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**Statement by Mr. Rutayisire on WAEMU
Executive Board Meeting 08/45
May 23, 2008**

My WAEMU authorities welcome today's discussion in the context of the 2008 consultations on their common policies. They would like to thank staff for the fruitful dialogue held with the organization's bodies as well as for the comprehensive set of papers that reflect the thrust of issues at stake.

The WAEMU authorities are very appreciative of the support of the Fund, particularly its readiness to assist member countries in the face of adverse shocks. This has been evidenced recently by the policy advice provided by the Fund as the WAEMU officials sought response to the food and oil prices crisis. My authorities look forward to furthering the collaboration on this particular issue that puts at risk noticeable achievements resulting from decades-long effort in macroeconomic management.

The overall economic performance of the WAEMU region continues to improve with relatively strong GDP growth and moderate inflation in 2007. Moreover, the easing of a number of binding constraints paired with a comprehensive agenda of policy reforms within member countries and at the regional level contribute to raise prospects of higher growth and substantial poverty reduction. Five WAEMU countries out of eight have reached the completion point of the HIPC initiative, freeing more resources for investment, the crisis in Côte d'Ivoire is settling, and the regional authorities are stepping-up effort towards macroeconomic convergence and further integration.

In their endeavor, my authorities are fully aware of challenges ahead. Apart from finding appropriate response to exogenous shocks, they will have to tackle stalling issues such as reforming the monetary and financial sectors, fostering private investment and solving the credit issue, improving the business environment and removing barriers to trade.

I. Recent Economic Developments and Outlook

Recent developments in the WAEMU show a positive macroeconomic performance in 2007, with growth at 3.2 percent and inflation subdued at 2.3 percent. Compared

to 2006, growth has been driven by the improvement of activity in Côte d'Ivoire, the largest economy of the region, and the performing services and construction sectors in Senegal. However, bad weather conditions and energy shortages in most other countries of the union hindered growth in 2007 while rising food and oil prices were pushing up year-on-year inflation in early 2008.

With prospects of further economic growth in Côte d'Ivoire, the growth rate of the WAEMU region as a whole is projected to reach 4.5 percent in 2008, though still less than the average for sub-Saharan Africa (SSA) and well short of what is required to substantially reduce poverty and attain the MDGs. The downside risks to this outlook are the uncertainties on the international environment namely, recession in advanced countries, and oil and food prices.

On the fiscal front, the regional deficit, excluding grants remained unchanged at about 6 percent in 2007, with government revenue relative to GDP increasing at a regular pace since 2003, and expenditures scaling up in the pursuit of the MDGs. My authorities have made good progress in the domestic financing of the fiscal deficit, through issuance of treasury bills. Six sovereign bonds were issued in 2007, and roughly, half of the treasury bills issued over the 2002-07 period was bought by residents of other WAEMU countries. This favorable development is contributing to the rise of a regional securities market in lieu of the former statutory advances from the BCEAO.

As regards the external sector, the current account deteriorated in 2007 – 5 percent of GDP – as a result of rising fuel price and sluggish exports growth, somewhat offset by increased grants and slight reduction in imports. The international reserves covering 4.8 months of imports at end-2007 appear adequate vis à vis standards. The risks of the appreciation of the real effective exchange rate of the CFA along with the strong Euro, even if staff results do not provide conclusive estimates, is a matter of concern for my WAEMU authorities, the countries relying heavily on commodity exports. They are committed to accelerating structural reforms in order to enhance the competitiveness of their economies.

Owing to the HIPC and MDRI initiatives, external debt data have been improving for most of WAEMU countries. Except Côte d'Ivoire and Togo awaiting for the HIPC decision point, and Guinea Bissau the completion point, the remaining five countries have already benefited from both initiatives. As a result, the debt service plummeted from 95.4 percent of GDP in 2000 to 54.2 percent at end-2006 and 45.8 percent at end-2007. This downward trend is expected to continue, resulting in a ratio of 40.4 percent in 2008. The situation should improve further with the relief for Côte d'Ivoire, Togo and Guinea Bissau in a near future.

II. Key Regional Policy Issues

Monetary policy and the financial sector development. The prudent monetary policy pursued by the BCEAO has so far helped maintain the CFA/Euro peg thanks to comfortable foreign exchange reserves. In addition, inflation has been kept under

control because well-managed monetary determinants have not added to oil and food prices led inflation. Moreover, monetary policy should be improved in periods ahead with the ongoing Institutional Reform, which targets the strengthening of the legal framework through a better distribution of responsibilities among the financial agencies and the enhancement of their autonomy and accountability.

The financial sector of the WAEMU still falls short of what is needed to enhance its contribution to economic growth. Financial intermediation in the region is below the average for SSA. Banks dominate the sector in a number growing from 64 in 2002 to 94 in 2006. Côte d'Ivoire and Senegal host the majority of them, with foreign banks holding on average 60 percent of the aggregate capital.

With the displayed features, the banking system carries many weaknesses including: (i) a still important role of the public sector; (ii) low diversification of banks; (iii) inefficient liquidity management; and (iv) high share of cash crops credit. These weaknesses result in low performance aggregates. Around a third of banks do not comply with the minimum statutory capital of CFAF 1 billion, and the average capital adequacy ratio dropped from 11.4 percent in 2004 to 6.2 percent in June 2007.

