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

We thank the staff for a well-written set of papers on the West African Economic and Monetary Union (WAEMU) member countries and Mr. Rutayisire for his comprehensive and informative Buff statement.

We are pleased to note that the economic performance of the WAEMU region improved during 2007, with regional growth reaching 3.2 percent, debt ratio decreasing and inflation declining to 2.3 percent. We are concerned, however, that there are important differences among individual countries in the region and that there is a permanent lag with respect to the other sub-Saharan countries.

We share staff's view that the exchange regime of the WAEMU has helped to reduce inflation in the region. BCEAO has adopted an accommodative monetary policy to an expansionary public borrowing. However, we note that the pass-through of monetary policy is low and that, under today's conditions, this has not created inflationary pressures. We encourage the authorities to make progress in making the central bank more independent and support staff's call for better coordination of regional monetary policy and national fiscal policies. We encourage the authorities to maintain a close coordination between fiscal and monetary policies to preserve the peg exchange rate that has been useful in managing inflation.

We encourage the authorities to move forward on structural reforms to achieve an acceleration of growth and to reduce poverty faster. In this context, there is a need to remove trade restrictions, to reduce the involvement of government in private sector activities, to implement the Regional Economic Plan (REP) to ease infrastructure bottlenecks, and to increase and improve economic infrastructure. We learn from Mr. Rutayisire that the WAEMU authorities remain committed to continue with reforms that will lead to the development of strong and reliable institutions, a better business climate and an increase in private investments.

We welcome the modernization of the payments system and the development of a regional

security market. Nevertheless, the banking sector remains fragile and vulnerable, with low levels of compliance with the international norms. We regret the sharp deterioration of the solvency ratio (average) of the banking sector and, in that sense, we strongly encourage the authorities to implement the regional FSAP recommendations.

We support staff's advice to the authorities on the coordination of a regional response for price increases to prevent effects on the financial stability and a deterioration of the macroeconomic performance. A sound fiscal policy is key for such a coordination. *We would like to learn more from staff about the suggested regional coordination given that the fiscal stance between the countries has showed important differences.*

We commend the authorities for the steps that have been taken to advance in a solid institutional framework, the establishment of the Common External Tariff and the criteria to enhance the macroeconomic convergence. In relation to the successful monetary integration at the end of 2009, we share staff's opinion on the importance to meet the indispensable conditions listed in paragraph 29 of the report.

With these remarks, we wish the WAEMU's authorities success in dealing with the challenges that lie ahead.