with the benefits of the policy coordination brought about by fixed exchange rates. They establish the relevance of asymmetries in institutional quality and in the credibility of monetary commitments to macroeconomic stability. In contrast to the OCA literature, they emphasize positive “monetary externalities” associated with larger monetary unions because of the greater gains from monetary coordination and from a more effective separation between monetary and fiscal powers.

Economic and monetary integration of ECOWAS countries has been the subject of an extensive literature. Cham (2009) shows that the WAMZ has not fulfilled the necessary conditions for macroeconomic convergence as well as the criteria for optimal currency area. This implies that policies must be geared towards reforming the economies of the respective countries in the WAMZ to satisfy the basic criteria for convergence and optimal currency area without which it would be counterproductive to adopt a single currency for the zone.

Taking the argument further, Masson and Pattillo (2001) and Debrun, Masson and Pattillo (2002, 2005) develop a multicountry model of monetary union using a simple theoretical framework calibrated to reflect some of the prominent feature of African economies and political institutions, which are often ignored in the traditional EMU models. Using this model, Debrun, Masson and Pattillo (2002, 2005) assess the proposed ECOWAS monetary unions and conclude that it would not be in the

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1 See Beetsma and Giulodori (2010) for comprehensive review of recent research on Optimum currency Area and monetary integration.
interests of other ECOWAS countries, unless it were accompanied by effective discipline over Nigeria’s fiscal policies.

Debrun, Masson and Pattillo (2010) probe the issue of a wider monetary integration in sub-Saharan Africa. The cost-benefit analysis of monetary integration indicates that the proposed monetary union would bring net losers and net gainers. They conclude that the potential gains of strengthening domestic macroeconomic frameworks do not significantly differ from those associated with monetary integration, thereby reducing the attractiveness of joining the proposed monetary unions.

Asonuma, Debrun and Masson (2012) using the DMP framework simulate the welfare effects of monetary integration on members of common monetary area (CMA). While the CMA taken as a whole benefits from the monetary union, some individual countries experience welfare losses.

3. Theoretical Model

In recent empirical literature on monetary union and optimum currency area, the Debrun, Masson and Pattillo (2005)(here after DMP) model has received wide applicability. The reason for interest in this model is twofold. First, it emphasizes the role of commitment problems in macroeconomic policy, an aspect which is particularly relevant in Africa, where credible institutional fixes such as central bank independence and fiscal rules are harder to implement than in other regions. Second, it allows for analytical solutions while addressing at the same time the interaction between monetary and fiscal policies and international policy coordination (Debrun, Masson and Pattillo, 2007).
DMP assumes an n-good, n-country economic area that is small relative to the rest of the world. Countries differ in terms of size, economic governance, budget flows and terms-of-trade disturbances.

The underlying economic structure is built around a static new-classical Phillips Curve augmented with a distortionary tax and a negative externality capturing competitive devaluations in trading partners and one-period budget constraint without public debt (see equation 1 and 2).

\[
y_i = y_N + c(\pi_i - \pi_i^e) - \sum_{k=1}^{n} \theta_{i,k} c(\pi_k - \pi_k^e) + \epsilon_i, i = 1, ..., n
\]

(1)

\[
g_i = \bar{p}_i + \mu \tau_i + \tau_i - \delta_i
\]

(2)

Where \(\theta_{i,k}\) represent the marginal effect of a monetary policy action in country \(k\) on output in country \(i\). \(\epsilon_i\) is the term of trade shock, \(g\) is socially beneficial government expenditure in percentage of output, \(\delta\) is funds diverted from socially beneficial government expenditure in percentage of output, \(\pi\) is the inflation rate in country \(i\), \(T\) is tax revenue in percent of output, \(y\) is logarithm of output and \(\rho\) is permanent non-tax revenue from natural resource endowment in percentage of output.

