November 1, 2016
Approval: 11/8/16

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 16/24-1

10:00 a.m., March 21, 2016

1. West African Economic and Monetary Union—Common Policies of Member Countries

Documents: SM/16/56 and Supplement 1; SM/16/57 and Correction 1

Staff: Loko, AFR; Traa, SPR

Length: 24 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	N. Tshazibana (AE)
N. Yambaye (AF)	
	D. Vogel (AG), Temporary
	K. Choi (AP)
	K. Florestal (BR), Temporary
	P. Sun (CC)
	J. Cova (CE), Temporary
	T. Lessard (CO), Temporary
	C. Just (EC)
H. de Villeroché (FF)	
H. Temmeyer (GR)	
S. Gokarn (IN)	
	D. Assalve (IT), Temporary
	T. Hiroshima (JA)
	M. Daïri (MD)
	M. Merhi (MI), Temporary
	O. Petryk (NE)
	K. Virolainen (NO)
	S. Potapov (RU), Temporary
	Z. Abdel-Rahman (SA), Temporary
	I. Chung (ST), Temporary
D. Heller (SZ)	
	E. Myers (UK), Temporary
	A. Medearis (US), Temporary

P. Alonso-Gamo, Acting Secretary
H. Malothra, Summing Up Officer
A. Bala, Board Operations Officer
M. Yslas, Verbatim Reporting Officer

Also Present
African Department: A. Gulde, B. Loko, R. Nord, B. Yontcheva. Legal Department: H. Pham. Strategy, Policy, and Review Department: B. Traa. Alternate Executive Director: S. Badirou-Gafari (FF), W. Diallo (AF). Senior Advisors to Executive Directors: M. Alle (AF), S. Bah (AF), A. Ismael (AF), M. Kollar (EC), R. Ngugi (AE), R. N'Sonde (AF), Y. Yakhin (NE). Advisors to Executive Directors: P. Abradu-Otoo (MD),

J. Chen (CC), O. Diakite (AF), M. Govil (IN), C. Imashov (SZ), S. Maluck (GR), H. Shoji (JA), A. Tivane (AE).

1. WEST AFRICAN ECONOMIC AND MONETARY UNION—COMMON POLICIES OF MEMBER COUNTRIES

Mr. Yambaye submitted the following statement:

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.

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

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.

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.

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

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

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.

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

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.

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.

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.

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 Basel 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

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 Basel 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.

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.

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.

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

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.

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

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.

Mr. Jimenez Latorre and Mr. Cova submitted the following statement:

We broadly share the thrust of the staff's appraisal. In fact, the WAEMU's economic dynamism has been robust, despite an adverse external context compounded by fragile domestic security conditions. Additionally, inflation has remained subdued and the international reserves (measured at end-December 2015) cover 4.3 months of imports.

Underpinning macro stability requires the implementation of a well-coordinated policy agenda that includes fiscal consolidation, enhanced regional monetary policy, and strengthened financial sector stability along with amplified financial development and inclusion. Initiatives for actions in all these dimensions would be instrumental in achieving higher and more inclusive growth.

Looking forward, eventual delays in fiscal and structural reforms, external financial restrictions, and a less favorable global economic growth would take a toll on regional economic performance and related spillovers.

We take note of the provided TA to WAEMU's member countries in the areas of real and external sector statistics, financial sector and debt management, as well as tax policy and public financial management. The authorities should be commended for the progress made on these spheres. However, there is additional space for improvement, particularly in terms of compiling both external debt data (on a quarterly basis), and a WAEMU-wide reserve template. Of course, this process should strike a right balance between linked benefits and costs.

We also praise WAEMU's authorities for their reform efforts aiming at modernizing the financial sector and strengthening banking supervision. Nonetheless, the existing challenges emphasize the need for further initiatives, aiming at overcoming regulatory vulnerabilities and sources of risks, reducing non-performing loans and developing a resolution framework. We encourage the authorities to step up their actions in these fields.

We welcome the selected issues' analysis on income and gender inequalities and growth in the WAEMU. In this regard, we share the view that boosting economic growth and granting legal recognition without gender distinction would make a significant contribution to both social justice and the prospects of political stability.

Mr. Just and Mr. Kollar submitted the following statement:

We broadly share the staff appraisal and policy recommendations to the member countries and institutions of the West African Economic and Monetary Union (WAEMU). We wish to provide the following remarks for emphasis.

Although higher public investment has led to a deterioration of the fiscal and current account balances, they could be instrumental to boosting potential growth over the medium term. Fiscal consolidation plans of the member countries therefore need to balance well development and poverty reduction needs. Public infrastructure investment projects should be prioritized on efficiency grounds, supported by strong institutions, and anchored within a medium-term fiscal consolidation framework. We see scope in reducing current expenditures, particularly the wage bill; and in increasing tax collection, in particular of indirect taxes. Keeping wage growth under control and in line with competitiveness developments is particularly important in a currency union.

We see merit in reinforcing the WAEMU Commission's mandate in the oversight of member countries' fiscal policies and in enforcing fiscal consolidation plans.

The pace of the recommended further financial deepening will need to be monitored closely by the supervisory authorities, given the already high level of non-performing loans and high credit risk concentration on banks' balance sheets.

We are concerned that 10 percent of the banks record negative equity and that the supervisory authorities have had difficulties with closing these banks down, or that national authorities challenge the resolution of failed banks. This poses serious moral hazard and financial stability risks. We share the staff's advice in this regard. In staff's view, how realistic is a meaningful improvement over short to medium term?

The staff report repeatedly mentions the need to conduct structural reforms in order to boost the diversification of WAEMU economies. Can staff be more specific as to what diversification they have in mind and what are the authorities' views on this matter?

We appreciate Table 11, but wonder whether its usefulness could be even further improved by highlighting those policy areas where WAEMU members' national policies either contribute to, reinforce, or undermine the attainment of WAEMU's overall economic and financial objectives.

Mr. Cottarelli and Mr. Assalve submitted the following statement:

We thank staff for the interesting set of papers on the WAEMU and Mr. Yambaye for his helpful buff statement. We broadly share the thrust of the staff appraisal, and would like to limit our comments to the following.

The WAEMU area continues to experience strong growth, mostly driven by public infrastructure investment and strong agricultural production. The outlook remains positive, thanks to well-anchored inflation expectations, favorable terms of trade and an improved policy framework. However, downside risks cloud the horizon.

Among external risks, tighter global financial conditions would merit close attention. Given the peg to the euro, a surge in U.S. dollar would expose the WAEMU area to higher import prices, which may have an impact on economies where imports are strongly sustained by infrastructure investment. In order to limit the impact from global financial risks, the effectiveness of monetary policy should be improved. To this end, it will be crucial to speed up reforms aimed at improving operational efficiency and strengthening the regional security market. In particular, the persistent excess liquidity and the absence of a well-functioning secondary market are issues that deserve closer attention. The very limited presence of foreign investors worsens the picture. Further elaborations on the fiscal or legal barriers encountered by foreign investors would be welcome.

As for internal risks, in Box 2 staff highlights that delays in structural reforms would potentially produce a considerable and persistent drag on growth over the projection horizon. Therefore, we join staff in encouraging the national authorities to continue to advance growth-enhancing reforms to improve PFM, public investment efficiency and fiscal policy coordination.

Security-related risks have grown as well, and are potentially more widespread than highlighted in the staff report. As the most recent terror attack in Cote d'Ivoire has shown, security may be an issue well beyond the Sahel region, posing serious risks to the development of the tourism sector. The staff's update on the tourism sector in the region and their view on potential impact from security deterioration would be appreciated.

Finally, we welcome the enhanced regional supervision of cross-boarder banks and pan-African banks in line with IMF recommendations. Financial stability has been strengthened by recent reforms, although serious challenges persist. Going forward, it will be key to improve a resolution framework that includes a resolution authority endowed with the necessary powers and independence.

Mr. de Villeroché and Ms. White submitted the following joint statement:

We thank staff for its clear and comprehensive set of reports, and Mr. Yambaye for their informative buff statement.

WAEMU's overall economic performance is clearly positive. The region continues to experience strong growth, while inflation remains subdued. The prospects in the short term are good, driven by the scaling up of public investment in the region. However, as stressed by staff, the fiscal and current deficits widened in 2015, and risks are on the downside. We broadly concur with staff recommendations that the challenge for the region is to sustain growth momentum while preserving internal and external stability, in an uncertain landscape. Structural reforms are the priority. Should structural reforms be delayed, WAEMU economic growth would be 1 to 1.5 percentage points lower compared to the baseline scenario. Continued efforts in terms of public financial management, the improvement of the business climate, alleviation of infrastructure bottlenecks and the reduction of gender gaps are essential to raise potential growth in a sustainable way.

We would like to focus on a few comments.

