EXECUTIVE BOARD MEETING

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To: Members of the Executive Board

From: The Secretary

Subject: **West African Economic and Monetary Union—Staff Report on Common Policies of Member Countries**

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INTERNATIONAL MONETARY FUND

WEST AFRICAN ECONOMIC AND MONETARY UNION

March 1, 2019

STAFF REPORT ON COMMON POLICIES OF MEMBER COUNTRIES

KEY ISSUES

Context. Growth remained strong in 2018, the fiscal deficit narrowed by ½ percentage point of GDP, external reserves increased, and important banking reforms were put in place, including the introduction of Basel II/III standards. Yet, public debt and the costs of its service have risen in recent years, partly due to sizeable below-the-line operations. Buoyant domestic demand, including public capital spending, contributed to a large current account deficit, mainly financed by large Eurobond issuances which also underpinned the increase in reserves. Additional fiscal effort is projected to bring the WAEMU deficit to its target of 3 percent of GDP in 2019. The medium-term outlook remains positive despite somewhat less favorable global conditions, but critically hinges on planned fiscal consolidation and structural reforms to improve competitiveness and allow the private sector to become the main engine of growth. Other risks relate to terms-of-trade and weather shocks, and a difficult security situation in some countries.

Policy Recommendations

- **Fiscal policy**. Collectively adhering to fiscal consolidation commitments, with a greater focus on domestic revenue mobilization and more effective control of below-the-line operations, is essential to lower risks of public debt distress, support international reserves, and preserve external viability.
- **Monetary policy.** External reserves increased in 2018 and the current monetary policy stance is appropriate. The regional central bank (BCEAO) should stand ready to tighten monetary policy if external buffers fall significantly. The BCEAO should remain cautious in managing liquidity going forward to prevent its refinancing of sovereign bond holdings from constraining monetary policy.
- **Financial sector.** Proactive supervision as the region transitions to Basel II/III regulatory standards should allow for strengthening bank balance sheets. A few ailing banks must be resolved promptly. Further financial sector development is needed to better tap regional savings and support financing of the private sector.
- **Competitiveness and diversification.** Structural policies aimed at improving competitiveness and growth inclusiveness are critical to reducing vulnerabilities to external shocks, building external buffers, stimulating private-sector-led growth, and making the growth momentum sustainable.

Approved By
Dominique Desruelle and Johannes Wiegand

Discussions were held in Ouagadougou, Abidjan, Dakar and Cotonou during January 10–24. The staff team comprised Ms. Allard (head), Ms. Simard, Messrs. Balima, Féler (all AFR) and Mr. Khallouf (MCM). The mission was assisted by Ms. Sancak (resident representative in Senegal), Messrs. Barhoumi, Gijon, and Jenkinson (resident representatives in Benin, Côte d'Ivoire, and Burkina Faso), and Mr. Lemarchand (Afritac-West). Messrs. Desruelle (AFR), N'Sondé and Raghani (OED) participated in meetings with the BCEAO in Dakar. Ms. Allard and Mr. Desruelle met with the President of the WAEMU Council of Ministers in Cotonou. Ms. Devine provided research support and Ms. Quartey (both AFR) provided assistance in the preparation of this report.

The West African Economic and Monetary Union (WAEMU) and the West African Monetary Union (WAMU) cover the same eight countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo. They share the same currency, the CFA franc (XOF), which is pegged to the euro.

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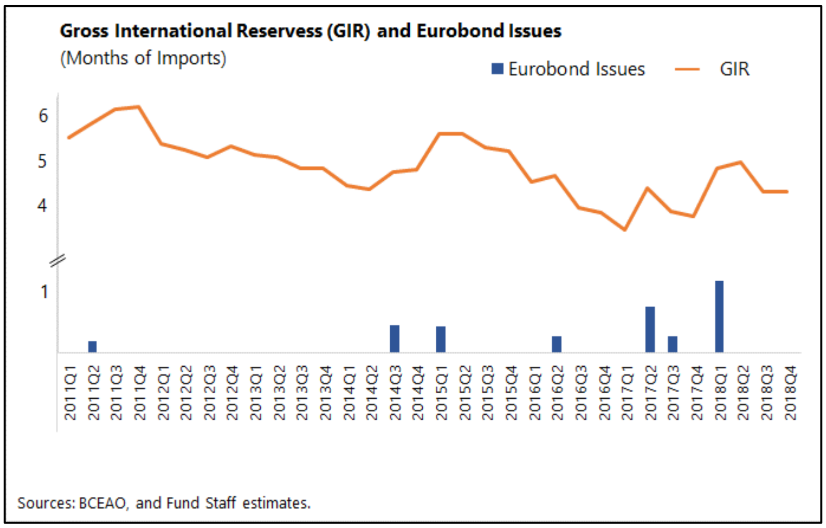
ANNEXES