National monetary policies in one country affect economic activity of other countries in the region negatively. For instance, an expansionary monetary policy by one country introduces a form of ‘beggar-thy-neighbour’ by reducing output of other countries in the region. On the contrary, fiscal expansions have no direct spillover effects.
In the benchmark case of flexible exchange rates with politically dependent central banks, monetary and fiscal policies are determined jointly by minimizing deviations of the effective tax rate, public expenditure and inflation from specific objectives.

\[ U_i^G = \frac{1}{2} \left[ a(\pi_i - \tilde{\pi}(\epsilon_i))^2 - b \tau_i^2 + \gamma(g_i - \tilde{g}_i)^2 \right] + y_i \]  

(3)

Equation (3) implies that the marginal benefit of output gain is constant whereas deviations of inflation, taxes and expenditure from ideal levels (denoted by a tilde) are increasingly costly.

These objectives are non-negative constants except for inflation, which fluctuates to partly accommodate Phillips curve (supply shocks). This captures the preferred trade-off between the variability of inflation and that of output.

\[ \pi(\epsilon_i) = -\eta \epsilon_i, \text{ so that } \pi(0) = 0 \text{ and } \pi_{\epsilon_i} < 0 \]  

(4)

A negative (positive) output shock thus induces the policymaker to tolerate positive (negative) inflation. Finally, governments prefer output expansions to contractions. Technically the marginal utility of an increase in output is constant and equal to 1 for simplicity.

Equilibrium policies deviate systematically from the first best, reflecting the government proclivity for using monetary policy to boost activity beyond its potential and the inflationary impact of the waste of tax money levied through distortionary instruments. In other words, instead of pursuing a policy of commitment to full structural reforms which may be costly in the short term but beneficial in the longer
term, the authority may opt for inflationary tax which would face less opposition and counterproductive in the long run.

A vast literature suggests that the solution to this inflationary bias lies in the delegation of monetary policy to an agency (an independent central bank) whose motivations differ from the policymakers’ objective (DMP, 2008). The main drawback of the independent central bank model is that independence could be threatened when the incentive to engineer a monetary expansion overwhelms the cost of reverting to pure discretion (McCallum, 1995). In other words, central bank independence can only tame inflationary bias if the costs of removing such independence are large enough.

Another solution to the inflationary bias problem, when national reform is impossible or incredible is the formation of a regional monetary union. In a monetary union, monetary policy is formulated by a regional/supranational central bank, whose actions maximize a weighted average of individual governments’ utility functions,

\[ U^{RCB} = \sum_{i=1}^{n} \omega_i U^G_i \]  \hspace{1cm} (5)

With \( \omega_i > 0, \forall i \) and \( \sum_{i=1}^{n} \omega_i = 1 \)

The Phillips curve faced by the supranational central bank for each member of the monetary union (M) becomes:

\[ y_i = y_N + c(1 - \theta^{yu}_i)(\pi^u_i - \pi^c_M) + c \tau_i - \sum_{k \in M} \theta_{i,k} c(\pi^k - \pi^c_i) + \xi_i, \forall i \in M, \]  \hspace{1cm} (6)

With \( \theta^{yu}_i = \sum_{k \in M} \theta_{i,k} \)
The time consistent policy mix yields the following solution for common monetary policy inflation rate:

$$\pi_{MU}^* = \frac{\mu b}{\Lambda} G_{G,A} + \frac{\gamma (1 + \mu) + b - \theta_A (b + \gamma)}{\Lambda} c - \frac{\eta a (b + \gamma)}{\Lambda} e_A$$  \hspace{1cm} (7)$$

$\theta_A$ captures the extent of the monetary policy externalities internalized through participation in the monetary union. A higher $\theta_A$ will ensure that average equilibrium inflation in the union is lower. $\theta_A$ is determined by the size of the union and the intensity of intra-regional trade linkages. All things being equal, the model implies that a large group of high-inflation countries with strong regional trade linkages would expect to gain more from monetary unification than a small group of low-inflation countries with limited regional trade. DMP model, in a nutshell, demonstrates that centralized monetary policy brings about lower inflation across the union but it is less effective at stimulating output in each individual country because there is no gain to expect from a depreciation of the national currency against trading partners in the region. The major cost of unification lies in the inadequacy of the regional monetary policy in the face of country-specific shocks. Hence, pointing to the importance of countercyclical fiscal policies, effective transfer and risk-sharing mechanisms.