Addressing the infrastructure gap in a way that is consistent with debt sustainability remains an important priority. We are pleased to note the progress made in the recomposition of government expenditures in favor of capital investment. It is however of utmost importance to pursue the investment agenda over the medium- and long-term, in an efficient and qualitative way. It calls for robust safeguards in the design and the financing of investments and public policies. Vigilance is still required concerning borrowing conditions. In this regard, we note the growing use of pre-financing mechanisms for public investment projects, which could weaken safeguards and oversight of implementation (the repayment schedule is different from the project implementation schedule). The staff's views on possible risks linked to the increase in pre-financings mechanisms for projects in the region would be welcome.

Nevertheless, the fiscal deficit has widened over the last few years. According to staff, continuing fiscal expansion at 2008–2013 levels could erode BCEAO reserve to just 2 months of import cover by 2020, against 4.5 months today. In this context, we concur with the staff recommendation that timely and effective implementation of the planned fiscal consolidation at the national level is needed. Beyond the scope to improve efficiency of spending, mobilizing additional domestic resources is one of the main channels for creating fiscal space.

In the selected issues report, staff suggests that WAEMU countries have little margin of maneuver ahead in term of total tax collection, as it exceeds comparator countries. But some leeway would exist on income tax collection. We note that the WAEMU group's heterogeneity suggests the need for country-specific policies to improve revenue collection. However, we would have seen merits for more recommendations on the obstacles to fiscal mobilization. For example, enlarging fiscal space could come from tackling the informal economy, building capacity in tax collection administrations, increasing public tax compliance, rationalizing fiscal incentives, fighting against illicit financial flows, and/or favoring regional tax harmonization. The staff's views on the best approach to raise tax revenue would be welcome. In addition, we would be interested in whether any of the WAEMU countries have undertaken a Fiscal Transparency Evaluation (FTE), and if not whether staff considers there to be merit for the group as a whole to undertake them simultaneously? It strikes us that many of the countries could benefit from FTEs as a way of improving PFM and strengthen their macroeconomic framework.

The increase in access to financial services and BCEAO plans to align the regulatory with Basel requirements and establish a bank crisis resolution framework go in the right direction. We strongly encourage authorities to pursue the efforts to modernize and strengthen financial sector s, particularly the development of the regional financial markets which are instrumental for development and lag behind peer countries. Secondly, prudential standards in WAEMU are relatively weak by international standards (including capital adequacy and concentration risks) so we would like to encourage further action to address this.

Enhancing regional monetary policy, ensuring effective macro financial stability and building stakeholders confidence in the financial system calls for necessary powers and independence for the central bank. We note that in 2015, BCEAO refinancing operations backed by public securities to commercial banks almost met the 35 percent of revenue ceiling at the regional level; four member countries even breached this prudential ratio. Beyond the risk of inflationary pressure, relying on monetary financing for member countries could also jeopardize stability of the banking systems, whose portfolios are increasingly exposed to sovereign risks. What is the traction for the BCEAO to enforce the compliance with the statutory refinancing ceiling for countries and banks? Moreover, could staff elaborate on the depth of the domestic financial markets and its capacity to absorb public sector financing needs?

Finally, we would like commend the analytical sections on poverty, gender and inequality in the report, and would encourage staff to consider how best to integrate similar sections in other surveillance reports.

Mr. Dupont and Mr. Lessard submitted the following statement:

We thank the staff for their report and Mr. Yambaye for his helpful buff statement. While the growth outlook remains favorable for the region, WAEMU will have to confront several challenges, including a difficult security environment, if it is to capitalize on the opportunities that will be presented over the medium term. The region will also be an interesting litmus test for the Fund’s persistent bilateral and multilateral advice to push forward with large-scale public spending on infrastructure.

The authorities within the WAEMU will need to chart a finely calibrated fiscal path that balances the needs to meet infrastructure gaps with a well-calibrated fiscal consolidation plan. It is comforting that the staff and the authorities, evidenced in Mr. Yambaye’s statement, are in agreement with the need for growth-friendly fiscal consolidation over the medium term. Maintaining capital spending at approximately nine percent of GDP seems appropriate, if the region is to make inroads towards alleviating infrastructure bottlenecks. Consequently, fiscal consolidation should target domestic revenue mobilization and restraint in current expenditure, especially public sector wages. Moreover, to maximize the benefits of high and persistent public capital expenditures, efforts need to be made to improve the efficiency of public spending, with appropriate assistance provided by the Fund and WAEMU's other external development partners.

With relatively benign conditions there is no current need to tighten monetary policy and there is an opportunity to improve the transmission mechanism. We note the disagreement between staff and the authorities on the BCEAO's refinancing operations, but are comforted that both are in agreement that improvements in the interbank market are needed to improve liquidity management and the efficiency of the financial sector. The BCEAO should continue to hold a prudent amount of reserves to preserve the stability of the peg and maintain adequate buffers against external shocks. While the operations account the BCEAO has with France provides additional insurance, it is curious that BCEAO countries are required to hold 50 percent of their exchange reserves at the French Treasury. It would be interesting for staff to explore the benefits, tradeoffs, and alternatives to this arrangement in future work.

We welcome the authorities' efforts to improve their AML/CFT regime and implement Basel regulatory standards. As the financial sector expands to meet the twin goals of further deepening and improved financial inclusion, a strong regulatory and supervisory framework is necessary to mitigate risks. There is currently evidence of some vulnerability within the financial sector, most notably high levels of NPLs (15.4 percent) despite robust levels of economic growth. Improvements in the collateral registry, information on the credit worthiness of borrowers, and improved private debt resolution regimes would be beneficial for financial stability and the ability of the sector to provide credit to the real economy.

Mr. Geadah and Ms. Merhi submitted the following statement:

The West African Economic and Monetary Union (WAEMU) has continued to record robust economic growth and low inflation amidst global slowdown and external risks. Sustaining the growth momentum would benefit from macroeconomic stability, further structural reforms, and better coordination among union members. We welcome the authorities' commitment to push forward fiscal adjustment policies that preserve growth, and structural measures to boost competitiveness and productivity, as highlighted in Mr. Yambaye's helpful buff. The main risks that could weigh on growth are related to persistent security problems and external developments. We would like to highlight a few points:

Increasing domestic fiscal revenues will be important for implementing the development agenda while preserving debt sustainability. There is also scope to enhance the efficiency of spending and improve the quality of public investment by strengthening national institutions and modernizing PFM frameworks. Transposing the revised regional surveillance framework to national laws would help to accelerate progress towards the 2019 convergence fiscal deficit target of 3 percent of GDP.

Progress has been made by the BCEAO and the Banking Commission in enhancing financial sector stability, but more needs to be done. Indeed, some vulnerabilities remain with regards to credit and operational risks. Further reforms should include the restructuring of problem banks, enhancing prudential ratios, and strengthening the regulatory and supervisory frameworks. We welcome the authorities' plan to increase the minimum capital requirement of banks to CFAF 10 billion as well as to implement Basel II-III provisions. Will technical assistance be needed in this regard? At the time of the last review, the issue of commercial bank use of BCEAO liquidity to purchase government securities was raised. We note from the buff that the BCEAO has limited its liquidity injections since October 2015, which is expected to induce banks to make increasing use of the interbank market. The staff's comments on this development would be welcome.

Growth prospects will benefit from addressing the infrastructure gap and strengthening the business climate to enhance competitiveness and diversification. This should be coupled by efforts to boost financial development and inclusion. We would be interested to learn from staff whether de-risking has impeded access to financial services in the WAEMU?

With these remarks, we wish the WAEMU authorities the best in their ongoing reforms' efforts.

Mr. Omar and Mr. Chung submitted the following statement:

We thank Mr. Yambaye for the informative buff statement and staff for an insightful report. We welcome West African Economic and Monetary Union (WAEMU) region's robust growth and low inflation in 2015 despite the fragile security situation in some member countries. We also commend the WAEMU authorities, including the Central Bank of West African States (BCEAO) and the Banking Commission, for making admirable progress in financial sector reforms. Nonetheless, given an uncertain global environment and considerable downside risks to the outlook, we strongly encourage the

WAEMU authorities to intensify efforts to implement the necessary structural reforms that will help to preserve macroeconomic stability and support growth. We broadly agree with staff appraisal and offer the following comments.

A strong emphasis on prudent fiscal policy is required to preserve external stability and debt sustainability. Public infrastructure investments have been supportive of growth but timely and effective implementation of planned fiscal consolidation and reforms at the national level to create fiscal space will be crucial in ensuring longer-term sustainability. In this regard, we agree with staff that WAEMU authorities should prioritize reforms to increase domestic revenue by broadening the tax base and strengthening tax administration. Technical assistance and sharing of best practices among member authorities in the region should also help to promote and accelerate implementation of these reforms. Further, efforts to improve public financial management and the quality of spending should be sustained. Where appropriate and feasible, we also encourage WAEMU authorities to safeguard priority spending for vulnerable segments of society and projects that would promote economic diversification, boost competitiveness and foster inclusiveness. We note that the authorities highlighted a potential role for Fund-monitored programs in supporting the consistent implementation of fiscal consolidation plans. Could staff elaborate on the status and progress of the implementation of fiscal consolidation plans by WAEMU members with Fund programs, as well as how they compare with other WAEMU members?

