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**Statement by Mr. Kiekens and Mr. Rottier on WAEMU
(Preliminary)
Executive Board Meeting 08/45
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We thank the staff for a useful set of papers. In 2007, economic performances in the Western African Economic and Monetary Union (WAEMU) were broadly encouraging with accelerating growth and inflation stable. As noted by Mr. Claveranne, the WAEMU played a positive role in maintaining a stable macroeconomic environment in the region and fostering regional integration. However, much stronger growth is needed to alleviate poverty and make significant progress towards the Millennium Development Goals. As noted by the staff, GDP per capita growth remains very low. Moreover, the WAEMU is now going through a critical phase as the euro appreciation has weakened competitiveness and high food and commodity prices have dramatically reduced the purchasing power of most households.

We welcome the macroeconomic policy advice provided by the Fund in addressing the food and commodities crisis. The staff analysis presented to the WAEMU authorities is appropriate, stressing well-targeted measures and the importance of regional coordination. Only a summary of this analysis and the follow-up by the staff and the authorities have been included in the present staff paper. More detailed discussions should take place in the Article IV consultations with each of the eight WAEMU member countries.

The real effective exchange rate seems to be broadly consistent with external stability. However, the strong nominal appreciation of the Euro and hence of the CFA franc weakened competitiveness and contributed to a widening of the current account deficit. The Selected Issues paper rightly stresses the need for improving governance and undertaking structural reforms so as to improve competitiveness. Implementation of the Regional Economic Program is crucial in this context.

We welcome the authorities' efforts to strengthen the capacity of the BCEAO, both to implement its monetary policy and to supervise the financial sector.

We note that the authorities have made a political commitment to launch a monetary union at the level of the ECOWAS by 2009. Given WAEMU's experience, such a monetary cooperation, at the regional level, can have a significant added value. However, we agree

with the staff's assessment that before extending the WAEMU monetary union, a deepening of its functioning and a better implementation of the convergence criteria are important. Further improvements in political stability are also necessary, as noted by Mr. Rutayisire in his informative Buff statement. We are also not convinced whether the ECOWAS is the appropriate size for a monetary union. Could the staff please comment whether a monetary union without Nigeria would not be more balanced, in particular given the size and different structure of the Nigerian economy.

We urge the authorities to make progress in the negotiations with the EU on the Economic Partnership Agreement (EPA).

Five WAEMU countries have reached the HIPC completion point. Nevertheless, debt sustainability remains a concern even after HIPC and MDRI debt relief. The authorities should take a prudent approach in reacting to recent exogenous shocks. Relying on grants and prioritizing expenditures is essential. Well-designed economic policies should encourage the international donor community. Financing via loans should be limited, temporary and on a concessional basis.

Lastly, we welcome the regional FSAP. We urge the authorities to implement the FSAP recommendations as they are crucial for the economic development of the WAEMU countries and good functioning of the monetary union. All countries would benefit from an improved financial intermediation, regional financial integration and strengthened supervision.