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

We would like to thank staff for the set of insightful papers and Mr. Rutayisire for his informative Buff statement.

Although regional average economic growth has been strengthened, the growth rate is still significantly lower compared to the sub-Saharan Africa (SSA) countries and insufficient to make substantial progress on poverty reduction. Additionally, the improved economic performance was largely driven by only two member countries, with most of the others experiencing a slowdown. In view of this, as well as given the international slowdown and the region's vulnerability to external shocks, we agree with the staff's suggestion that the recommended acceleration of structural reforms is decisive to enhance regional potential growth and alleviate poverty.

We share the staff's view that the fixed exchange rate regime has served the countries well and has helped to moderate inflation in the region. The headline inflation hike in the first quarter of 2008 has been driven by soaring food prices. Potential second-round effects of inflation should be avoided, although an interest rate monetary policy channel is relatively weak. The BCEAO should properly control the banking sector liquidity, which has important impact on public borrowing. Hence, the adequate macroeconomic policy mix is decisive to contain inflation pressure. From this perspective, we support staff's recommendation to improve coordination of regional monetary policy and national fiscal policies. For instance, the national authorities should not allow for untargeted subsidies and across-the-board wage increases.

The global food and oil price pressures carry significant implications for a large part of the population. We support staff's opinion that a range of specific policies should be implemented immediately, such as the elimination of tariffs on key food items and targeted subsidies for the poorest part of the population. We agree with the staff's view that WAEMU Commission may play a proactive role in adoption of similar measures by the member countries to limit external spillovers on regional stability. Could staff comment on the outcome of the meeting on this topic held by the Council of Finance Ministers of WAEMU in Abidjan on April 23?

Although staff's analysis shows that the real exchange rate is overvalued, the capital and financial accounts confirmed limited vulnerability of the external balance on foreign capital outflows. Hence, the authorities have enough time to address the appreciating trend of CFA franc through structural measures. Given the long list of corrective policies to be implemented, we agree with staff that member countries should deal with issues that can be addressed quickly and at a low cost. However, we advise the authorities to carefully look at the sequencing of reform and the cross-border implications.

We largely agree with staff's recommendations in the regional FSSA and we urge the authorities to implement them. We see two immediate priorities. First, the area-wide regulatory and supervisory framework should be reinforced along the lines of the FSSA recommendations. The ratification by all member countries of the Institutional Reforms would send a positive signal in this regard. The microfinance institutions (MFIs) might be the only method for provision of financial services in the region. Therefore, we are very concerned by the developments in the MFIs, especially the very weak capital position. Despite of MFIs' low share in the total assets, they should be presented in the financial sector indicators. Second, the supervisory authorities should be given the power to enforce regulation and to carry out their supervisory duties without government interference. Here, we urge the authorities (and the supporting donors) to enforce MFIs effective supervision. We noted that mobile banking has been promoted by the World Bank as a way to access financial services in several LICs. Could staff explain what is the status of its supervision in the WAEMU countries?

We welcome the fact that several national FSAPs are being conducted to complement the regional one and would advise the authorities of Togo, the country with the most unstable financial sector, to participate as well. We think that member-specific recommendations will effectively strengthen regional financial systems.

We are concerned by the very limited progress of the regional integration of the ECOWAS countries and the low compliance with the convergence criteria of WAEMU members. An assessment based strictly on economic criteria indicates that not all countries are ready for a monetary union. Moreover, beyond the convergence criteria, the countries in the region remain very different in their economic structures. Thus, they are likely to experience large, asymmetric shocks. This shows that the policy priorities and resources should go towards designing and implementing a strong domestic reform program. Hence, staff rightly point out the need of the firm union-wide political support. We also note the delay in creation of the monetary union and the change towards a "one-track" approach. In our opinion, such a "one-track" approach may serve better the process of integration by enabling a proper evaluation of costs and benefits of joining the WAEMU for each applying country. However, as staff rightly mention, the minimum necessary criteria for the foundations of the union must be met. In our view, the criteria for the WAEMU and the WAMZ should be the same to enable coordination of policies and check the synchronization of the potential members' economic cycles to allow for common policies to work.

On fiscal policies, we are pleased that member countries have raised their MDG spending. However, this highlights the importance of financing through adequate domestic resources. We understand that staff are concerned about the fiscal implications of tariff reductions. Last year, it mentioned that FAD was working on redesigning the tax system that should ease reliance on trade taxes. Could staff inform on that?