3(i) The Challenge of Fiscal Policy Coordination:

The DMP model assumes away fiscal policy yet this aspect is important if monetary union is to be effective. However, regional fiscal policy coordination is difficult to implement; each country prefers dealing with fiscal policy rather than surrender it to a regional group. Apart from the seeming loss of sovereignty, the
characteristics of countries are dissimilar across, for example, countries may be at different stages of economic development. Furthermore, priorities of countries differ. Within each country, it is rather difficult to coordinate fiscal policy. Theoretically, macroeconomic management implies the coordination of fiscal and monetary policy by the finance arm of government and the central bank. However, in practice, even in countries with central bank independence, the coordination is generally not smooth and more often the pressure comes from the fiscal side of the equation. Where there are huge deficits, the implementation of monetary policy becomes challenging. Table 2 below shows that all the countries in the WAMZ were unable to satisfy the deficit/GDP criteria for convergence indicating the presence of fiscal dominance. It is, therefore, apparent that regional fiscal policy coordination is crucial for the ‘success’ of a monetary union. But to formulate and implement such a policy remain an onerous task (Ekpo and Afangide, 2010a; Ekpo and Afangide, 2010b; Ekpo, 2011).

4 Monetary Integration in West Africa

i) Historical and Institutional Arrangements

Countries in West Africa have been experiencing one form of economic integration or the other since the colonial era. The colonial administrations (French, British, Portuguese, Spanish, etc) tried to integrate the colonies into their economies as suppliers of raw materials and consumers of their finished products and even replaced the local currencies (e.g. cowries) with their currencies (British pounds sterling, French franc, Portuguese real and Spanish silver dollars).

In the 1970s, three economic groupings emerged: the first, established in 1972, was West African Economic community (presently known as West African
The Economic and Monetary Union (WAEMU) or UEMOA (French acronym)). The second was ECOWAS founded in 1975 and the last was Mano River Union founded in 1976.

Over the years, the francophone countries have maintained their WAEMU backed by France and later the European Union. ECOWAS has been less successful in achieving its primary goals of greater economic and monetary integration due to some factors including, the low level intra-regional trade, unsatisfactory implementation of the trade liberalization scheme, parallel monetary arrangements and lack of political will (WAMI, 2004)

In 1999, five of the non-WAEMU ECOWAS countries opted to start the process that would launch a second monetary union to be named WAMZ. Initially scheduled to be actualised in 2003, the WAMZ programme has been extended more than twice, to 2005, 2009 and now 2015 as a result of the poor performance of the member countries on the macroeconomic convergence criteria.

To complement efforts at economic integration and foster the realisation of improved economic growth and welfare of the citizens of the member countries, ECOWAS monetary Cooperation Programme was launched in 1987. The main goal of EMCP was the introduction of the ECOWAS common currency within five years of its implementation. This terminal date has since been revised several times and it is now pending the full-fledged operation of the WAMZ and common currency.

Some of the institutional and policy measures implemented in pursuit of the ECOWAS monetary Cooperation Programme include the following:

a. Establishment of the West African Monetary Agency (WAMA) in 1995
b. Trade and exchange controls

c. Exchange Rate Alignment

d. Market-oriented monetary controls

e. Payments system improvement

f. Design of an ECOWAS Exchange Rate Mechanism (EERM)

ii) Macroeconomic Convergence

According to European Union Commission (1990), monetary union requires virtually complete convergence of economic variables. The well-functioning of a monetary union is not limited to macroeconomic convergence of its member countries alone, but it demands the convergence in policy preferences, or at least agreement on the policy objectives and therefore on the weighting of targets and choice of instruments of economic policy.

Given that meeting the macroeconomic convergence criteria is very crucial for entry into monetary union, and a guarantee of its smooth functioning, member countries must attain and comply with certain target requirements that need to be satisfied before and after launching the monetary union.