BACKGROUND, OUTLOOK AND RISKS

1. **The WAEMU has remained on a strong growth trajectory**. The region continued to exhibit one of the fastest growth rates in Africa in 2018—estimated above 6 percent for the 7th year in a row—fueled by buoyant domestic demand despite adverse terms-of-trade shocks and persistent security concerns in some member-countries (Table 1). Inflation stayed low reflecting the peg to the Euro, continued ample agricultural production and limited pass-through of higher world oil prices. Fiscal consolidation efforts are estimated to have reached ½ percentage point of GDP in 2018, with the fiscal deficit narrowing to 3.8 percent of GDP.

2. **Meanwhile, external reserves increased, underpinned by Eurobond issuances**. Despite the pull from a wider external current account deficit, reserves reached 4.3 months of imports of goods and services (or 32.2 percent of M2) at end-2018, up from 3.9 months of imports (or 29.4 percent of M2) at end-2017. Beyond better enforcement of export-receipt repatriation requirements, this improvement was largely due to sizeable Eurobond issues from Côte d'Ivoire and Senegal—equivalent to 1.1 months of imports in net terms,[1] partly compensated by shortfalls in other sovereign external financing. The external reserve import cover of 4.3 months remains below the 5-8-month range estimated as adequate for the WAEMU (Annex 1).



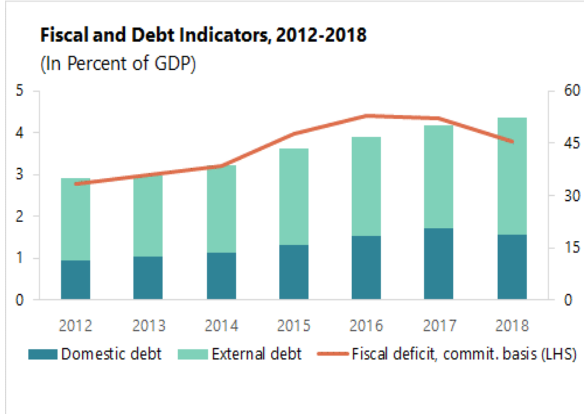
3. **Notwithstanding a firmer monetary policy since early 2017, liquidity pressures in the regional financial system were temporarily eased by Eurobond issues.** Between early 2017 and end-2018, the BCEAO reduced its refinancing volume to banks by about 24 percent. Regional liquidity nonetheless gradually improved in the wake of Eurobonds issued by Côte d'Ivoire and Senegal—equivalent to 87 percent of the WAEMU's aggregate fiscal deficit in 2018—which led to a substantial reduction in sovereign bonds issuance on the regional market. As a result, the average rate at the BCEAO weekly refinancing auction, which had remained at its 4.5 percent ceiling from November 2017 to June 2018, declined to below 3 percent. It crawled back up to its 4.5 percent ceiling in late 2018, though, on the back of seasonal liquidity needs.

[1]Senegal used some of the proceeds from its Eurobond issues for liability management purposes.

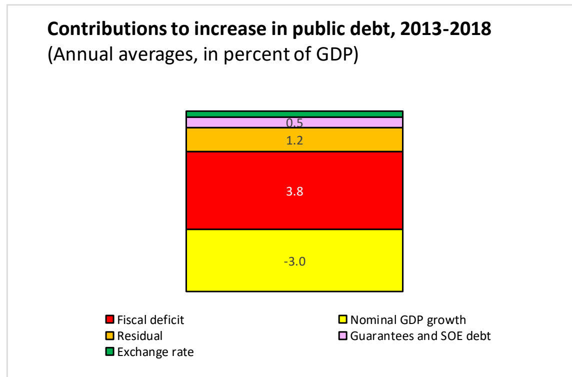
4. This positive dynamic has nonetheless come with persistent vulnerabilities.

- **The public debt burden has steadily risen in recent years**. It rose by 17½ percentage points of GDP over the last 5 years to reach 52½ percent at end-2018. Below-the-line budget operations (i.e. quasi-fiscal operations of state-owned enterprises, operations from extrabudgetary funds and the realization of contingent liabilities), estimated to have averaged 1.2 percentage points of GDP annually, have also weighed on debt accumulation.[2] In parallel, debt servicing costs rose substantially, from 20¾ percent of revenue in 2015 to 33 percent in 2018, and interest payments from 6.7 percent to 9.1 percent of revenue. While the latest sustainability analyses (DSAs) for WAEMU countries show that risks of debt distress have remained unchanged since the 2018 regional consultation, the room for maneuver within applicable thresholds has shrunk.

