

The contents of this document are preliminary and subject to change.

GRAY/08/1657

May 22, 2008

**Joint Statement by Mr. von Stenglin and Mr. Yamaoka on WAEMU  
(Preliminary)  
Executive Board Meeting 08/45  
May 23, 2008**

We thank the staff for an insightful and well-written set of papers. In particular, we appreciate the timely and well-balanced analysis on the challenges of creating a monetary union at the ECOWAS-level. We are also grateful to Mr. Rutayisire for his helpful buff statement.

**We are encouraged that macroeconomic performance in the WAEMU has improved recently, supported also by the post-conflict recovery of its biggest member country.** For the short-term, however, risks are tilted to the downside due to the pressures created by rising food and energy prices. Over the medium and longer term, it will be essential to accelerate structural reforms to spur private investment that puts the region on a steeper growth trajectory and effectively reduces poverty.

Since we broadly agree with the staff appraisal we limit our comments to the following points:

1. **WAEMU members have enjoyed a long period of low inflation, crucially supported by the exchange rate regime of the CFA franc.** However, the recent exogenous pressures on food and energy prices raise the danger of second-round effects and increasing inflation expectations. On the country level, authorities face the challenge of avoiding wage-price spirals despite rising socio-economic pressures. On the monetary union level, the Central Bank of the West African States (BCEAO) will need to be vigilant when maintaining its expansionary monetary stance, particularly given the recent increase in excess liquidity.
2. **Strengthening the effectiveness of monetary policy will be essential in times of rising inflationary pressures.** We therefore highly welcome the steps initiated to bolster the BCEAO's independence and to modernize its monetary policy and institutional

framework. Going forward, we would particularly highlight the need to improve the BCEAO's capacity to manage liquidity.

3. **The completion of the FSAP presents an excellent opportunity to step up reforms in the financial sector.** The authorities have achieved important progress recently, notably by establishing a regional government bond market and by modernizing the payments system. At the same time, much work lies ahead to deepen financial intermediation, currently among the lowest in Sub Saharan Africa and an essential ingredient of economic development. Therefore, we welcome the authorities' intention to implement the recommendations of the FSAP and to approach the divestiture of public sector holdings in banks. Furthermore, we encourage the authorities to consider increasing the capital adequacy ratio above the levels of Basel I.
4. **Regional integration of WAEMU member countries has thus far been disappointing and presents a clear opportunity for growth.** A high-level political commitment as well as relentless technical work will be needed to foster regional integration and improve compliance with the self-determined convergence criteria. In that respect, we are encouraged by the constructive policy dialogue on the ongoing food and energy crisis and pleased to learn from Mr. Rutayisire's buff that the Fund's policy advice was well received. A collective response to the common challenges is not only most effective, it also presents an opportunity to foster regional integration more generally. Finally, we suggest to intensify policy dialogue in other areas and to take advantage of intra-regional learning opportunities. Given the Fund's cross-country competence, we could imagine a useful facilitating role for the Fund within its core areas of expertise.
5. **We acknowledge the objective of creating a broader monetary union at the ECOWAS-level.** We strongly caution, however, that solid foundations will need to be built before such an endeavour can successfully be undertaken. The heterogeneity of prospective members provides formidable – but not insurmountable – challenges for the design of such a currency union. We fully share the staff's advice in that regard and would like to underline that economic benefits will come not only from the currency union itself, but from the process of institution building and convergence leading to that long-term goal. Already the journey is the reward.