INTERNATIONAL MONETARY FUND

IMF Country Report No. 16/96

WEST AFRICAN ECONOMIC AND MONETARY UNION

March 2016

COMMON POLICIES OF MEMBER COUNTRIES—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE WEST AFRICAN ECONOMIC AND MONETARY UNION

This staff report on discussions with regional institutions of the West African Economic and Monetary Union (WAEMU) was prepared by a staff team of the International Monetary Fund in the context of the periodic regional surveillance of the WAEMU. The regional perspective of such discussions is intended to strengthen the bilateral discussions that the IMF holds with the members in the region under Article IV of the IMF's Articles of Agreement. The following documents have been released and are included in the package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its March 21, 2016 consideration of the staff report.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 21, 2016, following discussions that ended on January 28, 2016. Based on information available at the time of these discussions, the staff report was completed on March 3, 2016.
- A **Statement by the Executive Director** for the West African Economic and Monetary Union.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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INTERNATIONAL MONETARY FUND
COMMUNICATIONS DEPARTMENT

Press Release No. 16/126
FOR IMMEDIATE RELEASE
March 21, 2016

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes Regional Consultation with West African Economic and Monetary Union

On March 21, 2016, the Executive Board of the International Monetary Fund (IMF) concluded the annual Discussion on Common Policies of Member Countries of the West African Economic and Monetary Union (WAEMU).[1]

Background

Despite the fragile security situation in some member countries and a less favorable external environment in 2015, economic growth exceeded 6 percent for the second consecutive year, driven by ongoing infrastructure investments, solid private consumption, and favorable agricultural campaigns. Inflation has remained subdued around 1 percent in 2015, reflecting the exchange rate anchor and positive terms of trade developments. Monetary policy has remained accommodative, with the key policy rate unchanged at 2.5 percent since September 2013, and private sector credit grew by nearly 14 percent in 2015.

The overall budget deficit (including grants) increased to 4.8 percent of GDP in 2014, up from 3.3 percent in 2013, largely driven by ongoing large public investment programs to address countries' infrastructure gaps. This deterioration increases public debt for the region to 44.7 percent of GDP in 2015 from 38.9 percent in 2014.

The drop in oil prices has lightened the energy bills for all WAEMU countries while cocoa and groundnut prices have remained buoyant, thereby improving the trade balance, notably of Cote d'Ivoire, the largest economy in the region. However, the surge of imports associated with public investment and private consumption has partly offset the impact of lower energy bills. As a result, in 2015 the region's overall current account deficit reached 5.6 percent of regional GDP, compared with 6.1 percent in previous year, and gross international reserves rose to 5 months of imports from 4.7 months in 2014.

The medium-term growth outlook remains positive but entails significant downside risks. Growth should remain above 6 percent, owing to continued strong domestic demand, while

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

inflation is expected to remain subdued. The overall fiscal deficit should gradually decrease while total public debt is projected to stabilize at moderate levels (about 40 percent of GDP). In the short term, security risks remain high. In the medium term, weaker trading partner growth, tighter global financial conditions, sluggish implementation of structural reforms, and difficulties delivering on the planned fiscal consolidation could weaken growth prospects.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the region's continued strong growth performance despite the fragile security situation in some member countries and a less favorable external environment. Noting the risks to the outlook, Directors encouraged the authorities to safeguard macroeconomic and financial stability by implementing prudent and well-coordinated national fiscal policies and regional monetary policy. Strong resolve to move ahead with the much-needed structural reforms would help achieve higher and more inclusive growth.

Directors underscored that pursuing fiscal consolidation plans, while expanding space for development needs, is critical to preserve macroeconomic stability and support growth. In this regard, they encouraged the WAEMU Commission to help member countries move decisively on fiscal reforms. Directors encouraged the authorities to increase domestic revenue by broadening the tax base and strengthening tax administration, and rationalize current spending, particularly the wage bill. They also called for measures to improve public financial management and the quality of spending, and reforms to increase public investment efficiency. In addition, Directors emphasized the importance of further strengthening debt management.

Directors highlighted the need for enhancing monetary policy effectiveness. They viewed the benign inflation outlook and favorable macroeconomic environment as an opportunity to focus on reforms to further improve liquidity management, deepen financial markets, and strengthen market-based operations.

Directors commended the authorities for the significant reform efforts to modernize the financial sector and strengthen banking supervision. Underlining that financial stability, deepening, and inclusion are essential for growth, Directors encouraged the authorities to speed up the reform agenda, particularly the implementation of Basel II and Basel III, strengthen risk-based supervision, align prudential limits with international standards and best practices, enforce existing prudential rules to reduce NPLs, and avoid regulatory forbearance. Directors also encouraged adoption and implementation of the regional financial inclusion strategy.

Directors emphasized that accelerating the pace of structural reforms aimed at boosting competitiveness and diversification will be key to sustaining the growth momentum and reducing poverty. They particularly highlighted the need for improving the business climate and addressing income and gender inequalities.

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[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.imf.org/external/np/sec/misc/qualifiers.htm.

The views expressed by Executive Directors today will form part of the Article IV consultations with individual member countries that take place until the next Board discussion of WAEMU common policies. The next Article IV consultation discussion with the WAEMU regional authorities will be held on the 12-month cycle in accordance with the Executive Board Decision on the modalities for surveillance over WAEMU policies.

Table 1. WAEMU: Selected Economic and Financial Indicators, 2012—2020

	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Est.			Proj.		
	(Annual percentage change)								
National income and prices									
GDP at constant prices	6.7	6.0	6.3	6.3	6.3	6.6	6.6	6.5	6.4
GDP per capita at constant prices	3.7	3.2	3.4	3.4	3.4	3.7	3.8	3.6	3.6
Broad money to GDP	-3.1	3.5	6.3	2.6	...	...	...	...	...
Consumer prices (average)	2.4	1.3	-0.1	1.0	1.7	1.8	1.9	2.0	2.0
Terms of trade	-5.0	-9.0	-0.6	6.9	-0.7	-1.6	-1.3	-1.7	-1.8
Nominal effective exchange rates	-2.4	4.3	3.9	-3.9	...	...	...	...	...
Real effective exchange rates	-2.7	2.8	1.0	-5.5	...	...	...	...	...
	(Percent of GDP)								
National accounts									
Gross national savings	15.0	15.5	14.8	16.9	18.2	18.5	19.0	19.2	19.6
Gross domestic investment	21.5	23.7	22.7	24.7	25.9	26.6	27.2	27.5	27.8
Of which: public investment	5.7	7.3	7.2	7.7	8.3	8.0	8.1	8.1	8.2
	(Annual changes in percent of beginning-of-period broad money)								
Money and credit [1]									
Net foreign assets	-2.1	-5.3	0.1	-0.2	...	...	...	...	...
Net domestic assets	11.9	15.8	14.6	17.2	...	...	...	...	...
Broad money	9.8	10.5	14.6	17.0	...	...	...	...	...
Credit to the private sector	12.9	16.4	14.3	14.1	12.7	13.5	11.9	13.0	13.8
	(Percent of GDP, unless otherwise indicated)								
Government financial operations [2]									
Government total revenue, excl. grants	17.5	17.8	17.8	18.2	18.5	18.7	19.1	19.4	19.7
Government expenditure	22.6	23.8	23.8	24.3	24.3	24.0	23.9	24.1	24.4
Official grants	2.6	3.0	2.7	1.4	1.8	1.9	1.8	1.7	1.9
Overall fiscal balance, incl. grants (cash basis)	-2.5	-3.0	-3.4	-4.6	-4.0	-3.4	-3.0	-2.9	-2.8
Basic fiscal balance, incl. grants & HIPC	-1.6	-1.4	-1.5	-0.6	-0.4	0.1	0.4	0.3	0.3
External sector									
Exports of goods and services [3]	26.6	24.3	24.4	25.1	22.7	22.2	22.0	21.6	21.3
Imports of goods and services [3]	34.5	35.6	35.7	33.6	31.3	31.2	31.2	30.8	30.3
Current account, excl. grants [4]	-7.3	-9.2	-8.9	-8.3	-8.3	-8.7	-8.8	-8.7	-8.4
Current account, incl. grants [4]	-6.0	-6.8	-6.1	-5.6	-5.8	-6.2	-6.4	-6.4	-6.3
External public debt	24.6	24.7	25.2	30.4	30.3	29.7	29.1	28.7	28.3
Total public debt	36.5	37.3	38.9	44.7	45.3	44.3	43.2	42.0	41.3
Broad money	27.7	28.7	30.5	31.3	...	...	...	...	...
Memorandum items:									
Nominal GDP (billions of CFA francs)	43,380	46,234	49,215	53,150	57,622	62,513	67,927	73,768	80,094
Nominal GDP per capita (US dollars)	837	896	928	814	843	895	946	1,003	1,063
CFA franc per US dollars, average	511	494	494	591	...	...	...	...	...
Foreign exchange cover ratio [5]	98.4	84.0	77.0	79.2	...	...	...	...	...
Reserves in months of imports (excl. intra-WAEMU imports)	5.1	4.5	4.7	5.0	4.8	4.8	4.9	4.9	5.0

Sources: IMF, African Department database; World Economic Outlook; IMF staff estimates.

[1] Year on year change, end December; for 2014 year on year change, end November.

[2] Fiscal data for 2014 reflect a strong increase in the fiscal deficit of Niger, following a new project in the hydrocarbon sector.

[3] Excluding intraregional trade.

[4] Data up to 2011 are corrected for intraregional trade discrepancies by BCEAO.

[5] Gross official reserves divided by short-term domestic liabilities (IMF definition).

INTERNATIONAL MONETARY FUND

WEST AFRICAN ECONOMIC AND MONETARY UNION

STAFF REPORT ON COMMON POLICIES OF MEMBER COUNTRIES

March 3, 2016

KEY ISSUES

Context. The region continues to experience strong growth in 2015, and the immediate outlook is positive. Inflation is projected to remain low, reflecting the exchange rate peg and positive terms of trade developments. However, risks are on the downside. In the short term, security risks remain high. In the medium term, weaker trading partner growth, tighter global financial conditions, sluggish structural reforms, and difficulties delivering on the planned fiscal consolidation could weaken growth prospects.

Policy recommendations. The challenge is to sustain the growth momentum while preserving internal and external stability in an uncertain global landscape.

- **Fiscal policy.** Pursuing fiscal consolidation while meeting development needs will require steadfast implementation of reforms to increase domestic revenue, rationalize current spending, improve public financial management, increase public investment efficiency and further strengthen debt management.

- **Monetary policy.** Macroeconomic conditions do not warrant a tightening of monetary policy. Action is needed, however, to enhance monetary transmission mechanisms. This will require improving liquidity management, deepening financial markets, and strengthening market-based operations.

- **Financial sector.** The authorities should pursue the reform agenda to strengthen risk-based supervision, align prudential limits with international standards and best practices, and avoid regulatory forbearance. Financial deepening will also be critical.

- **Competitiveness, diversification, and inclusion.** Strong resolve is needed to move ahead with long-awaited structural reforms to boost competitiveness and diversification, improve the business environment and enhance inclusion.

Approved By
Roger Nord and Peter Allum

Discussions were held in Abidjan, Lomé, and Dakar during January 18-28. The staff team comprised Mr. Loko (head), Messrs. Barhoumi and Gijon, Ms. Yontcheva (all AFR), Mr. Awad (MCM), and Mr. Flanchec (AFRITAC West) and Ms. Zdzienicka (SPR). The mission was assisted by Ms. Feler (resident representative). Other contributors included Mr. Klos and Ms. Ourigou.

WAEMU countries are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. They share the same currency, the CFA franc, which is pegged to the euro.

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TABLES

CONTEXT

1. **Economic growth has been strong in recent years, but reforms to sustain momentum and make it more inclusive have been sluggish.** The region's recent period of high growth benefitted from a post-conflict catch-up effect in Cote d'Ivoire and from scaled-up infrastructure investment in the region. However, the business environment remains unattractive, competitiveness is weak, and structural transformation and economic diversification have been modest. Poverty, unemployment, and income and gender inequalities remain high (Figure 1).

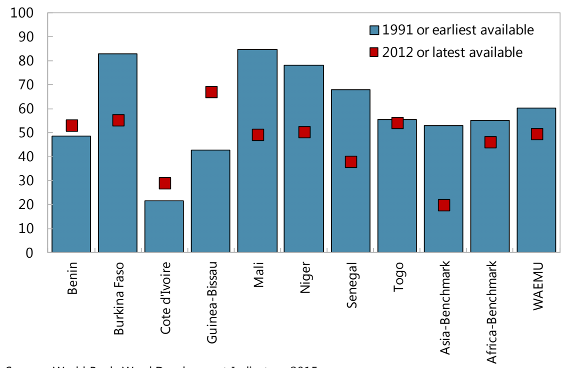
2. **The security situation remains fragile.** As illustrated by the recent terrorist attacks in Burkina Faso and Mali, terrorist activities remain a major challenge in the region.

3. **Implementation of the 2015 Article IV consultation recommendations by the regional authorities has been good but action at the national level sluggish.** The BCEAO and the Banking Commission have made progress in modernizing the financial sector and strengthening the regulatory framework. Key reforms include raising the minimum share capital for credit institutions, accelerating the pace of the transposition of Basel II and III norms into the regulatory framework, promoting the establishment of credit bureaus, and putting in place a bank crisis resolution mechanism and a deposit guarantee fund. The BCEAO and the Banking Commission have also enhanced the supervision of cross-border banks, notably through the organization of supervisory colleges for the two WAEMU-based pan-African banks. Efforts have also been made to further develop financial markets to strengthen the transmission mechanism of monetary policy. The WAEMU Commission has continued to help countries transpose and implement the WAEMU directives. However, at the national level, while some efforts have been made to improve the business climate, there was no progress on fiscal consolidation. Budget deficits have increased from 3.4 percent of GDP in 2014 to 4.6 percent in 2015 with deficits falling in only two out of eight WAEMU member states.

Figure 1. WAEMU: Trends in Poverty and Inequality[1]

Extreme Poverty has declined in most WAEMU countries, but remains above Asian and African benchmarks…

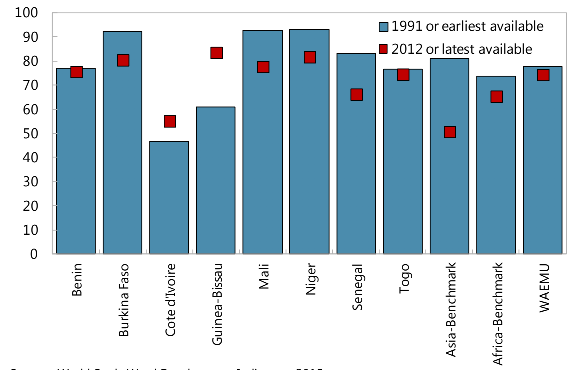
Poverty headcount ratio at $1.90 a day (2011 PPP), 1990-2012
(in Percent of Total Population)



Sources: World Bank, Word Development Indicators, 2015

…with a similar pattern for the ratio of the population living for less than US$ 3.10 (PPP) a day.

