

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

GRAY/21/390

February 4, 2021

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

We thank staff for the comprehensive set of reports and the high-quality Selected Issues Paper, and Mr. Andrianarivelo and Mr. Alle for their helpful Buff statement. The COVID-19 pandemic and the deteriorating security situation have adversely affected economic activity in the member countries of the West African Economic and Monetary Union (WAEMU), jeopardizing the fragile gains made over the last decade.

We commend the authorities for their decisive response to the global pandemic. Although the economic growth in WAEMU continues to exceed the sub-Saharan African average, the pandemic has had serious socio-economic consequences. We are particularly concerned about the rapidly worsening security situation in parts of the regions. We share staff's assessment that the downside risks could derail the projected upturn in economic activity; therefore, the authorities should redouble their efforts to address structural challenges, including on governance and anti-corruption.

Given that the authorities in the WAEMU region need to strike a delicate balance between multiple policy challenges, we attach great importance to growth-friendly and well-targeted fiscal measures. In view of the challenges that these countries face, we favor a gradual, state-dependent fiscal consolidation. With regard to the 2021 budgets, we positively note that the governments put a premium on the revenue administration and tax-enhancing measures, in addition to enhancing spending efficiency. However, revenue mobilization efforts will need to be scaled up, not least given that the average ratio of interest-to-revenue has increased significantly over recent years. We welcome the convergence of views between the authorities and staff on the reform of the regional fiscal

governance framework, with a specific focus on the enforcement of convergence criteria and better designed escape clauses. *We wonder whether there is any timetable for this review. Given that the WAEMU Commission also intends to limit below-the-line operations, could staff provide an estimation of the coverage of these items in 2020?* We strongly welcome the authorities' commitment to increase the depth and liquidity of the regional financial market.

Monetary policy should maintain its accommodative stance, coping with difficult trade-offs. With constrained fiscal space, monetary policy has to shoulder even more in supporting the economic recovery; however, the Central Bank of West African States (BCEAO) also needs to stand ready to modify monetary conditions if external buffers fall significantly. *Given that the 3-month COVID-19 T-Bills were an integral part of the authorities' support, staff's comments on the management of the rollover risks would be welcome.* At this point, we also underline that the reserves are projected to stabilize below the optimal ESA range, which deserves close attention. *Could staff also provide more details whether the authorities are on track to implement the monetary cooperation and currency reform agenda, in particular, regarding reserve management?* We concur with the BCEAO that further assessments are warranted to decide whether the temporary measures can remain a permanent part of the monetary policy framework.

Preserving financial stability continues to remain an important cornerstone of the sustainable development. We welcome that the banking sector has been resilient so far. We take positive note that domestic credit to the private sector remained robust in 2020, but encourage the authorities to increase their vigilance on the buildup of non-performing loans. We concur with staff that the bank resolution frameworks should also be made fully operational as soon as possible. *As pan-African banks have a strong presence in WAEMU, we would appreciate staff's comments on the adequacy of supervisory cooperation.*