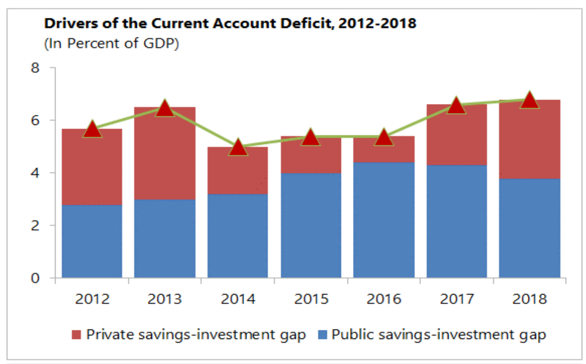
- **The external current account deficit slightly deteriorated in 2018.** It is estimated to have widened from 6.6 percent of GDP in 2017 to 6.8 percent in 2018. Its high level is underpinned by strong capital spending and unfavorable terms-of-trade, including higher global oil prices in 2018, the impact of which is estimated at 0.6 percentage points of GDP in 2018.



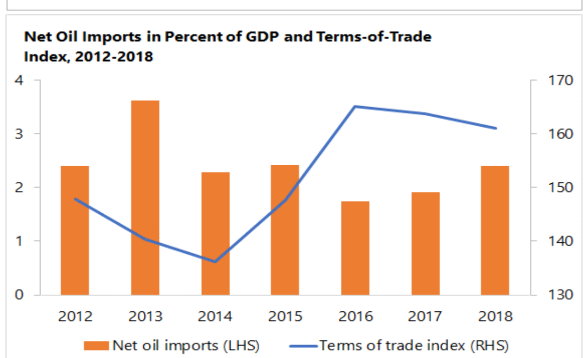
Fiscal and Debt Indicators, 2012-2018
(In Percent of GDP)



Contributions to increase in public debt, 2013-2018
(Annual averages, in percent of GDP)



Drivers of the Current Account Deficit, 2012-2018
(In Percent of GDP)



Net Oil Imports in Percent of GDP and Terms-of-Trade Index, 2012-2018

[2]See the chapter entitled "Possible Reforms to the Regional Surveillance Framework" in an accompanying Selected Issues Paper for more details on the estimated impact of below-the-line operations on public debt dynamics in the WAEMU.

5. WAEMU member countries consolidated their fiscal position in 2018. The aggregate fiscal deficit declined by ½ percentage point of GDP to an estimated 3.8 percent of GDP in 2018, mainly on account of lower public capital spending. This effort was a positive step towards reaching the regional fiscal deficit convergence criterion of 3 percent of GDP by 2019.

6. Significant efforts were made to meet new banking solvency requirements but pockets of weaknesses remain in the sector.

- Important **reforms** were implemented in 2018 in the banking sector, most notably the move to Basel II/III prudential standards (with a 5 year-phasing period), new bank accounting rules, banking supervision based on a risk-sensitive consolidated approach to groups, and steps to operationalize the new resolution framework for the Banking Commission. The BCEAO has run more demanding stress-tests exercises to assess the resilience of the sector in the last two years.
- In terms of **performance**, banks were able to sustain strong credit growth in 2018, estimated at 8 percent, though at a slightly less strong pace than in 2017, possibly reflecting adjustments to new prudential rules. The sector's capital base was increased significantly (by 360 billion FCFA over the first 9 months of 2018), with the ratio of capital to risk-weighted assets (CAR) at 10.0 percent under Basel II/III at end-June 2018, above the 8.625 percent required for end-2018. Nonetheless, a fifth of the banks, accounting for 16 percent of total assets were below that minimum at end-June 2018, while five of them still failed to meet the CFAF10 billion minimum capital requirement set in 2017—three of which are large in their country.
- The banking sector remains subject to concentration, credit and liquidity **risks**. A quarter of the banks do not meet the new and tighter applicable norm for division of risks. Non-performing loans (NPLs) remained high, at 12.9 percent of total loans at end-June 2018, although they have been declining and provisioning covers 2/3 of them. Despite gradual deleveraging, banks' reliance on BCEAO refinancing was still equivalent to about 40 percent of their sovereign bonds exposure at end-2018 (down from a peak of 54 percent in 2016), reflecting the banking system's structural liquidity deficit.