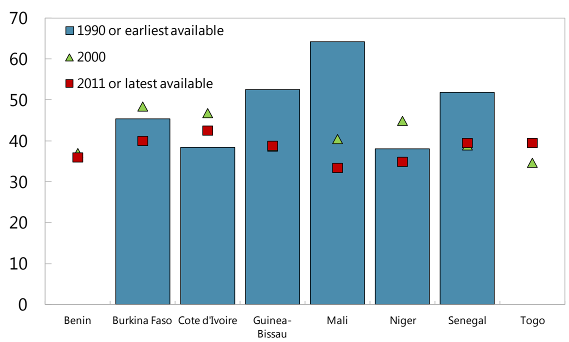
Poverty headcount ratio at $3.10 a day (2011 PPP), 1990-2012
(in Percent of Total Population)



Sources: World Bank, Word Development Indicators, 2015

Net income inequality appears to have also declined in most cases.

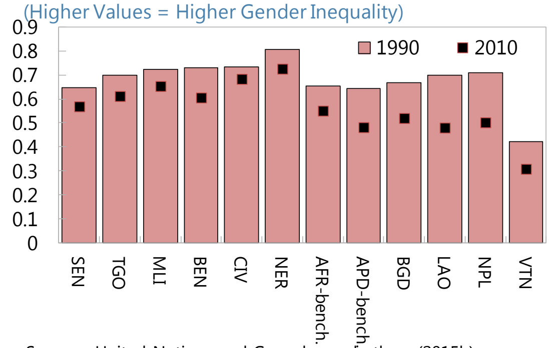
GINI Coefficient of Inequality
(Higher values reflect more inequality)



Sources: Source: Solt, Frederick. 2014. "The Standardized World Income Inequality Database." Working paper. SWIID Version 5.0, October 2014

Gender inequality has declined more slowly compared to benchmark countries, and remain high,

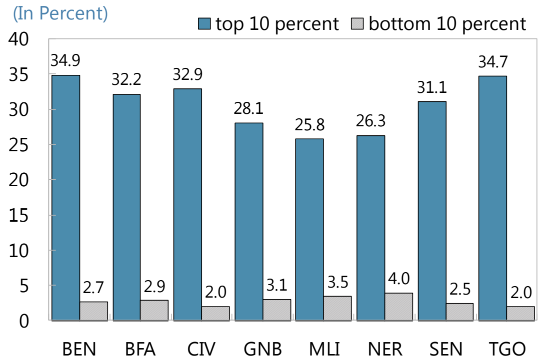
Gender Inequality Index
(Higher Values = Higher Gender Inequality)



Sources: United Nations and Gonzales and others (2015b)

The 10 percent of people at the bottom of the income distribution earn only 2 to 4 percent of total income…

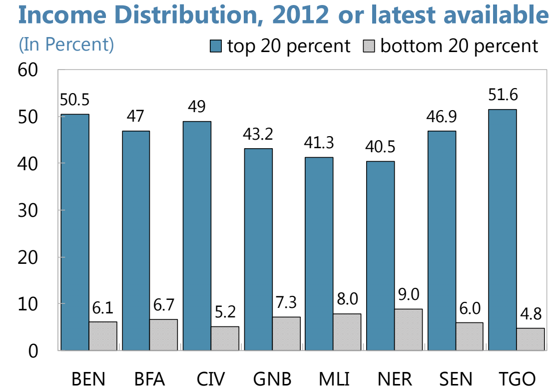
Income Share by of Top and Bottom of the Income Distribution, 2012 or latest available
(In Percent)



Sources: World Bank, World Development Indicators

…while the 20 percent with highest incomes earn more than half of total income in some countries.

Income Share by of Top and Bottom of the Income Distribution, 2012 or latest available
(In Percent)



Sources: World Bank, World Development Indicators

1/Prepared by Stefan Klos and Monique Newiak

RECENT ECONOMIC DEVELOPMENTS, OUTLOOK AND RISKS

A. Recent Developments

4. **Growth remains robust and inflation subdued.** While average economic growth in Sub-Saharan Africa has been slower than expected, reflecting weak commodity prices and difficult financing conditions, economic activity in the WAEMU remained strong. Regional real GDP growth is estimated to have reached 6.4 percent in 2015, driven by ongoing infrastructure investments, solid private consumption, and favorable agricultural campaigns. Inflation remained subdued reflecting the exchange rate anchor and positive terms of trade developments.

5. **The fiscal deficit widened further**. The overall fiscal deficit has largely been driven by ongoing large public investment programs. It is estimated to have reached 4.6 percent of GDP in 2015 up from 3.4 percent in 2014. This deterioration brings the regional deficit more than 2 percentage points higher than the average of the last 10 years.

6. **The current account deficit remains large in spite of lower energy prices.** The drop in oil prices has lightened the energy bills for all WAEMU countries while cocoa and groundnut prices have remained buoyant, thereby improving the trade balance, notably of Cote d'Ivoire, the largest economy in the region. However, the surge of imports, associated with public investment and private consumption has partly offset the impact of lower energy bills. Thus, the region's overall current account deficit has improved somewhat from 6.1 to 5.6 percent of regional GDP. Gross international reserves (GIR) have slightly increased, supported by a stricter implementation of the obligation to repatriate export receipts (Figure 2). The net foreign asset (NFA) position of commercial banks, however, has continued to deteriorate. This appears to reflect commercial bank sales of foreign currency to meet client needs, exceeding corresponding purchases from WAEMU central banks or from exporters.

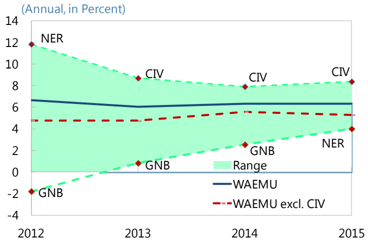
7. **The external position is sustainable but vulnerabilities remain.** Model-based assessments indicate that the current account and real effective exchange rate are broadly in line with fundamentals. Regional reserve coverage, even after assuming that BCEAO reserves would be used to replenish commercial banks' NFA drawing, remains adequate —provided the current account deficit stabilizes over the medium term (Text Table 1)— according to traditional metrics and under the zone's monetary arrangement with France.[1]

[1] The arrangement with France provides an operation account on which the BCEAO can draw in case of reserve shortage – a mechanism akin to an overdraft possibility. However, in exchange of the French guaranteeing of the CFA Franc peg to the Euro, BCEAO countries must hold 50 percent of their exchange reserves at the French Treasury, and 20 percent of the BCEAO liabilities must be covered by foreign reserves.

Figure 2. WAEMU: Recent Economic Developments

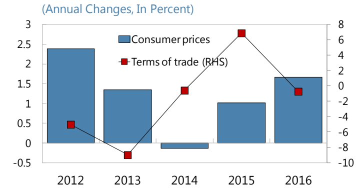
Growth is estimated to have remained strong in 2015,

Real GDP Growth, 2012-2015
(Annual, in Percent)



... with favorable terms of trade, and low inflation

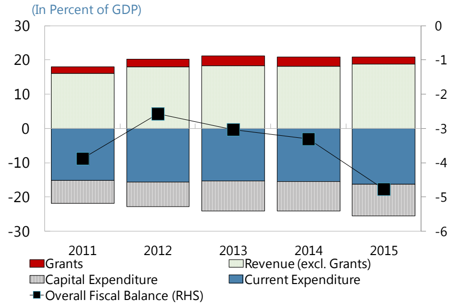
Inflation and Terms of Trade
(Annual Changes, In Percent)



*Excl. food and energy. 2014 underlying inflation number refers to October 2014
Sources: BCEAO and IMF staff projections.

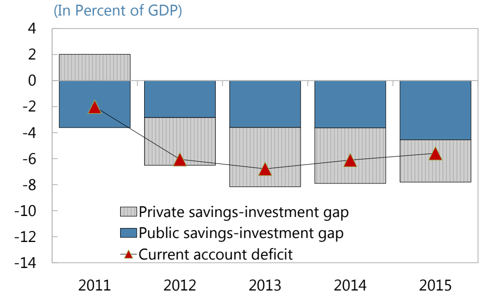
The fiscal deficit widened in 2015, reflecting ongoing capital expenditures, ...

Overall Fiscal Balance and Components, 2011-2015
(In Percent of GDP)



... the current account deficit remains large, owing to both, the public and private sector...

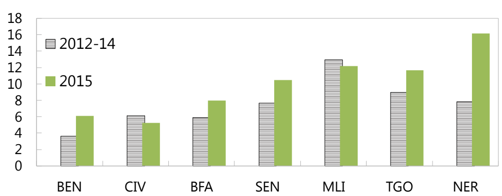
Drivers of the Current Account
(In Percent of GDP)



*2011: Crisis in Côte d'Ivoire.

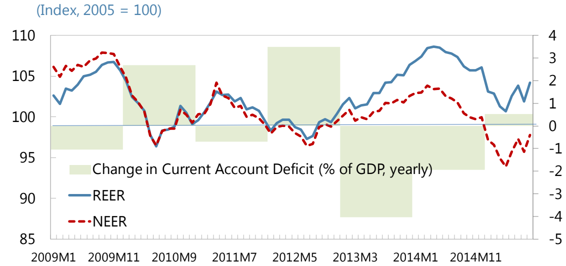
Capital goods imports rose in most countries....

3.Capital Imports
(In Percent of GDP)



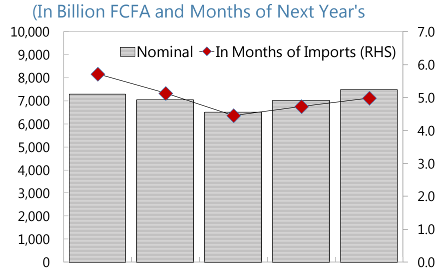
...while terms of trade have become more favorable.

4.Real and Nominal Effective Exchange Rates
(Index, 2005 = 100)



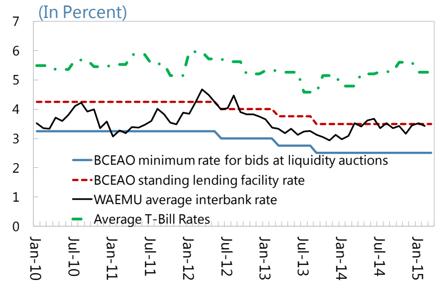
... and the reserve coverage increased slightly.

Gross International Reserves
(In Billion FCFA and Months of Next Year's



The monetary policy stance has remained accommodative

Interest Rates
(In Percent)



Sources: BCEAO

Box 1. WAEMU: External Stability Assessment and Competitiveness

The WAEMU external position remains stable. The regional current account deficit is estimated to have improved moderately in 2015. Contingent on fiscal consolidation and rising exports, the current account balance is expected to stabilize at above 6 percent of GDP and be fully financed over the projection period. Reserves coverage remains broadly adequate according to traditional metrics. EBA-based analyses ("EBA-lite") suggest that the real effective exchange rate (REER) remains broadly in line with fundamentals. Survey-based indicators of structural competitiveness show improvement, but indicate significant structural bottlenecks.

BOP developments. The regional current account deficit (including grants) has continued to decrease from 6.1 percent of GDP in 2014 to at 5.6 percent of GDP in 2015 reflecting more favorable terms of trade. Current and capital transfers have declined slighly by about about 0.2 percentage point to about 5.5 and 1.7 percent of GDP, respectively. The current account deficit is expected to increase to 6.4 percent of GDP in 2018, owing to important investment-related imports, and remain at this level over the medium term. FDI and capital transfers are expected to remain the main source of external financing.

Exchange rate assessment. The External Balance Assessment[1] (EBA-lite)[2/] provides a current account benchmark based on the WAEMU's fundamentals relative to the rest of the world adjusted by a policy gap (the region's policies relative to an optimal level and relative to the rest of the world). Results do not indicate significant misalignments of the real effective exchange rate for the region. The results suggest that the real effective exchange rate overvaluation ranges between 0.7 and 5.3 percent, which means that the real exchange rate can be considered as broadly in line with the region's fundamentals given the margins of uncertainty of such estimations.

Summary: Real Effective Exchange Rate Assessment

	Current Account/GDP		REER1
	Norm	Underlying 2,3	
EBA -lite			
Macrobalance	-5.3	-5.6	0.7
Equilibrium real exchange rate	...	...	5.3
External sustainability	-4.9	-6.3	3.3

1 "+" overvaluated
2 short term incl. grant
3 External sustainability, the current account balance at end-projection

Reserve adequacy. Regional gross international reserves increased in CFAF terms from 7,033 billion (US$14.2 billion) at end 2014 to 7,487 billion (US$11.7 billion) at end 2015 covering 4.5 months of extra-regional imports, about 63 percent of the regional broad money, and 80 percent of short-term debt. Reserve coverage is projected to stabilize at around 5 months of extra-regional imports over the medium term. The level of reserve is broadly adequate according to traditional metrics.

Competitiveness. Despite progress, competitiveness remains weak and has deteriorated since 2004 (Figure 3.4, page [22]); the region continues to lag behind its African and Asian benchmark countries (such as Ghana, Rwanda, and Tanzania—Figures 3.1-3.3) in terms of structural competitiveness. To sustain growth, the region will need to integrate into and move up the global value chains. Necessary reforms include improving investment efficiency to ensure that infrastructures are productivity-enhancing and strengthening the business climate. In particular, difficulties in registering property, dealing with construction permits, getting credit and electricity, paying taxes, and protecting minority investors pose particular challenges to firms and result in higher relative prices of WAEMU products.

1/ Phillips S. et al., 2013. "The External Balance Assessment (EBA) Methodology." IMF Working paper, 13/272
2/ IMF, 2016. "Methodological Note on EBA-lite" (forthcoming)

B. Outlook and Risks

8. The outlook remains positive (Text Table 1). Over the projection period, growth should remain above 6 percent, owing to continued strong domestic demand and stronger agricultural production. Meanwhile, inflation is expected to remain subdued over the medium term. The overall fiscal deficit should gradually decrease while total public debt is projected to stabilize at moderate levels (about 40 percent of GDP). The current account deficit (including grants) would stabilize slightly above 6 percent of GDP over the medium term because of fiscal consolidation and rising exports. FDI and capital transfers are expected to remain the main source of external financing. Reserve coverage would remain stable.