We continue to support the authorities' efforts to improve the transmission channels of monetary policy and welcome the recent introduction of electronic systems to enhance market operations. At the same time, we echo staff calls for the authorities to deepen their financial markets, including by undertaking reforms to develop the interbank market and the secondary bond market for government securities, so as to attract more foreign investors and diversify the investor base. We agree with staff that the BCEAO's liquidity injections may be undermining the development of the interbank market but note that the authorities have some reservations toward staff's recommendation to scale back BCEAO's refinancing operations. We welcome further comments from staff on the authorities' concerns about the potentially adverse impact of withdrawing BCEAO's refinancing on the banking sector's provision of credit to the private sector.

A strong and stable financial sector is essential to accelerate future growth. We commend the authorities for making important progress in strengthening the financial sector but note with some concerns that the

WAEMU banking system still exhibit vulnerabilities. High levels of non-performing loans, weak enforcement of prudential standards and high concentration of credit continue to pose credit and operational risks to the banking sector. In this regard, we encourage the authorities to urgently prioritize efforts to strengthen supervisory and enforcement frameworks and to reduce regulatory forbearance.

Business climate reforms and efforts to promote more inclusive growth can lay the foundations for higher and more sustainable economic growth. We note positively that over the recent years, most WAEMU countries have made significant progress in improving the business environment. However, some of the region's infrastructure bottlenecks are still hampering competitiveness and productivity growth. Structural reforms must thus continue in order to improve public infrastructure spending, reduce costs of inputs and strengthen human capital. In addition, the authorities should build on their achievements in reducing the incidence of extreme poverty by pursuing additional measures to reduce income and gender inequalities as well as promote financial inclusion. To this end, we see merit in staff's suggestions for the WAEMU Commission to monitor discriminatory legal provisions and engage members on plans to eliminate them. Collectively, these measures will help lift larger segments of the population from poverty while boosting the region's longer term potential growth.

With these remarks, we wish the WAEMU authorities all the success in their future endeavors.

Mr. Alshathri and Mr. Alhomaly submitted the following statement:

We thank staff for their informative report and Mr. Yambaye for his helpful buff statement. We are encouraged by the recent economic growth in the WAEMU, driven in part by continuing investments in public infrastructure and robust private consumption. As we broadly agree with the thrust of the staff report, we confine ourselves to the following points.

On the fiscal front, we agree with staff that the authorities should implement fiscal consolidation to attain sustainable and stable macroeconomic environment, which would contribute to ensuring the sustainability of the currency peg. Indeed, as highlighted in the staff report, adopting prudent fiscal policy is imperative to maintain external stability and debt sustainability. In this regard, we are encouraged by the WAEMU Commission's commitment to help member countries strengthen public debt management, streamline expenditure, improve domestic revenue mobilization, and enhance the efficiency of public spending. In this context, we support expanding the tax base and increasing the excise tax on harmful products, such as tobacco.

As regards the financial sector, we are encouraged by the progress made in strengthening the regulatory framework, including by expediting the process of adopting Basel II and III requirements, increasing banks' minimum share capital (effective in 2017), improving the surveillance of cross-border banks, and adopting a new law on AML/CFT. However, effective measures should be put in place to reduce the high level of NPLs and mitigate the credit and concentration risks, including through strengthening regulatory and supervisory frameworks.

With regard to monetary policy, we share staff's view that given the subdued inflation outlook and external developments, tightening of monetary policy is not warranted in the near term. In addition, we are encouraged by the progress made in enhancing the efficiency of monetary policy, including through the mechanism used to inject and absorb liquidity and trade government securities via the recently introduced electronic platform.

Furthermore, we urge the authorities to put in place effective measures to develop interbank and secondary markets. To this end, enhancing governance, strengthening the regulatory framework, and deepening the financial market, including by issuing debt securities with various maturities to improve liquidly and broaden the investor base, are of significant importance. Finally, the BCEAO's plans to develop the interbank market, including by reducing counterpart risk and establishing a reference rate, are welcome.

With these comments, we wish all the authorities in the region all the success.

Mr. Temmeyer and Mr. Maluck submitted the following statement:

We thank staff for their informative note and Mr. Yambaye for his helpful buff statement.

We agree with the thrust of the staff's appraisal and take positive note of the robust growth performance of the WAEMU despite the challenging security situation. We recognize the risks to growth and macroeconomic stability which require concerted efforts on the national and regional level to proceed with fiscal consolidation and to implement critical structural reforms to improve competitiveness and to foster diversification. While we welcome that the majority of WAEMU countries achieved progress in reducing extreme poverty, poverty in the WAEMU is still high and above the Africa-benchmark. The creation of employment opportunities—in particular for younger people—appears pivotal, also with a view to preserving political stability.

Acknowledging the generally sound state of macroeconomic conditions, the authorities' challenge is to maintain external and internal stability by implementing prudent fiscal and structural reforms. We note that the relatively benign growth prospects in the baseline scenario are contingent on fiscal adjustments and the implementation of an ambitious structural reform agenda.

We note that fiscal consolidation critically hinges on implementing the public finance reform agenda. We agree with staff's advice focusing on broadening the tax base, controlling current spending and improving the efficiency of public investments in growth-enhancing areas. In this context, we underline staff's call for a stronger WAEMU Commission that should be mandated and equipped with sufficient capacity to monitor national fiscal policies and to enforce the regional convergence criteria. While Fund monitored programs can play a role in monitoring the WAEMU's macroeconomic consistency and giving policy recommendations, this should not delay efforts to empower regional institutions that are needed to ensure the stability of a currency union.

Well-directed structural policy reforms and efficient investments in infrastructure in line with fiscal space are important to improve medium-term growth prospects. We therefore encourage the authorities to address structural issues that currently weaken the business environment and impede private sector-led growth, including a transparent and reliable legal environment. Investing in infrastructure with a focus on projects with the highest value added and boosting energy supply should consequently be of priority to mobilize private investments. In this context, we agree with staff that the region's competitiveness should be increased to enable the region to integrate into and move up the global value chains. At the same time, efforts to diversify the economy should be made e.g. with the aim to reduce the dependence on soft commodities, which are prone to adverse weather events.

With inflation pressures currently under control, BCEAO should focus on improving the effectiveness and efficiency of the monetary transmission mechanism e.g. by promoting adequate market infrastructures and procedures that help spurring the interbank market and broaden the investor base in capital markets in general. When entering calmer waters, BCEAO could gradually reduce its refinancing operations in a careful manner without unsettling the banking sectors' ability to finance private sector activity.

We encourage the authorities to take the necessary steps to develop the regional financial sector and increase its resilience. Priority should be given to tackling the problem of banks with capital shortfalls. While appreciating progress being made in terms of modernizing the financial sector and strengthening the regulatory framework, the high level of non-performing loans in the banking sector despite overall favorable macroeconomic conditions warrants swift remedial actions. Particularly worrying is the number of banks failing to comply with minimum capital regulations. This reveals deficiencies in the resolution of troubled banks and underlines the importance of developing robust regional resolution framework and continuing efforts to strengthen banking supervision. As staff mentions that 13 percent of banks did not comply with capital requirements and 10 percent even reported negative equity, how much of the banking sector's total assets do those institutions represent and how much of a widespread systemic risk does this entail?

Mr. Petryk submitted the following statement:

We thank staff for their well-documented report and Mr. Yambaye and Mr. Diallo for their helpful buff statement. Over the past years the WAEMU region experienced robust average growth of more than 6 percent per year. The current economic outlook is optimistic. Inflation is moderate and assessed to remain low in the forecasting period. However, economic and financial challenges remain, mainly due to the large current account deficit, lack of progress in implementing structural reforms and low competitiveness and diversification. The region continues to lag behind its African peers like Ghana and Tanzania in terms of structural competitiveness. We broadly share the trust of staff's assessments and recommendations, and provide the following comments for emphasis.

We are concerned about the fiscal expansion that continues. The overall fiscal deficit of the region exceeds 4 percent of total GDP in 2015-2016. Fiscal consolidation and prudent fiscal policy should be the authorities' highest priority. This will enable them to create space for development needs and lower public debt over the medium term. We share staff's view that the fiscal policy should focus on containing current spending. Broadening the tax base, strengthening the tax administration will improve tax collection. It is crucial for the region to make better use of public resources and to render public investment more efficient, in particular by improving public debt management and the quality of public institutions.

