

The contents of this document are preliminary and subject to change.

GRAY/23/3662

January 30, 2023

**Joint Statement by Mr. Guerra, Mr. Massourakis, Mr. Lopez, and Ms. Mateus on West African Economic and Monetary Union
(Preliminary)
Executive Board Meeting
February 1, 2023**

We thank staff for the well-written set of papers and Mr. Sylla, Mr. Matungulu, and Mr. Tall for their helpful Buff statement. We welcome the overall resilience of the economies of the West African Economic and Monetary Union (WAEMU) during the pandemic. Growth prospects are overall buoyant despite variability of performance among countries, the global downside risks, and the fragile security situation in the region. Hence, we believe the policy mix should be tilted towards some tightening, unless significant downside risks materialize. We broadly share staff's assessment and recommendations and would like to add some specific comments:

- **We urge the authorities to re-introduce an enhanced fiscal framework.** We welcome staff's Selected Issues Paper on "Revamping the WAEMU fiscal framework" that provides a helpful continuation of the analysis on fiscal targets in last year's report. We fully share staff's advice to reinstate an improved fiscal framework, containing an operational fiscal rule, a public debt ceiling, an escape clause and workable enforcement mechanisms. In particular, the fiscal rule should entail correction mechanisms for when debt exceeds certain thresholds and capture extra-budgetary and below-the line operations, as well as security spending. We also tend to agree with staff that the debt ratio ceiling should not exceed 70 percent of GDP, as that could jeopardize debt affordability.
- **Given the overall favorable growth prospects, we see no compelling arguments to delay fiscal consolidation.** We appreciate the need to provide targeted support to deal with food price increases and understand the security concerns, but we believe that should not come at the cost of higher deficits in 2023, which could further worsen borrowing costs and add to inflationary pressures. We encourage the authorities to pursue a balanced fiscal consolidation strategy, based both on revenue and expenditure

measures. We echo staff's call for enhanced domestic revenue mobilization, by broadening the tax base and rationalize tax expenditures.

- **Monetary policy should be tightened amid persistent price pressures and declining external buffers.** The authorities should closely monitor inflationary risks to adapt the policy stance as needed, while ensuring the consistency of the overall policy mix to mitigate aggregate demand pressures and support building external reserves. We commend the monetary authorities for the full implementation of the recommendations provided in the 2018 safeguards assessment. We also encourage the regional authorities to reconsider the work on the ECO towards adopting a flexible exchange rate regime.
- **We welcome the FSAP findings and the authorities' commitment to address existing vulnerabilities in the financial system.** Strengthening the supervisory framework, including the independence and resolution powers of the Banking Commission, is crucial to address compliance gaps in capital requirements and AML/CFT obligations. We commend the authorities for their plans to fully operationalize the banking resolution framework in 2023. Prudential regulation should also be enhanced in line with the Basel standards to reduce banks' solvency and liquidity risks. The authorities should also take actions to reduce the banks' reliance on central bank financing, while broadening the domestic sources of finance. We urge the authorities to introduce an emergency liquidity assistance framework. *Given the lack of significant advances in developing a deep regional financial market, we would appreciate staff's proposals to push forward this agenda.* Finally, we welcome the staff reports on the use of the SDR allocation in the region.
- **On structural reforms, more efforts are needed at regional level to enhance productivity, promote diversification, and boost inclusive growth.** To reap the full benefits of the monetary union, it is paramount to foster regional trade and financial integration. We agree with staff that diminishing non-tariff barriers and enhancing the regional competition framework will decisively contribute to this primary goal.