Text Table 1. WAEMU: Selected Macroeconomic Indicators; 2014–20

	2013	2014	2015 (est.)	2016	2017	2018 (proj.)	2019	2020
Output								
Real GDP growth (%)	6.0	6.3	6.3	6.3	6.6	6.6	6.5	6.4
Prices								
Inflation (average, %)	1.3	-0.1	1.0	1.7	1.8	1.9	2.0	2.0
Central government finances								
Overall balance incl. grants (% GDP)	-3.0	-3.4	-4.6	-4.0	-3.4	-3.0	-2.9	-2.8
Public debt (% GDP)	37.3	38.9	44.7	45.3	44.3	43.2	42.0	41.3
Balance of payments								
Current account (% GDP)	-6.8	-6.1	-5.6	-5.8	-6.2	-6.4	-6.4	-6.3
Reserves (months imports)	4.5	4.7	5.0	4.8	4.8	4.9	4.9	5.0

9. The outlook is subject to significant downside risks.

- The projected economic growth assumes the realization of reforms to spur private investment. In particular, growth in most WAEMU countries anticipates progress in the efficiency of infrastructure investment, reforms of the energy sector, a more inclusive financial sector, and improvements in the business climate. If structural reforms fail to materialize, growth prospects could falter.

- Fiscal consolidation is required to maintain macroeconomic stability and thus the sustainability of the currency peg.

- Security-related risks remain high in several countries. Islamist groups remain active in Mali and Niger with potential spillovers to neighboring countries. Beyond the immediate human toll, security issues would affect economic activity, strain budgets and undermine foreign investment to the region.

- On the external side, a further slowdown in global growth, and/or tighter global financial conditions, could affect macro-fiscal stability, foreign direct investment, and other external flows (Box 2). Lower cocoa and groundnut prices would also adversely affect exports. Overall, external growth shocks could reduce WAEMU growth by up to 1.5 percentage point (see Table 9 WAEMU Risk Assessment Matrix).

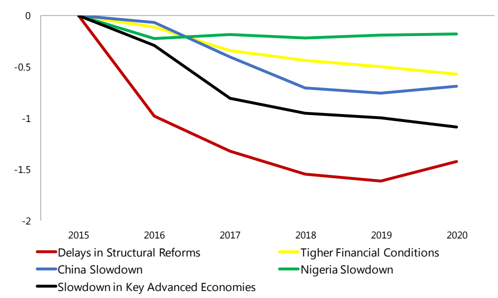
Box 2. WAEMU: Risks for the Regional Economic Outlook

We estimate the possible effects of identified domestic and external downside risks on the WAEMU outlook (See companion Selected Issues Paper). First, we simulate the impact of (i) country-specific delays in structural reforms and (ii) tighter or more volatile global conditions which would result in higher financing costs for governments and (iii) we model the impact of a growth slowdown in key advanced economies, China, and Nigeria. Results show that the materialization of these risks would reduce real aggregate WAEMU GDP growth by up to 1.5 percentage points through different channels.

- **Delays in structural reforms.** For most WAEMU countries, growth projections under the baseline scenario assume the realization of growth-enhancing structural reforms including improvements in PFM, better incentives for private sector activity, higher investment efficiency etc. Country assessments of a delay in those reforms show substantially lower domestic investment growth coupled with less external financing, reflecting mainly a significant reduction in private and foreign investment due to a less favorable business climate. This scenario would result in a lower WAEMU economic growth by about 1–1.5 percentage points compared to the baseline scenario.

- **Tighter global and, therefore, regional financing conditions in 2016–17.** While regional exposure to global financial markets remains limited, increased financing costs could affect the region through higher regional risks premia and availability of external and regional financing. Overall, WAEMU growth could be reduced by about 0.6 percentage points compared to the baseline scenario, owing to lower private investment.

Impact of Shock Scenarios on WAEMU Growth
(percentage point deviation from the baseline)



- ***Lower growth in key advanced economies*.** Result show that a 1-percentage point lower growth in key advanced economies would reduce WAEMU real GDP by about 0.8 percent after two years and about 1 percent at the peak after five years.

- ***Lower growth in China.*** A slowdown in China would directly affect regional exports and investment flows. WAEMU countries could also be affected through cross-border spillovers from the Euro area and other emerging market partners. A 1-percentage point lower growth in China would lower WAEMU real GDP by about 0.5 percent in the short term. It is worth noting that the effects of a lower growth in China have increased over time, and also become more heterogeneous across all countries. Finally, lower growth, driven by a slowdown in the manufacturing sector has significant spillover effects suggesting a potential important role of China rebalancing process on the region.

- ***Lower growth in Nigeria.*** Spillovers from Nigeria are the lowest: a 1-percentage point lower growth in Nigeria would reduce WAEMU real GDP by only 0.2 percent after 3-4 years.

Aggregate numbers hide diverse situations across countries: the impact of shocks is larger in countries with higher trade openness (Benin, Senegal, and Burkina Faso) and benefitting from higher investment levels from China (Niger and Togo). Transit and informal trade are major spillover channels of regional shocks (Benin, Togo) while regional linkages increase through rapidly growing cross-border banks.

Authorities' views

10. The authorities broadly agreed with staff views on the outlook and risks. They pointed out that adverse weather conditions could also lower agricultural production and heighten food security risks. Adverse weather could also negate at least partially the recent improvement in value added in this sector.

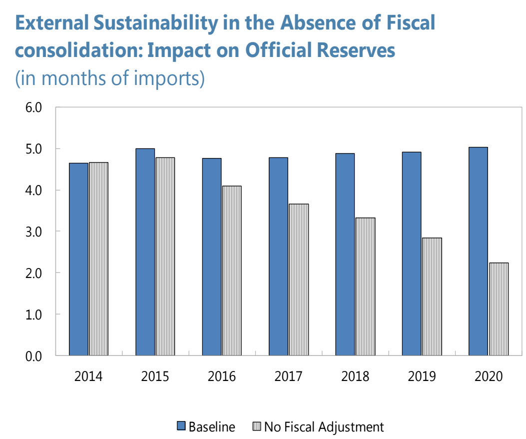
ADOPTING A POLICY MIX TO SUPPORT STABILITY AND GROWTH

A. Implementing Fiscal Consolidation Plans

Maintaining the growth momentum while preserving external stability and debt sustainability will require a timely and effective implementation of the planned fiscal consolidation at the national level. In that context, efforts should focus on increasing domestic fiscal revenue mobilization, enhancing the efficiency of spending and improving the quality of public investment.

11. Current national fiscal plans imply gradual fiscal consolidation over the medium-term. Fiscal deficits would decline gradually from about 4.6 percent of GDP in 2015 to below 3 percent in 2020. Domestic revenues would reach almost 20 percent in 2020 from 18.2 percent in 2015. At the same time, current spending would decrease from 15.4 to 14.8 percent while capital spending would stay at about 9 percent.

Text Figure 1. WAEMU: External Sustainability in the Absence of Fiscal Consolidation: Impact on Official Reserves



12. Prudent fiscal policy is required to preserve external stability and debt sustainability. Current projections suggest that two countries will continue to breach the 3 percent of GDP new regional convergence criterion for the fiscal deficit by 2019.[2] Notwithstanding these breaches, the planned consolidation path is estimated to be consistent with prudent growth of regional monetary and credit aggregates and BCEAO reserve cover of around 5 months of imports at end-2020. However, the scope for further fiscal slippage is limited. Continuing fiscal expansion at the 2008–2013 level could erode BCEAO reserve cover to just 2 months of import cover by 2020. In addition, tighter global financial conditions constitute a source of vulnerability because they could limit sovereign bond access. If regional bank financing is used as an alternative, this could erode BCEAO reserve cover or crowd-out private investment.

[2] On January 2015, the WAEMU Heads of States adopted a new set of convergence criteria to be met by 2019.

Text Table 2. WAEMU: Number of Countries Violating Convergence Criteria, 2011—2020

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
					Est.					Proj.
First-order criteria										
Overall Balance/GDP (≥ - 3 percent)	4	2	3	4	5	5	5	3	2	2
Average consumer price inflation (≤ 3 percent)	5	3	0	0	0	0	0	0	0	0
Total debt/GDP (≤ 70 percent)	0	0	0	0	0	0	0	0	0	0
Second-order criteria										
Wages and salaries/tax revenue (≤ 35 percent)	5	6	5	5	6	5	5	5	5	5
Tax revenue/GDP (≥ 20 percent)	8	8	8	8	8	8	8	8	8	7

Sources: WAEMU; Central Bank of West African States (BCEAO); and staff estimates and projections.

Staff's advice

13. Increasing domestic revenue should be a foremost policy priority to create fiscal space for development needs. WAEMU countries have significant room to improve domestic tax collection (including income tax) by 0.8 up to 2 percent of GDP, by broadening the tax base and strengthening tax administration. In particular, eliminating the exemptions for VAT not included in the WAEMU code and increasing the excise tax rate for products, such as tobacco and luxury goods, in line with WAEMU directives would be beneficial. Staff encouraged the WAEMU Commission to continue, with the help of development partners, promoting and sharing best practices through regional seminars and technical assistance.

14. Better control and allocation of current spending will also help create additional fiscal space. This will require strong resolve to contain the wage bill, in line with the WAEMU convergence criteria, reduce non-priority spending and lower inefficient subsidies. Social spending and capital expenditure should be safeguarded to support diversification, boost competitiveness, and increase growth and inclusiveness.

15. The WAEMU Commission should encourage countries to transpose the new convergence criterion in national laws and accelerate progress toward the 2019 target. Whilst the current fiscal consolidation path preserves external stability and debt sustainability, the WAEMU Commission may want to coordinate efforts of national Governments and seek support from partners to ensure that the eight members follow their planned fiscal consolidation paths and respect the convergence criteria. In addition to providing credibility for recently made rules, this adjustment would provide additional buffers against negative shocks if the various risks materialize.

16. Improving public investment efficiency can help boost growth and speed up progress in realizing the development agenda. There is substantial room to improve public investment efficiency in WAEMU, in particular by enhancing the quality of institutions. The WAEMU Commission should urge the governments not only to transpose but also to implement the WAEMU directives modernizing their PFM framework, which could help countries strengthen the key stages of public investment cycle and translate their ambitious public investment plans into outcomes that will boost growth. In addition, closer collaboration between the WAEMU Commission and development partners is needed to support, develop and spread best practices in public investment and PPPs. Finally, the WAEMU Commission and the BCEAO should help member countries further strengthen their public debt management capacities to enhance and diversify their debt policies.

Authorities' views

17. The WAEMU Commission and the BCEAO agreed with IMF staff on the need for fiscal consolidation and improved PFM practices. They agreed with IMF staff view that countries should adhere to their budget deficit reduction plans while closing the infrastructure gap. In this context, the WAEMU Commission will continue to help countries step up efforts to enhance domestic revenue mobilization, rationalize current expenditure, and improve public finance management and the quality of spending. However, both the BCEAO and the WAEMU Commission pointed out that they do not have the mandate to enforce fiscal consolidation plans and noted that Fund monitored programs can play an important role in ensuring the zone's macroeconomic consistency. Going forward, reinforcing the mandate of the WAEMU Commission and strengthening its capacity to monitor and coordinate national fiscal policies will be needed. The BCEAO and the WAEMU Commission agreed that strengthening regional institutions should be a priority. The WAEMU Commission pointed to an ongoing study (requested by the Heads of States in January 2015) that aimed at making recommendations to strengthen the current regional institutions.

B. Enhancing Regional Monetary Policy

The current stance of monetary policy is appropriate and the current environment is propitious to developing the policy tools that may be needed if shocks disturb the economic landscape. Raising monetary policy effectiveness requires developing an active interbank market and secondary market for public securities, better controlling liquidity and the access of commercial banks to BCEAO refinancing, and broadening of the financial market investor base

18. In view of the benign inflation outlook and external developments, an immediate tightening of monetary policy is not warranted.[3] Inflation is expected to remain well below the 3 percent criterion, reserves are projected to remain stable, and the external stability assessment suggests that the exchange rate is broadly in line with fundamentals.

19. Some progress has been made in improving the operational efficiency of the monetary policy. For example, the recent launching of an electronic platform to computerize liquidity injections and absorptions, auctioning of government securities, and monitoring banks' compliance with the established reserve requirements is welcome. The authorities have also (i) created WAMU-Securities Agency –a regional issuance agency for public debt; (ii) launched a new

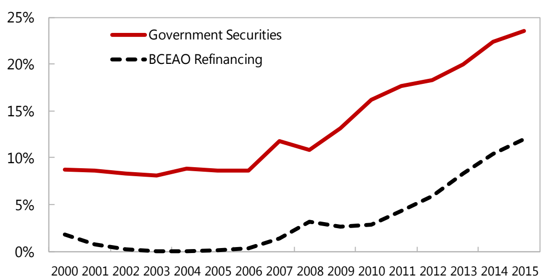
[3] The monetary policy of the BCEAO pursues two objectives;(i) price stability and (ii) sound and sustainable growth.

repo agreement, (iii) established a regional network of brokers specialized in government securities.

20. Nevertheless, the efficiency of monetary policy remains undermined by excess liquidity, low depth and segmentation of the interbank market. A persistent surplus of liquidity in the banking sector continues to pose challenges for the effective conduct of monetary policy in the region. As the WAEMU banking system is highly heterogeneous and segmented and there are no collateralized operations, even highly liquid banks are reluctant to lend to others.[4] Most interbank loans take place within banking groups, to avoid any counterparty risk. [5] The increasing reliance on liquidity provision to commercial banks may hamper the development of the interbank market, and expose banks to potential interest and liquidity risks.

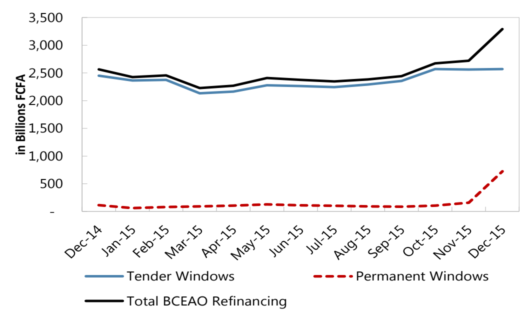
Text Table 3. WAEMU Commercial Banks and Central Bank Refinancing

Outstanding Borrowing from the Central Bank and Holdings of Government Securities
(Percent of Commercial Bank Assets)



Source: BCEAO

Evolution of Refinancing



21. The secondary market of government securities remains underdeveloped. Two decades after its creation, the regional securities' market remains underdeveloped. Despite some diversification, it remains dominated by short-term government papers and is regionally concentrated among local players. The bulk of investors in WAEMU sovereign regional debt markets are still resident commercial banks. The secondary market remains quasi-inexistent and foreign participation marginal. Lack of appetite from foreign investors may be explained by relatively low volumes, lack of country and maturity differentiation and a flat yield curve. Reforms are underway but progress is slow.

[4] A relatively narrow group of banks holds most excess liquidity in the region and they cannot use it to buy government securities because most of them have already reached the internal statutory ceilings on country-specific exposures imposed by their headquarters

[5] IMF Country Report No. 13/92, Staff Report On Common Policies For Member Countries: Supplement-Financial Depth And Macrostability

Box 3: WAEMU's Regional Securities Market: Where Do We Stand?

