

EPREUVE ORALE D'ANGLAIS

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10. Can a West Africa Currency Union Work?

The 15 countries of the Economic community of West Africa states have agreed to adopt as of next year, a new shared currency, the "ECO". But, as the euro zone's experience has shown, currency unions can be difficult to work. Creating a successful one will require the ECOWAS countries to overcome serious challenges.

The work of the economist Robert Mundell suggests that an "optimum currency area" must satisfy four main conditions. The first is a large and integrated labor market that allows workers to move easily throughout the currency union to fill employment gaps. Price and wage flexibility, together with capital mobility, are also necessary to eliminate regional trade imbalances. These two conditions imply the need for a third: a centralized mechanism for fiscal transfers to country that suffer as a result of labor and capital mobility. Lastly, participating countries should have similar business cycles to avoid a shock in any one area.

The ECOWAS member states are well aware of these conditions, which guided the ECO's six convergence criteria. Those criteria include a budget deficit below 3% of GDP; public debt of no more than 70% of GDP; inflation of 5% or less; and a stable exchange rate [...].

So far, ECOWAS countries are struggling to meet these criteria. For example, only five countries – Cape Verde, Côte d'Ivoire, Guinea, Senegal and Togo – meet the requirements on inflation and budget deficits. This disappointing reality led Mahamadou Issoufou, ECOWAS chairman and Niger's president to confirm that while countries that are ready will launch the single currency in 2020, countries that are not ready will join the program as they comply with all six convergence criteria.

And yet ensuring that all members meet the convergence criteria is only the first step toward creating a successful West African currency union. The ECOWAS countries are beset by insecurity and corruption and they currently have arbitrary tariff and non tariff barriers in place. Furthermore, the region's supply-chain infrastructure remains inadequate.

By Simplice A, October 2019
