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**Statement by Mr. Mojarrad and Mr. Kwakye on WAEMU
(Preliminary)
Executive Board Meeting 08/45
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We thank staff for an excellent set of reports and Mr Rutayisire for his informative statement. WAEMU's economic performance improved in 2007 as real GDP growth increased and both inflation and the external public debt declined. The current account deficit, however, widened while GDP per capita grew more slowly than required to substantially reduce poverty. Progress toward regional macroeconomic convergence and integration also remains slow. Accelerating growth, while maintaining a stable macroeconomic environment so as to achieve a faster improvement in social indicators, represents the important challenge ahead.

Rising energy and food prices could jeopardize socio-economic stability and call for a carefully considered response, preferably through regional coordination. Staff propose a comprehensive set of measures to guide the authorities in responding to this challenge. In particular, measures aimed at boosting long-term production of food, reducing costs, and providing temporary and targeted subsidies would appear to stand a better chance of success than ad hoc measures in the form of price controls and universal subsidies that may bring temporary relief but could be counterproductive in the long term. The development community can assist these efforts with budget support on concessional financing terms.

WAEMU traditionally has had lower inflation than sub-Saharan Africa (SSA) as a whole or its sister monetary union, CEMAC. A favorable agricultural season and exchange rate appreciation contributed to a further decline in inflation in 2007. Recently, however, higher energy and food prices are exerting pressure requiring the BCEAO to remain vigilant and to be prepared to respond as necessary to counter second-round effects. The real exchange rate has continued to appreciate, but remains below pre-devaluation level and staff indicate that it is broadly in line with fundamentals and consistent with external stability. Close monitoring is still called for—especially given the potential effect of sustained appreciation on exports and overall economic growth.

The establishment of the regional securities market and modernization of the payments system have boosted the financial sector. As recognized by Mr. Rutayisire, further development of the sector is necessary to deepen intermediation and support growth. The FSAP identified priority areas deserving attention, including recapitalization, reinforcement of oversight, divestment, and greater regional financial integration. The authorities have proposed an institutional framework that should help address some of these challenges; the framework deserves early adoption by all national parliaments.

A key policy challenge facing the WAEMU is how to raise its growth potential so as to achieve a faster pace of poverty reduction. The growth performance of WAEMU has lagged that of SSA and its own potential. As indicated by Mr. Rutayisire, in 2007, Cote d'Ivoire and Senegal spearheaded regional growth, while growth in most other countries slowed due to adverse weather and energy shortages. As agreed by all parties, there are important constraints to growth, notably the narrow bases of the economies, weak business environment, poor infrastructure, underdeveloped financial sector, and limited regional integration. Staff proposals for reforms to address these constraints and lift WAEMU's long-term growth merit attention. The Regional Economic Plan (REP) appropriately targets strategic projects to stimulate regional growth and should benefit from donor funding. As advised by the staff, planned projects should be reflected in national budgets for transparency and sustainability assessments. Special attention is needed to the strengthening of the legal and judicial systems while easing the regulatory burden to improve the region's competitiveness in attracting investments. The importance of strengthened regional policy coordination and cooperation also needs to be underscored.

The medium-term outlook gives cause for optimism, as growth is projected to increase while inflation and the external debt remain on a downward path. Whereas the external current account deficit is expected to increase, staff indicate that it is close to equilibrium. A significant cushion of reserves and low external debt along with favorable capital and financial account provide room to respond to shocks while the guarantee of the CFA franc convertibility by the French Treasury ensures credibility of the exchange rate regime. Substantial risks, however, arise from external and internal sources, including rising oil and food prices that result in social turbulence; managing these risks calls for continuation of strong coordinated adjustment and reform policies to strengthen the competitiveness and resilience of the regional economies. Mr. Rutayisire provides strong assurances in this regard.

Progress in regional integration, vital for growth, has been slow, evidenced by the low degree of macroeconomic convergence and limited trade and financial links. Further momentum on regional integration and cooperation is needed; the planned removal of intra-WAEMU trade barriers and possible extension of the WAEMU CET to the entire ECOWAS region are steps in the right direction, though they may be achieved later than existing deadlines. A wider ECOWAS monetary union and economic integration, while meritorious, seems rather distant since several important conditions, such as those listed in paragraph 29 of the staff report

remain to be met and it is critical to lay a solid foundation before proceeding to a monetary union. A careful judgment will have to be made at what point conditions regarded as the minimum required for a viable monetary union have been satisfied.