7. Policy implementation has been broadly in line with past Fund advice (Annex II). Important steps were taken to backstop financial stability. While these changes have started to influence bank strategies and financial positions, some challenges remain. At the national level, fiscal consolidation occurred in 2018, but it needs to be accelerated in 2019 to bring the aggregate fiscal deficit to the 3 percent of GDP regional norm. Banks' reliance on BCEAO refinancing has declined but remains elevated, still constraining somewhat monetary policy.

8. The medium-term outlook remains positive but critically hinges on reform implementation. Medium-term regional growth is projected to stay above 6 percent, as national fiscal consolidation plans (including elimination of below-the-line operations) are expected to gradually restore external buffers while structural reforms to improve competitiveness would unlock private investment and private sector-led growth. The external current account deficit is projected to converge back to 5 percent of GDP over the medium term—including as new oil and gas production comes on stream in Senegal—and international reserves would reach 4.8 months of imports by 2023. An EBA-based assessment suggests that the WAEMU's external position is moderately weaker than implied by current fundamentals and desirable policies, which would be addressed as fiscal consolidation and structural reforms materialize (Annex I).

9. Risks are tilted to the downside (RAM, Annex III). Slippages in fiscal consolidation and significant extra-budgetary spending could further increase public debt and servicing costs, crowd-out credit to the private sector, and put renewed pressures on external reserves. Slower-than-expected structural reforms, larger imports or lower capital inflows could also undermine the projected external buffer consolidation. A persistent aggravation of insecurity would strain governments' budgets, undermine investment, and hamper growth. As the growth dividends have been slow to trickle down to the population, insufficient progress in improving inclusiveness could undermine social stability and support for reforms that are essential to sustain the growth momentum. On the external side, a weaker-than-expected global recovery could also hamper WAEMU's growth through terms-of-trade, remittances, and FDI channels. Exposure to global financial markets has risen due to Eurobond issuances, and monetary policy normalizations in Europe and USA could lead to higher risk premia and lower external financing for WAEMU sovereigns, which would also weigh on the external reserve position. The prevalence of these risks further justifies the need for effective policy implementation, as a way to build policy buffers in case of materialization of these risks.

Authorities' Views

10. The regional authorities broadly agreed with staff views on the outlook and risks but considered the real effective exchange rate to be close to equilibrium. Their growth projections for 2019 and the medium-term were somewhat more optimistic than those of staff. The authorities concurred that policy implementation was paramount to sustain the favorable outlook and that risks were tilted to the downside but considered these risks to be mainly exogenous rather than related to national or regional policies. The authorities noted the WAEMU's vulnerability to adverse changes in weather conditions, given the importance of the primary sector in member-countries, and were particularly concerned with security-related shocks, terms-of-trade volatility, tighter foreign financing conditions and lower global growth. Based on their own tools, derived from the macroeconomic balance and external sustainability approaches, they estimated the real effective exchange rate to be close to equilibrium.

POLICY DISCUSSIONS

The discussions centered on key policies needed to maintain the region's strong growth momentum in a sustainable way, which requires a shift toward more private sector-led growth. Credible fiscal consolidation will be critical to preserve external stability; reforms to deepen financial markets, proactive banking supervision, and a more effective monetary policy transmission are needed to *support the private sector-led growth. Regional initiatives can contribute to the promotion of competitiveness and inclusiveness.*

A. Ensuring Durable Fiscal Consolidation to Support External Stability

11. Adherence to the regional convergence criterion of 3 percent of GDP for the budget deficit in 2019 and beyond is paramount. All WAEMU member-countries have committed to this target in their Fund-supported programs (with Niger for 2020). Under the baseline scenario, which also assumes the elimination of below-the-line operations, these fiscal policies are consistent with macroeconomic stability. Based on recent trends in broad money growth as well as central governments' borrowing needs and external financing plans, there would still be room for bank credit to the private sector to grow by 8.3 percent in 2019 (broadly in line with nominal GDP growth), while the import cover of external reserves would inch up. By contrast, deviations from the baseline, whether due to shortfalls in external financing, fiscal slippages and/or significant below-the-line operations, could undermine private sector credit growth or external buffers. As an illustration, if banks had to satisfy an additional 1 percent of GDP of public borrowing needs in 2019, projected growth of bank credit to the private sector would be reduced to 4.7 percent, suggesting some crowding-out. Alternately, if additional public borrowing requirements of a similar magnitude were to persist over the medium term without squeezing private sector credit growth, they could lower projected external reserves' import cover to about 2 months and increase public debt to 57.5 percent of GDP by 2023.

