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

1. We thank staff for a set of comprehensive and frank papers and Mr. Rutayisire for his informative BUFF statement. While economic growth in 2007 has increased slightly compared to the previous year, at 3.2 percent its contribution to poverty reduction fell well short of expectations. Although until recently inflation was relatively low, the monetary authorities are now facing a difficult challenge of containing second round effects from much higher food and energy prices.

2. For the WAEMU member countries the terms of trade shock is also a test of the progress achieved so far in reforming their economies. On the one hand, thanks to the HIPC and MDRI Initiatives, most of the countries now have much lower debt burdens, and the BCEAO's foreign exchange reserves are larger. On the other hand, progress in trade integration has been limited. The FSSA report shows that the financial sector reforms are lagging. And, according to Doing Business database, there has been little progress in the area of other structural reforms. Staff made it clear that many of the essential changes were of a rather simple nature, and, where necessary, additional technical assistance was available to the authorities. It is unfortunate, therefore, that slow pace of economic reforms in many instances could be attributed to the authorities' lack of political commitment.

3. In light of the above, we welcome recent decisions to reduce barriers to international trade as well as important steps to improve the health of the financial sector, including bank capitalization and creation of regional securities markets. We encourage the authorities to persevere with changes already initiated and to focus attention on a broader reform agenda along the line described in the staff papers on the WAEMU as well as individual country reports.

4. According to Mr. Rutayisire, in response to the effects of the terms of trade shock on the poor, many of the WAEMU countries have already introduced short-term fiscal measures.

If the permanent component in the terms of trade shock turns out to be significant, it is likely that more fiscal resources will be required in the coming years. Under the circumstances, the maintenance of the euro-based fixed exchange rate regime and the effective appreciation of the CFA Franc with some signs of overvaluation put an additional burden on fiscal adjustment. In this light, the fact that, at this stage, only Benin is in compliance with the convergence criterion of a non-negative basic fiscal balance is particularly disquieting, as it shows that the authorities may have missed the chance for a more ambitious fiscal consolidation when the situation was more favorable.

5. We realize that many of the low-income countries will need additional financial support from the international community, and we look forward to the Board discussion on the Fund's role in meeting this challenge. At the same time, staff report on the WAEMU shows that many of the countries affected by higher food and energy prices need to put in place and implement comprehensive programs of economic reforms. Hence, staff will have to consider carefully the balance between the speed of providing financing to deal with external shocks and the obvious need for a more ambitious policy response by the authorities.