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

We thank staff for the comprehensive set of papers and Messrs. Andrianarivelo, N'Sonde and Mrs. Boukpassi for their informative Buff statement. The WAEMU has shown resilience during the COVID-19 pandemic. We are encouraged by the current pace of the economic recovery, which is supported by the continuous monetary and fiscal policy accommodation. However, both internal and external imbalances are on the rise which, together with tightening global financial conditions and emerging inflationary pressures, pose challenges to the long-term macroeconomic sustainability in the region. The RAM (p. 39 of the report) also suggests that the intensified security risks and their regional spillovers, widespread social discontent and rising political instability, as well as higher frequency and severity of natural disasters related to climate change entail huge tail risk and may pose additional medium-term challenges to the regional trade and development. Based on this, **we broadly share the thrust of the staff appraisal and encourage the authorities to implement policies in line with recommendations to navigate the uncertain outlook.** The analysis would have benefited from covering the broader ECOWAS region given the important recent monetary and financial integration initiatives. *Staff comments are welcome.*

**IMF engagement**

**We believe that continuous Fund engagement to ECOWAS remains critical at the current juncture.** Unfortunately, the COVID pandemic altered the focus, delivery mode and intensity of TA to the WAEMU institutions. Current program negotiations with most WAEMU members are in a transition period. The 2021 SDR allocation will support the medium-term fiscal strategy in the region. However, we agree with staff that the ECOWAS member states should use it in a way that preserves fiscal sustainability and external stability and does not delay needed policy adjustments. While fiscal risks appear contained at this stage, larger and/or more protracted fiscal deficits financed by on-lent resources could further erode external buffers and undermine the credibility of the regional convergence path. To make the engagement more effective, the regional institutions should also increase efforts to ensure macro-economic, external- and financial stability, through appropriate

common policies. Further work would be needed to better clarify, and incorporate risks and mitigation efforts related to the climate change in the regional outlook.

### **Monetary Cooperation and Currency Reform**

**We welcome ECOWAS' ambition stated in June to launch the new common currency ECO by 2027 for the member countries, which meets the regional macroeconomic convergence criteria from 2024 onwards.** Regional authorities should soon come with a detailed roadmap to address the challenges, and better focus the needed reforms of the regional central bank's (BCEAO) governance and policy frameworks. In the meantime, the BCEAO should stand ready to tighten monetary policy if the external position weakens and/or emerging inflation pressures prove to be persistent. Staff recommendations provided in box 3 (p. 14-15) and annexes IV (p. 46-47) and V (p. 48-50) of the report should help the authorities to better synchronize the overall macroeconomic policy response.

### **Regional governance and surveillance**

**Despite the delay, the 2021 ECOWAS high-level commitment to converge towards the regional fiscal deficit criterion by 2024 is instrumental to guide the post-pandemic fiscal consolidation in the region.** We urge the WAEMU institutions to act swiftly and reinstate the Convergence Pact in the first semester of 2022. Staff's detailed analysis of the calibration of fiscal targets provided in the Selected Issues Paper #2 clearly demonstrates that the authorities should be more ambitious and maintain public debt and deficit ceilings at their pre-pandemic levels. Thus, we agree with staff that both the implementation of the ambitious PFM reforms and the proper composition of fiscal adjustment are crucial to foster an inclusive economic recovery going forward. We believe it critical to achieve "more with less", which will enhance transparency in public finances, especially in the oil and gas sectors, address vulnerabilities to corruption, advance business climate reforms, and strengthen regional trade.

### **Financial stability and Inclusion**

**The WAEMU banking sector remained resilient during the pandemic due to proactive regulatory measures.** However, we caution against inadequate regulatory forbearance at the recovery phase. The transition to the Basel II/III should not be further delayed which, together with the forthcoming FSAP recommendations, will help strengthen the institutional framework for bank supervision and AML/CFT oversight. We welcome the progress made in operationalizing the bank resolution framework and encourage the authorities to adopt resolution plans for all systemic institutions in 2022, and make the necessary enhancements to the banking law. Measures described in the footnote 18 (p. 16) of the report should also help address the high reliance of some commercial banks on the BCEAO refinancing. The authorities need to strengthen the regional financial markets developments by improving communication about the borrowing needs of sovereigns, addressing fragilities in the micro-finance sector, and unlocking the potential for e-money.