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**Statement by Mr. Bakker and Mr. Tanasescu on WAEMU
(Preliminary)
Executive Board Meeting 08/45
May 23, 2008**

We welcome the discussions on the common policies of the West African Economic and Monetary Union (WAEMU) member countries, and thank staff for their well-written papers. We also thank Mr. Rutayisire for his comprehensive Buff.

We broadly concur with the staff's recommendations and share their sense of concern about the economic performance in the WAEMU region. Although growth has improved in 2007, we note that growth performance continues to lag other countries in sub-Saharan Africa. Significant differences between macroeconomic performance of individual countries persist and economic convergence has come to a standstill. Due to high oil and food prices and country-specific shocks, the authorities face a challenging fiscal outlook and measures are warranted to implement long-term and ambitious structural reforms, and to improve the business climate strengthening regional integration. At the same time, we are hopeful that improved economic prospects in Cote d'Ivoire, the largest economy in the region, and Senegal will help growth in the region.

Monetary and exchange rate policy and financial sector

We agree that the CFA franc's peg to the euro continues to serve the WAEMU region well, and even though policy rates are lower than in the euro area, there was no evidence of pressure on the peg or on reserves. We welcome staff's assessment that the zone's real effective exchange rate is broadly in line with fundamentals and consistent with external stability. However, two of four econometric methods used in the context of the equilibrium exchange rate suggest that WAEMU REER at end-2007 was overvalued, and the two other methods indicated that the exchange rate was just slightly above equilibrium. In this context implementing cautious fiscal policies and achieving improvements in a number of structural reforms are crucial to ensure the long-term sustainability of the current exchange rate peg. As staff, we welcome the BCEAO's efforts to enhance its monetary policy by improving liquidity forecasting, enhancing the predictability of monetary operations, and strengthening the regional integration of the money market. The key challenge for the BCEAO will be maintaining macroeconomic stability, by curtailing the inflation rate in the face of pressures created by rising food and fuel prices. In this vein, we encourage the authorities to pursue the

FSAP recommendations, and to take actions to enhance the BCEAO's capacity to manage liquidity, and to further develop a regional interbank market.

On financial sector issues, it is discouraging to see that after an increasing number of banks has collapsed in the past years, in 2007 more than one-third of all banks failed to meet the minimum capital requirement, and the average solvency ratio has deteriorated sharply. We encourage the national authorities to address this concern as a matter of the highest priority, and to fully support the Banking Commission in ensuring that banks will comply. We agree with staff that strengthening supervision of the banking system will encourage development of the private sector in the region and will increase financial stability.

Convergence and regional integration

Meeting the convergence criterion on the fiscal balance has been a difficult challenge for the region, and only one country complied with the criterion of a non-negative basic fiscal balance. It is apparent that the majority of the member countries seem to pursue expansive fiscal policies, violating the fiscal balance criterion, and generating pressures on the exchange rate.

The rising deficits, which have been financed in the regional treasury bill market, have generated increases in domestic debt. It is important for the countries in the region to remain cautious and to avoid debt distress and potential supplementary pressures on the currency peg. Moreover, we note that the political commitment to convergence is weak, while member states will find it difficult to align their national interests with regional goals and to meet their self-imposed convergence deadline of December 2008. In this context, we strongly encourage the national authorities to make adjustments and to coordinate better their actions and we urge the WAEMU Commission to play a more active role in offering member countries fiscal policy guidance, and a broader view on the long-term implication of higher spending on macro-economic stability and debt sustainability.

Finally, we are encouraged that intraregional trade in the WAEMU is higher than in other SSA regional trade areas, and we encourage further regional efforts to increase potential growth in the WAEMU region. The envisaged Regional Economic Plan will help regional integration, create opportunities for more infrastructure projects in the region and will boost trade among the WAEMU members. Extending trade integration to all ECOWAS countries, and speeding up the negotiations with the EU on an Economic Partnership Agreement will be important to consolidate long-term economic growth, to strengthen competitiveness in the region, and to improve the business climate in order to make the region more attractive for foreign direct investments.