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

We thank Mr. Rutayisire for his informative statement and staff for their well written and comprehensive reports on the West African Economic and Monetary Union on Common Policies of Member Countries. We comment below on a few areas: need to enhance economic performance, monetary and financial sector development, maintaining external stability and regional integration.

**Enhancing Economic Performance**

Economic performance in the WAEMU region continued to improve in 2007 but remained below the SSA average and below the target level needed to improve per-capita income growth and poverty reduction. With improved macroeconomic stability and inflation in the low single digit range, we are inclined to believe that the constraints to growth are structural -- such as political instability, infrastructure gaps, underdeveloped financial sector and poor business environment. We note that economic growth and inflation are expected to accelerate in 2008, with the balance of the risks being on the downside largely due to the slowing global economy and fast rising food and fuel prices.

We encourage the authorities to take immediate action to stem the inflationary pressures in both the short- and long-term. Short-term policy action should not only be limited to reduction of selected taxes on imported key food items but should also be extended to cover fuel imports. In the medium-term, consideration could be given to improving the domestic food supply response (such as, irrigation, water conservation and sustainable environmental management policies to combat climate change) which should be supported by increased external financing. We also support staff recommendation on a coordinated regional response to the price increases without jeopardizing macroeconomic and financial stability.

## **Monetary and Financial Sector Development**

We note the acceleration in money supply growth in 2007 on account of public sector borrowing from the regional financial market. We note that the financial sector remains fragile, shallow, narrow and underdeveloped. The banks are undercapitalized and vulnerable to macroeconomic and sectoral shocks. Compliance with prudential norms is also weak and systemic banking crisis have been observed in some countries. It is intriguing to observe that the injection of liquidity in the financial market by the BCEAO is expected to have no inflationary pressure owing to a lack of credit demand which may be a reflection of the inherent structural rigidities of the banking sector common in most SSA countries. While the idea of adhering to annual timetable for issuance of treasury securities in the region may be good, it could be difficult to apply in practice as the authorities may need to turn to bridging unanticipated shortfalls in revenue from the financial markets.

The authorities are encouraged to deal expeditiously with the ratification of the treaty on institutional reforms aimed at enhancing the independence of the BCEAO, its monetary policy, and the authority of regional Banking Commission in order to improve its financial sector oversight. We, therefore, commend and encourage BCEAO in enhancing its capacity to formulate and implement monetary policy as well as for greater regional financial integration as recommended in the Financial Sector Assessment (FSAP). Also, institutional reforms would enhance the regional financial integration and compliance, reduce vulnerability and improve performance of the financial sector.

## **Maintaining External Stability**

We note that the real exchange rate is broadly in line with fundamentals and consistent with external stability. However, we share the authorities' reservations regarding the assessment methodologies. We would like to add that the general modeling approaches have inherent limitations as exhibited by their failure to capture a structural break in 1994 as a consequence of policy intervention. Moreover, we note the appreciation of all currencies against the dollar following its continued depreciation, and would, advice caution in interpreting and drawing policy recommendations from such analyses. Therefore, we encourage authorities to use an appropriate mix of policy instruments in order to meet their fiscal and monetary policy objectives, as opposed to prescribing a specific policy action.

## **Trade and Regional Integration**

The implementation of the Regional Economic Plan (REP) which aims to promote regional integration and governance picked up in 2007 but with very low funding levels. The export performance of WAEMU member states remained unfavorable. While progress towards macroeconomic convergence for establishing the WAEMU was slow in 2007, a number of positive achievements have been recorded: 58 percent of the member countries satisfied the

first order criteria, 41 percent the second order criteria, and 50 percent both sets of convergence criteria. Looking at individual performance indicators the number of member states meeting the basic fiscal deficit as a ratio of the gross domestic product improved from nil in 2006 to one in 2007.

Taking note of the extension of the deadline on agreement on a Common External Tariff (CET) in the ECOWAS context, we are in agreement with staff's view that plans to create a monetary union at the ECOWAS level by end-2009 seem to be on the ambitious side, given the complexities of moving towards meeting the economic and monetary convergence criteria. This calls for a review of the date and increased efforts in improving the technical, policy, institutional and legal preparedness as well as in removing obstacles to regional integration at both WAEMU and ECOWAS levels. Moreover, rigorous empirical studies are needed to assess the benefits and costs of extending the WAEMU CET to cover all ECOWAS member states, particularly in the context of trade creation within the region and trade diversion outside the region, as well as to set the appropriate level of external tariffs.

Staff could perhaps clarify on how practical it is for the WAEMU authorities to seek multilateral trade liberalization on most favored nation basis, a move that is most unlikely to be supported by WTO.

The authorities are further encouraged to provide adequate financing and accelerate the implementation of REP and structural reforms as a means of enhancing regional integration and improving the business climate. We join other Directors in encouraging the authorities to accelerate the implementation of structural reforms aimed at enhancing the region's competitive growth performance and to be steady fast in their political commitment to regional integration.

With these few remarks, we wish member states well in the pursuit of regional economic and monetary integration.