The WAEMU securities market was launched in 1998 to facilitate cross regional funding for governments while reducing transaction costs through harmonized issuance procedures. It was planned to help WAEMU countries find stable new sources of financing as the BCEAO phased out statutory advances.

The securities' market has not developed as much as policy makers expected. The market was expected to increase financial intermediation and help spur public and private long term investment through the deepening of the regional financial market. So far, the securities' market has succeeded in providing short-term financing to governments but deepening has been slow.

Debt securities remain the prevailing instrument in the market. The regional market offers stocks by listed companies, corporate bills and bonds by WAEMU companies, regional bills issued by regional institutions, kola bills by non-WAEMU institutions (IFC, AFD) but the bulk of the transaction are T-bills (government papers shorter than 24 months) and T-bonds (2 to 7 years maturities). In 2014, more than 90 percent of securities were issued by WAEMU treasuries.

The government securities market expanded rapidly albeit from a very low base. The total amount of T-bills and T-bonds rose from 75 billion in 2001 to 1.5 trillion CFAF in 2014. Nonetheless, on average over the last decade the issued government paper represented less than 20 percent of WAEMU countries' total financing.

Short-term borrowing remains predominant but maturities have expanded in recent years. T-bills still make for more than half of the issuances in 2014 but bond issuance are slowly catching up (Figure 1). The shorter maturity papers benefit from a regulatory advantage. Commercial bank holdings of T-bills bear a zero-weight in the calculation of the capital adequacy ratio and can be used for refinancing at the central banks.

The market shows a significant regional concentration. On the issuers' side, Cote d'Ivoire and Senegal issue more than half of the total amount of T-bills traded. On the buyers' side, financial institutions from Cote d'Ivoire, Senegal, Burkina Faso and Mali bought 75 percent of the securities.

Foreign participation remains marginal. In spite of the peg to the euro, net portfolio inflows are very limited, averaging about 200 CFAF billion in the past decade.

Trading on the secondary market remains extremely limited. Abundant liquidity in the financial system and the spread between the refinancing operations at the central banks and sovereign securities encourage banks to hold to maturity. Moreover, maturity is on average very short. Banks that need liquidity refinance at the central bank. The lack of long-term investors such as pension funds and social security bodies reduces trade opportunities in the secondary market.

Staff's advice

22. The BCEAO should accelerate the implementation of ongoing financial market reforms to improve monetary policy effectiveness. Efforts are needed to develop further interbank, secondary debt, stock, and other financial markets by introducing the adequate infrastructure and collateral procedures, and instilling mutual confidence in market participants. Priorities in 2016 include (i) finalizing the licensing of primary dealers in government securities to activate the secondary market for government paper; and (ii) adopting measures to help diversify the investor base. Steps to make government paper more attractive for other institutional investors such as pension and insurance funds and for international investors include (i) the establishment of individual ratings for all member states; (ii) the regular listing of the securities; (iii) better dissemination of statistical information; and (iv) the elimination of WAEMU tax distortions discriminating against non-resident investors. Other supporting steps include the establishment of an interbank reference rate and an interest rate curve. These reforms, coupled with concrete progress to strengthen financial stability and (as noted in staff recommendations in the next section of this report), will help activate interbank market operations.

23. The BCEAO should gradually reduce its refinancing operations to commercial banks and maintain an adequate calibration of liquidity injections. Gradual reduction in refinancing operations would also help strengthen monetary policy effectiveness. In that context, the BCEAO should ensure strict compliance with the existing statutory refinancing ceiling for countries and banks.[6]

Authorities' views

24. The BCEAO broadly agreed with staff on the need for strengthening the effectiveness of monetary policy. In particularly, they concurred with staff on the need to boost the interbank market and the secondary market of government securities. They felt that the alignment of prudential regulations with international standards, including the introduction of the financial leverage ratio, should restore confidence in the interbank market and lead to lower levels of BCEAO refinancing and expand the financial markets' investor base.

25. The authorities noted that failures in the interbank market led to resumption of BCEAO's open market operations. They underscored the segmented nature of the banking system, indicating that institutions with excess liquidity were subsidiaries of major international banking groups which did not participate in the interbank market. Local banks on the other hand

[6] For each country, total stock of refinancing backed by public securities should not exceed 35 percent of tax revenue mobilized during the fiscal year before the last. Central Bank refinancing to a single counterparty should not exceed 35 percent of customer lending by said counterparty. At December 15, 2015, the ratio stood at 32.4 percent for the countries of the Union as a whole. It should nonetheless be highlighted that, at that same date, four of the eight member countries were in breach of the provision. Several banks have reached the ceiling and have been denied access to refinancing.

had in general liquidity needs. They also highlighted the limited activity of the interbank market despite reforms already adopted by the BCEAO, and in particular the recently introduced repo auction mechanism. They added that additional measures such as the licensing of primary dealers and principal market operators in government securities will help develop interbank market and the secondary market for government securities.

26. The BCEAO expressed some reservations about staff's recommendation to reduce its refinancing operations. The authorities argued that the disappointing performance of the interbank market justified central bank refinancing to promote lending to support regional economic activity. They underscored that the banks requesting access to central bank liquidities were those providing the larger volume of loans to the private sector. Consequently, they are concerned that a withdrawal of BCEAO's refinancing at this stage could curtail financing to the private sector and weight on economic activity. The BCEAO underlined that, over time, fiscal consolidation and measures to increase repatriation of export proceeds will reduce the need for central bank refinancing.

27. Nevertheless, the BCEAO is watching closely the evolution of refinancing and risk stemming from excessive exposure to government securities. In this context, they have reduced short term liquidity injections in the last quarter of 2015. Consequently, the refinancing average rate has increased from the lower bound of the corridor (2.5 percent) to a level close to the upper bound (3.5 percent). The BCEAO is also monitoring closely potential liquidity and interest rate risks to banks. Staff and authorities concurred that additional work is needed to explore options to better control central bank refinancing operations and analyze the implications for banking risks.

ENHANCING FINANCIAL SECTOR STABILITY AND FINANCIAL INCLUSION

The banking sector is vulnerable to credit and operational risks. The authorities should move ahead in enacting the planned regulatory reforms and improve further supervisory processes and the enforcement of existing prudential norms. Reforms to boost financial inclusion should focus on improving the business climate and financial environment to facilitate access to finance for households and SMEs.

A. Strengthening the Financial Sector

28. The authorities are making important progress in modernizing the financial sector and strengthening the regulatory framework. Reforms include: (i) adopting the increase in the banks' minimum share capital to CFAF 10 billion effective in 2017; (ii) the adoption of the uniform regional law on credit bureaus by four Member States and progress on related operational aspects;[7] (iii) the appointment of a general manager for the newly established deposit insurance fund (hence facilitating developing its organizational structure, recruiting its personnel and rendering it operational); and (iv) the adoption of a new law on anti-money laundering and countering the financing of terrorism. Furthermore, the authorities have accelerated their efforts to align their regulations with international standards and best practices. The main regulatory changes include reinforcing the banks' capital adequacy regime and aligning it with Basel II and III framework and reducing the large exposure limit from 75 percent to 25 percent of banks' capital by 2021. The WAMU Council of Ministers has also mandated the BCEAO to establish a bank resolution framework.

29. The BCEAO has also enhanced the supervision of cross-border banks, notably pan-African banks. In line with the IMF report on cross-border oversight of pan-African banks, [8] the WAMU Banking Commission has organized supervisory colleges for the two WAEMU-based pan-African banks. The Banking Commission has also participated in supervisory colleges organized by home supervisors of Moroccan, Nigerian and Central African banking groups having subsidiaries in the region. Joint inspections have also been held with foreign supervisors. The regulatory reforms in progress also envisage subjecting parent holding companies of banks (including cross-border banks) to bank regulation and applying consolidated supervision for banking groups (including cross-border banking groups controlled by unregulated holding companies).

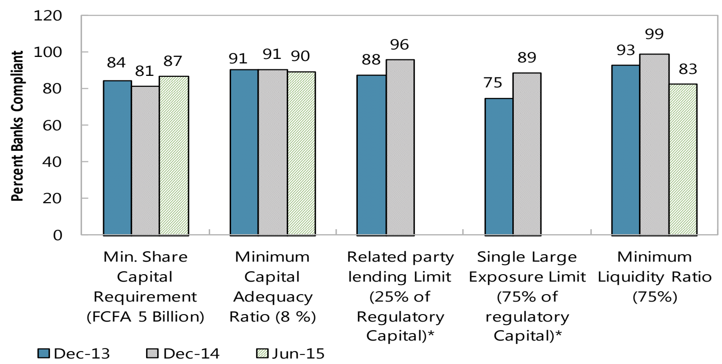
30. Notwithstanding the above, the WAEMU banking system still shows vulnerabilities and continues to be exposed to various risks. This includes primarily credit and concentration risk (large exposures). Non-performing loans remain at high levels (i.e. 15.4 percent at-end June 2015[9]) even though economic activity is buoyant. In addition, 13 percent of banks fail to comply with the minimum capital requirement of 5 billion at-end June 2015 and 10 percent of banks record negative equity. While several banks were put under close scrutiny or temporary administration by the WAMU Banking Commission, resolution of troubled banks is often delayed and challenged by national authorities. Moreover, bank lending is still hampered by poor legal and judicial processes when it comes to collateral registry and recovery and lack of information on the solvency and quality of borrowers.

[7] The common law on credit bureaus was adopted by Côte D'Ivoire, Mali, Niger and Senegal. Measures to adopt the law in other WAMU member states are underway. Main instructions on application of this common law were issued by the BCEAO. A new WAMU-level credit bureau based in Côte D'Ivoire was licensed in May 2015.

[8] Pan-African Banks : Opportunities and challenges for cross-border oversight / prepared by a staff team led by Charles Enoch et al.. – Washington, D.C. : International Monetary Fund, 2015. http://www.imf.org/external/pubs/cat/longres.aspx?sk=42781

[9] The high level of non-performing loans can be largely explained as a legacy from the past.

Text Figure 2. WAEMU: Compliance of Banks with Key Prudential Limits



* Data on compliance with the related party and the single large exposure limits are not yet available for June 2015.

Staff's advice

31. Additional efforts are needed to strengthen financial stability. Priorities include:

- Strengthening the supervisory processes: The Banking Commission needs to strengthen its supervisory tools (e.g. risk mapping, bank risk assessments and ratings, stress-tests), build its staff capacity, and bring its methodologies in line with risk-based supervision. The BCEAO and the Banking Commission should enhance the supervisory framework to allow for a more proactive and risk-based supervision, including for AML/CFT purposes, and a better enforcement of prudential limits
- Preparation for the implementation of the new regulations: in anticipation of the enactment of the new regulations, the BCEAO and the Banking Commission should build the capacity of their staff and keep an open communication with banks to ensure a smooth implementation of the new requirements and a close follow-up of banks that will not be able to comply with those requirements.
- Enforcement: The Banking Commission needs to (i) ensure strict application of the prevailing prudential rules and regulations governing banking activity and (ii) take diligent, timely, and appropriate actions to resolve the problems of troubled banks.
- Starting the operations of the deposit guarantee fund: The deposit guarantee fund needs to become fully operational and play its role of instilling confidence in the banking sector.
- Bank resolution framework: It is important to develop a resolution framework that includes a resolution authority and a resolution fund. However, WAEMU policymakers also need to make sure that the new resolution regime is in line with best practices and international standards (notably the Financial Stability Board "Key Attributes of Effective Resolution Regimes for Financial Institutions"). The resolution authority should be endowed with the necessary powers and independence and that only courts have the

right (but with non-suspensive effects) to rule on appeals against license withdrawal decisions.[10]

Authorities' Views

32. The authorities agreed with the thrust of staff views on financial stability and stressed that they will continue their reforms to upgrade financial sector regulation and supervision. They underscored that recent decisions, including the adoption of Basel II and III capital framework, will enhance the resilience of banks against potential shocks and vulnerabilities. The BCEAO also indicated that the introduction of credit bureaus and the plan to reduce large exposure limits will reduce credit and concentration risks. The BCEAO fully agreed that the resolution authority should be endowed with the necessary powers and independence. They, however, indicated that the regional legal system may not have the appropriate capacity to pronounce appeals against decisions to withdraw licenses and its shortcomings may slow down the resolution of problem banks.[11]

B. Enhancing Financial Development and Inclusion

Despite the progress made in recent years to improve financial inclusion and development, WAEMU countries still lag behind benchmark countries. Access to finance and utilization of financial services remain low especially for the most vulnerable parts of the population. Further, a new measure of financial development shows that WAEMU countries rank below benchmark countries particularly in terms of financial market development.[12]

Staff Advice

33. Additional efforts are needed to boost financial development and inclusion. The most urgent reforms should aim at (i) lowering the cost of financial services; (ii) strengthening the legal framework and judicial processes; (iii) enhancing the business environment; and (iv) improving financial literacy and financial consumer protection. The authorities are encouraged to build on the fast growing access of the population to mobile phones, to boost the development of mobile banking, while paying due consideration to financial stability, and anti-money laundering issues.

[10] It is important to note in this respect that, based on the Financial Stability Board Key attributes for effective resolution, the legislation establishing resolution regimes should not provide for judicial actions that could constrain the implementation of, or result in a reversal of, measures taken by resolution authorities acting within their legal powers and in good faith.

[11] Currently, right of appeal is given to WAMU council of ministers and not to courts.

[12] This measure is based on a new broad-based index of financial development by Svirydzenka (2016) and Sahay and others (2015). It helps benchmarking countries (like WAEMU countries) against benchmark groups according to their financial institutions and markets. For more information, refer to WAEMU – 2016 – Regional Consultation – Selected Issues.

Authorities' Views

34. Authorities agreed with the thrust of staff's recommendations and highlighted their efforts to further promote financial inclusion and deepening. They indicated that a regional financial inclusion strategy is being coordinated with national authorities. This strategy will aim to enhance access to financial services and their use. They also underlined the need to focus on more granular targets to ensure that the strategy addresses the needs of different niches of the population. They underscored the rapid development in mobile payment services, notably in Côte d'Ivoire, and stressed that their approach to promotion of these services has been accompanied by adequate regulation to limit associated financial risks.

PROMOTING COMPETITIVENESS AND INCLUSION

Promoting competitiveness and inclusion would help achieve higher and more inclusive growth.

35. Improving the business environment is urgent to boost competeveness. While estimates do not indicate significant price-competeveness issues, structural challenges remain. Survey-based indicators of structural competitiveness show improvement, but still indicate significant bottlenecks with business obstacle in registering property, dealing with construction permits, getting credit and electricity, paying taxes (Figure 3). The region's lagging infrastructure, high costs of inputs such as communication, transport and electricity and the weak business and legal environments are hampering competitiveness in the WAEMU region. Despite progress, competitiveness remains weak and has deteriorated since 2004 (Figure 3.5); the region continues to lag behind its African and Asian benchmark countries (e.g. Ghana, Rwanda, and Tanzania—Figure 3.1) regarding structural competitiveness (Figures 3.3 and 3.4). To sustain growth, the region will need to integrate into and move up the global value chains. Necessary reforms include improving investment efficiency to ensure that investment in public infrastructures is productivity-enhancing and strengthening the business climate. In particular, difficulties in registering property, dealing with construction permits, getting credit and electricity, paying taxes, and protecting minority investors pose particular challenges to firms and result in higher relative prices of WAEMU products.

