

The contents of this document are preliminary and subject to change.

GRAY/23/3674

January 30, 2023

**Statement by Mr. Dresse and Ms. Volociuc on West African Economic and Monetary Union  
(Preliminary)  
Executive Board Meeting  
February 1, 2023**

We thank staff for the comprehensive report as well as Mr. Sylla, Mr. Matungulu, and Mr. Tall for their useful Buff Statement. We positively note the resilience of WAEMU's economy which succeeded in weathering the global and regional shocks. Policy actions in response to these shocks were swift and decisive albeit at a cost on the fiscal front. Notwithstanding the favorable growth prospects in the medium-term, uncertainties around the baseline outlook are high with downside global and regional risks driven by a deterioration of trade, tightened global financial conditions, and worsening regional security risks. In this context, prudent macroeconomic policies sustained by the right mix of fiscal and monetary policy, and steadfast structural reforms remain of the essence. **We agree with the thrust of the staff appraisal and policy recommendations** and offer the following comments.

**Fiscal consolidation is critical to ensure fiscal and debt sustainability.** The expansionary fiscal policy in response to multiple shocks significantly pushed up deficit, being reflected in an upsurge of debt ratios. We agree that delays with consolidation erode the credibility of policies to support fiscal and debt sustainability. The convergence of deficits to 3 percent of GDP should be reinstated. A revamped Convergence Pact should be enacted, anchoring adequate targets for both deficit and debt, which should contain the large extra-budgetary and below-the-line operations to safeguard debt sustainability. Given the limited fiscal space to accommodate the large spending for development, social-, and security needs, we encourage the authorities to improve domestic revenue mobilization, including through broadening the tax base and containing extensive tax preferences. Furthermore, a credible path of fiscal consolidation would require enhanced public financial management and we encourage the authorities to accelerate the implementation of the regional PFM directives.

**The authorities should consider further monetary tightening, incited by the risks of second-round effects.** The tightening cycle started in 2022 is warranted considering the rising inflation, declining reserves, and the importance of preventing the de-anchoring of inflation expectations. While the increase of inflation is expected to be moderate, uncertainties are significant, and the risks of second-round inflationary effects are on the rise. That said, we call on the authorities to consider

additional tightening. We underscore, however, that maintaining a proactive, forward-looking, and data-driven approach should stay at the forefront of monetary policy decisions. The monetary policy transmission has been enhanced thanks to the Fixed-rate full allotment (FRFA) procedure. We note, however, that the authorities do not support preserving the FRFA practice going forward and opt for more flexibility in the application of available tools including a flexible-rate fixed-quantity system. *We invite staff to elaborate on the potential impact of moving away from the FRFA procedure on monetary policy transmission and central banks' balance sheets.*

**The financial sector remains resilient but requires further strengthening to address vulnerabilities.** Despite the impact of the Covid crisis and inflation shocks, the banking system remained robust showing enhanced balance sheets and improved average CAR level. Considering, however, the transition to Basel II/III and the deposit concentration coupled with a shallow interbank market, we see merit in close monitoring of bank soundness indicators both in terms of adequacy of capital and liquidity levels and necessary actions for problem banks. We positively note the PRPs produced by all systemic important banks and encourage the authorities to take steps to ensure the operationalization of the bank resolution framework. The FSAP recommendations should further guide the authorities' reform agenda including strengthening the AML/CFT risk-based supervisory program. Given the region's exposure to climate change, we consider that the assessment of climate-related risks in the financial sector is key to enhancing the prudential framework. *We note, however, the authorities' comment on the limited availability of data. Can staff clarify how the Fund's CD can support in this area and enhance the authorities' capacity to ensure the overall implementation of FSAP recommendations?*

**Implementation of regional structural reforms will be critical to support durable growth.** Trade between the countries in the region benefited from the exemption of customs duties. Yet, a series of bottlenecks, including a lack of harmonized customs documentation and regional supply chains, continue to hinder regional integration. We encourage the authorities to reduce non-tariff barriers to facilitate trade and accelerate structural reforms to boost productivity and private investment. We stress the key role of infrastructure investments to support growth potential. In this regard, we agree that better coordination of investments and pooling of resources are ways to implement regional development projects.