12. In that context, fiscal assessments need to better integrate below-the-line operations. The WAEMU Commission, along with national governments, should improve the analysis, management, and disclosure of fiscal risks, including by better measuring below-the-line operations (in particular, stemming from quasi-fiscal activities of some public entities, losses by state-owned enterprises, or increasing recourse to PPPs), expanding the coverage of fiscal accounts and implementing the regional directive on the transition to GFSM 2001 reporting standards. Furthermore, it should complement its annual assessment of member-countries' five-year convergence plans by testing the realism of their underlying assumptions and macroeconomic consistency via quantitative sensitivity analysis. More systematic information should entice national authorities to curb those operations and address them through provisions in the budget.

13. The surveillance framework could be upgraded to better contain risks to debt sustainability. The current public debt ceiling of 70 percent of GDP in the regional surveillance framework was set when most WAEMU countries primarily relied on concessional financing. However, with the growing recourse to non-concessional borrowing, this threshold now appears to exceed for several countries the level that would preserve the current risk of debt distress as set under the IMF/World Bank's Debt Sustainability Framework.[3] Therefore, to preserve its early warning role, there would be merit in lowering the debt convergence criterion to around 60 percent of GDP.

[3]See the chapter entitled "Possible Reforms to the Regional Surveillance Framework" in an accompanying Selected Issues Paper for more details.

To better account for the degree of debt concessionally, as well as foreign exchange and liquidity risks, the WAEMU Commission could usefully complement its assessment of the debt convergence criteria with full-fledged DSA.

14. Greater progress on domestic revenue mobilization is needed to generate space for development spending even in a context of fiscal consolidation. The average tax revenue to GDP ratio in the WAEMU is estimated at 15.9 percent in 2018, only 1 percentage point higher than a decade earlier, when analysis for the Sub-Saharan African region suggests a potential for an additional 3½-5 percent of GDP of tax revenues. To this end, revisions of regional tax directives should give priority to curbing countries' tax exemptions, in particular through incentives in investment and sectoral codes. Better implementation by national authorities of regional directives on tax policy is critical, as is harmonization of national tax data to improve the effectiveness of the WAEMU Commission's surveillance functions (Annex IV). Consideration could also be given to upgrading the status of the tax revenue to GDP ratio under the regional surveillance framework, from a second-order to a first-order convergence criterion.

Authorities' Views

15. The authorities concurred that national governments must decisively implement their plans to bring deficits down to at most 3 percent of GDP from 2019 onwards. The WAEMU Commission pointed to sizeable implementation risks, underscoring the mitigating role of IMF supported programs. The BCEAO was more concerned about risks to the composition of fiscal consolidation, which could be over-focused on capital spending cuts. They also stressed that some member countries faced idiosyncratic shocks—including related to security—that needed to be addressed without jeopardizing the common fiscal consolidation effort. Finally, the regional authorities were cognizant that more efforts were needed to improve domestic revenue mobilization, pointing in particular to widening the tax base and limiting exemptions.

16. The authorities acknowledged the need to curtail below-the-line operations, although they were surprised by their extent in the recent past. They viewed extending the budget coverage to the general government by implementing the WAEMU directives on public finance management as a way to address this matter, while an improved communication strategy could also be leveraged. Below-the-line operations were recognized as a concern, though the authorities' perception was that their size was not as significant as in staff estimates; they stressed the need to better link the aggregate number to specific operations to curb the practice. There was mixed appetite to lower the debt ceiling criteria, but the WAEMU Commission signaled that the issue could be discussed during the upcoming review of the regional surveillance framework and also concurred that greater use of DSA could help better assess countries' debt sustainability.

B. Enhancing Monetary Policy and Financial Stability to Support Private-Sector-Led Growth

17. The current monetary policy stance appears appropriate but the BCEAO should stand ready to tighten in case reserves deteriorate. For now, with external reserves projected to increase gradually over the medium-term, the stance is appropriate. Still, external reserves benefitted from large Eurobond issuances in 2017-2018, while buoyant domestic demand contributed to a wider current account. Cognizant of these risks, the BCEAO should tighten its stance if the reserve import-cover ratio were to decline for several months or abruptly move below 3 months, by relying mainly on quantitative measures (refinancing window and/or reserve requirement) initially and potentially on rates increases. Moreover, the BCEAO should provide refinancing cautiously to avoid a repeat of the 2016 build-up in bank leverage—with proactive banking supervision instead prompting an increase in capital and other stable resources to address the structural liquidity deficit of the banking sector.

