International Monetary Fund

IMF Executive Board Concludes 2007 Consultation with West African Economic and Monetary Union (WAEMU)

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On April, 20, 2007, the Executive Board of the International Monetary Fund (IMF) concluded its annual consultation with the member countries of the West African Economic and Monetary Union (WAEMU) member countries.[1]

Background

In 2006, the overall economic situation in the WAEMU was challenging. Average regional growth declined to 3.4 percent, although it remained positive in per capita terms. Country-specific macroeconomic differences persist, and in 2006 some member countries suffered from external shocks and domestic pressures. Economic performance was affected by continued low growth in Côte d'Ivoire, the region's largest economy, which is still concerned with political difficulties, and by a significant decline in growth in Senegal, where output in several economic sectors contracted as a result of disruptions in key industries and utilities.

Fiscal balances deteriorated in most WAEMU countries despite lower interest payments resulting from the Multilateral Debt Relief Initiative (MDRI) and better revenue performance. Overall there was little progress&8212;and in some cases even regress—in macroeconomic convergence among member countries. All countries missed the fiscal convergence criterion of a non-negative basic fiscal balance—most by a significant margin. Only about half their additional spending can be accounted for by increased support for Millennium Development Goals (MDGs)-related policies; the rest relates to energy subsidies and outlays for the 2007 elections in six of the eight countries.

Inflation came down sharply to 2 percent, largely because food prices were more stable. The strength of the euro, to which the CFA franc is pegged, and the relatively slow pass-through of oil price increases to consumer prices in some countries also helped keep inflation low. Money growth was limited, but the link between credit and inflation in the WAEMU area is loose.

The regional current account again deteriorated slightly, continuing the trend since 2002. In 2006, the oil import bill increased significantly as oil prices continued to climb. Export growth driven by oil exports from Côte d'Ivoire, and a slight improvement in the terms of trade, thanks in part to higher cocoa prices, helped moderate the current account deterioration. After a minor appreciation in 2005, in 2006 the regional real effective exchange rate depreciated slightly. It is now at about 76 percent of its pre-devaluation level. Some other indicators of competitiveness show more pronounced declines in competitiveness.

The WAEMU continues to face structural obstacles, including weak financial systems, and trade distortions. However, in 2006 the region embarked on efforts to reform trade in the context of the Economic Community of West African States (ECOWAS) by extending the WAEMU common external tariff to the whole region by January 2008 and holding negotiations with the European Union on an Economic Partnership Agreement. In addition, the region instituted the Regional Economic Plan (REP), an ambitious 2006-10 program, targeting key infrastructural and other bottlenecks, and aiming at improving growth, economic integration, and living conditions.

WAEMU members face important developmental challenges. They continue to rank in the lowest quartile of the UNDP Human Development Index and in most countries poverty is pervasive. The 2006 Global Monitoring Report concluded that without early and tangible action to accelerate progress, the MDGs will be seriously jeopardized. Five of the eight WAEMU countries have Poverty Reduction Strategy Papers (PRSPs), which are the basis for national plans to lower poverty and improve human development.

Progress on structural reforms and integration remained slow, but the adoption of a REP and efforts to modernize regional institutions could be a harbinger of more activity in this area.

Executive Board Assessment

Directors noted that recent economic performance in the region was mixed and varied significantly across individual countries. Economic growth was below sub-Saharan African averages, in part because of external factors, and the current account deficit widened; but inflation fell sharply despite higher fuel import prices and foreign reserve levels remain adequate. Progress on policy convergence, economic integration, and structural reforms has been slow.

Directors noted that several obstacles continue to hamper growth and deeper integration in the region, including macroeconomic shocks, structural weaknesses, and socio-political problems in some member countries. They welcomed the Union's stepped-up efforts to remove these obstacles, including through ongoing institutional reforms and regional projects to be undertaken in the context of the Regional Economic Plan.

Directors expressed concern at the deterioration of the fiscal position in WAEMU and the failure to achieve the fiscal convergence criterion. They noted that the debt-to-GDP ratio remained close to the 70 percent threshold despite the MDRI debt relief. While they welcomed the recent improvement in revenue collection in some countries, they noted that rapid expenditure increases and non-adherence to the regional convergence criteria could signal medium-term problems. Directors also welcomed the additional fiscal space created by MDRI debt relief, but they urged a more prudent budgetary policy, focused on key priority areas to promote growth while sustaining the achievement of the Millennium Development Goals.

Directors observed that the replacement of automatic budget refinancing from the regional central bank by treasury bill issuance has helped to reduce excess liquidity in the banking system, and will facilitate the development of a money market and the use of indirect instruments of monetary policy. At the same time, they cautioned that the use of treasury bills could allow an unduly expansionary fiscal policy and excessive domestic debt. They called for better coordination of fiscal and monetary policies, and welcomed the planned strengthening of the operational independence of the regional central bank.

Directors agreed that the currency's peg to the euro is a transparent anchor for regional policies. They noted that the real effective exchange rate remains broadly in line with its equilibrium value, although some Directors expressed concern at the persistent upward real appreciation. Directors underscored the need for structural reforms, in addition to fiscal prudence, to improve competitiveness and growth prospects in the region and ensure the sustainability of the exchange rate peg. They stressed, in particular, the importance of improving the business environment and reducing the high cost of doing business in WAEMU member countries; removing labor market restrictions, non-tariff barriers, and other impediments to trade; and improving access to finance. In this regard, the Regional Economic Plan would need to be vigorously implemented.