36. Higher inequalities are hindering economic growth and inclusion. Progress on poverty alleviation and improving social indicators has been encouraging. The majority of WAEMU countries have succeeded in reducing extreme poverty rates[13] often from very high levels. Extreme poverty ratios in Burkina Faso, Mali, Niger and Senegal have declined by more than 25 percentage point since the early 1990s. However, while declining, poverty rate as well as income inequality and gender inequality in the region remain among the highest in the world (see figure 1 and companion Selected Issues Paper).

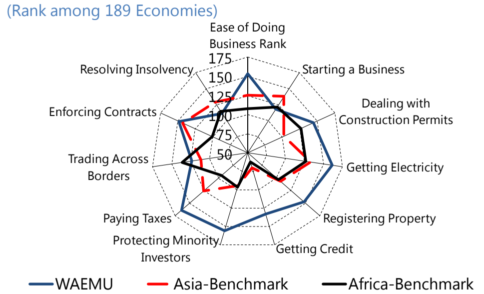
[13] Extreme poverty is defined as the ratio of the population living on less than US$ 1.90 (2011 PPP)

Figure 3. WAEMU: Structural Competitiveness

Although at a slower pace reforms have continued …

1.Ease of Doing Business 2016

(Rank among 189 Economies)

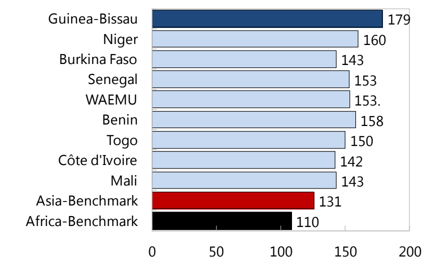


Source: World Bank, Doing Business 2016

… in most of WAEMU countries to improve…

2.Ease of Doing Business 2016

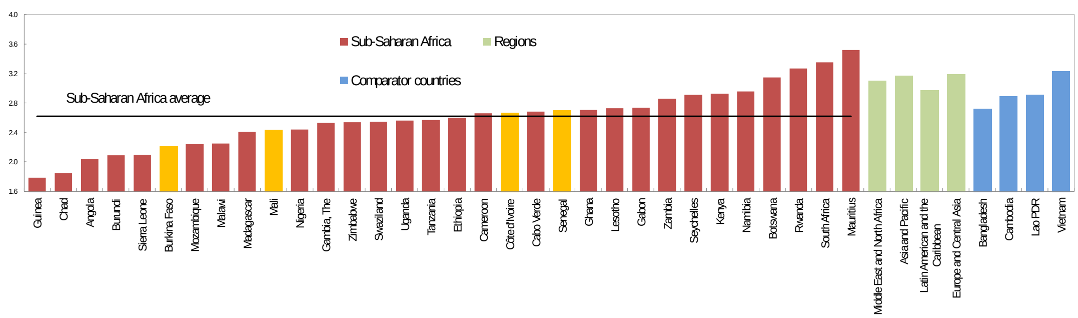
(Rank among 189 Economies)



Sources: World Bank, Doing Business 2016

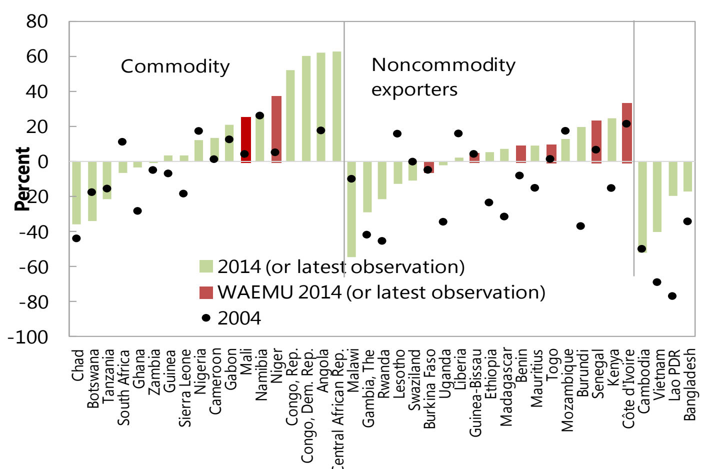
… challenging business climate. However, the region remains at a competitive disadvantage compared to the peers…

3. Sub-Saharan Africa, Other Regions, and Comparator Countries: Global Competitiveness Index, 2014



… on account, for instance, its higher cost level and relative prices higher-than-predicted by regional income levels.

4. Sub-Saharan Africa: Balassa-Samuelson-Adjusted Real Exchange Rate (Lower number indicates more competitive)



Note: Asia-Benchmark includes Bangladesh, Cambodia, India, Nepal, Lao PDR, and Vietnam; Africa-benchmark—Ghana, Kenya, Lesoto, Rwanda, Tanzania, Uganda, and Zambia.

Sources: BCEAO, World Bank Doing Business and Global Competitivenss Index; and IMF staff calculation.

Staff Advice

37. Staff recommended promoting business climate reforms through the dissemination of best practices. Fostering regional integration and adopting a regional approach to bridging the infrastructure gap would also help improve competitiveness. The WAEMU Commission should play a greater role in coordinating infrastructure plans and could work with development partners to build a regional capacity to assist national Governments in properly preparing PPPs and large projects.

38. Staff underscored that there could be a growth dividend for policies directly aimed at increasing human capital investment through reducing inequality. In particular, efforts to close gender gaps in opportunities, such as in education and health, and granting the same legal rights to women as for men could boost per capita growth. Closing gender gaps would not only stimulate growth through a more efficient allocation of resources, it would in addition increase total education and improve human capital in the region, thus boosting growth further. The WAEMU Commission could catalogue all discriminatory legal provisions and engage members in a dialogue to establish a timetable to eliminate these. An annual report on progress made could provide an incentive for national action and provide Civil Society Organizations in member states with the ammunition to press for legal changes that are both fair and good for growth.

Authorities' Views

39. Authorities agreed with the thrust of staff's recommendations. They highlighted ongoing efforts to address infrastructure gaps, reduce the cost and alleviate the burden of doing business, promote financial inclusion and deepening, and strengthen human capital.

OTHER ISSUES

40. The latest safeguards assessment of the WAEMU common central bank, BCEAO, found a continuing strong control environment. Post assessment monitoring of the BCEAO indicate that all recommendations, except one, have been implemented. These include strengthening the external audit arrangements by appointments of an international firm with ISA experience for the audits of FY 2015–17, and reinforcing the capacity of the audit committee with external expertise to oversee the audit and financial reporting processes. The outstanding recommendation, on IFRS, is substantively completed and the BCEAO is in the process of finalizing certain aspects based on discussions with its external auditors.

41. The BCEAO made significant efforts to modernize its statistical data collection, storage, treatment and dissemination. The reforms underway or planned over the period 2016-2018 focus on:

- redesigning business surveys and non-financial data collection;
- upgrading to quarterly GDP statistics,

- modernizing the collection device and data processing on banking conditions;
- redesigning quarterly balance of payments data.

Staff Advice

BCEAO should continue to improve quarterly BOP statistics. In particular, they should start compiling quarterly external debt statistics and review the possibility of compiling a WAEMU-wide reserves template.

Box 4. WAEMU: IMF Technical Assistance to WAEMU Institutions

Over the last three years, IMF provided technical assistance (TA) to the WAEMU in several areas, notably on improving data quality, financial sector supervision and regulation as well as on debt management, tax policy and Public Financial Management. In particular, TA programs focused on the following areas :

Real and external sector statistics. The implementation of the 2015-2020 regional statistical programs, including the migration to the 2008 System of National Accounts. In addition, the focus is on improving infra-annual indicators by (i) implementing quarterly national accounts as well as quarterly balance of payments in all countries and (ii) improving the quality of some indicators such as the industrial production index and the producer price index.

Financial sector and debt management. The transition to Basel II and Basel III. The operationalization of Agence UMOA-Titres, a regional agency created in 2013 by the WAEMU Council of Ministers to assist the eight member states implement their issuance debt plans.

Tax policy. Assisting the WAEMU Commission in designing and monitoring the application of the WAEMU tax coordination framework within the eight member states through technical assistance as well as regional seminar.

Public Financial Management. Assisting the WAEMU Commission in strengthening the capacities of senior officials from key Public Financial Management (PFM) related areas in member States to transcribe and implement regional PFM directives adopted in 2009.

STAFF APPRAISAL

42. Economic growth has been robust and macroeconomic conditions generally sound. Despite the fragile security situation in some member countries and a less favorable external environment in 2015, economic growth exceeded 6 percent for the second consecutive year, helped in part by favorable weather and positive terms of trade developments. Inflation remains under control and the external position has been stable with gross international reserves at 4.3 months of imports at end-December 2105.

43. The outlook remains positive but is subject to considerable downside risks. The GDP growth rate is expected to turn out at around 6.5 percent in 2016, buoyed by strong domestic demand, driven essentially by public investment Factors that could weigh on growth include persistent security problems in the region, delays in implementing fiscal consolidation as well as structural reforms, poor weather, a reversal of gains in the terms of trade, a sharper slowdown of global economic growth, and tighter international financing conditions.

44. The challenge is to sustain the growth momentum while preserving internal and external stability in an uncertain global landscape. This will require prudent and well-coordinated national fiscal policies and regional monetary policy, and strong resolve to move ahead with long-awaited structural reforms to boost competitiveness and diversification, improve the business environment and enhance inclusion. The BCEAO, Banking Commission and WAEMU Commission may need to be more forceful in their dialogue with national authorities to press for the reforms required to safeguard growth and promote more equality of opportunity.

45. Pursuing fiscal consolidation while expanding space for development needs would help preserve macroeconomic stability and support growth. In this context, the WAEMU Commission should help the member countries move forcefully on fiscal reforms to increase domestic revenue, rationalize current spending, and improve public financial management and the quality of spending. Reforms to increase public investment efficiency and further strengthen debt management are welcome.

46. The monetary policy stance is currently appropriate but enhanced monetary effectiveness is needed. Further progress to improve liquidity management, deepen financial markets, and strengthen market-based operations, will help enhance monetary transmission mechanisms. The benign inflation outlook and favorable macro-economic environment offer an opportunity to focus the energies of the BCEAO in this area.

47. Financial stability, deepening and inclusion are essential to support growth. Staff commended the authorities for the significant reform efforts in 2015 to modernize the financial sector and strengthen banking supervision. Looking forward, the authorities need to speed up the reform agenda, particularly the implementation of Basel II and Basel III, strengthen risk-based supervision, align prudential limits with international standards and best practices, and avoid regulatory forbearance. Staff encourages the authorities to adopt and implement the regional financial inclusion strategy.

48. Sustaining higher and inclusive growth will also require enhancing competitiveness and diversification, and reducing inequalities. Efforts will be needed to further improve public infrastructure, reduce the cost of inputs and ease the business environment. Efforts to close gender gaps in opportunities, such as in education and health, and granting the same legal rights to women as for men could boost per capita growth as well as promoting more social justice. The WAEMU Commission may need to play a stronger role in collecting information and disseminating it to promote action to remove legal discrimination.

Table 1. WAEMU: Selected Economic and Financial Indicators, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Est.			Proj.		
	(Annual percentage change)								
National income and prices									
GDP at constant prices	6.7	6.0	6.3	6.3	6.3	6.6	6.6	6.5	6.4
GDP per capita at constant prices	3.7	3.2	3.4	3.4	3.4	3.7	3.8	3.6	3.6
Broad money to GDP	-3.1	3.5	6.3	2.6	...	...	...	...	...
Consumer prices (average)	2.4	1.3	-0.1	1.0	1.7	1.8	1.9	2.0	2.0
Terms of trade	-5.0	-9.0	-0.6	6.9	-0.7	-1.6	-1.3	-1.7	-1.8
Nominal effective exchange rates	-2.4	4.3	3.9	-3.9	...	...	...	...	...
Real effective exchange rates	-2.7	2.8	1.0	-5.5	...	...	...	...	...
	(Percent of GDP)								
National accounts									
Gross national savings	15.0	15.5	14.8	16.9	18.2	18.5	19.0	19.2	19.6
Gross domestic investment	21.5	23.7	22.7	24.7	25.9	26.6	27.2	27.5	27.8
Of which: public investment	5.7	7.3	7.2	7.7	8.3	8.0	8.1	8.1	8.2
	(Annual changes in percent of beginning-of-period broad money)								
Money and credit [1]									
Net foreign assets	-2.1	-5.3	0.1	-0.2	...	...	...	...	...
Net domestic assets	11.9	15.8	14.6	17.2	...	...	...	...	...
Broad money	9.8	10.5	14.6	17.0	...	...	...	...	...
Credit to the private sector	12.9	16.4	14.3	14.1	12.7	13.5	11.9	13.0	13.8
	(Percent of GDP, unless otherwise indicated)								
Government financial operations [2]									
Government total revenue, excl. grants	17.5	17.8	17.8	18.2	18.5	18.7	19.1	19.4	19.7
Government expenditure	22.6	23.8	23.8	24.3	24.3	24.0	23.9	24.1	24.4
Official grants	2.6	3.0	2.7	1.4	1.8	1.9	1.8	1.7	1.9
Overall fiscal balance, incl. grants (cash basis)	-2.5	-3.0	-3.4	-4.6	-4.0	-3.4	-3.0	-2.9	-2.8
Basic fiscal balance, incl. grants & HIPC	-1.6	-1.4	-1.5	-0.6	-0.4	0.1	0.4	0.3	0.3
External sector									
Exports of goods and services [3]	26.6	24.3	24.4	25.1	22.7	22.2	22.0	21.6	21.3
Imports of goods and services [3]	34.5	35.6	35.7	33.6	31.3	31.2	31.2	30.8	30.3
Current account, excl. grants [4]	-7.3	-9.2	-8.9	-8.3	-8.3	-8.7	-8.8	-8.7	-8.4
Current account, incl. grants [4]	-6.0	-6.8	-6.1	-5.6	-5.8	-6.2	-6.4	-6.4	-6.3
External public debt	24.6	24.7	25.2	30.4	30.3	29.7	29.1	28.7	28.3
Total public debt	36.5	37.3	38.9	44.7	45.3	44.3	43.2	42.0	41.3
Broad money	27.7	28.7	30.5	31.3	...	...	...	...	...
Memorandum items:									
Nominal GDP (billions of CFA francs)	43,380	46,234	49,215	53,150	57,622	62,513	67,927	73,768	80,094
Nominal GDP per capita (US dollars)	837	896	928	814	843	895	946	1,003	1,063
CFA franc per US dollars, average	511	494	494	591	...	...	...	...	...
Foreign exchange cover ratio [5]	98.4	84.0	77.0	79.2	...	...	...	...	...
Reserves in months of imports (excl. intra-WAEMU imports)	5.1	4.5	4.7	5.0	4.8	4.8	4.9	4.9	5.0

Sources: IMF, African Department database; World Economic Outlook; IMF staff estimates.

