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Summary of
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"Monetary Policy in Unified Currency Areas: The Cases of the CAMA and ECCA during 1976-90" by Jean-Claude Nascimento

The paper reviews and compares the performance of the monetary policy of the Banque des Etats de l'Afrique centrale (BEAC) and the Eastern Caribbean Central Bank (ECCB) during 1976-90. Both the BEAC and the ECCB conduct monetary policy under a fixed collective peg--to the French franc in the case of the BEAC and to the U.S. dollar in the case of the ECCB--but under different regimes of external convertibility--liberal in the case of the Central African Monetary Area (CAMA) but fairly restricted in the case of the Eastern Caribbean Currency Area (ECCA). The paper concludes that the two institutions achieved opposite results in their net foreign reserve position because they used different mechanisms for monetary control and because of differences in their institutional setup and their rules for limiting credit expansion.

The ECCB strengthened the net foreign position of the banking system by relying on an active interest rate policy aimed at preventing capital outflows. Its centralized policymaking and stringent monetary rules also contributed to the success of its monetary policy during the study period. In contrast, the banking system of the CAMA suffered massive foreign reserve losses largely as the result of the BEAC's pursuit of an essentially accommodating monetary policy. The inefficiency of the BEAC's mechanism for monetary control is largely responsible for these reserve losses, although adverse exogenous shocks (e.g., a drop in world oil prices) also played a role. Because the BEAC pursued a rigid interest rate policy during most of the study period, it was also unable to stem large capital outflows.

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