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**Joint Statement by Ms. Lim, Ms. Kashima, Mr. Parkyn, Mr. Kurniawan, Ms. Park, and
Mr. Watanabe on West African Economic and Monetary Union
(Preliminary)
Executive Board Meeting
February 1, 2023**

We thank staff for their comprehensive report, and Mr. Sylla, Mr. Matungulu, and Mr. Tall for the informative buff statement. WAEMU countries have so far sustained their resilience to the multiple shocks thanks to supportive fiscal and monetary policy measures and relatively strong initial macroeconomic fundamentals. However, risks are tilted to the downside, and public debt accumulation and chronic fiscal deficits, still high inflation, and deterioration of regional security and political stability are sources of concern. An appropriate mix of fiscal and monetary policies as well as steady structural reforms is essential. **As we broadly concur with the thrust of the staff’s appraisal and policy advice, we would like to offer the following comments for emphasis.**

Reintroducing regional fiscal rules and developing a credible fiscal framework are critical to ensure medium-term fiscal sustainability. Given the recent sharp public debt increase and persistent fiscal deficits amidst tighter global financial conditions, strengthening fiscal credibility is essential. Steady fiscal adjustments under prudent rules and frameworks are critical also to meet the region’s substantial developmental investment needs. We agree with staff that the reintroduced WAEMU’s Convergence Pact should include a credible correction mechanism in case of a breach, an effective enforcement system, and well-designed escape clauses. We also concur with staff that continued efforts to enhance domestic revenue mobilization remain a priority. This helps create fiscal space for much needed areas, rebuild buffers for unseen future shocks, and thus enhance fiscal sustainability and external resilience.

Monetary policy should remain data-dependent and further tightening is warranted to tackle inflation and maintain adequate reserve levels. Rising inflation driven by global

food and energy price surges and extreme weather events have worsened the current account through import price hikes, which eventually led to the deterioration of reserves. We note some signs of second-round effects. Therefore, vigilance is warranted to the latest developments of relevant indicators, and the BCEAO should stand ready to take necessary actions when needed. We appreciate the discussion of inflation dynamics in the SIP, and note that persistent inflation and heterogeneous patterns may pose additional challenges to monetary policy effectiveness in the region.

We positively note the WAEMU's financial sector has maintained resilience against multiple shocks so far, but more needs to be done to foster financial stability and inclusion. Sufficiency of capital buffers in some banks, rising sovereign exposures and liquidity risks require close monitoring. At the same time, further strengthening the regulatory and supervisory frameworks of the financial sector including improving the AML/CFT framework and enhancing climate-risk assessments is essential. Developing domestic capital markets and maintaining supervisory independence of the Banking Commission are also critical to enhance financial sector resilience and monetary policy transmission. Like staff, we welcome the efforts to promote financial inclusion for a more inclusive and private-sector-led growth.

In order to unlock growth fundamentals in the region, it is paramount to steadily proceed with structural reforms and critical development projects. We agree with staff that priority should be placed on the reforms that could enhance the business climate and attract more private-sector and foreign investments. Strengthening governance and anti-corruption is of the essence. Reducing non-tariff barriers and fostering intra-regional integration, such as through improving both energy, digital and physical infrastructure networks, are pivotal. Considering the region's comparative advantage in agricultural products, efforts to promote broader diversification in the sector will support expanding the export base and help address food insecurity in the future. Efforts should continue to enhance climate resilience especially in adaptation and natural disaster resilience. Lastly, we reiterate the importance of improving statistical quality as a key foundation for effective policymaking.