For West Africa, these criteria have been classified into two groups: the primary and secondary criteria. The primary criteria are four, namely:

- Criterion on single digit inflation rate
- Criterion on Budget deficit as a percentage of GDP
- Criterion on central bank financing of government deficit
- Criterion on Gross reserves/import cover
The secondary criteria, though important, are not necessarily required to be achieved before launching the monetary union. Examples include:

- Ratio of tax revenue to GDP target
- Wage bill criterion
- Criterion of public investment financed from tax revenue
- Interest rate criterion
- Stock of domestic arrears criterion

ECOWAS countries are still currently far from achieving the criteria. Table 1 and 2 show the macroeconomic performances of ECOWAS member states in pursuit of the convergence criteria.

**Table 1: ECOWAS countries Position with respect to the Convergence Criteria, 2005-2009 averages**

<table>
<thead>
<tr>
<th>WAEMU:</th>
<th>Inflation rate (In percent)</th>
<th>Overall Fiscal Deficit (in percent of GDP)</th>
<th>Central bank advances (in percent of tax revenue)</th>
<th>Gross official reserves (in months of imports)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>4.1</td>
<td>4.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>4.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cote d'Ivoire</td>
<td>3.1</td>
<td>2.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mali</td>
<td>4.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Niger</td>
<td>4.7</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Country</td>
<td>2005</td>
<td>2006</td>
<td>2007</td>
<td>2008</td>
</tr>
<tr>
<td>-----------------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
<td>-------</td>
</tr>
<tr>
<td>Senegal</td>
<td>2.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Togo</td>
<td>4.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>3.9</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Non-WAEMU:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guinea</td>
<td>11.5</td>
<td>1.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>10.9</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>14.5</td>
<td>8.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>3.7</td>
<td>0.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cape Verde</td>
<td>3.6</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>11.9</td>
<td>8.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Gambia, The</td>
<td>4.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Average</strong></td>
<td><strong>8.6</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>ECOWAS average</td>
<td>6.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target for end-2005</td>
<td>&lt;5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Target for end-2009</td>
<td>≤5</td>
<td>≤4</td>
<td>≤10</td>
<td>≥6</td>
</tr>
</tbody>
</table>

Source: African Development Indicators 2011

**Table 2: Fiscal Deficit as % of GDP in the WAMZ**
<table>
<thead>
<tr>
<th>Country</th>
<th>-6.9</th>
<th>-7.0</th>
<th>-9.5</th>
<th>-10.6</th>
<th>-7.0</th>
<th>-8.2</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ghana</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Guinea</td>
<td>0.0</td>
<td>-0.3</td>
<td>0.4</td>
<td>-1.2</td>
<td>-6.5</td>
<td>-14.5</td>
</tr>
<tr>
<td>Nigeria</td>
<td>1.2</td>
<td>1.3</td>
<td>-0.6</td>
<td>-0.2</td>
<td>-3.3</td>
<td>-5.8</td>
</tr>
<tr>
<td>Liberia</td>
<td>-0.5</td>
<td>12.4</td>
<td>12.4</td>
<td>-2.3</td>
<td>1.1</td>
<td>6.8</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>-1.4</td>
<td>-1.6</td>
<td>-0.8</td>
<td>-3.4</td>
<td>-3.0</td>
<td>14.1</td>
</tr>
</tbody>
</table>

Source: WAMI’s data base.

5. The European Experience with Economic Policy Coordination

In the context of the European Union, economic policy coordination is explicitly mentioned in the Treaty of Maastricht, Articles 103(1) and 103(3) as a common objective of member countries. The Eurogroup was created to implement an aspect of coordination in the area of economic policy. Though some countries were initially reluctant, a large number of them seem to have accepted the idea.

