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

We thank staff for the comprehensive sets of reports and Mr. Sylla, Mr. Matungulu, and Mr. Tall for their informative Buff statement. We broadly concur with the thrust of the staff appraisal and recommendations and, offer the following points for emphasis.

The WAEMU countries continue to recover in the post-pandemic era—partly due to coordinated accommodative policies and favorable macroeconomic fundamentals prior to the pandemic. However, the region’s growth outlook faces significant headwinds, including from tightening of global financial conditions, deteriorated regional security situation, climate shocks, and elevated global uncertainties. In addition, the adverse terms-of-trade shocks induced by the war in Ukraine together with restricted access to global financial market has resulted in dwindling external buffers and soaring financing needs. Inflation also remains elevated due to global shocks and the recent NEER depreciation, which compounded the shortfall in regional food supply linked to inclement weather and security issues in some countries. Besides, new covid outbreak remains a downside risk to the region’s growth prospects due to low vaccination rollout. Against this background, **a well-coordinated fiscal and monetary policy strategy is of paramount importance for strengthening macroeconomic resilience and safeguarding reserve adequacy in the region.**

Bolstering spending efficiency and revenue mobilization measures would be necessary to create buffers for extensive targeted social interventions while preserving debt and external sustainability over the medium term. We encourage the regional authorities to forcefully enhance tax administration and efficiency while leveraging digitization to boost domestic revenue mobilization to help finance critical social and infrastructure developments in the region. We see merit in a gradual fiscal consolidation for the authorities to adequately respond to multiple shocks. *In this context, we would appreciate staff assessments on a*

delayed fiscal convergence beyond 2024 on the regional as well as individual countries. The authorities should discontinue unsustainable price controls and untargeted subsidies to safeguard debt sustainability in the region. That said, we urge the regional authorities to strengthen debt management practices and prioritize multilateral and bilateral financing with more favorable terms. In addition, we concur with staff on the need to reintroduce a credible regional fiscal rule—entailing well-designed escape clauses, credible enforcement mechanisms, and open communication—to help steer debt on a sustainable trajectory.

Continued tightening of monetary policy is a priority to avert de-anchoring of inflation expectations and preserve reserves in the region. We take positive note that BCEAO increased three times its benchmark rates since June 2022 in response to rising inflation. Further tightening of monetary conditions is however necessary to dampen potential second round inflationary pressures. That said, we strongly encourage the BCEAO to ensure that monetary policy adjustments are purely contingent on forward-looking analysis and data-driven to avert adverse feedback on the region’s economic recovery. We positive note that the BCEAO has implemented the Fixed-Rate full Allotment (FRFA) procedure, which has enhanced monetary policy transmission, as stated in the reported.

Though the banking system is broadly resilient to shocks, it is concerning that some banks remain inadequately capitalized and are highly dependent on the BCEAO refinancing. For that reason, we underscore the need for the BCEAO to strengthen monitoring, enforce strict compliance of prudential regulations, and fully operationalize the banking resolution framework to help mitigate systemic risks and safeguard regional financial stability. We join staff in underscoring the need to raise institutional awareness of climate-related risks in the financial sector, and also strengthen the AML/CFT risk-based supervision in line with the FSAP recommendation. We welcome the implementation by the BCEAO of all the recommendations in the 2018 safeguards assessment. We take positive note of the sanctioning of some financial institutions in the region by the Banking Commission for failure to comply with AML/CFT obligations.

We underscore the criticality in promoting financial inclusion in the region to foster economic growth and development. In this context, the authorities should strengthen measures to address challenges in the use of digital financial services to boost financial inclusion in the region. *Staff comments on the factors underpinning the low rate of financial inclusion in both Niger and Mali are welcome. Could staff comment on CBDC’s implementation feasibility in the short time considering the region’s heterogeneity and the extent of BCEAO’s capability to mitigate associated risks?*

Accelerating regional reforms to enhance the business climate, improve public institutions, and mitigate climate risks is a necessity. In this regard, we urge the authorities to strengthen reforms to promote region’s competitiveness and enhance soundness of the macroeconomic framework to bolster capital inflows and offset possible scarring effects of

the Covid-shock. Continued policy actions to deepen financial markets are also essential to foster financial sector development and inclusion. We encourage steadfast implementation of regional PFM directives to help improve debt dynamics and contain stock-flow adjustments. **We urge the authorities to continue to leverage Fund's CD and expertise of other IFIs to advance inclusive, green, and job-rich growth in the region.**

With these comments, we wish the Authorities well in their endeavors.