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**Statement by Mr. Ubisse and Mr. Cham on West African Economic and Monetary Union
(Preliminary)
Executive Board Meeting
February 1, 2023**

We thank staff for the comprehensive report as well as Mr. Sylla, Mr. Matungulu, and Mr. Tall for their useful Buff Statement.

Economic activity in WAEMU has rebounded strongly from the global and regional shocks because of prudent monetary and fiscal policies taken by the authorities coupled with strong macroeconomic fundamentals. That said, the worsening terms-of-trade, and the depreciation of the Euro relative to the US dollar dampened growth prospects, widened the current account deficit, and reduced reserves level. Notwithstanding the solid recovery, the outlook is subject to downside risks including increasing inflationary pressures, protracted war in Ukraine, further supply chain disruptions, global financial tightening, regional security and political uncertainty, high perceptions of corruption and weak governance, delays in the completion of hydrocarbon projects in Niger and Senegal, and climate related risks. Against this background, policy effort should focus on medium-term fiscal consolidation to ensure fiscal and debt sustainability; tightening monetary policy to curb inflation; strengthening financial supervision to enhance financial stability and resilience; and advancing structural reforms to promote growth while limiting economic scarring.

Adopting a medium-term fiscal consolidation strategy is required to ensure fiscal and debt sustainability. In this context, we encourage the authorities to reintroduce the regional fiscal rules and adopt a credible fiscal framework to safeguard fiscal sustainability. To this end, we urge the authorities to avoid delaying convergence towards the 3 percent of GDP fiscal deficit to ensure that debt remains on a sustainable path. Further, we urge the authorities to reintroduce new Convergence Pact with a credible fiscal correction mechanism in a situation of breaches of the fiscal deficit and debt ceiling while controlling debt increasing factors. In this regard, we are encouraged by the authorities' efforts in this area. On the revenue front, we urge the authorities to strengthen domestic resources mobilization to create the fiscal space to finance social, development, and security spending while strengthening debt service capacity. To this end, we encourage the authorities to broaden the

tax base and rationalize incentives. On the expenditure front, we encourage the authorities to accelerate the implementation of regional PFM directives to strengthen fiscal transparency.

Monetary policy tightening is necessary to curb inflationary pressure to meet the *Banque Centrale des Etats de l'Afrique de l'Ouest* 's (BCEAO) target range while maintaining reserves above adequacy thresholds. We welcome that the regional central bank tightened policy on three occasions to contain inflation. We take positive note of the authorities' readiness to tighten monetary policy, if necessary, we concur with staff that it is essential to mitigate the second-round effects of the rising global food and energy prices which could result in inflation exceeding the BCEAO's target range over a 24-month period. In this context, further tightening may be warranted unless downside risks to inflation and external buffers dissipate and, in that regard, we encourage the BCEAO to ensure monetary policy is data dependent.

Strengthening financial supervision is key in ensuring financial stability. While the financial sector remains solid and has weathered the pandemic, there is a need to address pockets of vulnerability including increased exposure of banks to sovereigns and refinancing from the BCEAO. To this end, while concentration and credit risks are being managed by recent capital increases, the sector is exposed to risks emanating from inflation, delayed fiscal consolidation, and declining reserves. In this regard, we encourage the authorities to finalize the bank resolution framework, introduce "targeted" Pillar 2 capital surcharges and liquidity requirement, promote supervisory independence, and implement an emergency liquidity support arrangement. Further, we encourage the authorities to enhance the depth and liquidity of the secondary market for sovereign securities and resolve market fragmentation while enhance financial inclusion. Meanwhile, we urge the authorities to evaluate climate-related risks in the financial sector assessment; strengthen the AML/CFT supervisory capacity; and implement a fully risk-based approach to AML/CFT supervision in accordance with the FSAP recommendations.

Advancing structural reforms is necessary to promote and sustain inclusive growth while mitigating potential economic scarring. In this context, we encourage the authorities to implement reforms in areas of energy, infrastructure, and food resilience to enhance economic growth. Enhancing infrastructure investments and increase energy production will be crucial to support growth. Relatedly, we encourage the authorities to leverage on the adopted Regional Development Strategy by the WAEMU Commission to coordinate investment and pool resources to promote regional transportation, digital, and energy networks to further enhance trade and deepen regional integration. Furthermore, given the region's natural endowment in agriculture, we encourage the authorities to strengthen resilience of food supply and minimize its external dependence on agricultural products while also diversifying agricultural production and increasing agricultural productivity to promote food security and improve regional exports. We welcome the authorities' determination to intensify trade integration and improve the region's competitiveness. In that vein, we urge the authorities to strengthen their efforts to harmonize customs documentation and regional supply chains, allow free movement of labor and minimize non-tariff barriers to trade and economic growth. Meanwhile, we urge the authorities to enhance the regional competition framework to further support productivity growth.