Directors noted the continued weaknesses, including the lack of depth and integration, of the financial sector in the region. They cautioned that an expanded role of the government and rapid licensing of new banks could further weaken the sector. They called for a strengthening of national and regional bank supervision, and urged supervisors to accelerate the resolution of the known systemic banking sector weaknesses that exist in at least one member country, to reduce the risk of contagion. In this regard, Directors welcomed the authorities' request for a regional Financial Sector Assessment Program.

Directors welcomed the ongoing trade initiatives, including the extension of the WAEMU external tariff to the whole ECOWAS region, while emphasizing the need to fully implement existing internal WAEMU agreements. They noted the complex nature of the integration process, and stressed the need to avoid increases in effective protection. Directors also encouraged faster progress in the negotiation of an Economic Partnership Agreement with the European Union. They acknowledged that trade liberalization could impact negatively on government revenue, and encouraged efforts to broaden the tax base and strengthen tax administration so as to reduce the reliance on import tariffs.

Directors suggested that, looking forward, regional institutions could play a more active role in the harmonization of national policies. They welcomed efforts to improve the convergence framework, but recommended that regional institutions step up their role in coordinating national policy responses to common shocks. In this regard, the WAEMU Commission would need to be provided with the necessary financial and political support to carry out its mandate.

WAEMU: Selected Economic and Financial Indicators, 2002-07

	2002	2003	2004	2005	2006 Est.	2007 Proj.
			(Annual percentage change)			
National income and prices						
GDP at constant prices	1.4	4.1	2.9	4.3	3.4	4.3
excluding Côte d'Ivoire	2.6	6.1	3.3	5.3	4.1	5.2
GDP per capita at constant prices	-1.2	1.7	0.4	1.9	1.1	2.0
excluding Côte d'Ivoire	-0.5	3.4	0.6	2.7	1.5	2.6
Broad money to GDP	8.3	3.2	2.2	-1.1	3.1	0.6
Consumer prices (average)	3.0	0.8	0.2	4.9	2.0	2.4
Terms of trade	5.2	-0.1	-6.1	-5.9	1.3	4.6
Nominal effective exchange rates	3.1	6.5	2.9	-0.6	0.0	...
Real effective exchange rates	3.6	4.4	0.3	1.3	-0.6	...
			(In percent of GDP)			
National accounts						
Gross domestic savings	13.5	12.0	11.5	10.2	9.9	11.8
Gross domestic investment	16.0	17.6	18.3	18.7	18.5	19.7
Of which: public investment	5.7	5.6	6.4	6.6	6.9	7.6
Resource gap	-2.6	-5.7	-6.8	-8.5	-8.6	-8.0
			(Annual changes in percent of beginning-of-period broad money)			
Money and credit						

Net foreign assets	17.1	2.7	1.7	2.1	7.9	...
Net domestic assets	-1.6	0.3	3.5	6.2	0.1	...
Broad money	15.6	3.0	5.2	8.3	8.0	...
	(Annual percentage change)					
Money and credit 1/						
Net foreign assets	37.1	5.0	3.1	3.9	10.6	...
Net domestic assets	-2.9	0.6	8.0	13.6	-8.6	...
Broad money	15.6	3.0	5.2	8.3	1.5	...
	(In percent of GDP, unless otherwise indicated)					
Government financial operations						
Government total revenue, excl. grants	15.4	15.7	16.2	16.0	16.5	17.0
Government expenditure	19.8	20.3	21.5	21.8	23.0	23.5
Overall fiscal balance, excl. grants	-4.4	-4.6	-5.2	-5.8	-6.5	-6.5
Official grants	2.3	2.7	2.8	2.7	14.9	3.0
Overall fiscal balance, incl. grants	-2.1	-2.0	-2.4	-3.0	8.4	-3.5
External sector						
Exports of goods and services	30.2	28.2	29.1	28.7	29.3	29.2
Imports of goods and services	32.8	33.8	35.9	37.2	37.8	37.0
Current account, excl. grants	-4.7	-6.8	-7.2	-8.2	-8.6	-7.9
Current account, incl. grants	-3.1	-4.7	-5.4	-6.6	-6.8	-6.3
External public debt	75.3	65.9	58.9	52.3	36.0	36.5
Foreign exchange cover ratio 2/	116.7	118.9	116.3	118.4	116.8	...
Reserves in months of imports	6.0	5.5	4.9	4.5	4.7	...
Memorandum items:						
Nominal GDP (in CFA francs billions)	20,984	21,766	22,545	24,334	25,847	27,527
CFA franc per US dollars, average	697.0	581.2	528.3	527.5	522.9	...

Euro per US dollars, average 3/	1.1	0.9	0.8	0.8	0.8 ...

Sources: IMF, African Department database; World Economic Outlook; and IMF staff estimates.

1/ Data as of November 2006, annualized for the year.

2/ Gross official reserves divided by short term domestic liabilities of the central bank.

3/ Prior to the creation of the euro in 1999, the CFA franc was pegged to the French franc, which fluctuated relative to the other currencies that make up the euro.

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[1] The IMF holds annual regional discussions with the WAEMU region. A staff team visits the region, collects economic and financial information, and discusses with officials the region's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the region's authorities.

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