Despite the important progress in recent years with modernizing and deepening the WAEMU's financial sector, the financial system poses various risks. Non-performing loans remain elevated, high credit and concentration exposures continue to show vulnerabilities in the banking system, transparency and market discipline are lagging behind, and liquidity of financial data is still low. It is important to enforce existing financial regulations and prudential banking supervision in order to achieve international best practices. We welcome the Banking Commission's efforts to strengthen its supervisory tools and increase staff capacity. We also support the planned update of the regulatory framework buildup of financial buffers.

We welcome staff's analysis on income and gender inequality and on poverty, which are impediments to growth in the WAEMU countries. We urge the authorities to implement reforms to address these issues. More traditional structural reforms, focusing on labor and productivity, should be complemented by efforts aimed at closing the income and gender gaps in order to lower the poverty rates in the WAEMU. On average, poverty rates, income distribution and gender inequality indicators are higher than African benchmark countries (Ghana, Kenya, Lesotho, Rwanda, Tanzania, Uganda and Zambia) and significantly higher than in Asian benchmark countries (Bangladesh, Cambodia, India, Laos, Nepal and Vietnam). In this regard, we share staffs' appraisal that decreasing income inequality, gender inequality and poverty is not only necessary from a human and political prospective, but it could also help to accelerate ceteris paribus real GDP per capita growth.

We join staff in encouraging regional integration. The local authorities should focus on common projects to improve regional infrastructure and develop human capital. It is crucial to restore productivity growth and to establish a foundation for long-term sustainable and inclusive economic growth.

Mr. Palei and Mr. Potapov submitted the following statement:

We thank staff for a set of informative papers and Mr. Yambaye for his helpful buff statement. The real GDP growth in the WAEMU members is high and, for the medium term, staff forecast aggregate growth rates well above 6 percent annually. Inflation is projected to remain low. The authorities are maintaining macroeconomic stability and continue to make efforts aimed at achieving more sustainable and inclusive growth. However, this positive outlook is exposed to significant domestic and external downside risks, including further slowdown in global growth, delays in implementing structural reforms and fiscal consolidation, as well as security-related issues.

We welcome the authorities' plans to gradually reduce fiscal deficits, while preserving infrastructure investment. Although, in light of high growth and a relatively low level of debt, the current level of fiscal deficits does not raise immediate concern about debt sustainability, further worsening of fiscal stance has to be arrested. Lax fiscal stance may intensify pressure on the external position, while gross international reserves could fall to extremely low levels, covering less than two months of imports. It is also crucial to build fiscal space for productive capital investments. In this context, a modest and growth-friendly reduction of non-priority current spending and higher tax revenues should help members to comply with the convergence criteria. We also encourage the authorities to take steps aimed at improving public financial management and public investment efficiency. We share the WAEMU Commission's concern about limitations in its mandate to monitor and coordinate members' fiscal policies. Therefore, further initiatives should be envisaged to strengthen the regional governance framework.

The adoption of the ECOWAS tariff for all countries in the Economic Community of West African States should help to promote regional trade. However, implementation of this step may reduce the current budget revenues associated with trade. Can staff provide more detailed estimates on the potential impact of the application of this tariff on fiscal revenues in the WAEMU members?

Given low inflation and planned fiscal adjustments, we agree with staff that the current stance of monetary policy is appropriate. At the same time, there is a need to improve efficiency of monetary policy, which is limited by underdeveloped interbank market and secondary market of government securities. Continuing rise in banks' sovereign exposures, while liquidity is excess, raises questions about the efficacy of the BCEAO refinancing policy. Given the vulnerability of banking sectors to concentration and credit risks, potential impact of a possible interest rate increase on private sector balance sheets should also be carefully examined. In order to enhance monetary transmission mechanism, we encourage the authorities to accelerate the implementation of ongoing financial market reforms, including the priority actions for this year recommended by staff.

While the authorities have achieved important progress in strengthening the financial regulatory framework (table 10 of the report), further efforts are needed to strengthen supervision, crisis prevention, and resolution frameworks. In particular, the advancing of Basel II/III regulation is welcome as it will bring prudential rules closer to international standards. Resolution of all legal and operational issues related to the creation of credit bureaus will be helpful in decreasing NPL levels.

We support staff's recommendations on structural reforms, which are crucial for improving the business environment and financial inclusion, as well as for reducing income and gender inequality. We welcome the comparisons of the WAEMU members to African and Asian countries, which were at a similar level of development in the 1990s. We would also call for deeper and country-specific studies in individual WAEMU members on needed structural reforms and key structural impediments. Moreover, we see that the WAEMU authorities do not share staff's view that the business environment remains unattractive. In fact, as Mr. Yambaye stated in his insightful buff statement, many countries in the region have been improving their positions in the Doing Business ranking. As a related matter, can staff provide recent data on FDI flows and their forecast on the medium-term horizon?

Mr. Gokarn and Mr. Govil submitted the following statement:

We thank staff for a set of comprehensive papers on WAEMU and Mr. Yambaye for his informative buff statement. Recent economic growth in WAEMU has been encouragingly strong and inflation has been low. Yet, it is felt that risks are growing, largely due to a vulnerable external position, low public investment efficiency and widening fiscal deficits which need to be corrected by suitable revenue enhancement measures.

The external balance is subject to several risk factors. The staff report states that the current account deficit is likely to remain above 6 percent of GDP in the medium-term in spite of lower energy prices mainly because of a surge in imports, stemming from buoyant public investment and private consumption. A further slowdown in global growth and tighter global financial conditions could negatively impact the external balance as well. The staff report also indicates that persistently low non-oil commodity prices are likely to have a high adverse impact on fiscal and macroeconomic performance. Given these considerable potential risks for external sector, staff may like to suggest appropriate risk management measures to the country authorities.

Efficiency in public investment could be improved through regulatory reforms. In the selected issues paper on Public Investment Efficiency in WAEMU, staff suggests that there is a gap of around 10 percent between the region's public investment efficiency and that of the sub-Saharan Africa (SSA) peer countries. The staff's analysis notes that regulatory quality, as measured by the WGI regulatory quality indicator, is an important determinant of investment efficiency. The staff has, however, not made a case that the WGI regulatory quality indicator for WAEMU is substantially lower than in SSA peer countries. If it is indeed so, could staff state the potential improvement, as suggested by the regression analysis, in WAEMU's investment efficiency if the WGI indicator for WAEMU were to reach the level of WGI for peer SSA countries? Further, the prioritization of regulatory reforms is not clear. While the paper focuses on improvements in public investment management, and we agree that this should be a priority for the authorities, we note that other regulatory reforms could also bring about substantial improvements in regulatory quality, and, hence, in the investment efficiency.

Progress on improving tax revenues needs to be maintained by broadening the tax base. The selected issues paper on Fiscal space in WAEMU rightly emphasizes the need to use the fiscal space efficiently, while at the same time advocating a need to remain cautious about higher debt financing. With regard to raising revenues, it is encouraging to note that the overall tax to GDP ratio in the WAEMU region has increased significantly during the period from 2000 to 2011, although it is still lower than in the SSA region. The paper suggests that while the tax collection in WAEMU in 2011 was above its potential revenue, there is scope for increasing the domestic tax base which could lead to an improvement in the income tax revenues by around 0.8 to 2 percent of GDP. Could staff state whether tax evasion/avoidance by multinational firms is a major issue for some countries in the region, and whether there is a substantial scope for increase in tax revenues from improvements in taxation of such firms?

Mr. Virolainen and Ms. Sand submitted the following statement:

We thank staff for the reports and Mr. Yambaye for the informative buff statement. We were sadly reminded this week that security issues remain a major challenge for the region along with poverty, unemployment, and income and gender inequality. We agree with staff's appraisal and would like to comment on the following:

First, on fiscal policy, given the systemic implications for the currency union, assessing the progress of transposing regional convergence criteria into national laws and monitoring their enforcement should be an important part of the Fund's individual bilateral surveillance activities with WAEMU members. It is important that the authorities move forward with their fiscal consolidation plans to bring down the budget deficits and create fiscal space for much needed poverty reduction and development needs. To ensure that the WAEMU's robust growth performance can be maintained in the medium-term we support the increased regional integration and encourage authorities to consistently work to improve the business environment, strengthen governance, and develop human capital and infrastructure to raise medium-term growth potential.

Second, noting that inflation currently is low and stable, we agree that the focus should be on enhancing the monetary policy transmission mechanism. We see merit in the proposal to boost the interbank market in order to improve liquidity management along with a deepening of financial markets.

Third, the authorities should accelerate their efforts to improve the stability of the financial sector. Important progress in modernizing and strengthening the sector has been made, but vulnerabilities remain. Strengthening and streamlining the supervisory, crisis management, and resolution framework should remain a priority.