[1] Year on year change, end December; for 2014 year on year change, end November.

[2] Fiscal data for 2014 reflect a strong increase in the fiscal deficit of Niger, following a new project in the hydrocarbon sector.

[3] Excluding intraregional trade.

[4] Data up to 2011 are corrected for intraregional trade discrepancies by BCEAO.

[5] Gross official reserves divided by short-term domestic liabilities (IMF definition).

Table 2. WAEMU: Selected National Accounts and Inflation Statistics, 2010–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Est.			Proj.		
				(Annual percentage change)					
Real GDP									
Benin	4.6	6.9	6.5	5.2	5.2	5.5	5.7	5.8	6.0
Burkina Faso	6.5	6.6	4.0	4.0	5.0	5.7	6.0	6.5	6.5
Côte d'Ivoire	10.7	8.7	7.9	8.4	8.2	7.9	7.5	7.2	6.7
Guinea-Bissau	-1.8	0.8	2.5	4.8	4.8	5.0	5.0	5.0	5.0
Mali	-0.8	2.3	7.2	7.0	5.0	5.2	4.8	4.5	4.5
Niger	11.8	5.3	7.0	4.0	4.9	6.9	7.8	6.6	7.6
Senegal	4.5	3.6	4.4	5.7	5.9	6.5	7.0	7.2	7.3
Togo	5.9	5.4	5.4	5.3	5.2	5.2	5.4	5.4	5.4
WAEMU	6.7	6.0	6.3	6.3	6.3	6.6	6.6	6.5	6.4
Real GDP per capita									
Benin	1.8	4.1	3.8	2.6	2.7	3.0	3.3	3.5	3.7
Burkina Faso	3.4	3.6	1.1	1.1	2.1	2.8	3.1	3.7	3.7
Côte d'Ivoire	7.9	5.9	5.2	5.6	5.5	5.1	4.8	4.5	4.0
Guinea-Bissau	-4.0	-1.4	0.3	2.5	2.5	2.7	2.7	2.7	2.7
Mali	-3.8	-0.7	3.9	3.7	1.7	1.9	1.6	1.2	1.2
Niger	8.5	2.1	3.8	0.9	1.8	3.7	4.5	3.4	4.4
Senegal	1.5	0.6	1.5	2.7	2.9	3.5	4.0	4.1	4.3
Togo	3.1	2.6	2.6	2.5	2.4	2.4	2.6	2.6	2.6
WAEMU	3.7	3.2	3.4	3.4	3.4	3.7	3.8	3.6	3.6
Inflation									
Benin	6.7	1.0	-1.1	0.3	2.0	2.3	2.6	2.8	2.8
Burkina Faso	3.8	0.5	-0.3	1.0	1.6	2.0	2.0	2.0	2.0
Côte d'Ivoire	1.3	2.6	0.4	1.4	2.0	2.0	2.0	2.0	2.0
Guinea-Bissau	2.1	0.8	-1.0	1.5	2.6	2.8	3.0	3.0	3.0
Mali	5.3	-0.6	0.9	1.4	1.0	1.3	1.7	2.1	2.4
Niger	0.5	2.3	-0.9	1.0	1.5	1.5	1.8	2.0	2.0
Senegal	1.4	0.7	-1.1	0.1	1.2	1.2	1.2	1.2	1.2
Togo	2.6	1.8	0.2	1.8	2.1	2.5	2.5	2.5	2.5
WAEMU	2.4	1.3	-0.1	1.0	1.7	1.8	1.9	2.0	2.0
				(Percent of GDP)					
Gross national savings									
Benin	13.2	19.0	15.6	16.7	17.5	17.1	17.2	18.2	18.2
Burkina Faso	7.7	9.8	3.3	5.7	8.1	10.8	11.5	12.8	12.9
Côte d'Ivoire	15.3	15.7	16.1	16.4	16.4	16.4	17.0	17.3	17.9
Guinea-Bissau	-2.6	2.6	7.4	10.3	11.1	9.8	9.1	8.2	7.1
Mali	13.1	12.7	15.6	24.8	27.2	27.4	28.5	28.9	29.4
Niger	24.8	25.2	24.3	24.1	23.0	22.3	22.7	22.1	19.5
Senegal	18.9	17.8	16.6	18.0	21.7	22.1	22.3	21.2	23.4
Togo	16.3	10.5	10.7	11.7	15.4	14.2	13.8	14.6	14.7
WAEMU	15.0	15.5	14.8	16.9	18.2	18.5	19.0	19.2	19.6
Gross domestic investment									
Benin	22.7	28.5	25.0	27.8	28.7	27.6	27.8	27.9	27.9
Burkina Faso	14.9	20.8	11.2	11.4	13.2	15.6	16.8	18.6	19.1
Côte d'Ivoire	16.5	17.0	16.8	18.4	19.9	20.8	21.3	21.7	22.4
Guinea-Bissau	7.3	7.0	10.8	11.2	12.2	12.4	12.4	12.7	12.9
Mali	18.7	25.4	32.6	39.5	42.1	43.6	46.4	47.6	48.2
Niger	39.5	40.2	40.2	42.1	40.3	40.5	39.4	37.9	33.9
Senegal	29.6	28.1	25.5	25.9	26.5	27.1	27.3	26.5	28.3
Togo	23.8	23.6	23.5	24.2	25.6	24.3	23.8	24.1	24.1
WAEMU	21.5	23.7	22.7	24.7	25.9	26.6	27.2	27.5	27.8

Sources: IMF, African Department database; and staff estimates.

Table 3. WAEMU: Selected Fiscal Indicators, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Est.			Proj.		
				(Percent of GDP)					
Primary fiscal balance									
Benin	0.1	-2.1	-1.6	-7.1	-3.2	-3.0	-2.6	-2.4	-2.2
Burkina Faso	-2.4	-2.9	-1.1	-0.6	-2.3	-1.8	-1.8	-1.9	-1.9
Côte d'Ivoire	-1.4	-0.9	-1.0	-2.0	-1.9	-1.3	-1.1	-1.0	-1.0
Guinea-Bissau	-2.2	-1.7	-0.9	-0.8	-1.1	-1.4	-0.5	-0.4	0.0
Mali	-0.4	-1.9	-2.3	-1.9	-2.1	-2.2	-1.9	-2.0	-1.9
Niger [1]	-0.8	-2.3	-7.6	-6.8	-5.8	-3.5	-1.7	-1.3	-1.3
Senegal	-4.3	-3.9	-3.4	1.6	1.8	2.2	2.5	2.8	1.7
Togo	-6.3	-3.5	-4.0	-4.6	-4.3	-3.7	-3.2	-3.3	-3.1
WAEMU	-1.9	-2.1	-2.3	-2.2	-2.0	-1.4	-1.0	-0.9	-1.0
Overall fiscal balance (including grants), cash basis									
Benin	-0.6	-2.4	-2.6	-8.1	-4.7	-4.3	-3.9	-3.9	-3.7
Burkina Faso	-2.8	-2.7	0.4	-2.8	-3.0	-2.5	-2.5	-2.5	-2.5
Côte d'Ivoire	-1.7	-2.0	-3.2	-3.9	-3.6	-3.2	-2.9	-2.9	-2.8
Guinea-Bissau	-2.2	-1.8	-2.2	-2.9	-2.1	-2.4	-1.5	-1.3	-1.1
Mali	-0.5	-2.4	-2.9	-2.6	-2.8	-2.8	-2.5	-2.6	-2.6
Niger	-0.9	-3.2	-6.6	-8.9	-6.9	-4.6	-2.7	-2.2	-2.1
Senegal	-5.8	-5.4	-5.0	-5.2	-4.3	-3.6	-3.1	-2.8	-2.6
Togo	-7.8	-5.3	-6.4	-5.6	-6.4	-5.8	-5.5	-5.7	-5.8
WAEMU	-2.5	-3.0	-3.4	-4.6	-4.0	-3.4	-3.0	-2.9	-2.8
Government revenue (excluding grants)									
Benin	17.4	17.7	16.5	16.4	16.8	16.9	17.1	17.2	17.2
Burkina Faso	17.5	18.5	17.3	16.2	16.9	17.4	18.3	19.2	19.6
Côte d'Ivoire	18.4	18.5	17.9	19.1	18.9	19.0	19.5	19.7	19.9
Guinea-Bissau	9.1	8.1	12.0	13.3	13.9	12.9	13.2	13.4	13.6
Mali	14.4	14.5	14.8	15.6	16.7	17.1	17.4	17.9	18.0
Niger	15.3	16.6	17.5	17.8	18.6	19.3	19.9	20.4	21.1
Senegal	20.1	20.0	21.9	21.9	21.6	21.5	21.5	21.6	21.9
Togo	17.6	18.0	17.7	18.8	18.9	19.1	19.4	19.6	19.8
WAEMU	17.5	17.8	17.8	18.2	18.5	18.7	19.1	19.4	19.7
Government expenditure									
Benin	19.7	21.1	19.4	24.8	23.0	22.4	22.2	22.2	22.1
Burkina Faso	25.5	27.4	23.3	21.1	23.9	24.4	25.3	26.1	26.4
Côte d'Ivoire	22.1	22.1	22.0	24.8	24.2	23.8	23.9	24.1	24.2
Guinea-Bissau	13.7	13.4	22.4	20.0	22.6	22.6	22.1	22.3	22.2
Mali	15.5	19.7	19.9	20.6	21.5	21.8	22.0	22.5	22.6
Niger	22.5	27.2	31.0	31.1	30.3	28.1	26.7	26.3	26.5
Senegal	28.6	27.9	30.4	24.9	24.4	23.8	23.6	23.3	24.5
Togo	26.4	25.5	25.0	27.3	27.5	27.0	26.7	27.1	27.2
WAEMU	22.6	23.8	23.8	24.3	24.3	24.0	23.9	24.1	24.4
Government current expenditure									
Benin	14.3	14.1	14.4	16.9	15.6	15.8	15.8	15.8	15.7
Burkina Faso	14.5	13.6	14.4	14.2	14.1	14.2	14.2	14.2	14.2
Côte d'Ivoire	17.6	16.0	16.1	17.5	16.3	16.5	16.5	16.9	17.0
Guinea-Bissau	12.3	9.8	15.9	14.4	13.9	13.7	13.5	13.5	13.5
Mali	11.3	12.2	11.9	12.6	12.5	12.4	12.4	12.4	12.5
Niger	11.4	13.5	14.6	15.4	15.1	14.6	14.4	13.9	14.0
Senegal	17.2	17.1	17.7	12.8	12.6	11.6	11.6	11.7	11.2
Togo	17.6	17.3	15.9	17.1	16.1	17.0	17.3	17.6	18.0
WAEMU	15.3	14.9	15.2	15.4	14.7	14.7	14.7	14.8	14.8
Government capital expenditure [2]									
Benin	5.2	6.4	5.3	7.5	7.4	6.6	6.4	6.4	6.4
Burkina Faso	11.0	14.2	9.0	7.0	9.9	10.3	11.1	11.9	12.2
Côte d'Ivoire	4.5	6.1	6.0	7.3	7.9	7.4	7.4	7.2	7.2
Guinea-Bissau	1.4	3.6	7.2	6.9	9.1	8.9	8.6	8.8	9.0
Mali	2.7	6.0	6.4	6.7	7.8	8.2	8.3	8.8	8.8
Niger	11.1	13.7	16.4	15.7	15.2	13.5	12.3	12.4	12.5
Senegal	11.2	10.9	12.6	12.1	11.8	12.2	11.9	11.6	13.3

Table 4. WAEMU: Selected External Indicators, 2010–20

	2012	2013	2014	2015 Est.	2016	2017	2018 Proj.	2019	2020
				(Percent of GDP)					
Exports of goods and services									
Benin	13.8	16.2	16.4	18.0	17.2	18.5	19.7	21.1	21.3
Burkina Faso	23.5	25.9	25.9	25.7	25.1	24.7	24.4	24.7	24.5
Côte d'Ivoire	48.4	41.8	42.3	40.7	35.4	36.1	37.3	37.3	37.9
Guinea-Bissau	14.3	19.1	18.8	26.0	25.9	25.0	24.2	23.4	22.5
Mali	26.9	24.9	22.3	22.0	20.0	19.3	17.2	16.3	15.7
Niger	21.9	22.6	19.4	17.8	16.9	17.9	20.7	21.0	22.1
Senegal	27.8	28.2	27.9	27.3	26.3	26.4	26.7	26.2	26.0
Togo	44.7	45.7	40.3	39.6	40.2	41.2	42.4	43.8	44.8
WAEMU[1]	26.6	24.3	24.4	25.1	22.7	22.2	22.0	21.6	21.3
Imports of goods and services									
Benin	27.2	30.4	31.0	33.9	34.1	34.9	36.9	37.7	38.3
Burkina Faso	34.7	39.0	34.7	32.4	30.7	30.8	31.3	32.1	32.4
Côte d'Ivoire	44.2	38.8	39.4	39.1	35.5	37.0	38.4	38.8	39.8
Guinea-Bissau	25.5	26.8	31.2	32.1	34.5	34.5	34.2	34.5	34.8
Mali	31.8	39.9	38.6	34.8	31.8	32.0	31.5	30.9	29.9
Niger	39.4	39.1	38.2	38.4	35.7	36.9	38.6	38.2	36.2
Senegal	48.6	48.9	46.9	44.7	40.8	40.9	40.8	40.1	39.1
Togo	58.6	65.8	59.5	58.8	57.1	58.0	58.8	60.1	60.7
WAEMU[1]	34.5	35.6	35.7	33.6	31.3	31.2	31.2	30.8	30.3
External current account (excl. grants)									
Benin	-12.1	-12.2	-11.9	-13.3	-14.3	-13.6	-14.5	-13.4	-13.0
Burkina Faso	-10.6	-13.2	-9.7	-7.7	-6.5	-6.8	-7.4	-7.8	-8.1
Côte d'Ivoire	-1.0	-1.8	-2.3	-3.8	-5.1	-5.8	-5.6	-5.7	-5.7
Guinea-Bissau	-13.6	-8.2	-7.7	-1.8	-3.5	-5.0	-5.7	-6.9	-8.2
Mali	-2.7	-12.4	-13.7	-11.2	-9.9	-10.6	-11.7	-11.7	-11.2
Niger	-18.0	-17.1	-18.2	-20.1	-18.3	-18.9	-17.8	-16.6	-15.1
Senegal	-11.8	-11.0	-9.6	-8.6	-5.7	-5.9	-5.8	-6.0	-5.6
Togo	-9.3	-15.2	-14.8	-14.8	-12.5	-12.5	-12.1	-11.7	-11.5
WAEMU	-7.3	-9.2	-8.9	-8.3	-8.3	-8.7	-8.8	-8.7	-8.4
External current account (incl. grants)									
Benin	-9.5	-9.5	-9.3	-11.1	-11.2	-10.6	-10.5	-9.8	-9.6
Burkina Faso	-7.2	-11.0	-7.9	-5.7	-5.2	-4.8	-5.4	-5.8	-6.2
Côte d'Ivoire	-1.2	-1.4	-0.7	-1.9	-3.5	-4.3	-4.3	-4.4	-4.5
Guinea-Bissau	-11.8	-7.4	-3.4	-0.9	-1.1	-2.6	-3.3	-4.5	-5.8
Mali	-2.2	-2.8	-4.6	-2.8	-2.1	-3.2	-4.8	-5.2	-5.0
Niger	-14.7	-15.0	-16.0	-18.0	-17.3	-18.2	-16.7	-15.7	-14.3
Senegal	-10.8	-10.4	-8.9	-7.8	-4.8	-5.0	-5.1	-5.2	-4.9
Togo	-7.5	-13.0	-12.8	-12.6	-10.1	-10.1	-10.0	-9.5	-9.3
WAEMU	-6.0	-6.8	-6.1	-5.6	-5.8	-6.2	-6.4	-6.4	-6.3

Sources: IMF, African Department database; and staff estimates.

