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

We thank the staff for the detailed sets of papers and Mr. Rutayisire for his helpful Buff statement.

The improvement in WAEMU regional economic performance in 2007, while encouraging, lags behind Sub-Saharan Africa averages and remains insufficient to make a substantial impact on the high level of poverty and to enable the region to make significant progress towards meeting the MDGs. High and rising food and fuel prices and a deteriorating global economy have increased the downside risks. The staff has rightly identified containing rising inflation pressures, while dealing with the social and economic pressures from rising food and fuel prices, as the key challenge for the region's authorities. As the national authorities seek to respond to the economic and social impact of rising inflation pressures, we support the staff's recommendations for regional coordinated and targeted interventions. We note the efforts underway to address persistent structural weaknesses in the region, including the implementation of the Regional Economic Plan. Acceleration of structural and other reforms will be critical for enhancing the region's growth prospects and competitiveness, and advancing the regional integration process.

On the monetary side, we welcome the progress in improving the monetary policy framework. The recent approval of legislation on institutional reform aimed at enhancing the BCEAO's independence, modernizing the monetary policy framework and enhancing the authority of the regional banking commission are steps in the right direction. We urge those member countries that have not yet ratified the legislation to do so at the earliest.

The exchange rate regime continues to serve the region well, contributing to low inflation and providing a useful anchor for regional monetary policy. We concur with the staff that greater co-ordination of regional monetary and national fiscal policies is needed to enhance liquidity management, and to protect the credibility of the exchange rate peg. In this regard, we strongly support the BCEAO's call for national authorities to prepare and adhere to annual timetable for issuance of government securities. One wonders the extent to which the real appreciation of the exchange rate has negatively impacted competitiveness, which already

suffered from deep-seated structural constraints. While there are differences of opinion about the assessment methodologies of the level of the real exchange rate, the appreciation of the REER highlights the need for prudent fiscal policies and implementation of structural reforms to ensure the long-term sustainability of the exchange rate peg.

The establishment of a regional securities market, modernization of the payment system, and creation of a clearing system are noteworthy developments in the steps towards regional financial integration. However, weak financial intermediation in the region given the underdeveloped nature of the financial sector remains an obstacle to private sector and regional development and must be addressed. The regional FSAP has identified a number of priorities for reforming the financial system in the WAEMU region. We urge the national authorities and regional institutions to accelerate implementation of the recommendations. Additionally, we strongly encourage them to draw on the Fund's technical assistance.

Notwithstanding some progress in a few WAEMU member countries, regional development remains burdened by an overall poor business climate. Implementation of reform measures to reduce the cost of doing business, strengthen economic infrastructure and financial institutions, remove trade distortions and restrictions to labor mobility are key to improving the business environment.

Given the potential benefits from regional integration, the limited progress made towards regional integration is disappointing. The continued non-observance of convergence criteria by most WAEMU members raises concerns about the need for effective sanction mechanisms to ensure compliance.

The wider regional effort to establish an economic and monetary union in ECOWAS is commendable and to be encouraged. As identified in the SI paper, policy convergence is important for smooth transition to a monetary union. Similarly, the sequencing and achievement of key conditions are important for members to realize the net economic benefits of the establishment of a monetary union. Given the economic disparities among WAEMU (and WAMZ) member countries, limited progress in meeting convergence criteria, capacity constraints, and institutional weaknesses of regional institutions, we encourage the authorities to focus on implementing those measures that are vital to regional integration within WAEMU, even while pursuing the wider integration process. We welcome the decision by national authorities to abolish tariff and non-tariff barriers to intra-regional trade, introduced since 2006.

With these remarks, we wish the WAEMU authorities well in their endeavors.