18. More active and liquid secondary debt and interbank markets are key for the development of WAEMU financial markets and enhanced monetary policy transmission.

- Large bank sovereign exposures are weighing on some bank balance sheets, exposing them to the risk of roll-over financing at tighter conditions, and the shallowness of the **secondary bond market** makes prompt bank deleveraging difficult. Notwithstanding slightly increased bond transactions among banks in 2018, structural impediments to the deepening of the bond market remain. A move to an integrated market supervision and a single Central Securities Depositor would allow all issues of the same maturity from a specific sovereign to be traded as part of the same pool, regardless of whether they were issued by auction or syndication. That would in turn favor participation by non-bank investors who depend on market liquidity.
- Partly due to limited information on counterparty risks, the **interbank market** has also been shallow, with liquid banks maintaining excess reserves at the BCEAO and lending mostly to same group affiliates. While the interbank market is not a substitute to the strengthening of structural bank liquidity, a deeper market could help reduce overreliance on the BCEAO when temporary liquidity needs arise. The development of repo transactions based on sovereign bonds should help increase volumes and deepen the market. More generally, the strengthening of overall bank balance sheets and increased transparency on individual bank situations, would improve the willingness of banks to transact short-term liquidity. The BCEAO should eventually calibrate its liquidity supply to steer the interbank rate back into the monetary policy corridor.
- Staff encouraged the BCEAO to consider **differentiated haircuts** to sovereign securities used by banks as collateral for central bank refinancing. Such a mechanism could help protect the central bank's balance sheet (e.g. from interest rate and credit risks), guide bank risk diversification, and instill greater fiscal discipline through better risk pricing.[4]

19. The new prudential regime and its associated risk-based supervision framework should allow for stronger bank balance sheets through proactive supervision. That should

[4]The BCEAO currently applies a 10 percent haircut to all sovereign collateral used by banks at the refinancing windows.

reduce segmentation where detrimental, foster confidence in the banking sector and allow it to better finance private sector-led growth.

- The move to the new prudential regulation aligned to Basel II/III and new bank accounting standards proceeded smoothly in 2018. Banks will have to continue to increase **capital** to meet the 11.5 percent CAR targeted at end-2022 (from a mimimum of 8.625 percent at end-2018). **Weak banks** should be rapidly restructured, and the Banking Commision has the powers to require needed adjustments. Those weak banks will need to raise more capital by mobilizing additional shareholder resources, reducing the distribution of dividends and/or streamlining their asset portfolios.
- The supervisor should ensure that bank **concentration risks** are gradually reduced, as prudential norms are tightened—with individual risk limits reduced from 75 percent of bank equity under Basel I to 25 percent in 2022 under Basel II/III. Banks have started to address their **NPLs**, which declined in the first half of 2018 despite more stringent classification and provisioning rules. Likewise, the forthcoming calibration of **liquidy ratios** under Basel II/III should contribute to improving structural liquidity.
- The Banking Commission has also started to assess cross-border groups on a consolidated basis and to review banks' behavior based on specific risk patterns. **Banking groups'** supervision should be further improved through the Colleges of Supervisors and the preparation of recovery plans.

20. The Commission Bancaire should urgently take all needed resolution actions in collaboration with national authorities where needed.

- The operationalizing of the **new resolution framework**, started in early 2018, should be rapidly finalized.
- **Current cases of ailing banks must be resolved promptly**, as these banks have had substantial negative equity. This would not require the finalization of the new resolution framework, as the current supervisory regime already provides the necessary instruments to design and carry out corrective actions in close cooperation with national authorities and ensure orderly resolution.
- In addition, the authorities should identify criteria to designate **systemic institutions**. The Commission Bancaire would then be expected to ask large insitutions—including the 12 largest banking groups, which alone account for more than ¾ of the banking system's total assets—to prepare recovery plans to deal with crisis management.
- **Progress on crisis prevention tools and the financial safety net is ongoing.** The financial guarantee scheme to ensure finality of clearing positions is fully operational on the payments clearing system. The deposit insurance scheme (DIS) has started receiving initial contributions from deposit collecting institutions in 2018, but it will take time to reach a steady-state regime. The DIS was amended so it could be called to help fund bank resolution plans, after all other sources of funding have been mobilized.