Despite its weaknesses, we share staff's view that potential short-term vulnerabilities are mitigated by a number of factors including the sizable long net foreign exchange positions and the abundance of liquidity. Moreover, my authorities are cognizant of the limits of the financial sector, and they are working on different fronts to deepen it. First, they have raised the minimum statutory capital from CFAF 1 billion to CFAF 10 billions starting January 2008, in order to favor the emergence of strong and healthy banks. The Institutional Reform should bring about more independence to the Banking Commission in its supervisory role, and help phase out the current heavy implication of finance ministers.

The authorities have also launched a study to identify the means to modernize the regional securities exchange with the view of contributing to the financing of enterprises in addition to the current activity evolving around public debt. The regional law in process of validation by national parliaments should also help strengthen the microfinance sector by creating linkages with the formal banking system. The ultimate goal of my WAEMU authorities is to enable the creation of a dynamic and diversified financial sector capable of broadening credit opportunities to all demanders. For many years, a non-dynamic and risk averse banking sector has restricted credit only to big companies and cash crop dealers, excluding SMEs and individual promoters. My authorities are committed to turn this trend around to unleash growth potential for the region.

Macroeconomic convergence and integration. My WAEMU authorities concur with staff that there is a long way to go on the convergence agenda. However, the non-compliance of most countries with convergence criteria is not due to the lack of political commitment as suggested by staff. Rather, it is explained by factors such as rising expenditures stemming from political instability (Côte d'Ivoire and Guinea

Bissau), and effects of external shocks. As a result, at end-2007, only two member countries, Benin and Mali complied with four out of five first order convergence criteria, Burkina Faso and Niger, three criteria, Côte d'Ivoire and Senegal, two, and Togo, one. Guinea Bissau did not meet any of the first order criteria.

My authorities intend to step-up efforts in order to improve this picture in 2008. Areas of action encompass: (i) fostering growth through the resolution of energy supply problems; (ii) encouraging research and production of substitutes for imported foodstuffs; (iii) favoring trade of foodstuffs within the union; (iv) pursuing structural reforms in sectors that cause huge subsidies from governments; (iv) furthering fiscal consolidation with an emphasis on convergence friendly levels of expenditures.

Regarding the broader issue of integration within WAEMU and ECOWAS, a number of initiatives have added to the political commitment expressed by all Heads of states of the region. Recurrent actions are taken to facilitate trade and many technical works are underway to build a successful and beneficial monetary union at the ECOWAS level. In addition, countries in the region more and more negotiate their external partnerships under the aegis of ECOWAS, as it was the case recently in the negotiations of the Economic Partnership agreement (EPA) with the European Union.

Coordination of policy response to shocks. In the face of similar exogenous shocks facing the WAEMU countries, my authorities are reinforcing their capacities to respond steadfastly to common threats. This has been evidenced during the ongoing oil and food prices crisis. Many member countries have taken short-term fiscal measures to curb the rising price of essential foodstuffs and end induced social unrests. These measures range from temporary reduction of VAT on foodstuffs to suspension of customs duties on some imports.

On April 23, WAEMU ministers of finance decided in Abidjan to coordinate their policies to address more effectively the rising prices. They laid down a 3-year plan aiming at achieving food self-sufficiency in the region. Under this plan, the ministers pledged CFAF 100 billions that would serve as leverage to raise CFAF 300 billions for the financing of agricultural projects. The West African Development Bank was designated as implementation agency. In addition, a seminar in Dakar is scheduled by mid-June to deepen the policy response to the food crisis.

Along with this domestic effort, my authorities await a global response from the international community, especially through the Fund instruments. They look forward to the implementation of the late Spring meetings' conclusions that emphasized the need to review the External Shock Facility with the aim of making it effective for low-income countries facing severely the rising prices, not to mention the recommendation of increasing financing access for PRGF countries.

Conclusion

Since its inception in 1994, the WAEMU has made noticeable inroads towards

regional integration and more economic prosperity. In the face of daunting challenges, my authorities have never given up their profound belief that a larger economic pie would increase the benefits for all, nor their commitment to clear hurdles and build a viable economic community within the West African region. Many steps have been achieved, including the creation of an institutional framework comprising various specific bodies, the establishment of the Common External Tariff, and the setting of criteria to enhance macroeconomic convergence. This architecture has contributed to the removal of barriers to trade and impediments to growth. Moreover, member countries are more and more coordinating their policies, especially in the face of common threats and shocks, as well as vis à vis external partners.

On this path to integration, my WAEMU authorities have appreciated the assistance of international institutions including the Fund. The regular consultations with the Fund have provided the opportunity for great advice and the exposure to similar experiences in the world. Going forward, my authorities reiterate their commitment to address the pending issues ranging from the institutional architecture to the financial sector, not to mention fiscal and monetary policies. The success achieved in each of these fields will unequivocally lay the ground for another challenging goal, the construction of the larger economic and monetary union within ECOWAS.