Before the introduction of euro, Europe has experienced two broad methods of integration: the rule-based coordination reflected in the single monetary policy within the European Monetary union and a federalist approach through the Stability Pact and the single market provisions (Jacquet and Pisani-Ferry, 2000). With the introduction of the euro in 1999, monetary policy has effectively been delegated to the European Central Bank, but progress has not been made towards a federal budget. The convergence model as applied by the European monetary system in the run up to European monetary union where coordination practically came to be associated with convergence towards predetermined targets have limitations. First, it is based on one-size-fits-all approach that a sound economic policy can be determined for all countries at all times. Second, the fiscal criteria for convergence (such as deficit as percent of GDP of 3 percent, debt ratio of 60 percent and a fiscal...
balance of near zero) are not derived from explicit principles and objectives of economic policy. Third, it reduces the interaction between monetary and structural policies to a one-way relationship from structural policies to monetary policy ignoring the fact that monetary policy can be instrumental in providing the proper incentives for structural reform.

The Eurogroup tasked with the responsibility for economic policy coordination has not been given sufficient decision power. Hence despite some progress in statistical information, it has not been able to establish collective vision of the global economic situation of the Eurozone (Jacquet and Pisani-Ferry, 2000).

6. Lessons for the Proposed ECOWAS Monetary Union

In designing the policy coordination framework for the proposed ECOWAS monetary union, the following should be learned from the European experience. First, in order to strengthen the coordination process, members of the proposed MU need to gradually develop an economic policy philosophy that goes beyond mere procedures and criteria. It will make economic policy system of the MU transparent and reduce uncertainty on the future orientations of monetary and fiscal policies in the union. It is equally important to evolve principles that guide economic policy decision and market expectations.

Second, the formulation of these principles should be entrusted to a group of qualified experts and unquestionable personalities. The final outcome of series of debates and discussions will form a draft economic policy charter. The economic policy charter should amongst other things include: i) assignment principles for responding to economic shocks; ii) rules of conduct for fiscal policy behaviour that would make clear how the budget is managed over the cycle and how governments envisage to respond to unexpected revenue windfalls (shortfalls).
Third, coordination requires more transparency and predictability in economic decision makers not necessarily change of their decisions according to the common good. The quality to policy-mix can be greatly improved with transparency and predictability of each decision maker orientations and reactions to shocks. To achieve greater transparency and predictability, progress must be made in the following areas:

- The quality and homogeneity of statistical information must be improved
- Qualitative advances with respect to infra-annual information on public finances are required for national budgets to be monitored effectively
- The common central bank policy needs to be clarified. For instance, inflation target should be more precise and when undershooting or overshooting occurs it must be corrected with much vigour.
- Member states should adopt contingent fiscal policy principles.

Fourth, a collective executive body should be formed to organize the executive function needed to define and implement economic policy orientations or joint decisions according to the guidelines. The executive body would associate national finance ministers and would make fiscal policy recommendations to the monetary union member states. This collective executive body must be able to adopt strategic economic policy guidelines, white papers on structural reform, as well as specific economic policy resolutions or recommendations. It must also be able to take a position on international policy coordination and exchange rate issues.

Fifth, there should be better interaction between the monetary union procedures and national decisions. For instance, national public finance programmes should be collated at the regional level to enable a review of the
aggregate union fiscal prospects and policy stance before the national programmes are scrutinised.

7. Conclusion

The paper examined monetary unification and the role of economic policy coordination. From the theoretical exposition, monetary unification has substantial benefits in terms of lower inflation rate and macroeconomic stability. However, these gains come with the sacrifice of the ability to implement national monetary policies to counter country-specific output shocks. Drawing from the experience of European monetary union, the paper argues that with appropriate economic policy coordination framework, monetary unification can become a win-win situation with benefits accruing to the entire monetary zone. The lesson for the ECOWAS countries is that monetary unification is not a substitute for domestic economic reforms. The structural reforms must take place first to provide the infrastructure for a more fruitful unification.

However, the key to a desirable holistic policy coordination framework is in examining the fiscal side of the equation. A regional fiscal policy coordination is necessary if monetary union is to be successful. Whether countries are willing to allow for such coordination is the big question?
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