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**Statement by Mr. Lischinsky and Mr. Corvalan Mendoza on West African Economic and Monetary Union  
(Preliminary)  
Executive Board Meeting  
February 8, 2021**

We thank staff for the report and Mr. Andrianarivelo and Mr. Alle for their informative Buff statement on the West African Economic and Monetary Union (WAEMU)

**WAEMU economic growth was robust at around 6.5 percent for almost a decade**, until the Covid-19 pandemic hit the region and exacerbated other vulnerabilities, such as security concerns in some member countries. As a result, the regional economic growth halted to 0.3 percent in 2020. The possibilities for a rebound in 2021 are feasible if domestic and global uncertainties are cleared up in the coming quarters, like political elections in 2021, global trade tensions, remittances flows, donor support, and financial appetite for euro bond issuance.

**The regional fiscal anchor becomes relevant at the current juncture.** The fiscal deficit in 2020 was close to 6 percent of GDP, well explained by the loss in revenues during the pandemic and the increased expenditures on health and to support the vulnerable population during the crisis. Public debt at 48.5 percent of GDP is still manageable and is categorized as moderate of risk distress according to the DSA. In the coming years great efforts will be needed to bring back the regional fiscal anchor to the WAEMU target of 3 percent of GDP fiscal deficit ceiling. The latter has a direct implication on protecting the peg to the euro, the possibilities of bringing more donor support for development, and the dynamic debt servicing capacity.

**Domestic revenue collection** will remain at the center of the policy discussion for quite some time. The pressing need to keep security challenges in check, enhance social protection for the most vulnerable, and improve basic infrastructure to unlock growth potential are sizeable. To fulfill all these needs, a stable source of financing is warranted. In this vein, we take comfort in the authorities' recognition and their willingness to update the regional fiscal governance framework, which aims to tackle key issues of this important anchor. Among the most important elements are the revision of the escape clauses of the fiscal anchor, the creation of a regional fiscal council, and the clarification and limitation on below-the-line operations. An enhanced fiscal governance framework will boost confidence in the trajectory of the economy and the credibility of policy making.

**On monetary policy**, BCEAO appropriately injected liquidity to the financial system and put in place an array of financial tools and measures in banks in order to better absorb the negative shock from the pandemic. The authorities acted swiftly, and credit growth continued despite difficult times. Once the pandemic abates the authorities rightly point out that they will remain vigilant on the level of international reserves, which are now at comfortable levels, in order to protect and maintain the peg to the euro. External buffers are essential to avoid pressure on the FX market.

**The financial sector may require close monitoring.** The scars the pandemic might leave on the balance sheet of households and firms are not yet well known. We take positive note of the authorities' commitment to operationalize a bank resolution framework, which will help resolve pockets of high risks in the financial system. In this vein, we acknowledge the somber view of the staff's analysis, in its central scenario, where the WAEMU average NPL ratio might increase by one third in the next five years. If this scenario materializes, the banking system will certainly require more capital to comply with the aggregate capital adequacy ratio (CAR) regulatory requirements. *We would like to hear more details from staff on the full-fledged FSAP exercise to be conducted in 2021.*

**Finally, on financial inclusion and its impact on poverty.** *We would appreciate staff's ideas on how to accelerate this process in WAEMU.*

With these comments, we wish the people of WAEMU every success in these challenging times.