21. Financial inclusion has improved substantially over the last few years and supervision should continue to evolve alongside financial innovations. Since the creation by the BCEAO of a specific status for electronic money providers in 2015, retail payments through mobile telephony operators have increased significantly, while the offering of savings and loan products still goes through partner banks to ensure regulatory compliance and customer protection. These developments have noticeably improved access to basic financial services for underserved populations and are likely to be further supported by the setting up of an interconnection platform common to all WAEMU mobile banking operators. The BCEAO is encouraged to continue to allow for the growth of that segment while ensuring that it does not create new risks to financial stability. Meanwhile, the microfinance sector, which represents about 7 percent of the banking sector in terms of deposits and loans, has seen several institutions fail in the past. While several fragile entities have recently undergone restructuring or termination, the sector still needs to be further strengthened.

22. Strengthening AML/CFT risk-based supervision of banks by the Banking Commission will help support national AML/CFT and anti-corruption efforts. The regionalization of the AML/CFT framework has been strengthened with the adoption by all member countries of a uniformed AML/CFT law and the adoption by the BCEAO of instructions in 2017 to guide its implementation. The Banking Commission is enhancing its risk-based supervision activities and has increased the number of onsite inspections with two AML/CFT thematic inspections and 18 inspections with an AML/CFT component in 2017, against a total of 145 supervised banks. Substantial efforts are required to adapt the supervisory framework to account for ML/TF risks, increase and strengthen onsite inspections, ensure the effectiveness of sanctions and improve information sharing with national authorities. These efforts are central to supporting national efforts to fight money laundering, terrorism financing and related crimes such as corruption.

Authorities' Views

23. The BCEAO agreed it needed to remain vigilant to external reserve developments. It agreed that external reserves needed to be shielded and should be gradually increased in upcoming years. Furthermore, it concurred that renewed pressures on external reserves would warrant monetary policy action, with the choice of instrument contingent on the source of those pressures, for instance depending on whether they would come from banks' lending behavior or overall overheating of the economy. The BCEAO stressed that its liquidity supply was not excessive and that it was based on the liquidity needs in the economy. It agreed though that banks should not be allowed to substitute needed stable permanent resources with short-term central bank refinancing. On differentiated sovereign haircuts for its collateral framework, the BCEAO was of the view that each bank needed to make its own assessment of sovereign risk and that the central bank should not interfere with market play.

24. The authorities acknowledged that bank weaknesses should be addressed to ensure financial stability and sustained growth of credit to the economy. They noted that the new prudential regime was meant to strengthen bank resilience, through improved asset quality and a stronger capital base. As an indication of their commitment, they highlighted their close monitoring of fragile banks, but underscored that many of those were state-owned, complicating their tasks in a context of limited national public resources to recapitalize them. They further stressed that the existing supervisory framework allowed for orderly resolutions if needed, even as the new regime was being operationalized. The authorities reiterated their commitment to promote financial inclusion and closely monitor micro-finance institutions. They underscored their commitment to enforce the 2015 AML/CFT law, as reflected in the September 2017 instructions requiring banks to put in place efficient information systems to ensure financial operations traceability and setting up thresholds for the declaration of cash transactions.

25. The authorities concurred that financial sector development remained an important objective. They stressed that they were taking steps—including to better inform private firms about the options to raise financing on the regional market and to attract nonbank investors—but that those would take time to yield results. They agreed that the elimination of the current fragmentation of the debt securities market could help develop financial markets while making monetary transmission more effective. In that context, they were willing to discuss with Fund staff practical approaches towards such elimination, involving both the market regulator (CREPMF), the BCEAO and the Agence UMOA-Titres.

C. Promoting Competitiveness and Inclusiveness

26. Initiatives, including at the regional level, to improve competitiveness should be encouraged. At the national level, member-countries should accelerate reforms to raise structural competitiveness, including through improvements in the business climate, logistics performance, governance, and public investment efficiency. At the regional level, better integration of intra- and extra-regional trade flows would also help mitigate vulnerability to global shocks, support sustainable external buffers, and underpin private sector-led growth. Analytical work by staff suggests that addressing structural constraints to competitiveness can significantly enhance bilateral trade flows, via better institutional and legal investor protection, infrastructure, labor skills and access to finance.[5] To that end, the WAEMU Commission is coordinating several initiatives, including cross-border infrastructure projects and the facilitation of custom procedures, while the BCEAO and the Regional Stock Exchange have launched initiatives to facilitate access to financing for small and medium-size enterprises. Actions to support these initiatives could include better implementation of regional guidelines on infrastructure quality and a regional reflection on ways to better align national education programs with labor market needs.

