VI Fiscal Policy

A monetary union, with its explicit coordination of monetary and exchange policies, also implies some cooperation in the fiscal policies of member countries. Unduly divergent fiscal policies could lead to unbearable strains within a monetary union, especially if they cause conflicting balance of payments movements, unless the financial consequences of these are absorbed by external assistance. Cooperation in taxation policy and investment incentives should also exist so that one member country does not have an undue advantage in attracting external capital or illegal trade, but coordination of these aspects of fiscal policy are beyond the scope of this work. Only the principal fiscal indicators are reviewed here, to assess whether member countries of the WAMU consciously coordinated their fiscal policies.

The principal legal means of fiscal coordination in the WAMU is the statutory limit on government credit set by the banking system; in the BCEAO the limit is 20 percent of the previous year's tax revenue. Fiscal credit was originally intended to provide revolving short-term ways and means advances for budgetary operations. The limitation is on the total gross credit outstanding at any point in time rather than on a yearly increment in financing.

In addition to the formal limit on government credit, further coordination of fiscal policy in the region is sought by determining annual monetary targets. As was mentioned earlier, the BCEAO, under its new statutes, determines overall credit targets for each member country, including credit to be extended to governments. In the course of this determination, which is approved by the Council of Ministers, fiscal requirements are explicitly considered and discussed by the ministers.

It is doubtful whether the formal limit on bank credit to governments is an effective way of inducing fiscal coordination. In practice, any discipline imposed by such a limit could be circumvented by governments turning to other sources of financing budgetary deficits, such as external borrowing, payments arrears, or the use of various deposits with the treasuries, which also perform certain banking functions for member countries. Also, insofar as there are no statutory limits on credit to the private sector, some budgetary expenses, such as consumer subsidies, could be diverted to public enterprises (which are considered part of the private sector and are not subject to statutory limits), possibly through the stabilization boards, which would then borrow from the banking system.

Finally, some member countries have, on occasion, held considerable bank deposits that were not subject to statutory limitation. After 1978, the BCEAO also started providing member governments with counterpart funds for drawings under the Fund's extended facility. Governments were given access to these counterpart funds, which were treated effectively as development financing, on the basis of their long-term repayment schedule. In the latter part of 1981, the BCEAO gave member governments the right to draw the counterpart funds of virtually all Fund transactions (except SDR allocations and reserve tranche drawings). While Fund programs must, of course, be related to balance of payments needs, they do provide counterpart funds in local currency to the treasuries to finance government expenditures. Although these counterpart funds are not subject to the 20 percent statutory limitation, the staff of the Fund would generally have taken these resources into account when agreeing on the appropriate levels of budgetary financing, including domestic bank credit, in a program.

It is clear, then, that the member governments of the BCEAO have a number of means at their disposal to avoid the formal limitations on fiscal policy imposed by the statutes of the Central Bank. In some cases, circumvention might allow a government to accumulate payments arrears, or finance an excessive deficit, which could have a harmful effect on other members; in certain circumstances, however, it might be appropriate for governments to avoid the credit limits—as, for example, when domestic deflation may warrant a larger budgetary deficit than can be financed by the allowable bank credit.

It might seem straightforward to evaluate the effects of the restraint, or lack of it, on fiscal policy by a review of the data on government revenues, expenditures, and financing. However, there are a number of problems with the current public finance data for

members of the Union that make it difficult to evaluate their fiscal performance, and especially to make cross-country comparisons. The degree of centralization of government activities, for instance, varies widely among members, and a consolidation of treasury accounts alone will not provide a comparable coverage of the total government sector. (This is particularly true with respect to foreign-financed investments which are sometimes outside the budget and, in some cases, comprise more than 5 percent of GDP.) There are also a number of difficulties surrounding the question of an accurate inventory and recording of payments arrears whose magnitude could become critical in years of large budgetary deficits.