Finally, we welcome the selected issues' chapter on income and gender inequality and growth in the WAEMU. It puts emphasis on that although the region has made some progress in these areas, it lags behind benchmark countries. Increased focus on closing gender gaps in opportunities as well as granting the same legal rights to women as for men can boost the region's growth potential further.

Mr. Hiroshima and Mr. Shoji submitted the following statement:

We thank staff for a comprehensive report and Mr. Yambaye for their informative statement. We welcome the strong economic growth and stability in the WAEMU region, while noting potential risks including the difficult external environment. As we broadly concur with the thrust of the staff's evaluation and appraisals, we will limit our comments to the following points for emphasis:

Fiscal Policy

We shared the staff's view that • strengthening domestic revenue mobilization should be one of the most important policy priorities for development spending. We also note that tighter global financial condition has forced the WAEMU authorities to get external costly borrowing from the international market. In this regard, measures to broaden the tax base and reduce the inefficient tax exemption should be encouraged. On the other hand, the authorities should improve public investment efficiency which is a key to create growth dividend. In this context, we would appreciate if staff could elaborate more on potential PPPs projects.

Monetary Policy

We agree with staff that the current stance of the monetary policy is appropriate in view of the low inflation and stable external development. That said, as private consumption contributes to widen the current account deficit, despite the lower oil prices, the external development should be carefully monitored. BCEAO needs to take action to tighten their monetary policy if WAEMU economies overheat. In addition, we would like to highlight that adequate financial infrastructure and well-designed institutions for interbank and secondary market would strengthen the effectiveness of the monetary transmission mechanism. Is a Fund's TA supporting WAEMU's securities market in this regard?

Structural Reforms

We note that WAEMU's structural competitiveness lags behind their African peers. Therefore, we encourage the authorities to push up filling the infrastructure gap to improve the business environment while maintaining debt sustainability.

We welcome the progress on poverty reduction and social indicators over the last decade. At the same time, we are disappointed to know that poverty rate, income inequality and gender inequality remain high in the world. In this regard, investing human capital and utilizing female labors are indispensable to boost economic growth and move forward income equality.

Mr. Daïri and Mr. Abradu-Otoo submitted the following statement:

We thank staff for the comprehensive set of documents and Mr. Yambaye for his informative statement.

Growth in the WAEMU in recent years has been strong, underpinned by scaled up infrastructure investment and buoyant private consumption throughout the region, as well as post conflict growth catch-up in Côte d'Ivoire, and inflation has remained low. Although the fiscal deficit has widened, partly on account of the public infrastructure investment drive in the region, reserves remain adequate and the exchange rate is in line with fundamentals. While the outlook is favorable, strong reform momentum in improving the business environment, strengthening competitiveness, and promoting diversification, and fiscal consolidation to create more space for infrastructure and human resource development will be needed to put the region on a durable growth path and help address poverty, unemployment and income inequality. We concur with the thrust of staff appraisal and wish to make the following comments:

Strengthening revenue collection and tightening control over recurrent expenditure, while improving spending efficiency and strengthening debt management will help finance the development agenda, preserve debt sustainability, and deal with elevated security risks in the region. While acknowledging the need for members to implement their fiscal consolidation plans and standing ready to help them in this endeavor, the WAEMU commission and the BCEAO indicate that they do not have mandate to enforce these plans. This underscores the need for the region to strengthen the institutional setting for closer policy coordination to help ensure macroeconomic stability. The staff may wish to indicate whether there is scope for early progress in this area. We look forward to completion of the ongoing study of the region's institutions to make them more effective.

With a benign inflation outlook and adequate reserves, we agree on the appropriateness of the current monetary policy stance. However, the persistence of high liquidity conditions in the interbank market brought about by refinancing operations of the central bank is hampering the transmission channel and weakening policy effectiveness. We are encouraged by Mr. Yambaye's indication that the authorities are pursuing reforms aimed at reducing central bank refinancing.

We take note of the important progress in strengthening the financial sector and enhancing supervision, including for cross-border banks. However, high NPLs, credit concentration risks, and insufficient enforcement of regulatory compliance need to be addressed. We welcome the planned strengthening of the bank crisis resolution framework, as indicated by Mr. Yambaye. Stronger efforts are needed to improve access to finance and enhance financial development, and implementation of the WAEMU regional financial inclusion strategy will be important.

Structural reforms in the region should continue to focus on removing obstacles to competitiveness, which remains weak and has been on a deteriorating trend, by improving the business climate. In paragraph 35 of the staff report, easing procedures for registering businesses and obtaining construction permits, ensuring availability of electricity, and improving access to credit have been identified as critical to strengthening the business environment and raising the region's attractiveness for investments. We take note of the recent progress in improving the business environment, as indicated by Mr. Yambaye, and encourage the authorities to redouble their efforts in this area. Moreover, while the authorities attach high priority to closing the huge infrastructure gap, enhancing human capital, developing strong institutions, strengthening public financial management, and ensuring value for money in the pursuit of critical development projects would be crucial. The authorities' commitment in this regard is reassuring.

Mr. Sabharwal and Ms. Medearis submitted the following statement:

The West African Economic and Monetary Union (WAEMU) region continued its strong growth performance over the past year, driven largely by public investment. However, a more concerted reform effort is needed to safeguard macroeconomic and financial stability and promote inclusive growth, particularly in the light of downside domestic and external risks. The regional authorities can assist through further measures to enhance the effectiveness of monetary policy and promote financial stability, as well as by encouraging WAEMU member countries to implement fiscal reforms at the national level aimed at mobilizing domestic revenues, raising spending efficiency, and strengthening debt management.

We agree that the current monetary stance is appropriate, and we concur with staff that the BCEAO should focus on further efforts to improve the monetary transmission mechanism, in particular with respect to developing the secondary market for government securities. We encourage the BCEAO to continue to monitor its refinancing operations and to strengthen the interbank market in order to reduce the need for refinancing, as elaborated in Mr. Yambaye's buff statement. The staff's recommendations for strengthening bank regulation and supervision in line with international standards will help strengthen financial stability, and we welcome the authorities' progress toward alignment with the Basel frameworks and on measures to improve AML/CFT.

Fiscal consolidation, in line with the new regional convergence criteria, will require a combination of revenue and spending measures, while taking care to preserve social and development spending. On the revenue side, we agree that the focus should be on strengthening public financial management, in particular to improve tax collection. We note that the Fund has provided some tax policy TA to the region and wonder whether more assistance in this area would be helpful. Given the relatively high debt-to-GDP in the WAEMU, and in light of the general trend of accelerating debt in LICs, a greater focus on improving public debt management is warranted. We agree that strengthened regional institutions could help support fiscal efforts at the country level.

On the spending side, we found the selected issues paper useful in highlighting the inefficiencies in public investment and spending on health and education, which compare unfavorably with benchmark countries. In our view, the discussion could have been strengthened by providing examples of countries that have successfully undertaken such measures to address efficiency gaps. We also would advise some caution when examining distance-to-frontier indicators for spending efficiency, as these may not clearly reflect historical trends and legacies (e.g., conflicts or epidemics). We welcome the joint IMF-World Bank Public Investment Management Assessment (PIMA) pilot and encourage the application and further development of these assessments in bilateral Fund surveillance reports. Could staff please comment on plans for integrating the PIMA assessments into surveillance?

We appreciated the analysis of financial inclusion and financial deepening, which can help bolster financial stability and support economic growth. The heavily concentrated bank lending portfolio and high level of non-performing loans speak to the need for strengthened banking supervision before banks expand their exposures to a broader clientele. Noting the shallow reach of micro-finance, we wonder whether staff has considered ways to encourage wider distribution of funds, for example through bank intermediation. We also note that the selected issues paper focuses on formal bank accounts and use of debit and credit cards as indicators of financial deepening, perhaps missing the enormous potential for new, low-cost technologies such as mobile banking and payment services, the use of which is relatively low in the WAEMU.

Finally, we appreciate the elaboration of regional and external risks in the Risk Assessment Matrix. The recent terrorist attack in Cote d’Ivoire, the region's strongest-performing economy, underscores the heightened threat to economic growth and stability from security risks emanating within the WAEMU as well as from surrounding regions.

Mr. Sun and Ms. Chen submitted the following statement:

We thank staff for the informative reports and Mr. Yambaye for the helpful buff statement. The economic growth in the West African Economic and Monetary Union (WAEMU) was robust in 2015, driven by ongoing infrastructure investments, solid private consumption, and positive developments in the terms of trade. Nonetheless, this region remains vulnerable to the fragile security situation, tighter global financial conditions, and weaker trading partner growth. Going forward, more prudent macroeconomic policies to improve fiscal consolidation, reinforce financial sector regulation and supervision, and strengthen structural reforms would be necessary to create a solid foundation for sustained robust growth. We broadly agree with staff's appraisal and would make the following comments for emphasis.

