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**Statement by Mr. Bevilaqua, Mr. Velloso, and Ms. Florestal on West African Economic and Monetary Union  
(Preliminary)  
Executive Board Meeting  
February 11, 2022**

We thank staff for the report and Mr. Andrianarivelo, Mr. N'Sonde, and Mrs. Boukpassi for their helpful statement. We agree with the thrust of the staff appraisal and offer the following comments.

**We take note that the WAEMU region is faring relatively well despite many challenges.** The robust and broad-based recovery that started in 2021 is expected to be sustained into 2022 and beyond; and inflation remains under control despite edging up slightly above the 3 percent target. This positive outlook, however, is fraught with uncertainty considering the unknown evolution of the pandemic, political instability in some countries, persistent security issues in the Sahel, an uneven pace of implementation of structural reforms in the region, as well as volatility of oil prices and international financing conditions. Also, vaccination rates remain dangerously low and scarring from the pandemic will be effectively curbed only with active mitigating policies, as discussed in the informative selected issues paper. However, as noted in BUFF statement, the upcoming production of vaccines in Senegal should relax supply constraints. *We would appreciate staff's comments on the degree of inclusiveness of the projected growth given high poverty and inequality in the region.*

**All WAEMU countries except one are expected to meet the region's 3 percent of GDP fiscal deficit convergence criterion by 2024, although debt profiles will continue to vary widely.** Expenditure rationalization and increases in fiscal revenue will contribute to fiscal consolidation. However, with increased public debt levels due to the pandemic and, going forward, higher fiscal deficit financing costs, risks to debt sustainability have risen in some member countries. This is particularly true in countries that register a public debt-to-GDP ratio above the 70 percent regional ceiling and/or where debt service absorbs a high share of fiscal revenue. Urgent measures are therefore needed to prioritize growth-enhancing spending and increase domestic and external resources. In this regard, active Fund programs in support of the authorities' reform efforts would be instrumental in securing additional

grants and highly concessional financing from donors, and in strengthening domestic revenue mobilization and public financial management systems. We must also keep in mind that while expenditure cuts are projected in the WAEMU countries, security issues and additional waves of infections may increase emergency expenditure needs. We therefore encourage the development of contingency plans to deal with downside risks.

**Maintaining an accommodative monetary stance while withdrawing many support measures seems to strike an appropriate balance given a highly uncertain environment.**

At the same time, we welcome the authorities' readiness to tighten the monetary stance, if needed. The assessment shared by the authorities and staff that the exchange rate is broadly aligned with fundamentals is reassuring for the longer-term sustainability of the exchange rate regime. Also, we take note that, according to staff, the external current account deficit is mostly due to higher recovery-induced imports and should be offset, over time, by favorable prices of commodity exports and lower imports following the completion of several import-intensive hydrocarbon projects.

**While we take positive note that the banking system has so far been resilient to the pandemic, we emphasize that MFIs need appropriately tailored attention.** Banks' soundness indicators have generally improved, but NPLs increased in MFIs due to several structural fragilities. Also, according to staff, MFIs did not make significant use of the allowed regulatory forbearance due to capacity constraints. *We would be grateful if staff could elaborate on what could be done to improve MFIs' capacity so they could benefit in the future from support measures, if needed, and take advantage of the government's efforts to boost financial inclusion. Also, we would appreciate staff's elaboration on the scope of the upcoming FSAP mission.*

**While the implementation of many reforms recommended by staff is encouraging and shows good traction of staff's policy advice, we would suggest drawing practical lessons from the recommendations that were not successfully implemented.** The table on page 61 of the report shows what was or is being implemented vis-à-vis staff's recommendations. However, we would find useful to hear staff's assessment of the pertinence of the different approach espoused by the authorities in some cases. The case of the bank resolution framework is particularly interesting, as the implementation postponement seems to be due to the discovery of needed intermediary steps. *Staff comments are welcome, including on the authorities' reservations about staff's recommendation to differentiate haircuts of assets used as collateral within the framework for refinancing operations, as noted in the BUFF statement.*

With these remarks we wish the WAEMU country and regional authorities success in their reform efforts.