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February 9, 2022

**Statement by Mr. Stephan and Mr. Stahlhofen on West African Economic and Monetary Union  
(Preliminary)  
Executive Board Meeting  
February 11, 2022**

**We thank staff for an insightful and comprehensive set of reports and Mr. Andrianarivelo, Mr. N'Sonde and Mrs. BoukpeSSI for the informative Buff.** In spite of far-reaching fragilities and a tense security situation already at the onset of the pandemic, the region has been able to cope well with the COVID crisis. In addition, the economy has shown resilience and is expected to grow strongly. However, prudent macroeconomic policies coupled with structural reforms remain of the essence. Favorable medium-term growth perspectives should not prompt complacency about the structural reform agenda but should be rather viewed as being conditional on timely and coherent reform implementation. In this context, we appreciate staff's elaboration on an alternative growth scenario and the policy implications to safeguard stability should such a downside scenario materialize. With regard to public health, policies to counter vaccine hesitancy ought to attract increasing attention as the supply of vaccines gradually gains momentum.

**We appreciate that the authorities are committed to the WAEMU convergence criteria, including meeting the regional fiscal deficit anchor of three percent of GDP by 2024 at the latest, and thereby contribute to safeguarding debt sustainability as well as to preserving reserve adequacy.** We consider that the existing rule set has served stability in the WAEMU well, and we agree with staff's assessment that raising the deficit ceiling is not warranted. In addition, we support staff's recommendations to mobilize a durable public revenue base as well as to improve the composition of spending by attaching priority to growth-enhancing projects. The impact of the pandemic on schooling - and the potential scarring effects on human capital accumulation, as highlighted by staff - renders catching up in the domain of education and training a particular priority.

**We agree with staff on the effectiveness of the monetary policy response to the crisis. Looking ahead, we encourage the BCEAO to thoroughly monitor the evolution of**

**heightened domestic price pressures and to stand ready to tighten monetary policy as needed.** We take positive note of continued progress in enhancing the central bank's governance and operational effectiveness and welcome staff's recommendations for reforms to improve monetary policy transmission. Moreover, introducing a clear set of rules governing ELA, as well as broadening the range of eligible collateral with refined methodologies for applying risk-adjusted haircuts, would enhance the effectiveness of the monetary policy framework and help protecting the BCEAO's balance sheet. *Could staff provide an assessment on how the BCEAO has used its increased autonomy and flexibility in managing its international reserves since reforming the monetary cooperation with France?*

**The key priorities in the financial sector are to promote inclusiveness, strengthen risk monitoring and advance the regulatory framework in line with international standards, in order to safeguard financial stability.** Strengthened activities in the area of onsite inspections and the ongoing FSAP mission will provide valuable insights and are also likely to be conducive to manage a smooth transition to Basel II/III. We appreciate that regulatory forbearance schemes for the banking sector have to a large degree been phased out without compromising financial stability. Concerning the promotion of liquidity and depth of regional financial markets, we note the authorities' broad agreement with staff diagnoses and proposals. *However, given the continued constraints on administrative capacity, we would be interested in hearing staff's assessment of which of the proposed building blocks for financial market development should be given priority.*

**We welcome that staff highlights the centrality of simplifying and harmonizing rules as well as upgrading regional infrastructure for intra-WAEMU (or, more broadly, intra-ECOWAS) trade.** We encourage the WAEMU commission and national authorities alike to redouble their efforts in promoting regional cooperation to deepen trade and harness the opportunities from fostering an efficient and prosperous common market. *In this context, we note that staff points to the potential of the African Continental Free Trade Area to enhance integration efforts at the regional level. We would welcome if staff could elaborate on this point in greater detail.*

**We share staff's concerns about risks inherent in BCEAO on-lending of the recent SDR allocation to member states at a very low fixed rate.** As illustrated by staff, this leaves the central bank with potentially significant financial risks on its balance sheet. *We would welcome if staff could further elaborate on their views, including on which – potentially flexible/ adjustable - interest rate they would deem appropriate for any SDR on-lending in order to offset the potential future costs for the central bank.*