In order to preserve debt sustainability, it is critical to implement fiscal consolidation at the national level. These reform measures could include increasing domestic fiscal revenue mobilization, enhancing spending efficiency, and improving the quality of public investments. To create fiscal space for development needs, more needs to be done to further broaden the tax base, eliminate the exemptions for VAT, and strengthen tax administration to fulfill the criterion for the tax-to-GDP ratio in the WAEMU to be 20 percent. In view of the limited capacity to enforce fiscal consolidation plans in member countries, reinforcing the mandate of the WAEMU Commission and strengthening its capacity to monitor and coordinate national fiscal policies will be essential.

We agree that the monetary policy stance is broadly appropriate to maintain the inflation level well below the 3 percent criterion. Meanwhile, we commend the authorities' efforts to improve the operational efficiency of the monetary policy through launching an electronic platform to computerize liquidity injections and absorptions, establishing a regional network of brokers specialized in government securities, and monitoring banks' compliance with the established reserve requirements. Going forward, more efforts are needed to develop an active interbank market and secondary market for public securities, better control liquidity and the access of commercial banks to the central bank refinancing, and broaden the financial market investor base. In order to further modernize the banking sector and safeguard financial stability, the authorities are encouraged to step up the reform agenda to implement Basel II and Basel III, strengthen risk-based supervision, align prudential limits with international standards, and adopt the regional financial inclusion strategy.

Implementing the long-awaited structural reforms is essential to boost competitiveness and diversification, improve the business environment, and enhance inclusion. In this regard, necessary reforms—including streamlining the process of registering property, dealing with construction permits, getting credit and electricity, and paying taxes—would help improve the business climate. Taking into account the impact of the gender gap, granting the same education, health, and legal rights opportunities to women as for men could support efforts to boost per capita growth as well as promote more social equality.

With these remarks, we wish the authorities success in their policy endeavors.

Mr. Choi and Ms. Lelang submitted the following statement:

We thank staff for their concise report and Mr. Yambaye for his informative buff statement. We broadly share the general thrust of the staff appraisal and policy recommendations and would like to make the following comments.

We welcome the sound performance of the WAEMU such as its strong economic growth with low inflation. We also commend WAEMU for the general reduction of extreme poverty including the general decline in net income inequalities in most member countries. In this view, a good outlook seems agreeable, in spite of risks.

Looking ahead, the primary challenge of the WAEMU is to sustain this economic growth momentum whilst maintaining internal and external balance of each member country over the medium term. We stress that it is crucial whilst adopting a policy mix to support regional growth and stability that the policy mix should be implementable and result in the policy expectations at both the regional and national level. That said, we draw the authorities' attention to the fact that sustainable growth will hinge on reforms agenda to address the structural weakness and enhance integration in the medium term.

On fiscal policy, we stress the importance of fiscal consolidation at the national level to support regional growth and stability. It is important that WAEMU member countries through its regional institutions should communicate amongst each other of the importance of fiscal consolidation whilst addressing development needs of individual countries. The fiscal priorities should be increasing domestic revenue, better control and allocation of recurrent expenditure and improving public investment efficiency. In addition, we agree with the importance of managing the wage bill. However, we are unable to find the necessary information on controlling the wage bill and would like to invite staff to elaborate more on this.

We share staff's view that the tightening of monetary policy is not currently warranted for the region; instead, action is needed to enhance monetary transmission mechanisms to impact member countries. We therefore encourage the WAEMU commission to develop an active interbank market and secondary market for public securities, to better control liquidity including the access of commercial banks to BCEAO refinancing and to broaden the financial market investor base of the region. The objective is to ensure monetary policy formulated at the regional level translates into policy response of respective member countries. We welcome the small progress made to date in improving the operational efficiency of monetary policy.

We take positive note of the authorities' progress in modernizing the financial sector and strengthening the regulatory framework at the regional level. In particular, we commend their efforts to align their financial regulation framework with international standards and best practices. We also support the authorities enhancing supervision cross border banks, notable pan-African Banks, adopting laws on anti-money laundering, including the uniform law on credit plus the strengthening of governance and structure of financial institutions. It is important the financial sector reforms at the regional level also result in the policy expectations on the national level as well as improved financial deepening.

Finally, we welcome WAEMU member countries' commitment to implement structural reforms. Pursuing of structural reforms by member countries is essential to meet the directives of the region. Hence, we encourage them to continue their efforts towards diversification, structural transformation, and regional integration. In particular, these efforts should focus on improving the business environment and investment efficiency including targeting closing gender gaps and inequalities in various localities of WAEMU members.

Ms. Tshazibana, Mr. Odonye and Mr. Tivane submitted the following statement:

We thank staff for a comprehensive set of reports on the West African Economic and Monetary Union (WAEMU) and Mr. Yambaye for an informative buff statement. Growth remained strong in 2015; exports growth buoyant, inflation tame, public debt levels sustainable and official reserves adequate. However, prospects for 2016 and near term are threatened by security risks, sluggish structural reform and an uncertain global environment. Against this backdrop, sustaining the growth momentum will require the strengthening of fiscal buffers and overall macroeconomic stability alongside structural reforms to ensure that the fruits of growth are more widely shared. We broadly agree with the staff analysis and recommendations, and wish to make the following contributions for emphasis.

Adopting a fiscal path that promotes greater efficiency of public spending and preserves external stability will support macroeconomic stability and the realization of the authorities' development agenda. In this regard, the authorities are encouraged to strengthening the public finance management framework and institutional prioritization alongside exploring measures to broaden the tax base and strengthen tax administration. We also agree with staff that the WAEMU Commission should encourage member countries to ratify the new convergence criterion aimed at accelerating fiscal consolidation to preserve external stability and debt sustainability. In addition, improved collaboration between the WEAMU Commission, BCEAO and national governments will support the achievement of the planned fiscal consolidation in line with the 2019 target and the convergence criteria.

An accommodative monetary policy remains consistent with the region's macroeconomic conditions. However, excess liquidity, shallow and segmented interbank market continues to hamper monetary policy efficiency in WAEMU. In these circumstances, we agree with staff that the BCEAO rapidly implement financial market reforms to strengthen effectiveness of monetary policy. The region's heterogeneous and segmented banking system, in which a few banks have excess liquidity but no space to extend credit to the real economy, requires immediate resolution. While we agree with staff that there should be gradual reduction of the BCEAO's refinancing operations to commercial banks, we see merit in the authorities' concerns about the withdrawal of the BCEAO refinancing operation, which currently provide liquidity to commercial banks to bridge funding gaps needed to boost economic activity. Could staff please elaborate on their discussions with the authorities on the above and potential impact on growth?

Strengthening the financial sector and the regulatory framework for banks will improve financial sector stability and reduce banking sector vulnerability. In this regard, we welcome the initiatives to modernize the banking system and strengthening the framework for bank supervision. NPLs and high credit risk concentration on bank balance sheets required careful monitoring. We also welcome the development of a regional strategy for financial inclusion, which will contribute to making growth more inclusive.

Structural reforms are central to sustaining higher and inclusive growth and should be prioritized. Enhancing competitiveness and diversification, through further improvement of public infrastructure and the facilitation of business remain critical. We urge the authorities to close gender gaps to boost per capita growth, while encouraging the WAEMU Commission to sustain efforts in collecting and disseminating information to promote equal opportunities.

We welcome the in-depth analysis in the selected issues papers and call on staff to strengthen technical assistance that assists members in meeting WAEMU targets.

Mr. Temmeyer made the following statement:

We broadly support the findings of the report and the staff appraisal. I would like to add a few comments in addition to our gray statement.

First, concerning investment, I would like to highlight the need for strong institutions to improve the efficiency of public investment. The selected issues paper finds that the efficiency of public investment has been relatively low compared to benchmark countries.

However, the West African Economic and Monetary Union (WAEMU) countries are intending to increase public investment significantly. We therefore underline that the effectiveness of institutions is an important precondition for sustainable fiscal policies. Better public financial management should be seen as a high priority policy goal.

The second point is related to public-private partnerships (PPPs) and the infrastructure gap. We learned that the WAEMU countries plan to use PPPs to finance high priority infrastructure projects. There is a significant amount of evidence that the design of PPPs is decisive with regard to their success. However, we wonder whether the proper institutions are already in place and whether the capacity in these countries is adequate to negotiate beneficial contracts with private investors. We would like to hear the staff's view on this point.

Finally, we see the relatively strong growth in the region as an opportunity for fiscal consolidation. Over the past three years, GDP growth in the union was strong and higher than 6 percent. At the same time, the fiscal deficit widened and the public debt ratio increased by more than 7 percent. We are somewhat concerned about this development.

While we acknowledge that public investment was one of the main drivers of growth, we believe that the authorities could do more to reduce the fiscal deficit and contain the upward trend of public debt. Therefore, we encourage the authorities to undertake stronger efforts to reduce fiscal deficits, and we consider improving domestic fiscal revenue to be crucial in this regard. What is the staff's assessment of the main policy priorities to take advantage of the growth momentum on the fiscal side in the near future?

