THE IMPACT OF PEGGING THE CFA FRANC TO THE EURO – WITH SPECIAL FOCUS ON THE SITUATION OF CAMEROON

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Diplomarbeit

zur Erlangung des akademischen Grades Diplom-Agraringenieurin
an der Fakultät Agrarwissenschaften
der Universität Hohenheim

Eingereicht am
Institut für Agrar- und Sozialökonomie
in den Tropen und Subtropen
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Diese Arbeit wurde gefördert aus Mitteln
der Vater und Sohn Eiselen-Stiftung, Ulm

Hohenheim, März 2001

7 Summary

The introduction of the euro as single European currency directly affects the future of the CFA zone in West and Central Africa, since these countries have bound their currency, the CFA franc, to the French franc. The disappearance of the national European currencies therefore needed a decision upon the future of this monetary co-operation.

Following several discussions on EU and national level, the EU Commission finally launched a decision in November 1998 about the handling of the special monetary agreements between France and the CFA zone. This decision basically followed the demand of France to keep the responsibility for guaranteeing the CFA franc with the French Treasury and to simply peg the CFAF to the euro by maintaining its parity to the FF. The agreements were thus seen as budgetary in nature, which could not impinge on the economic stability in the Euro zone. According to the Maastricht Treaty, the FF merged into the euro on January 1, 1999 and hence dragged along the CFAF into the new monetary era.

Despite the optimistic views of the EU and government officials, the shift of the currency peg from the FF to the euro raised as well critical voices. Those doubt that the euro will only bring about advantages for the CFA countries, on the one hand bearing in mind the general inconveniences of a fixed currency peg and on the other hand pointing at specific risk factors due to the link to the euro.

This work examines the various opinions and discusses the prospective impact of pegging the CFAF to the euro with regard to three aspects: the impact on the monetary agreements, including the question about possible consequences of the convergence criteria of the Maastricht Treaty, the impact for the international trade of the CFA countries, both export and import and the influence on capital movements to and from the CFA zone. Statements to these issues are derived from expert interviews conducted in Cameroon, comprising the views of officials and business people, and from arguments of scholars found in the literature.

The members of the CFA zone might take advantage from the peg to the euro, but these benefits are limited. Transaction costs are reduced and every exchange rate risk is eliminated in trade with the euro area. However, this only applies to goods denominated in euro. Since the major amount of export commodities of the CFA countries is quoted in US dollar, the share of exports for which transaction costs are reduced and the exchange rate risk disappears is lower than predicted by several officials.

The import sector might instead benefit more from the link to the euro. Imports are mainly paid in euro and a substantial part is bought from members of the Euro zone. At the same time the euro facilitates the comparison of commodity prices in the different countries.

The divergence in exports being mainly quoted in US dollar and imports being paid in euro has created a mismatch between revenues (exports) and costs (imports) in the CFA countries. The high dependence of the CFA zone upon changes in the value of the US dollar against the French franc and now the euro remains, which is also true for the dollar-dominated external debt of the countries. Pegging the CFAF to the euro might slightly lead to a shift in trading partners from France towards other EU countries, but a substantial diversification either in trading partner or in traded commodities is not to expect.

As far as potential implications for capital movements are concerned, the link to the euro might add to the attractiveness of the CFA zone for foreign investors, but other factors that determine the decision of investors still remain. The countries need to improve their economic and financial structures in order to benefit from the liberated capital movements and not to enhance an exodus of capital from the zone.