

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

GRAY/21/388

February 4, 2021

**Statement by Mr. von Kleist and Mr. Sattler on West African Economic and Monetary Union
(Preliminary)
Executive Board Meeting
February 8, 2021**

We thank staff for an informative set of reports and agree with the thrust of the appraisal. We also appreciate the comprehensive comments by Mr. Andrianarivelo and Mr. Alle in their Buff statement. The WAEMU region is facing a difficult mix of health, security and economic challenges. We concur with staff that monetary and fiscal policy responses to the crisis were appropriate. At the same time, we join staff in encouraging the regional authorities to already prepare a plan for the return to the path of fiscal consolidation, given risks to debt sustainability in some countries. In light of the uncertain economic outlook and the limited fiscal space, authorities should stand ready to adjust policy stances accordingly as soon as feasible. In addition to our broad-based agreement with the report, we would like to make the following points.

We take note of the recent reforms of the monetary cooperation arrangements with France. These reforms result in a larger degree of independence and responsibility for the WAEMU authorities. While the short-term implications for monetary policy or the exchange rate arrangement seem limited, the credibility of the exchange rate peg needs to be firmly supported by appropriate monetary and fiscal policies in the WAEMU. Moreover, as the ECO launch has been postponed, we note that staff alludes to a need to “articulate the reform with the roadmap for the introduction of the ECOWAS single flexible currency with the same name”. *Could staff comment on the relationship between these two “ECO” initiatives and implications for the new WAEMU arrangement? What are potential implications for the future of the exchange rate peg with the Euro?*

The development of the interbank market is critical for liquidity management in the financial system and we welcome the authorities’ ongoing reform efforts in this regard. In order to mitigate the effects of the pandemic on financial conditions, the BCEAO has

switched to a fixed rate full allotment (FRFA) procedure. While FRFA is an effective tool to address liquidity risks, it may lead to an increase in central bank intermediation to the detriment of interbank markets if maintained for longer periods. We take note that staff recommends making FRFA a permanent feature of the monetary policy framework. *Could staff elaborate on the potential effects of this policy recommendation on the ongoing reform process to develop the interbank market in the WAEMU?*

Regarding the holdings of SDRs, we have noted strong increases to a relatively high level of holdings in percent of allocations across countries in the region for the past years. Staff comments on the following set of observations/questions would be very welcome: (i) *What are likely reasons for the high holdings in a number of countries that go beyond the cumulative allocation of SDRs broadly since 2018?* (ii) *Which potential drivers caused the recent jump in region-wide SDR holdings from 115% to 327% of cumulative allocation?* (iii) *Did the WAEMU reform cause a shift in the composition of reserves?*