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

We thank staff for their well-written papers on the common policies of the West African Economic and Monetary Union (WAEMU) member countries, and Mr. Rutayisire for his helpful Buff.

We note the improved macroeconomic performance of the WAEMU region, with stable inflation and solid, if moderate, growth performance. Going forward, however, major structural reforms will be necessary if the region is to attain the growth rates necessary to have a real impact on poverty rates and social indicators. Rising food and fuel prices also pose key risks, and we urge the authorities to continue working closely with the Fund to design appropriate mitigation measures.

We concur with the staff assessment that the exchange rate regime of the CFA franc has served the WAEMU region well, serving to contain inflation, facilitate trade, and support investment. Nevertheless, the strength of the Euro and the appreciation of the real effective exchange rate pose challenges for a region whose export performance has been somewhat lackluster in recent years. We note that there may be some (admittedly inconclusive) signs pointing towards a modest overvaluation of the exchange rate. While the exchange rate remains broadly in line with the fundamentals, vigilance will be needed to ensure that monetary and fiscal policy continue to support external stability.

The advent of peace and stability in the region's largest economy offers a window of opportunity to institute the deep structural reforms that can pave the way for deeper and more sustained growth. Improved export performance could be a major engine of growth. The selected issues chapter on export performance sets out the main challenges: improving infrastructure and education, reducing the very costs of doing business in the region, and improving governance will be key. Improvements in these areas will be key to developing a more diversified export base. The region's main commodity export sectors have often been undermined by structures that have not always served the best interests of producers. Going forward, it will be essential to ensure that that governance concerns that have hindered these sectors is overcome.

We also note that the liberalization of international trade and the removal of cotton subsidies would offer major immediate benefits to the region. An open, global trading system and an end to trade-distorting subsidies and export restrictions would also support increased agricultural output in Africa. The importance of an ambitious DDA deal is clear.

We note that financial intermediation in the region remains low in comparison with the rest of Sub-Saharan Africa. The findings of the regional FSAP provide some very useful recommendations for strengthening the institutional framework and strengthening the banking sector, and we welcome the undertakings in Mr. Rutayisire's Buff statement to addressing some of the elements that are preventing the financial sector from fulfilling its role in supporting private sector development.

With these comments we wish the authorities every success in their endeavours.