Mr. Gokarn reinforced Mr. Temmeyer's point about the gap in the efficiency of public investment and the role that the regulatory quality indicator played in that regard. He noted that the staff's written response suggested that 1.5 percent of the gap could be covered if the regulatory quality indicator were to reach the level of peer countries, but the gap had been estimated at 10 percent. He encouraged the staff to explore what other measures needed to be taken to cover that gap, because regulatory quality was only a relatively small part of the problem.

The staff representative from the African Department (Mr. Loko), in response to questions and comments from Executive Directors, made the following statement:[1]

Directors raised questions on fiscal policy, public investment efficiency, regional monetary policy, and financial stability.

On fiscal policy, the question was about the best approach to raise tax revenue. As noted in the staff report, increasing tax revenue should be a top priority, as it will help create additional fiscal space for development needs. As shown in the staff's selected issues papers, WAEMU countries have significant room to improve domestic tax collection.

This will require efforts at the national level to strengthen revenue administration; expand the tax base, including by tackling the informal sector;

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

improve the taxation of multinational companies; and reduce tax expenditure. For instance, tax expenditure in 2013 in Senegal reached 40 percent of revenue and 7.3 percent of GDP.

Measures are needed to streamline tax exemptions, starting with the elimination of VAT exemptions not included in the WAEMU Code. Also, increasing the excise tax rate for goods, such as tobacco, in line with WAEMU directives will help increase revenue.

On the efficiency of public expenditure, the staff was asked to elaborate on potential PPPs and how to improve the efficiency of capital spending. Public investment is needed to build the necessary infrastructure that would unlock the country's potential. However, upgrading infrastructure is costly and may imply large financing needs. In this case, private investment through PPPs can be an additional alternative, but they are not without risk and require strong administration capacity, appropriate risk sharing, and public oversight.

But the question is not only about PPPs. It is also how to improve public capital spending quality in WAEMU countries. This should require strengthening project design and preparation, execution, and reporting about this public investment. The IMF, the World Bank and other partners, including the African Development Bank, are providing technical assistance to the WAEMU countries to strengthen public investment.

On regional monetary policy, some Directors requested further comments on the authorities' concerns about the staff's recommendations to gradually reduce refinancing. The staff has recommended that the Central Bank of West African States (BCEAO) gradually reduce its refinancing operations to commercial banks, because increasing reliance on liquidity provision to commercial banks may hamper the development of the interbank market and expose banks to potential interest and liquidity risk. It could also add to the already persistent excess liquidity in the system and further impede the effective conduct of monetary policy.

As stated in the staff report and in Mr. Yambaye's buff statement, the authorities are of the view that banks requesting access to central bank liquidity were also those providing the larger volume of loans to the private sector. Consequently, they are concerned that an early withdrawal of BCEAO refinancing could raise interest rates, reduce credit to the private sector, and negatively impact economic activity.

The staff sees some merit in the authorities' argument and it was agreed to conduct a joint study to explore options to better control central bank refinancing operations and their implication for private sector provision. Meanwhile, the BCEAO has committed to continue closely monitoring the evolution of refinancing and risks stemming from excessive exposure to government securities. In this respect, the BCEAO should continue to ensure strict compliance with the existing statutory refinancing ceiling for banks.

On financial stability, the question is how realistic it is to expect a meaningful improvement in the short to medium term regarding the resolution of failed banks. The resolution of failed banks has been an issue owing mainly to the division of power amongst several institutions. It is also due to fiscal costs related to the closing of banks.

With regard to the establishment of a deposit guarantee fund and a bank resolution framework, as indicated in Mr. Yambaye's buff statement, the authorities plan to strengthen the power of the Regional Banking Commission in the treatment of failed banks and lift the provision allowing the states to challenge the Banking Commission's decision to withdraw banking licenses. This will be an important step to make a meaningful improvement in the resolution of failed banks over the short and medium term.

Sustaining the growth momentum while preserving internal and external stability will require well-coordinated national fiscal policies and regional monetary policy. In this regard, the WAEMU Commission should be further strengthened to monitor national fiscal policies and help member countries implement the regional convergence criteria, meaning achieving a fiscal deficit of 3 percent by 2019 while increasing revenue to 20 percent of GDP and keeping the wage bill below 35 percent of domestic revenue. Otherwise, as shown in the staff report, delaying fiscal consolidation could pose some risks for macroeconomic stability and, thus, the sustainability of the currency peg. Fiscal consolidation is critical to build buffers against future shocks.

Finally, maintaining the growth momentum will also require the implementation of critical structural reforms to improve competitiveness, foster diversification, and enhance inclusion.

Mr. Yambaye made the following concluding statement:

I commend the staff for the report on the common policies of the WAEMU. My authorities appreciate the candid and fruitful discussions that took place last January under the regional consultations. We also thank management for the continued dialogue with the WAEMU authorities both at the bilateral and regional levels, including through the visit of Deputy Managing Director Furusawa in Côte d'Ivoire last month.

I thank Directors for their useful comments and recommendations, which I will faithfully convey to my WAEMU authorities, and I also thank the staff for the responses to the questions raised by Directors. I welcome the broad recognition by Directors that the WAEMU region continued to show strong economic performance despite a less favorable external environment, including the global slowdown, adverse terms of trade, and security-related challenges.

I take good note of the recommendation to safeguard macroeconomic and financial stability, notably on the fiscal front, through broadening the tax base, strengthening tax administration, and reducing current spending.

Directors' advice on enhancing the monetary policy transmission mechanism is well taken. The BCEAO is committed to closely monitor financing operations and to gradually reduce them, with due attention to economic growth. Developing an active interbank market and a secondary market for government securities remain a priority on the reform agenda.

My WAEMU authorities are taking action to address some issues regarding the financial sector, notably the banks' nonperforming loans. They will continue to align bank regulation with international standards, building on the progress that was highlighted in many gray statements. Enforcing prudential rules is also key to reducing nonperforming loans and improving financial stability.

In particular, I would like to emphasize structural reforms. While most WAEMU countries have made remarkable progress over the past years in enhancing the business environment, as demonstrated by their advances in successive Doing Business rankings, there remains significant room for improving structural competitiveness. The WAEMU authorities have committed to further reducing the cost of doing business, closing infrastructure gaps, and enhancing human capital.

More broadly, what is at the core of the regional agenda is the necessary economic transformation. That is what those countries need to lay the ground for higher potential growth and sustainable development. In this regard, the WAEMU Commission will welcome actionable steps for the Fund's analytical framework in the area of structural transformation.

To conclude, I would like to stress that the WAEMU authorities highly value Fund technical assistance, notably through the Africa Regional Technical Assistance Center-West, as well as the policy advice from the dedicated staff. They would like to express their appreciation for the work of the mission chief, Mr. Loko, and his team. My authorities greatly appreciate their great sense of professionalism and openness, and the high quality of policy dialogue with the staff. My WAEMU authorities look forward to further policy discussions with the Fund.

The following summing up was issued:

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.

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.

APPROVAL: November 8, 2016

JIANHAI LIN
Secretary

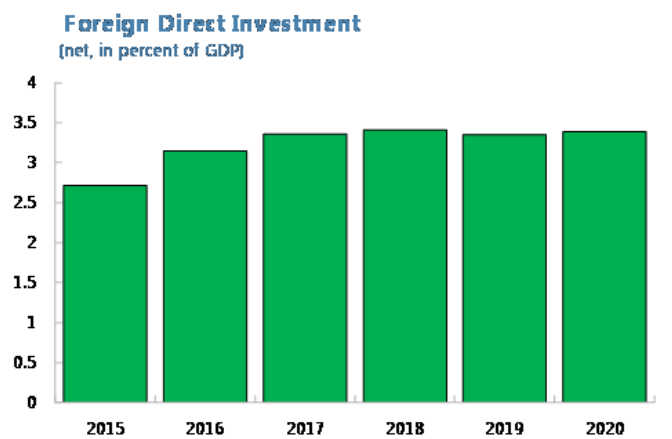
Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

Outlook and Risks

1. ***Can staff provide recent data on FDI flows and their forecast on the medium-term horizon?***

- FDI (net) flows are estimated at 2.7 percent of GDP in 2015 and projected to increase to 3.4 percent in 2020.



2. ***Given these considerable potential risks for external sector, staff may like to suggest appropriate risk management measures to the country authorities*.**

- Oral statement (see answer to question 8)

3. ***The staff's update on the tourism sector in the region and their view on potential impact from security deterioration would be appreciated*.**

- Tourism constitutes a very marginal part of the region's GDP. Beyond tourism we see security concerns as one of the main domestic risks for the outlook as, beyond the obvious human toll, it can adversely impact investor sentiment, divert resources from national budgets and directly prevent economic activity in the affected regions.

