

**LAPSE OF
TIME**

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April 19, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **West African Economic and Monetary Union—Financial System Stability Assessment—Draft Press Release**

Board Action:	Executive Directors' consideration on a lapse of time basis
Deadline to Request Board Meeting:	Monday, April 25, 2022 12:00 (noon)
Publication:	Yes*
Questions:	Mr. Veyrune, MCM (ext. 34822) Ms. Iorgova, MCM (ext. 36354)

***Unless an objection from the member authorities of the WAEMU countries is received prior to the conclusion of the Board's consideration, the press release will be published.**



IMF Executive Board Concludes 2022 Financial Sector Assessment with West African Economic and Monetary Union

FOR IMMEDIATE RELEASE

WASHINGTON, DC – [May 6, 2022] The Executive Board of the International Monetary Fund (IMF) concluded the Financial Sector Assessment Program (FSAP)¹ with the WAEMU on May 6, 2022 without convening formal discussions.² The Financial Sector Stability Assessment (FSSA) report was completed on April 13, 2022. The report is based on the work of joint IMF/World Bank FSAP virtual missions to the WAEMU completed between July 2021 and February 2022.

The FSSA concluded that the WAEMU's financial system functions within an improved regulatory framework. Furthermore, despite political instability in several member states, the policy response to the COVID-19 pandemic has been effective. Banks have withstood the crisis well, helped by liquidity support from Central Bank of West African States (BCEAO) and policies to support domestic demand.

The report found that the banking sector is largely resilient to macroeconomic shocks. Yet vulnerabilities remain. Banks' capital buffers do not adequately consider exposure concentrations. Particularly, a marked increase in sovereign exposures has exacerbated credit concentration and interest rate risks. The FSSA report recommended the use of capital surcharge requirements under Basel Pillar 2 to address these risks. Liquidity risks are also amplified by the underdevelopment of the regional bond market, which needs to be developed further. A timely introduction of the Basel III liquidity requirements would help banks internalize liquidity risks.

An ambitious regulatory reform has consolidated the prudential base and established the conditions for a further strengthening of banking supervision. The FSAP found that the supervisory framework has become more risk oriented, but enforcement should be strengthened, supervisory resources increased, and the supervisor's independence statutorily assured.

¹ The Financial Sector Assessment Program (FSAP), established in 1999, is a comprehensive and in-depth assessment of a country's financial sector. FSAPs provide input for Article IV consultations and thus enhance Fund surveillance. FSAPs are mandatory for the 47 jurisdictions with systemically important financial sectors and otherwise conducted upon request from member countries. The key findings of an FSAP are summarized in a Financial System Stability Assessment (FSSA).

² The Executive Board takes decisions under its lapse-of-time procedure when the Board agrees that a proposal can be considered without convening formal discussions.

Further critical reforms need to be introduced. A bank resolution framework has been established but not implemented. The FSSA recommended that the framework be applied promptly to address already undercapitalized, nonviable institutions. Other recommendations addressed establishing procedures for the BCEAO emergency liquidity assistance (ELA) and measures to mitigate balance sheet risks. The supervisory program for Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) also needs to be further reformed to fully adopt a risk-based approach and enhance onsite inspections.

Washington, DC – [Month dd, yyyy]