Table 5. WAEMU: Government Debt, 2012–20

	2012	2013	2014	2015	2016	2017	2018	2019	2020
				Est.			Proj.		
				(Percent of GDP)					
External Debt									
Benin	15.4	16.8	20.1	21.0	20.8	20.5	20.1	19.7	19.3
Burkina Faso	22.6	21.4	21.8	23.1	23.0	22.4	22.0	21.7	21.6
Côte d'Ivoire	28.0	26.4	28.1	33.0	31.2	29.5	28.0	26.7	26.3
Guinea-Bissau	26.6	25.4	26.6	27.3	25.6	25.1	25.2	25.4	25.7
Mali	21.3	20.8	24.5	28.7	29.3	29.7	30.2	30.7	31.3
Niger	16.7	17.6	22.1	30.0	32.7	34.2	35.1	36.3	36.6
Senegal	30.4	32.4	40.1	39.8	42.8	42.3	41.2	39.9	38.7
Togo	17.6	20.1	26.9	30.1	30.0	30.6	31.0	31.9	32.3
WAEMU	24.6	24.7	25.2	30.4	30.3	29.7	29.1	28.7	28.3
Domestic Debt									
Benin	11.4	8.6	10.8	16.5	18.4	19.3	20.7	21.8	22.7
Burkina Faso	5.7	7.3	6.8	6.7	11.8	10.7	10.4	10.5	10.2
Côte d'Ivoire	16.5	17.3	18.8	17.3	16.1	16.6	16.9	17.2	17.3
Guinea-Bissau	25.6	28.2	28.4	25.0	22.3	20.7	19.1	17.7	16.2
Mali	3.6	4.9	6.2	7.1	6.7	6.9	6.9	6.9	6.9
Niger	5.1	4.5	8.6	10.1	10.6	10.6	9.1	7.2	5.7
Senegal	12.2	14.3	14.0	15.9	17.1	13.9	10.1	5.6	3.1
Togo	31.5	31.1	30.6	31.8	31.1	32.6	30.5	28.3	27.9
WAEMU	11.9	12.6	13.8	14.4	14.9	14.7	14.1	13.4	12.9
Total Debt									
Benin	26.8	25.4	30.9	37.5	39.2	39.9	40.8	41.5	42.0
Burkina Faso	28.3	28.7	28.6	29.9	34.8	33.1	32.4	32.2	31.8
Côte d'Ivoire	44.5	43.6	47.0	50.3	47.3	46.1	44.9	43.9	43.6
Guinea-Bissau	52.1	53.6	55.0	52.2	47.8	45.8	44.3	43.1	41.9
Mali	25.0	25.7	30.7	35.8	36.0	36.6	37.1	37.6	38.2
Niger	21.8	22.1	30.7	40.1	43.3	44.8	44.2	43.5	42.3
Senegal	42.6	46.7	54.1	55.7	60.0	56.2	51.2	45.5	41.8
Togo	49.0	51.2	57.5	61.9	61.1	63.1	61.6	60.2	60.2
WAEMU	36.5	37.3	38.9	44.7	45.3	44.3	43.2	42.0	41.3

Source: IMF, African Department database.

Table 6. WAEMU: Monetary Survey, Dec. 2011–Sept. 2015

	2011 Dec.	2012 Dec.	2013 Dec.	2014 Dec.	2015 Sep
	(Billions of CFA francs)				
Net foreign assets	**5,501**	**5,219**	**4,448**	**4,459**	**4,404**
of which:					
BCEAO	5,573	5,169	4,569	4,817	5,276
Commercial Banks	-72	51	-120	-358	-872
Net domestic assets	**7,751**	**9,328**	**11,620**	**13,958**	**15,579**
Domestic credit	10,065	11,597	13,798	16,277	18,091
Net credit to government	2,251	2,777	3,529	4,584	5,618
Net credit to the economy	7,814	8,820	10,269	11,693	12,473
Claims on private sector	7,813	8,815	10,266	11,690	12,469
Claims on other financial institutions	1	5	2	3	4
Other items, net	-2,313	-2,269	-2,178	-2,318	-2,512
Broad Money	**13,252**	**14,547**	**16,068**	**18,417**	**19,983**
Money	8,714	9,440	10,488	11,852	12,856
of which: Currency in circulation	3,676	3,893	4,235	4,664	4,789
Quasi-money	4,539	5,108	5,581	6,565	7,127
	(Factors affecting liquidity, in percent of previous period's broad money)				
Net foreign assets	**1.0**	**-2.1**	**-5.3**	**0.1**	**-0.2**
Net domestic assets	**9.7**	**11.9**	**15.8**	**14.6**	**17.2**
Domestic credit	11.9	11.6	15.1	15.4	17.7
Net credit to government	3.4	4.0	5.2	6.6	8.9
Net credit to the economy	8.5	7.6	10.0	8.9	8.8
Claims on private sector	8.5	7.6	10.0	8.9	8.8
Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0
Other items, net	-2.2	0.3	0.6	-0.9	8.8
Broad Money	**10.7**	**9.8**	**10.5**	**14.6**	**17.0**
	(Year on year percent change)				
Net foreign assets	**2.2**	**-5.1**	**-14.8**	**0.2**	**-0.8**
Net domestic assets	**17.7**	**20.3**	**24.6**	**20.1**	**23.3**
Domestic credit	16.5	15.2	19.0	18.0	20.0
Net credit to government	22.2	23.4	27.1	29.9	37.3
Net credit to the economy	14.9	12.9	16.4	13.9	13.6
Claims on private sector	15.0	12.8	16.5	13.9	13.6
Claims on other financial institutions	-74.7	329.0	-45.7	15.9	-9.7
Other items, net	12.5	-1.9	-4.0	6.4	3.4
Broad Money	**10.7**	**9.8**	**10.5**	**14.6**	**17.0**

Source: IMF, International Financial Statistics.

Table 7. WAEMU: Monetary Projections, 2013–20

	2008-2013 average	2013	2014	2015	2016	2017	2018	2019	2020
	CFAF billion								
Broad money	12,535	16,068	18,417	20,372	22,794	25,568	28,651	31,967	35,733
Net foreign assets	…	4,448	4,459	4,024	3,556	3,619	3,755	3,719	3,703
Net domestic assets	…	11,620	13,958	16,348	19,238	21,949	24,896	28,249	32,030
Net credit to govt.	…	3,529	4,584	5,323	6,513	7,198	8,121	8,983	9,783
Net credit to the economy	…	10,269	11,693	13,344	15,044	17,070	19,094	21,584	24,565
Other items, net	…	-2,178	-2,319	-2319	-2319	-2319	-2319	-2319	-2319
<u>Memorandum items</u>									
Broad money growth	11.7	10.5	14.6	10.6	11.9	12.2	12.1	11.6	11.8
Nominal GDP growth	8.1	6.5	6.6	8.0	8.7	8.7	8.7	8.7	8.8
Velocity (% change)	-3.1	-3.6	-7.0	-2.4	-2.8	-3.1	-3.0	-2.6	-2.7
Growth in credit to economy	13.1	16.4	13.9	14.1	12.7	13.5	11.9	13.0	13.8
Growth in credit to govt.	47.7	27.1	29.9	16.1	22.4	10.5	12.8	10.6	8.9
New credit to govt (CFAF bn)		752	1,055	739	1,190	685	924	862	800
New credit to govt (% of GDP)	1.3	1.7	2.2	1.4	2.1	1.1	1.4	1.2	1.0
Nominal GDP (CFAF bn)		45,108	48,075	51,900	56,434	61,325	66,690	72,489	78,844
<u>No fiscal consolidation Scenario</u>									
Growth in credit to govt.	…	…	…	25.0	22.0	19.0	18.0	16.0	15.0
Net foreign assets	…	…	…	3,922	3,666	2,965	2,649	2,081	1,464

Sources: IMF, African Department database; and staff estimates.

Table 8. WAEMU: Financial Soundness Indicators 2010–15

	2010 Dec.	2011 Dec.	2012 Dec.	2013 Dec.	2014 Dec.	2015 Jun.
	(in percent, unless otherwise indicated)					
Solvency ratios						
Regulatory capital to risk weighted assets	11.3	12.5	12.8	12.9	12.7	11.6
Tier I capital to risk-weighted assets	10.7	11.7	12.0	11.8	11.2	10.6
Provisions to risk-weighted assets	11.4	10.7	10.8	10.3	10.7	9.7
Capital to total assets	6.9	7.3	7.3	7.2	6.7	6.6
Composition and quality of assets						
Total loans to total assets	55.3	55.2	55.0	55.9	54.6	54.0
Concentration: loans to 5 largest borrowers	105.9	92.9	92.3	75.1	88.6	94.2
Sectoral distribution of loans						
Agriculture	2.0	2.9	2.6	2.8	3.1	2.6
Extractive industries	2.0	2.2	1.6	1.8	2.0	1.7
Manufacturing	18.9	18.8	18.2	17.0	17.9	18.0
Electricity, water and gas	3.4	3.2	3.2	3.7	3.9	4.6
Construction	6.1	6.7	6.7	7.8	8.6	8.6
Retail and wholesale trade, restaurants ar	31.9	32.3	34.7	33.5	31.1	33.5
Transportation and communication	13.6	11.2	10.1	11.2	9.8	9.7
Insurance, real estate and services	5.2	5.5	6.1	5.9	6.5	6.2
Other services	17.0	17.1	16.8	16.2	17.0	15.2
Gross NPLs to total loans	17.6	15.9	16.0	15.3	14.9	15.3
Provisioning rate	63.7	64.2	63.4	61.0	62.8	60.4
Net NPLs to total loans	7.2	6.3	6.5	6.6	6.1	6.7
Net NPLs to capital	57.3	47.8	48.8	51.1	50.1	55.1
Earnings and profitability						
Average cost of borrowed funds	2.9	2.4	2.5	2.8	2.4	...
Average interest rate on loans	10.9	9.7	9.8	10.7	9.1	...
Average interest margin[2]	8.0	7.3	7.3	7.9	6.7	...
After-tax return on average assets (ROA)	1.1	1.2	0.9	0.9	1.1	...
After-tax return on average equity (ROE)	12.6	13.7	10.1	11.5	15.5	...
Noninterest expenses/net banking income	64.8	61.6	61.0	60.6	58.6	...
Salaries and wages/net banking income	27.1	26.4	25.7	26.5	25.4	...
Liquidity						
Liquid assets to total assets	33.3	33.6	32.5	32.2	30.9	30.2
Liquid assets to total deposits	45.1	46.1	45.8	47.1	45.9	43.8
Total loans to total deposits	84.0	84.3	86.2	90.0	89.5	86.3
Total deposits to total liabilities	74.1	72.9	71.1	68.5	67.3	69.0
Sight deposits to total liabilities[3]	36.7	37.8	36.5	35.5	34.5	35.6
Term deposits to total liabilities	37.5	35.1	34.6	32.9	32.8	33.4

Source: BCEAO.
1 the indicators do not take into consideration the additional provisions required by the WAMU Banking Commission.
2 Excluding tax on bank operations.
3 Including saving accounts.

Table 9. WAEMU: Risk Assessment Matrix

	Source of Risk	Relative Likelihood	Potential Impact
	Spillover Risks		
Short Term (ST)	**Tighter or more volatile global financial conditions.** **Sharp asset price decline and decompression of credit spreads**	Medium	**Low to medium.** The region's exposure to global financial markets remains limited, but increased financial market volatility and financing costs could adversely affect the region through higher regional risk premium and WAEMU countries which plan to tap international financial markets.
Short Term (ST)	**Tighter or more volatile global financial conditions.** **Surge in the U.S dollar**	High	**Medium.** Since the CFAF is pegged to the euro, an even stronger dollar would make WAEMU exports of goods and services outside of the euro zone more competitive, while imports would become more expensive.
Short Term	**Significant China slowdown.**	Low/ Medium	**Medium to high**. Shaper-than-expected downturn in China could significantly lower trade, investment, aid, and tourism flows and affect WAEMU region trough cross-border spillover effects from the Euro area and SSA emerging markets.
Medium Term (MT)	**Significant slowdown in other large EMs/frontier economies.** **Structurally weak growth in key advanced and emerging economies.**	Medium High/ Medium	**Medium.** Slower growth in and subsequently lower demand for commodities by emerging markets could dampen commodity prices and thus exports in some countries (e.g. gold, cocoa); a positive impact is expected for the region's current account deficit if mainly oil prices are affected. Slower growth in advanced markets, in particular Europe, could lower trade, remittances, foreign aid and FDI.
ST	**Heightened risk of fragmentation/security dislocation in part of the Middle East, Africa, and Europe**, leading to a sharp rise in migrant flows, with negative global spillovers.	High	**Medium to high.** It could have negative implications on investor sentiments, and hence a dampening effect on investment and capital flows.
	Regional Risks		
ST	Political and security risks, including regional spillovers.	Medium	**High.** Security risks in the Sahel remain. Risks include a destruction of (human) capital, negative effects on growth and inclusiveness, delays in reforms, and increased fiscal cost and liquidity risks for the affected sovereign.
MT	Delay in reforms at country and regional level related to (i) fiscal consolidation (ii) infrastructure investment, (iii) the energy sector, (iii) PFM, (iv) the financial sector and (iv) regional integration.	Medium	**Medium to high.** Fiscal consolidation and key reforms will require strong political will. Weak implementation capacity and bureaucratic hurdles pose risks to efficient reform implementation. With many countries targeting large infrastructure investments, a delay in PFM reforms and inefficient investment could give rise to debt, fiscal and external sustainability issues, with negative implications for growth and poverty reduction. Delays in supervisory reforms may pose financial stability risks.
ST	Adverse weather conditions.	Medium	**High.** Lower agricultural production could imply heightened food security risks, a decline in growth rates, and additional fiscal costs.
MT	Persistently low non-oil commodity prices.	Low/ Medium	**High.** Lower export revenues would adversely affect fiscal and macroeconomic performance with particular negative effects on inclusiveness and the poverty reduction.