Fiscal Policy

4. ***The staff's views on the best approach to raise tax revenue would be welcome. In addition, we would be interested in whether any of the WAEMU countries have undertaken a Fiscal Transparency Evaluation (FTE), and if not whether staff considers there to be merit for the group as a whole to undertake them simultaneously?***

- So far there have been no FTEs conducted in WAEMU countries, but we see merit in conducting such assessments in order to support the WAEMU directive on fiscal transparency, and identify areas for further improvements. Country teams would strongly encourage countries to request FTEs, which are voluntary.

5. ***We note that the authorities highlighted a potential role for Fund-monitored programs in supporting the consistent implementation of fiscal consolidation plans. Could staff elaborate on the status and progress of the implementation of fiscal consolidation plans by WAEMU members with Fund programs, as well as how they compare with other WAEMU members?***

- WAEMU countries are committed to harmonizing their fiscal policies through a set of fiscal convergence criteria adopted in January 2015; accordingly, they have committed to gradually reduce their fiscal deficit to below 3 percent of GDP by 2019 while increasing domestic revenue to 20 percent of GDP and keeping the wage bill below 35 percent of domestic revenue. So far, all countries have elaborated fiscal trajectories that target that objective.

6. ***Can staff provide more detailed estimates on the potential impact of the application of this tariff on fiscal revenues in the WAEMU members?***

- As the CET started in January 2015, it is too early to provide any evaluation.

7. ***Could staff state whether tax evasion/avoidance by multinational firms is a major issue for some countries in the region, and whether there is a substantial scope for increase in tax revenues from improvements in taxation of such firms?***

- The authorities have expressed some concerns about tax evasion/avoidance by multinational firms and most of the WAEMU members are part of the regional networks of the G-20-OECD project on base erosion and profit shifting (BEPS). However, data are not available to assess the scale and economic impact of BEPs in the region.

8. ***While acknowledging the need for members to implement their fiscal consolidation plans and standing ready to help them in this endeavor, the WAEMU commission and the BCEAO indicate that they do not have mandate to enforce these plans. This underscores the need for the region to strengthen the institutional setting for closer policy coordination to help ensure macroeconomic stability. The staff may wish to indicate whether there is scope for early progress in this area.***

- Oral statement

9. ***We agree with the importance of managing the wage bill. However, we are unable to find the necessary information on controlling the wage bill and would like to invite staff to elaborate more on this.***

- Oral Statement.

Public Investment Efficiency

10. ***The staff's views on possible risks linked to the increase in pre-financing mechanisms for projects in the region would be welcome.***

- Upcoming missions to Benin and Togo will likely discuss pre-financing mechanisms with the authorities. An important challenge for WAEMU countries is how to scale up investment without taking on excessive debt. While the wider choices of available financing options can open up opportunities for these countries, governments have to be savvy about how they finance the scaling up of their infrastructure investments. Good fiscal management requires transparency and all investment expenditures be included in the budget.

11. ***The staff has, however, not made a case that the WGI regulatory quality indicator for WAEMU is substantially lower than in SSA peer countries. If it is indeed so, could staff state the potential improvement, as suggested by the regression analysis, in WAEMU's investment efficiency if the WGI indicator for WAEMU were to reach the level of WGI for peer SSA countries?***

- According to our estimates, if WGI indicator for WAEMU were to reach the level of WGI for peer SSA countries, WAEMU's investment efficiency would improve by around 1.5 percent.

12. ***Authorities should improve public investment efficiency which is a key to create growth dividend. In this context, we would appreciate if staff could elaborate more on potential PPPs projects.***

Oral statement

13. ***We welcome the joint IMF-World Bank Public Investment Management Assessment (PIMA) pilot and encourage the application and further development of these assessments in bilateral Fund surveillance reports. Could staff please comment on plans for integrating the PIMA assessments into surveillance?***

- The PIMA instrument is in its pilot phase. The IMF's Fiscal Affairs Department is gratified with the strong interest of member countries in Africa and other regions in participating in this joint IMF-World Bank diagnostic. For this calendar year we estimate some 15 countries taking part in a PIMA exercise. We see the PIMA diagnostic as an important technical assistance input for public investment management reforms, as well as for the discussions of IMF country teams on structural reforms as part of the surveillance process.

Enhancing Regional Monetary Policy

14. ***Further elaborations on the fiscal or legal barriers encountered by foreign investors would be welcome.***

- Based on discussions with international investors, ratings agencies and other market players, the main obstacles to foreign investors are lack of knowledge and information about WAEMU countries, language barriers and market size. The Agence UEMOA Titre is aware of these factors and conducting road shows abroad. Country ratings would also help.

15. ***What is the traction for the BCEAO to enforce the compliance with the statutory refinancing ceiling for countries and banks? Moreover, could staff elaborate on the depth of the domestic financial markets and its capacity to absorb public sector financing needs?***

- To alleviate concerns on financial stability, the BCEAO is strictly implementing the statutory refinancing ceiling for individual banks and banks having reached the ceilings have been denied access to refinancing. At the Union's level, the aggregate country ratio is below the ceiling.

- While it has grown rapidly in recent years, the regional securities' market remains underdeveloped. 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 papers met less than 20 percent of WAEMU's countries total financing needs. The authorities have started coordination efforts and reforms including ratings of T-bill and T-bonds by international agencies (Benin, Burkina-Faso Senegal), some tax incentives and notably the creation of the Agency UEMOA Titres (AUT) aimed at coordinating issuance schedules among the eight countries.

16. ***We note from the buff that the BCEAO has limited its liquidity injections since October 2015, which is expected to induce banks to make increasing use of the interbank market. The staff's comments on this development would be welcome***.

- This development is a move in the right direction. However, we have not yet seen an impact on the interbank market. As indicated in the report, several additional reforms will be needed boost to interbank market activities.

17. ***We welcome further comments from staff on the authorities' concerns about the potentially adverse impact of withdrawing BCEAO's refinancing on the banking sector's provision of credit to the private sector.***

- Oral Statement

18. ***While we agree with staff that there should be gradual reduction of the BCEAO's refinancing operations to commercial banks, we see merit in the authorities' concerns about the withdrawal of the BCEAO refinancing operation, which currently provide liquidity to commercial banks to bridge funding gaps needed to boost economic activity. Could staff please elaborate on their discussions with the authorities on the above and potential impact on growth?***

- Oral Statement

19. ***We would like to highlight that adequate financial infrastructure and well-designed institutions for interbank and secondary market would strengthen the effectiveness of the monetary transmission mechanism. Is a Fund's TA supporting WAEMU's securities market in this regard?***

- Technical assistance (TA) has been extensively provided by the Fund AFRITAC West (AFW) to the newly created Agency UEMOA Titre, notably on developing yield curves and issuance coordination. TA has also been provided to the BCEAO on repo instruments.

Enhancing Financial Sector Stability and Financial Inclusion

20. ***We are concerned that 10 percent of the banks record negative equity and that the supervisory authorities have had difficulties with closing these banks down, or that national authorities challenge the resolution of failed banks. This poses serious moral hazard and financial stability risks. We share the staff's advice in this regard. In staff's view, how realistic is a meaningful improvement over short to medium term?***

- Oral statement.

21. ***We welcome the authorities' plan to increase the minimum capital requirement of banks to CFAF 10 billion as well as to implement Basel II-III provisions. Will technical assistance be needed in this regard?***

- Technical assistance (TA) has been extensively provided by the Fund AFRITAC West (AFW) center to the BCEAO and the WAMU Banking Commission to develop the new Basel II-III regulations. This TA is ongoing to help in the implementation of the new regulations and to build the capacity of supervisors to monitor implementation.

22. ***We would be interested to learn from staff whether de-risking has impeded access to financial services in the WAEMU?***

- Based on discussions with authorities and other market players, de-risking was not cited as an issue impeding access to financial services.

23. ***As staff mentions that 13 percent of banks did not comply with capital requirements and 10 percent even reported negative equity, how much of the banking sector's total assets do those institutions represent and how much of a widespread systemic risk does this entail?***

- At the regional level, the insolvable banks account for a small percentage (2.2 percent) of total banking sector assets. Therefore, this issue does not represent widespread regional systemic risk. However, in two countries, insolvable banks represent a significant portion of national banking sector assets which may entail considerable risks if not properly addressed.

Promoting Competitiveness and Inclusion

24. ***The staff report repeatedly mentions the need to conduct structural reforms in order to boost the diversification of WAEMU economies. Can staff be more specific as to what diversification they have in mind and what are the authorities' views on this matter?***

- Economic growth has been strong but structural transformation is lagging and the region in not integrated in global value chains. Moving away from the dependence on agricultural commodities would reduce risks associated with adverse weather. Reforms efforts should focus on improving the business climate and boosting inclusion.