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May 22, 2008

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

We thank staff for a comprehensive and candid set of papers, and Mr. Rutayisire for his informative Buff statement. We note the significant degree of agreement between staff, BCEAO and the individual country authorities on the outlook for the group and the policy challenges they face.

The key issues for successfully developing a deep and integrated economic union is to move forward with structural reforms while demonstrating commitment to trade and financial integration. We concur that at present, progress has not been as swift as hoped for, and we urge the authorities to move expeditiously on that front. While recognizing the delicate nature of discussions and the fragile political situation in some WAEMU member states, there needs to be a meaningful demonstration of commitment. We welcome the interim trade agreements that Cote d'Ivoire and Ghana have signed with the EU, and urge other members to show similar flexibility.

The structural reforms would not only help expedite the full integration of the WAEMU economies but could prove the catalyst to raising what has hitherto been a disappointing growth performance. We agree with staff's assessment that significantly stronger growth would need to be achieved by member countries if poverty reduction goals are to be met. Finally, with the appreciation of the CFA franc, it is also clear that productivity growth needs to be stepped up if the region is to maintain its competitiveness.

Monetary management by the BCEAO has been a bright spot, though we agree challenges remain. We welcome the institutional improvements that have been put in place, especially the treaty that has been put before parliaments, and also note the stronger operational capacity of the regional central bank. We especially welcome the improved liquidity management framework that will become apparent once member treasuries agree to coordinate issuance of securities with the regional central bank, and note the comfortable levels of foreign exchange reserves. Nevertheless, while BCEAO has been preparing itself for a unified monetary framework, staff's analysis in paragraph 29 is striking in showing how much still needs to be done before full monetary integration in ECOWAS becomes a reality.

We welcome the comprehensive FSSA, noting the still-fragile nature of the financial systems in WAEMU member countries. While taking note of staff's recommendations, we think that focus in the first instance ought to be on improving bank capitalization and enhancing cross-border integration of the banking business. In relation to that, we note that staff see little improvement in cross-border financial activities and yet state that the bulk of treasury bills issued in 2002-07 were bought by investors in the region. It seems clear that at least on one front, banks have become more regional in terms of their portfolio diversification, though we wonder how much of that is driven by the foreign exchange surrender requirements. *Staff comments are welcome.*

Finally, we have a query regarding paragraph 22, namely staff's view that the BCEAO account with the French treasury offers a potentially unlimited overdraft facility. This seems to suggest that the French authorities have, at least in theory, exposed themselves to a potentially unlimited contingent liability. *Is this view shared by the French authorities and the France mission team?*

With these remarks, we wish the BCEAO and the country authorities well in their endeavours.