Table 10. WAEMU: Authorities' Responses to 2015 Policy Recommendations
(Scale: fully consistent, broadly consistent, partially consistent, and inconsistent)

	2015 Article IV Recommendations	Authorities' Response
Policy Mix	- Macroeconomic conditions do not warrant a tightening of monetary policy at this juncture. - Closely follow the evolution of the macro-prudential risks flowing from its sharp increase in commercial bank refinancing.	**Broadly consistent** - Risks remain but are monitoring closely by the BCEAO.
Fiscal Policy Coordination	- Governments need to adhere to their budget deficit reduction plans.	**Partially consistent** - .Planned fiscal consolidation has been postponed in most countries.
Monetary/ Financial sector Development	- Accelerate financial sector reforms - Accelerate the development of the interbank and government debt markets.	**Broadly consistent** - Adoption of the uniform Law on credit bureaus. - New repo agreement. - Launching of a regional network of brokers specialized in government securities. - Reforms to debt and interbank market include the introduction of a new repo agreement, the launching of a regional network of brokers specialized in government securities.
Financial Regulation and Supervision	- Substantially strengthen transparency, bank supervision, and crisis management resolution framework. - Develop macro-prudential analyses, with regular stress testing and early warning indicators.	**Broadly consistent** - Significant progress in upgrading the bank regulatory framework and enhancing the supervision of pan-African banks. - Stress testing done. - Increase in the banks' minimum share capital to CFAF 10 billion. - Establishment of a bank resolution framework. - Significant efforts to transpose Basel II/III. - the WAEMU banking system continues to be exposed to credit and concentration risks
Growth/ Regional Integration	- Reinforce the regional growth agenda by concrete and coordinated actions to improve structural competitiveness, accelerate regional integration, and strengthen economic resilience.	**Partially consistent** Some improvements in the business environment. Adoption of ECOWAS tariff in 2015

Table 11. WAEMU: Selected Policy Recommendations for Member States

	Fiscal and Debt Policies	Financial Sector and Structural Reforms
BEN	- Boost domestic revenue, mainly through better tax administration. - Preserve debt stability by predominantly relying on concessional financing, prioritizing investments, and enhancing debt management.	- Improve PFM and government capacity to support efficient spending. - Improve the business environment, including through financial sector reforms.
BFA	- Improve coherence of budget planning and execution. Improve debt and cash management. - Attend to pace and quality of public investment spending.	- Boost energy supply; implement reforms to put income support schemes in the cotton sector on a more sustainable basis. - Implement a more systematic approach to transfer schemes to protect the vulnerable.
CIV	- Build fiscal buffers, particularly through tax policy measures, given rising fiscal risks (namely from public enterprises, PPPs). - Strengthen public financial and debt management, and monitoring of debt and fiscal risks. Pursue prudent borrowing policy to avoid an excessive bunching of maturities in the mid-2020s, and to take adequate consideration of rollover and foreign exchange risks.	- Implement the financial sector reform, including early restructuring of public banks. Further reforms to improve the business climate and encourage private investment, and strengthen national statistics.
GNB	- Advance PFM reforms, particularly in budget execution and better Treasury management - Step up debt management and maintain a prudent borrowing policy, seeking mostly grants and concessional loans.	- Prepare a medium-term strategy, including measures to improve the business environment, increase financial deepening, and promote the development of the cashew sector.
MLI	- Mobilize more tax revenue by broadening the tax base and tightening tax exemptions; improve quality of spending. - Implement fiscal decentralization plans (gradually). -Keep the basic fiscal balance close to zero and the overall fiscal balance in line with overall public debt sustainability.	- Reduce NPLs by accelerating clean-up of commercial banks' balance sheets; restructure the BHM (state-owned bank); clean up the microfinance sector. -Improve the business environment; improve public infrastructure and education; lighten the labor tax load; tackle corruption.
NER	- Maintain fiscal sustainability and strengthen budgetary oversight, while anchoring envisaged investments in a multiyear plan - Implement a prudent debt policy, using concessional resources and channel loans to high return projects.	- Strengthen long-term resilience to weather related shocks by enhancing food security and facilitating movement of goods. - Promote economic diversification and private sector led-growth: scale-up investment on key infrastructure (health, education) and financial inclusion.
SEN	- Anchor fiscal policy on an agreed debt path, with corrective action mandated in case of deviations. - Control public consumption as envisaged in the PSE resist any pressure to relax the deficit target.	- Further improve public financial management - Accelerate structural reforms, particularly in the electricity sector
TGO	- Place fiscal balances on a sustainable path to ensure debt and external sustainability; - Undertake investment projects that are fully integrated in all phases of the budget process and strengthen debt management.	- Enforce the regulatory framework in the financial sector, solve problem banks, and strengthen supervision in the microfinance sector. Further modernize revenue administration, improve public investment management, open key economic sectors to private sector competition, and further improve the business environment.

Statement by Mr. Yambaye, Executive Director on WAEMU
March 21, 2016

1. Our West African Economic and Monetary Union (WAEMU) authorities—both regional and national—are thankful to the Fund for its continued strong engagement with the regional institutions and for the candid, productive dialogue on a large range of issues confronting the Union. Our regional authorities are in broad agreement with the analysis and advice laid out by Fund staff in the context of the consultations that took place in the region last January. In particular, our authorities share staff's views on factors behind recent macroeconomic and financial developments; risks looming ahead; the need for well-calibrated fiscal consolidation, mindful of the need to meet infrastructure gaps while reducing non-priority current spending and improving investment efficiency; and the necessity to enhance monetary policy transmission mechanism.

2. Our regional authorities also share staff's advice on the need to develop and deepen the financial sector as a mean to boost activity while tackling the structural impediments to private sector development, and to a stronger, inclusive growth. While our authorities have a more cautious approach than staff's regarding the resolution of banks, notably the powers of courts, on grounds of financial stability, they continue to value close dialogue with Fund staff on this and other regional issues.

RECENT MACROECONOMIC DEVELOPMENTS AND PROSPECTS

3. The WAEMU region continues to enjoy strong growth, at 6.4 percent in 2015, well above the Sub-Saharan African average. Activity in the Union is driven mostly by public infrastructure investment but also increasing private investment, including PPPs; robust private consumption; and strong agricultural production. The exchange rate anchor, coupled with favorable weather conditions and positive terms of trade developments, have helped maintain inflation at 1 percent. The widening fiscal deficit is driven by the ongoing large public investment programs to close the sizeable infrastructure gaps. By the same token, the current account deficit has remained rather large albeit reduced (5.6 percent of the Union's GDP from 6.1 percent in 2014) despite lower energy prices and buoyant exports, notably cocoa and groundnut. The region continues to enjoy an adequate level of reserves, with gross international reserves amounting to the equivalent of 5 months of extra-regional imports.

4. Looking forward, the Union is expected to maintain strong macroeconomic indicators, with output growth anticipated to exceed 6 percent over the medium term; inflation will remain subdued; overall fiscal balance is on a slow but declining path; and the external position is sustainable. It is also worth noting that public debt as a ratio of the Union's GDP is expected to gradually decline towards 40 percent in 2020 from 45 percent in 2015.

5. Our authorities however recognize risks to the outlook, including adverse weather conditions which would lower production in the agricultural sector and may threaten food security; and security-related risks which remain elevated, with notably terrorist attacks in Mali, Niger, Burkina Faso, and most recently Côte d'Ivoire. Other external risks relate to the global slowdown and tightening of international financial conditions. Our WAEMU authorities also acknowledge that continued delays in fiscal consolidation and structural reforms could weigh on the outlook. Against this backdrop, they remain committed to pushing forward fiscal adjustment policies that preserve growth momentum, and structural measures to boost competitiveness and productivity. In so doing, it will also be critical to preserve security in all eight countries. Security has indeed become a macro-critical issue in the region. Adequate support from the international community in this regard is of the essence.

PRESERVING MACROECONOMIC STABILITY AND GROWTH

6. Our WAEMU authorities share the view that preserving external stability while supporting growth will require effective implementation of the envisaged fiscal consolidation at the country level and actions to enhance the effectiveness of monetary policy. They are committed to advance the needed reforms and broadly agree with staff advice going forward albeit some differences remain as regards the pace of reducing the central bank refinancing.

Fiscal Consolidation

7. Our WAEMU authorities reaffirm the importance of fiscal consolidation and structural reforms at the national level with the view to bring fiscal deficits back within the 3-percent limit by 2019 in accordance with the new norm under the *Pacte de Convergence, de stabilité, de croissance et de solidarité* adopted by the Conference of Heads of State and Government in January 2015. They stress the need to pursue actions aimed at improving domestic fiscal revenues and ensuring greater efficiency of public investment spending.

8. The regional authorities also point to the structural nature of WAEMU's current account deficit and highlight the need to reduce it in order to safeguard the Union's international reserves. To this end, they share the view to put in place substitution measures on imported food products and create conditions conducive to more foreign direct investment (FDI). Fiscal deficit reduction will also contribute to curbing the Union's current account deficit.

Monetary and Financial Sector Policies

9. The authorities welcome staff's recognition that BCEAO's monetary policy stance is appropriate, in light of macroeconomic fundamentals, particularly in the current context of low inflation. Policy rates are kept low since their last decrease in September 2013. The reserve requirement rate applicable to banks has also been maintained at 5 percent since March 2012.

10. Regarding staff's concerns on the central bank's refinancing operations, the authorities stress that refinancing is warranted by the weak performance of the interbank market and aims at promoting lending to support regional economic activity. In addition, the significance of treasury securities in the central bank's balance sheet has not crowded out the financing of the private sector; on the contrary, credit to the private sector is on the rise while bank credit to government is decelerating. At end-2015, credit to private sector amounted to 70 percent of domestic credit. Our authorities are of the view that absent a good functioning of the interbank market, an early withdrawal of BCEAO's refinancing could raise interest rates on all segments of the Union's capital market, curtail financing to the private sector and adversely impact economic activity. Nevertheless, the authorities closely monitor the evolution of refinancing and concur with staff that work is needed to better control these operations and minimize related banking risks.

11. As regards liquidity management, BCEAO notes that it has limited injections since October 2015, with the view to induce banks in need of liquidity to turn in priority to banks that hold significant idle reserves. However, this resulted in an increase in the average weighted rate for auctions, which if sustained, can lead to an increase of interest rates, inconsistent with the accommodative monetary policy stance called for by the current environment.

12. In order to improve the effectiveness of monetary policy transmission and favor a sustainable reduction of refinancing, BCEAO has reflected on ways to boost the interbank market and the secondary market of government securities. Planned measures include a revision of the conditions of access to the BCEAO's refinancing window and notably the introduction of the debt ratio under the Basle II-III provisions. This should bring banks' liabilities to proportions compatible with their own resources and, therefore, reduce government securities-backed refinancing. It is also envisaged to provide banks with training and information aimed at enhancing their mastering of monetary policy instruments and mechanisms as well as knowledge of the functioning of refinancing windows.

BCEAO also envisages to put in place a robust mechanism for minimizing counterpart risk on the interbank market; establish a reference rate for the interbank market; and broaden the investor base for the regional financial market.

Financial Stability and Inclusion

13. Significant progress has been achieved in strengthening the financial sector and enhancing banking regulation. This includes the acceleration of regulatory reforms for the transposition of Basle II-III provisions; implementation of a supervisory framework on consolidated results of banking groups; and the increase in the minimum capital requirement to CFAF 10 billion for credit institutions. Other significant advances relate to the update of bank accounting; adoption of a new draft law on the fight against money laundering and financing of terrorism (AML-CFT); as well as the creation of a bank resolution mechanism and a deposit guarantee fund (*Fonds de Garantie des Dépôts*). Efforts have also been made since last year in enhancing the supervision of cross-border banks, notably pan-African banks, in line with the IMF report on cross-border oversight of pan-African banks.

14. The authorities broadly agree with the thrust of staff's recommendations to implement regulatory reforms and improve further supervisory processes as well as enforcement of prudential norms. The authorities also share staff's view on improving the business climate and the financial environment to promote access to financial services. They intend to complete all reforms and ensure compliance to new regulations.

15. Regarding bank crisis resolution, multiple legislative measures will enter into effect in 2016, including the revision of the Annex to the Convention governing the Banking Commission of *Union Monétaire Ouest Africaine (*UMOA). These measures aim at strengthening the powers of the regional banking commission in the treatment of troubled banks and lifting the states' recourse against the Banking Commission's decisions to withdraw banking licenses, in conjunction with the operationalization of the *Fonds de Garantie des Dépôts*. BCEAO has reservations on the capacity of the regional legal system to pronounce appeals against decisions to withdraw licenses, which could lengthen the resolution of problem banks and run counter to safeguarding financial stability.

16. WAEMU authorities have designed a regional financial inclusion strategy which is coordinated with country authorities and is aimed at enhancing access to financial services. The high access to mobile communication and the rapid development of mobile payment services provide opportunities to improve such access to financial services and develop the sector.

PROMOTING COMPETITIVENESS AND TRANSFORMATION

17. WAEMU authorities are fully cognizant of the structural competitiveness gaps and high income inequality facing the region. Nevertheless, they do not share staff's statement that "*the business environment remains unattractive*". Most WAEMU countries have made significant progress over the past years in improving the business environment. One-stop shops for registering businesses have been set up across countries, procedures have been streamlined and commercial courts have been created. As a result, many countries in the region have improved their international ranking in successive Doing Business reports and are attracting significant FDI flows as pointed by staff. The authorities are committed to make additional progress in improving the business climate through further reducing the cost and burden of doing business, closing infrastructure gaps, and enhancing human capital. They welcome staff's advice in further promoting reforms and increasing human capital investment.

18. More broadly, the authorities remain committed to endeavor in the direction of economic diversification and structural transformation. They continue to call on actionable steps from the Fund's analytical work in this area to help countries meet their needs. This agenda, building on macroeconomic stability, a strong growth momentum, and a common industrial policy to supplement national initiatives—including an emphasis on the development of SMEs--would lay the ground for higher potential growth and sustainable development.

CONCLUSION

19. The WAEMU region continues to experience strong economic growth amidst global slowdown and risks, thanks to buoyant public investment but also increasing private investment and robust private consumption. Structural changes will be the key to maintaining this momentum and helping countries of the Union graduate towards economic emergence. Regional and country authorities are committed to policies and reforms aimed at fostering this structural transformation, and they highly value the dialogue with, and assistance from, partners, notably the Fund, to achieve their goals.