

BUFF/ED/23/19

January 27, 2023

Statement by Mr. Sylla, Mr. Matungulu, and Mr. Tall on West African Economic and Monetary Union Executive Board Meeting February 1, 2023

The authorities of the West African Economic and Monetary Union (WAEMU) are grateful to Management and the Board for the continued Fund support to member states, including through financial and technical assistance. They would also like to express their appreciation to staff for the candid discussions and constructive policy advice during the recent mission.

The authorities are in broad agreement with the findings and recommendations in the insightful Staff Report and Selected Issues Papers, notably on the elevated risks ahead and the need for deeper structural reforms to sustain the recovery and preserve external viability.

Recent Economic Developments

The WAEMU economy has been resilient in the face of a challenging internal and external environment. Major headwinds included a deteriorating security situation in the Sahel which led to the internal displacement of a significant share of the population with its impact on food production, prices increase and political instability; covid-related shock to aggregate demand; and extreme climate-related events. Leveraging accumulated buffers and strong macroeconomic fundamentals, the authorities have implemented supportive fiscal and monetary policies. The various measures, together with significant catch-up effects, have enabled a rebound of real GDP growth to 5.9 percent in 2021 from 1.8 percent in 2020. Nevertheless, the current account deteriorated, and external reserves declined by 20 percent on account of large oil and gas-related imports in Senegal and Niger. Inflationary pressures persisted in the zone, with headline inflation peaking at 8 percent in 2022, driven essentially by basic food price increases and global supply chain disruptions. Responding to the inflation spike and with the view to preserving external viability, the regional central bank tightened policy with three successive rate increases in June, September, and December 2022.

Outlooks and Risks

After decelerating in 2022 due to adverse terms of trade shock, growth is expected to regain momentum in 2023 and stabilize around 6 percent over the medium term with a broad-based recovery, including in the services and manufacturing sectors. After peaking in 2022, inflation is projected to decelerate going forward as global food and commodities prices ease, tight monetary policy bears fruits, and thanks to a favorable 2022/2023 agricultural production campaign.

However, significant downside risks remain, including on account of a low global demand for the region's exports and shifting capital market sentiments, security and political uncertainties in the Sahel, and the economic repercussions of the conflict in Ukraine. Against this background, the authorities plan to intensify reforms to deepen regional integration, strengthen the resilience of the region to shocks and promote job creation, so as to achieve stronger inclusive growth.

Common Policies

Fiscal Policy

The Union's fiscal deficit deteriorated further from 5.1 percent of GDP in 2021 to 5.9 percent in 2022, mainly due to: i) urgent measures taken to mitigate the impact on the populations of high food staples and energy prices; ii) security-related expenditures; and iii) spending on infrastructure. Under these exceptional circumstances most countries in the Union are considering delaying convergence towards the 3 percent of GDP fiscal deficit target by a year to 2025.

The member states and regional authorities renewed their commitment to adhering to sound fiscal policies to advance their development agenda while ensuring fiscal sustainability. The debt-to-GDP ratio is expected to decline to 50.4 percent over the medium term. To achieve these objectives, measures are in train both at the regional and member-states level to improve revenue collection including through better customs cooperation, and the broadening of the tax base. On the spending side, common policies aim at improving growth prospects by steering spending towards priority areas identified in the regional development plan and by improving spending efficiency. Budget support to the vulnerable populations would be rigorously targeted, and efforts are being made to rationalize tax incentives. The region's public financial management agenda includes transcription into national laws of WAEMU's directives and assisting members to implement them. Work is also ongoing to harmonize the coverage for the fiscal deficit and debt, which will help contain extra-budgetary and below-the-line operations and increase their transparency.

Plans are under consideration to overhaul the recently expired Convergence Pact to anchor medium-term fiscal and debt sustainability. In this regard, the authorities are drawing on lessons learned from experience, and value Staff's views on the essential features for the regional fiscal rules to provide an effective and credible anchor. In the meantime, the WAEMU authorities reiterated their resolve to strengthen medium-term fiscal frameworks at member states level and to accelerate PFM reforms, with technical assistance from the IMF.

Monetary Policy

The authorities have been tightening monetary policy to achieve its twin price and external stability objectives. They welcome staff's independent assessment that reserves levels are adequate. Going forward, the regional central Bank is prepared to tighten policy further as may be needed, with a view to anchoring inflation expectations and preserving external viability in the context of the pegged exchange rate regime.

On the tools needed to implement their mandate, the authorities see merit in staff's recommendation to preserve the fixed-rate full allotment auctions but would prefer to keep all their toolkit options open to quickly adjust the amount of liquidity in the economy.

On safeguards, the authorities welcome the recognition that the BCEAO has a strong governance framework and a robust control environment. All the recommendations provided in the 2018 safeguards assessment were implemented, and the authorities look forward to the upcoming assessment.

Financial Markets

The financial system has shown resilience in the face of the multiple shocks in the region. Financial soundness indicators have improved with higher banks profitability, stronger balance sheets with increased capital adequacy ratios, and lower non-performing loan ratios. Prudential ratios were broadly met although risks remain, including interest rate risks and those related to concentration and exposure to the sovereigns.

The authorities welcome the finding of the recently concluded FSAP that the WAEMU's regulatory and supervisory frameworks are in line with international best standards. They broadly agreed with the recommendation to strengthen the framework further. Hence more resources are allocated toward enhancing the supervisory capacity, including through increased budget allocation towards hiring more banking supervisors and the building of stronger sector information technology infrastructure, in addition to training received from the IMF and regional centers.

The authorities remain committed to combating money laundering and the financing of terrorism in the Union. In this vein, they have been reviewing the AML-CFT laws with the

view to ensuring compliance with the latest Financial Action Task Force's recommendations. The Council of Ministers of the Union recently adopted a series of decisions to that effect.

Financial access and inclusion

Progress is being made in financial inclusion, with credit to the private sector growing robustly at 14.5 percent, and the share of individuals using financial services increasing to 67 percent of the WAEMU population at end-2021, compared to 60 percent at end-2019.

The authorities will pursue efforts to further improve financial inclusion and modernize the Union's payment system. A strategy to improve financial literacy has been adopted, and actions are being undertaken to address the impaired balance sheets in the microfinance sector, as well as to monitor developments in the decentralized financial institutions and the nascent Fintech sectors.

Structural Reforms

The Union's authorities are committed to implementing an ambitious structural reforms agenda as part of their regional development strategy aimed at promoting an inclusive and sustainable growth in the region. To that effect, the authorities adopted a priority action plan for the WAEMU commission- *Cadre d'Actions Prioritaires 2025 (CAP 2025)*-, which includes setting up a macroeconomic stabilization Fund, common SME promotion policies, and regional training and research centers. To support the green transition, they adopted a regional energy strategy and plans are in train to support its implementation in member states.

The authorities are also determined to intensify trade integration and improve the region's competitiveness.

On statistics, our authorities remain committed to enhancing the quality and harmonization of national statistics to better inform policy decision making. To this end, they will continue to strengthen human resources through existing statistical training centers and seek support from development partners for further capacity development in this area.

Conclusion

Amidst significant challenges and downside risks, the WAEMU authorities continue to pursue their regional development plans. They are committed to implementing sound policies to address the scars from Covid and high food and fuel prices, and to support strong, inclusive and sustainable growth in the medium-to-long term. Alongside this effort, the authorities are determined to take steps to ensure fiscal and debt sustainability while

protecting the most vulnerable. Enhancing resilience to shocks and making progress on the green transition remain key priorities.

In these challenging endeavors, my WAEMU authorities look forward to the continued support from the IMF and the international financial community.