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

We thank staff for the report and Messrs. Sylla, Matungulu, and Tall for their helpful statement. The WAEMU member countries have been affected by the fallout from the war in Ukraine, supply chain disruptions, tighter global financial conditions, and regional security issues. The consequences of these compounding shocks translate into high and rising inflation, limited access to international capital markets, and eroding fiscal and external buffers. Although growth in the region has so far been only moderately affected, the post-Covid recovery is subject to risks, including the challenging security situation in the Sahel. We agree with the thrust of the staff appraisal and have the following comments and questions.

**There is a need to strengthen WAEMU's fiscal consolidation framework.** The overall fiscal deficit increased from 2.3 percent of GDP in 2019 to 5.6 percent in 2020 due to COVID-19 related effects and measures and is estimated to have increased further to about 6 percent of GDP in 2022. In line with ECOWAS budgetary commitments stated prior to the war in Ukraine, the overall fiscal deficit was expected to converge to 3 percent of GDP by 2024. However, most country authorities consider a one-year delay necessary. While we agree that this delay seems sensible, we take note that, according to staff, reaching this goal by 2025 will necessitate both lower expenditures and higher revenues. *In this regard, we wonder whether staff took into consideration a case-by-case approach depicting further factors of divergence in the regional deficit. Staff comments welcome.*

**We note that WAEMU member countries have registered large discrepancies between fiscal deficits and changes in public debt due to significant stock-flow adjustments (SFAs).** *As staff expects public debt to decline from 57.1 percent of GDP in 2021 to 50.4 percent of GDP in 2027, we wonder whether it has considered in this projection the positive correlation between initial debt levels and the contribution of SFAs to debt accumulation, or whether from now on staff expects a more limited prevalence of SFAs. Staff comments welcome.* Although low capacity and/or poor-quality PFM systems could explain the

significance of SFAs, proper quantification of some drivers remain challenging. Thus, we urge the authorities to intensify their efforts to address data limitations, both at the regional and national levels, particularly for extra-budgetary and sub-budgetary operations.

**As continued heavy reliance on debt financing for development appears unsustainable, there is a need to diversify financing sources while improving domestic revenue mobilization.** *In this regard, we wonder whether a comprehensive alternative framework has been put in place, including to attract foreign direct investment and bolster domestic taxes. Staff comments welcome.*

**While we take positive note that the financial sector has so far been resilient to shocks, it is important to continue monitoring the situation closely and addressing non-compliance with solvency regulations.** In addition, the banking sector's growing exposure to sovereigns is a source of vulnerability, and some banks' capital buffers are not commensurate with factors amplifying credit risk. In this regard, we encourage the authorities to decisively address these issues weighing on financial stability, notwithstanding the progress already made in bank regulation related to the Basel framework and risk-oriented supervision. Like staff, we urge the authorities to continue monitoring closely the evolution of bank soundness indicators.

**We note that liquidity risks are exacerbated by deposit concentration and possibly a limited interbank market.** In this regard, we support staff's recommendation to introduce "targeted" pillar 2 capital surcharges and liquidity requirements for banks most exposed to concentration and liquidity risks. The introduction of an emergency liquidity assistance scheme supported by an appropriate risk-mitigation mechanism and usage conditions appears warranted while strengthening BCEAO's ability to support solvent banks facing temporary liquidity issues.

**Finally, we encourage the authorities to build on recent progress to further strengthen financial development and BCEAO's ability to monitor the financial system.** We welcome the authorities' efforts to increase the depth and liquidity of the secondary market for sovereign securities, notwithstanding constraints related to the market's persistent fragmentation. However, as stated in the report, higher holdings of sovereign securities with rising maturities refinanced by BCEAO are associated with increased maturity and interest rate mismatches and may reduce banks' incentives to implement adequate liquidity risk management and control. To this end, staff encouraged the introduction of a requirement that banks dependent on BCEAO refinancing should implement funding plans with a view to gradually reducing recourse to such refinancing. This is a sensible suggestion. *We wonder whether interbank market development could help reduce banks' reliance on BCEAO refinancing while ensuring better liquidity management. Staff comments welcome.*

With these remarks we wish the WAEMU regional and country authorities success in their endeavors.