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GRAY/08/1651

May 22, 2008

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

We thank staff for a well-written and comprehensive set of papers, and Mr. Rutayisire for his helpful Buff.

Although the economic performance in the WAEMU region has improved in the recent years, growth is lagging behind the sub-Saharan average, and is too low to achieve any substantial reduction in poverty. The rapidly rising food and energy prices and continuing real exchange rate appreciation in a weakening global environment pose additional challenges for the authorities in their efforts to keep inflation under control, improve fiscal discipline, and maintain competitiveness.

We agree that the current currency peg has served the WAEMU economy well, and we take note of staff's conclusion that the zone's real effective exchange rate is broadly in line with the fundamentals. However, we note the risk of overvaluation, and we encourage the authorities to address the persistent structural economic weaknesses in order to maintain competitiveness and increase flexibility in the real economy. Reducing the high costs associated with starting a business and restraining government interventions in traditional export sectors are examples of measures which could significantly improve the business environment at a low cost.

We are concerned about the significant differences in the countries' economic performances and standstill in further economic convergence. A monetary union could be a useful instrument to catalyze economic integration and convergence and bring about sustained growth. However, a monetary union could lead to substantial economic costs if it is not supported by fiscal discipline. We share the concern of Mr. Bakker and Mr. Tanasescu regarding the pursuit of expansionary fiscal policies violating the fiscal balance criterion in many countries. Much work appears to be needed to strengthen the political commitment to convergence and to better align policies in the member states. On this background, we agree

with staff that the plans for creating an even larger monetary union at the ECOWAS level, which would constitute an even more heterogeneous group of countries, are premature at this stage.

The lack of economic convergence heightens the risk to further functioning of the WAEMU. We urge the authorities to step up efforts to remove all tariff and non – tariff barriers to intra – regional trade. An efficient single market is an important condition to reap the most benefit from economic and monetary union. We are pleased to note from Mr. Rutayisire’s Buff that the authorities are well aware of the need to address these issues.

We note that the creation of a regional government securities market and the modernization of the payment systems increased financial integration within the WAEMU. However, differentiated reserve requirements hamper the development of an interbank- market.. The financial sector remains fragile: the banking sector is undercapitalized, highly exposed to the public sector and compliance with prudential norms is poor. Correcting this should be given high priority. We welcome the authorities’ efforts to implement institutional reform of the WAEMU and BCEAO, which would strengthen the supervisory framework and improve the monetary policy framework. We encourage the authorities to follow all FSAP recommendations closely.