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May 22, 2008

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

1 We welcome the discussion on the common policies of the West African Economic and Monetary Union (WAEMU) and thank the staff for the set of papers and Mr. Rutayisire for his informative Buff.

**Macroeconomic Convergence and Integration**

2 One of the key concerns expressed by the staff is the continued stagnation of macroeconomic convergence and little progress in regional integration in 2007. It is reassuring to note from Mr. Rutayisire's Buff that non-compliance of most countries with convergence criteria is not due to lack of political commitment, but due to factors such as political instability or external shocks. Furthermore, in view of the fact that WAEMU member countries do not do too well both in terms of World Economic Forum's Global Competitiveness Report as well as World Bank's Doing Business Indicators, improving the institutional structure remains an absolute imperative.

3 Staff has mentioned in the Selected Issues Paper that while the WAEMU is well advanced in establishing regional institutions, regional financial integration remains weak. Nevertheless, as recent research has indicated that financial integration in WAEMU seems to be well-advanced in some aspects (such as, government securities market or regional capital market)<sup>1</sup>, are there any elements of contradiction between macroeconomic convergence and regional financial integration in WAEMU? How does WAEMU perform as an optimum currency area? We invite staff comments.

**Monetary and Exchange Rate Policy**

4 We broadly agree with the staff assessment that the strategy of pegging the CFA franc to Euro seemed to have served the region well. Nevertheless, the indication of overvaluation of the WAEMU real exchange rate is a matter of concern. However, while two of the four

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<sup>1</sup> Sy, Amadou (2008): "Financial Sector Integration in WAEMU", in Anne-Marie Gulde and Charalambos Tsangarides (eds.): *The CFA Franc Zone*, IMF.

econometric approaches seemed to have indicated overvaluation of 9.6 percent and 5.9 percent, as per the other two approaches the extent of overvaluation was not substantial. We agree with the staff that this could be addressed through improvement in a number of structural determinants of competitiveness as well as a cautious fiscal policy. There is also scope for improving the operating procedure of monetary policy.

### **Financial Sector**

5 The vulnerability of the financial sector of WAEMU, as revealed from the FSAP paper, is another issue that seems to be requiring authorities' active consideration. The reduction in solvency ratio is particularly a matter of concern. In this context, we welcome the recommendations of the FSAP and urge focused attention and implementation of the short-term recommendations like raising minimum CAR or reforming the operational framework of monetary policy.

### **Food and Energy Price Shocks**

6 In the scenario of high and rising food and energy prices, keeping inflation under control is going to emerge as a major challenge for the WAEMU. Since poor households tend to be most vulnerable, control of inflation assumes paramount importance both from macroeconomic as well as equity considerations. We note from Buff statement that apart from coordinated policy actions, the April 23 WAEMU Finance Ministers' meeting in Abidjan laid down a three-year plan aiming at achieving food sufficiency in the region. A three-year time span is perhaps a short period for attaining a structural transformation - as important as attainment of self sufficiency in food. What is the current food stock situation in WAEMU? Is what way would the currently contemplated changes in the External Shock Facility be beneficial in this scenario? We welcome staff comments.