



# Coordination of fiscal and monetary policy in CIS-countries A theory of optimum fiscal area?

Bodo Herzog<sup>a,b,\*</sup>

<sup>a</sup> *Department of Economics, University of Bamberg, Germany*

<sup>b</sup> *Graduate Institute of Markets and Social Systems in Europe, Lichtenhaidestr. 11, D-96052 Bamberg, Germany*

Received 31 January 2005; received in revised form 5 April 2005; accepted 1 September 2005

Available online 24 October 2005

---

## Abstract

The following paper analyze the problem of fiscal and monetary coordination in selected CIS-countries and compare it with the institutional structure in the EMU. To enhance the literature in that field it is necessary to take into account some new approaches. Most of our interest are spill-over effects, free-riding behavior and pre-coordination within fiscal and monetary areas. Besides the more institutional economic analysis we try to build-up an economic model that analyze the optimal degree of coordination. Moreover, numerical simulations complete the theoretical analysis and illustrates a ‘coordination-frontier’. We show that the optimal degree of coordination depends on fiscal rules and government size. Furthermore, another new result illustrates that spill over effects are not sufficient for deepening coordination. Therefore, our model is an interesting research object for the future of ‘Economic-Coordination’ literature. Hence, we solve the following key-problem in fiscal coordination: What is the optimal degree of fiscal coordination between different countries in a monetary area?

© 2005 Elsevier B.V. All rights reserved.

*JEL classification:* E61; E69; F42

*Keywords:* Fiscal–monetary coordination; Interaction conflicts; Fiscal federalism

---

## 1. Introduction

It is really impressive to see the rapid transformation process and the development of the Eurasian Economic Community (EEC) as well as the transformation process in the selected

---

\* Tel.: +49 951 863 3125; fax: +49 951 863 1183.

*E-mail address:* [Bodo.Herzog@sowi.uni-bamberg.de](mailto:Bodo.Herzog@sowi.uni-bamberg.de).

CIS-countries. The chronology of the EEC has many similarities with the development of the current European Economic and Monetary Union (EMU) two decades ago. The Commonwealth of Independent States (CIS) consists in general of: Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Republic of Moldova, Russian Federation, Tajikistan, Turkmenistan, Ukraine and Uzbekistan. In Juni 2001, the following five CIS-countries—Belarus, Kazakhstan, Kyrgyzstan, Russia and Tajikistan—announced in Belarussian capital Minsk on Thursday to set up the Eurasian Economic Community (EEC). The main target is to boost cooperation between the five member countries, which earlier formed also a Customs Union (Ellman, 1998).

In this paper, we analyze a specific set of macroeconomic policy particularly the coordination of fiscal and monetary policy in the main CIS-countries.<sup>1</sup> We find some new results and suggestions regarding the design of fiscal cooperation frameworks, especially for interacting economies in monetary issues. Moreover, we try to analyze the impact of spill-over effects in interacting fiscal and monetary areas to internalize the coordination burden. We consider a model where fiscal policy reputation, homogeneity, and output variance (volatility) affect the degree of coordination between fiscal policies in CIS-countries, and therefore explain the problem of different coordination behaviors in those countries. Countries with high past reputation or negotiation power, such as Russia, intend to coordinate fiscal and monetary policy issues on a lower degree or more slowly than smaller countries because of the risk-premium on interest rates, higher free-riding incentives and, the well-known signaling effect caused by asymmetric information (Bohn, 1998). Delays in coordination are particularly inefficient, as the longer a country waits the more costly the policy adjustment and the more the spill-over effects lead to free-riding and undersupply. The reason is that longer periods of un-coordination and instability imply higher inefficiencies. This paper studies the economic determinants of delays in the coordination of fiscal policy in selected CIS-countries.

We present a simple model that describes some determinants of delayed coordination due to a strategic-interaction game. Concerning the determinants of coordination, we show that the values of output volatility, homogeneity within fiscal policy rules, and the credibility of other participating countries in fiscal issues are the most relevant variables for explaining differences in the intended degree of fiscal coordination within the main CIS-countries. Moreover, we suggest that CIS-countries that focus on coordination in monetary issues have to look closer to fiscal policy issues. There are two main reasons: on the one hand there are strong interactions between fiscal and monetary policy issues shown in the ‘Fiscal Theory of Price Level (FTPL)’ (Woodford, 2003). On the other hand a recent article in the new fiscal–monetary interaction literature by Dixit and Lambertini (2003) show also the importance of fiscal policy in monetary areas. Our model illustrates that argument from a public finance perspective. We show that there are different incentives to coordinate fiscal issues between larger and smaller CIS-countries (cf. Alesina and Drazen, 1991; Alesina and Spolaore, 1997). That result is pretty surprising because it is mostly ignored or unaccounted in discussions on coordination of monetary policy issues in CIS-countries.

To maintain price stability during the coordination of monetary policy we have to look to the fiscal policy framework. Hence, fiscal policy is necessary to evaluate the main target price stability. Sometimes it is assumed that central banks are accused of being obsessed with inflation. This is totally untrue. If they are obsessed with anything, it is with ‘fiscal policy’ coordination (King, 1998). Therefore, we focus in our paper on that dimension and analyze the key determinants and

---

<sup>1</sup> Those countries are: Belarus, Kazakhstan, Russia and Ukraine.

متن کامل مقاله

دریافت فوری ←

**ISI**Articles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات