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**Joint Statement by Ms. Koh, Ms. Marcussen, Mr. Slettvag, and Mr. Bruns on West African Economic and Monetary Union
(Preliminary)
Executive Board Meeting
February 1, 2023**

We thank staff for the reports and Mr. Sylla, Mr. Matungulu, and Mr. Tall for their helpful Buff statement. The WAEMU region has showed welcome resilience amidst significant challenges related to spillovers from Russia's war against Ukraine, climate related events, and highly concerning security challenges. Supportive fiscal policies have helped support a rebound in real GDP growth, but also resulted in surging sovereign debt levels alongside a deterioration in external balances and broadening inflationary pressures. Going forward, monetary and fiscal policy normalization is needed to preserve debt sustainability, anchor inflation expectations, and support external sector stability. Structural and financial sector reforms should be accelerated to deepen regional integration and guard against downside risks. We are in broad agreement with staff's appraisal and would like to offer the following remarks for emphasis.

We share staff's concerns that the credibility of the fiscal framework is eroding on the back of repeated delays in fiscal consolidation and increased debt levels. To contain risks related to financing constraints and debt sustainability, we urge the authorities to limit any delays in re-instating the Convergence Pact and converging to the 3 percent of GDP fiscal deficit. We further agree with staff that work to revamp the regional fiscal rules should be accelerated to establish a credible and effective fiscal anchor. We see benefits in including supporting arrangements in the new framework, but caution against any increase of the debt ceiling in an environment with heightened global uncertainty and increasing interest rates. While we agree that a well-designed escape clause could help enhance predictability, we stress the need to clearly limit and define the set of circumstances triggering the clause, as

well as the time limits for how long fiscal policy can deviate from targets. *Could staff elaborate on the appropriate design of an escape clause considering the numerous risks and shocks facing the region?* Strengthening domestic revenue mobilization remains critical to finance key expenditures on development, social, and health over the medium term. *Could staff give an update on the work on a new Convergence Pact and the expected timeline?*

Moreover, we take note that the increase in debt has been substantially higher than implied by fiscal deficits due to large extra-budgetary and below-the-line transactions (so called stock flow adjustments, SFA). We agree with staff that preserving debt sustainability will require controlling and transparently monitoring all debt-increasing factors. To this end, we believe that consideration should be given to adjusting the fiscal deficit target to better encompass SFAs and we caution against plans to exclude security spending from the targets. Given feasibility challenges with fully capturing SFAs in the deficit measures, we agree with staff that a debt correction mechanism, requiring fiscal adjustment if the debt ceiling is breached, could be a useful complementary option.

The BCEAO should stand ready to tighten monetary policy further to contain inflationary pressures and preserve external stability. We commend the BCEAO for responding proactively to rising inflation and declining reserves by raising the policy rate three times since June 2022. Given high risks of second round effects from higher food and energy prices and pressures on external buffers, we agree with staff that further monetary tightening seems appropriate, while closely monitoring the drivers of inflation and inflation expectations. We also agree with staff that the fixed-rate full allotment (FRFA) procedure should be preserved to enhance the transmission of monetary policy and reduce the uncertainty around banks' access to refinancing.

Continued efforts to improve banking supervision and deepen financial markets are needed. We welcome that the regional banking system has proven resilient to the numerous shocks over the past years, and welcome recent progress on bank regulation and supervision. We note, however, that the new banking resolution framework is yet to be fully operationalized and urge the authorities to ensure the adaptation of resolution plans for all banks of systemic importance in 2023. We also take note of vulnerabilities related to increased exposure to sovereigns, reliance on BCEAO refinancing, and deposit concentration, and echo staff's recommendations on introducing targeted Pillar 2 capital surcharges and liquidity requirements. The AML/CFT supervisory capacity should be strengthened by implementing a fully risk-based approach in line with the FSAP recommendations. Moreover, we stress the importance of continued efforts to promote financial inclusion, including by addressing structural weaknesses in the MFI sector and improving financial literacy.

Regional structural reforms and development projects can yield significant synergies.

We welcome the adoption of the priority action plan under the regional development plan and encourage the authorities to further strengthen coordination and pooling of resources, as well as reforms to foster private investment, for development of regional transportation, digital, and energy networks. Efforts to reduce non-tariff barriers to trade should be intensified to promote trade and deepen regional integration, including by harmonizing customs documentation and better aligning national labor market laws.