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**Statement by Mr. Massourakis, Ms. Quaglierini, and Ms. Mateus on West African
Economic and Monetary Union
(Preliminary)
Executive Board Meeting
February 11, 2022**

We thank staff for a well-written set of reports and Mr. Andrianarivelo, Mr. N'Sonde, and Mrs. Boukpepsi for their informative Buff statement. We welcome the pandemic resilience exhibited by the countries of the West African Economic and Monetary Union (WAEMU) underpinned by appropriately supportive macroeconomic policies in 2020-2021. At the current juncture, we concur with the staff's appraisal to start adjusting fiscal policy to address rising debt vulnerabilities and protect priority social and infrastructure spending. We appreciate the analysis on optimal debt and deficit ceilings and agree to maintain current regional targets unchanged. We encourage the authorities to further undertake structural adjustment policies to boost medium-term growth prospects, including through promoting business dynamism, regional integration, and financial market development. We offer the following comments.

- **COVID-19.** Although the WAEMU has been hit less than Sub-Saharan Africa with COVID-19 infections, the Omicron variant has recently generated a marked rise in contagion while vaccination rates vary considerably within the WAEMU countries. We encourage further strengthening efforts to sizably boost vaccination rates due to the lingering uncertainty on the emergence of possible new variants. We note that this risk is compounded with challenges related to rising security concerns in the region and we encourage the authorities to continue improving healthcare in the region.

- **Fiscal policy stance and policy framework.** With WAEMU growth returning to potential in 2022, we concur with the fiscal consolidation target of converging gradually to a 3 percent deficit to GDP ratio by 2024, and of restoring this year the fiscal adjustment path suspended due to the COVID shock. We note that the containment strategy is currently mostly based on expenditure restraint, and only partly on raising additional revenues. Looking forward, we would encourage a more balanced approach to address social and infrastructure spending needs. We welcome the analysis in the Selected Issue Paper No. 2 on optimal fiscal targets and concur with staff's policy conclusions to keep the current WAEMU targets of 3 percent deficit and 70 percent debt unchanged. We also agree with the importance of a swift implementation of public financial management reforms due to risks to fiscal targets stemming from potential stock-flow adjustments.
- **Monetary policy.** We agree that the monetary policy stance has been so far appropriately accommodative. Inflation risks or external sector vulnerabilities should be carefully monitored in the context of changing global financial conditions. We also see merit in staff's proposal to further strengthen the monetary policy framework and financial market development, including for the sovereign bond market. We also appreciate the analysis shown in Annex VI on the Status Update on the Monetary Cooperation and Currency Reform.
- **Financial markets.** We welcome the resilience of the banking sector throughout the crisis and the progress achieved in making the bank resolution framework more operational. We look forward to the conclusions of the Financial Sector Assessment Program. With the available information so far, we also see benefits in trying to diversify banks' financing sources away from the central bank. We acknowledge the authorities' concerns about the additional administrative burden associated with scrutinizing funding plans and suggest opting for simple funding strategies that do not require complex analytical frameworks. We agree with staff that it would be beneficial to establish a formal Emergency Liquidity Assistance scheme.
- **Structural reforms.** Staff's elaborations on risks from scarring to WAEMU medium-term prospects are commendable and we agree with staff's suggestions to further strengthen trade integration and the regional provision of energy, transportation, and digitalization solutions.