Table 25 provides some (annual average) indicators of fiscal performance in the BCEAO region between 1975 and 1980, although the comparisons among countries should be viewed cautiously as the cross-country consistency of the definitions cannot be assessed. However, a few general observations can be made. First, the size of government operations varies considerably among countries, whether measured by the ratio of revenue or expenditure to GDP. Second, all the countries, on average, incurred deficits. Third, the deficits tended to be largely financed by foreign borrowing. Fourth, the statutory limit of gross domestic budgetary financing by the Central Bank was observed in all countries (this limit applies only to advances from the Central Bank, plus any rediscounts of credit to governments provided by commercial banks). Fifth, reflecting the extent of foreign financing, the ratio of public external debt to GDP rose over time and was well over 20 percent on average for most countries.

Data on fiscal ratios show that trends seem to have been the same in all member countries between 1975–77 and 1980–82, with increasing ratios of government expenditures and the budget deficit to GDP and of net foreign financing in the total financing needs of the treasury (Table 26). The ratios are given as three-year averages in order to smooth out annual fluctuations.

Table 25. WAMU Members: Indicators of Fiscal Performance, 1975–80

(Averages, in percent)

	Benin	Burkina Faso	Ivory Coast	Niger	Senegal	Togo
Total budget revenue/GDP	15.7	13.2	29.4	11.8	22.0	29.6
Total budget expenditure/ GDP	26.9	23.5	53.1	12.4	23.8	42.5
Overall budget position/ GDP	−3.0	−4.4	−7.0	−2.4	−1.6	−10.0
Domestic bank financing of budget/GDP	−0.9	0.3	0.8	−4.6	0.9	1.2
Net foreign financing/ratio of overall financing	207.2	76.4	80.9	88.8	−70.0[1]	30.6
Outstanding gross bank credit to government/statutory limit[2]	39.0	29.6	47.6	148.0	124.2	93.6
Outstanding gross central bank credit to government/statutory limit	33.7	4.8	27.4	41.9	38.3	83.7
Public external debt/GDP	20.9	20.3	33.9	17.4	25.6	54.1

Source: International Monetary Fund, *International Financial Statistics* (Washington: IMF).

[1] In Senegal, the budget does not include all the public loans contracted. However, their servicing tends to be included as budgetary expenditure.

[2] The statutory limit applies only to gross central bank credit and rediscounted commercial bank credit to the government sector.

Table 26. WAMU Members: Fiscal Ratios, 1975–82

(Three-year averages)

	Expenditure as a Percentage of GDP		Deficit as a Percentage of GDP		Bank Finance as a Percentage of Money Supply		Net Foreign Financing as a Percentage of Overall Financing	
Country	1975–77	1980–82	1975–77	1980–82	1975–77	1980–82	1975–77	1980–82
Benin	27.3	28.8	1.5	5.9	8.9	8.3	—	98.1
Burkina Faso	19.9	33.6	3.7	6.9	13.1	7.2	77.1	78.1
Ivory Coast	29.7	38.6	1.7	12.3	10.7	14.0	—	70.2
Niger	14.8	22.3	0.8	8.7	7.6	12.4	27.0[1]	21.8
Senegal	20.1	27.8	2.2	7.3	3.3	9.1	20.2	59.9
Togo	25.6	37.4	3.7	6.2	29.4	4.2	33.7	35.5[2]

Source: International Monetary Fund, *Government Finance Statistics* (Washington: IMF).

[1] 1976–77.

[2] 1979–81.

However, the pace of these increases differed among countries; budgetary deficits increased extremely fast in Ivory Coast, for instance, as did external indebtedness. In Togo, on the other hand, the ratio of the treasury deficit to GDP increased less, and the reliance on external borrowing remained proportionately virtually unchanged. In both Ivory Coast and Senegal, domestic bank financing of the treasury deficits was relatively large in the later period, but in Senegal in the earlier years the reliance on domestic bank financing was considerably smaller. Overall, these developments reflect domestic fiscal policies not dictated, or even overtly coordinated, by the contingencies of monetary union.