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**Statement by Mr. Guerra and Ms. Arevalo Arroyo on West African Economic and
Monetary Union
(Preliminary)
Executive Board Meeting
February 8, 2021**

We thank staff for the comprehensive set of reports and Messrs. Andrianarivelo and Alle for their helpful buff statement. Prior to the COVID-19 shock, the West African Economic and Monetary Union (WAEMU) enjoyed a period of high growth that was halted by the pandemic. Although the health crisis has been less stringent than in other regions, the challenges for WAEMU have increased as the overall effects of the pandemic prevail in hand with deteriorated economic and security conditions. We broadly agree with the staff's appraisal and will provide some comments for emphasis.

For a credible fiscal consolidation path in the medium-term, convergence to the regional deficit anchor is warranted. However, this return should be gradual and mindful of striking a right balance between feasibility of the adjustment and macroeconomic stability amidst a challenging outlook. Like staff, we believe it could be useful to consider a differentiated approach for countries exposed to security shocks, but we also take note of the authorities' difference in views given the potential adverse incentives this could generate and the absence of reliable data related to security expenditures. We agree with staff that a revision of the regional framework could be beneficial, including lowering the debt convergence criterion. Besides preserving debt sustainability, advancing reforms to increase revenue mobilization will be necessary to open space for much needed infrastructure and social spending.

On monetary policy, we share staff's assessment that the current stance appears appropriate and that the measures taken during the pandemic by the BCEAO were

instrumental in preventing a tightening of the financial conditions during the crisis.

Nevertheless, tighter monetary policy could be a potential risk if FX reserves pressures arise, given the peg exchange rate regime.

We commend staff for the comprehensive analysis presented in the Selected Issues related to the Monetary Policy Framework and its transmission channels in the WAEMU. We share many of the conclusions of the analysis, and we particularly support the staff's assessment of the need to streamline communication of the various objectives and trade-offs and make the interbank rate an effective operating target. Fund support through CD activities will be instrumental in these efforts going forward.

Given the uncertainty about the timeline and specific modalities of the switch to the ECO, we missed in the otherwise comprehensive report and SIPs a more detailed medium-term analysis of possible implications of this monetary reform. We fully understand and support the authorities' decision to delay the ECO launch, but considering its importance and that of other related measures, early engagement towards constructing a roadmap will be of the essence. This is also significantly related to other policy fronts, including removal of trade barriers within the region and the implications for the development of regional bond markets. *Staff comments will be appreciated.*

While the banking sector has shown resilience during the crisis, close monitoring is warranted as forbearance and other relief measures are lifted. As the effect of the pandemic becomes more apparent, monitoring will become more important since the hardest hit sectors account for a significant share of banks' performing loan portfolios. Here, we take note of staff's assessment that NPLs will increase significantly beyond the current forbearance period and even during the potential recovery. While the MFI sector does not entail a systemic risk, the crisis has exposed a substantial increase in its NPLs, and we concur with staff that this fragility could further add to exacerbate the pandemic effect on poverty and social inclusion. We also support staff's assessment that the bank resolution framework should be made fully operational in 2021.

We share the staff's view that a medium-term priority is to continue efforts toward the development of financial markets. The development of a deeper market for government bonds and interbank benchmark rates will have an instrumental role in this regard.

Finally, we thank staff for the very useful and comprehensive overview of Capacity Development and Technical Assistance as outlined in the Annexes. We found Annexes

VII and VIII as good examples of how to provide stocktaking on TA work in the region and short-term priorities for CD and TA linked to Fund advice. Particularly, it was useful to understand current work regarding development of financial markets, among other priorities, and we encourage the Fund to remain engaged with WAEMU authorities to support this effort.