27. Greater inclusiveness would foster broader-based and more sustainable growth. Reducing income and gender inequality in the WAEMU could significantly boost real GDP per capita and economic diversification, thereby strengthening the acceptance of reforms.[6] Member-countries

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[5]The role of these structural constraints is covered by the Chapter entitled "Boosting Competitiveness to Foster Trade Performance, Weather Terms-of-Trade Shocks and Support External Buffers" in the accompanying Selected Issues Paper.

[6]The effect of reducing income and gender inequality in the WAEMU is covered in the Chapter entitled "Sharing the Dividends of Growth" in the accompanying Selected Issues Paper.

should therefore continue to develop social spending indicators as part of the implementation of the regional directive bearing the Finance Act. At the regional level, ongoing efforts by the WAEMU Commission to effectively implement the regional gender strategy should allow over time for the systemic integration of a gender perspective in the WAEMU institutions and member-countries.

Authorities' Views

28. The authorities broadly agreed with staff's views. They highlighted ongoing efforts through regional structural funds for projects covering energy, transport, and agriculture, as well as the recent adoption of a regional strategy towards greater gender equality.

OTHER ISSUES

29. An updated safeguards assessment of the BCEAO was completed in 2018. It found that the central bank had maintained a strong control environment, audit arrangements were in broad conformity with international standards, and the financial statements were prepared in accordance with the International Financial Reporting Standards (IFRS). The BCEAO has recently enhanced the oversight role of its audit committee in line with the assessment recommendations.

30. Substantial progress was made in recent years to strengthen the quality, timeliness, and dissemination of economic statistics and must be consolidated. WAEMU countries' data are disseminated on the Open Data Platform developed by the African Development Bank in collaboration with the Fund and Senegal adhered to the SDDS in late 2017. Further progress is warranted, notably to improve consistency between national and regional data and address weaknesses of balance of payment data. Staff underscored the need to accelerate the transition of all WAEMU member-countries to the GFSM 2001 fiscal reporting, which would facilitate the compilation of consolidated public finance data, including the public sector's borrowing requirement for the currency union.

STAFF APPRAISAL

31. Economic activity has remained strong, while vulnerabilities persist. Real GDP growth exceeded 6 percent for a seventh year in a row, inflation remained low and some fiscal consolidation was achieved in 2018. However, public debt and its servicing costs have kept rising while growth continued to be driven by domestic demand, including public spending, notably to address infrastructure gaps. Buoyant domestic demand, together with lower terms-of-trade, contributed to a widening of the external current deficit. External reserves increased, owing largely to large Eurobond issues by Côte d'Ivoire and Senegal.

32. The medium-term outlook remains positive, but subject to significant downside risks. Sustaining the current growth momentum over the medium term crucially hinges on the effective and timely implementation of planned fiscal consolidation and structural reforms. Slippages on these fronts, including through persistently high extra-budgetary operations, would jeopardize public debt sustainability, private sector development and external viability. Other downside risks to the outlook relate to terms of trade and weather shocks, a worsening security situation, lower global growth, and tighter international financing conditions. Timely and well-coordinated national and regional policy responses are needed to build policy buffers to mitigate the impact of the materialization of these risks.

33. Effective fiscal consolidation, including convergence to fiscal deficits of no more than 3 percent of GDP, is essential. Absent this, credit to the private sector would be squeezed, preventing a switch to private-sector-led growth, or pressures on external reserves would reemerge. Much greater progress is needed to bolster government revenues to create fiscal space for priority infrastructure and social spending while meeting the WAEMU fiscal deficit criterion by 2019 and beyond. Effective fiscal consolidation must also entail a much greater control of below-the-line operations, which have contributed significantly to rapid public debt increase in recent years. The WAEMU Commission, along with national governments, should therefore improve the analysis, management, and disclosure of fiscal risks.

34. The current monetary policy stance is broadly appropriate. Monetary policy should be tightened if pressures reemerge on foreign exchange reserves. Meanwhile, the BCEAO should continue to steer liquidity based on autonomous factors while continuing to gradually reduce the banking system's dependence on central bank refinancing.

35. Financial market deepening and better monetary policy transmission require developing the interbank and the debt securities markets. The BCEAO and Banking Commission could further promote the development of interbank transactions by respectively continuing to gradually mop up liquidity and promoting banks' balance sheet repair and improved information on counterparty risks. The interbank market would be further stimulated by the development of repo transactions based on public debt securities. Such transactions would in turn be facilitated by the development of secondary trading of debt securities, including by eliminating market segmentation between the auction and syndication modes of issuance.

36. Improving financial stability is also a key requirement to enable a shift toward more private sector-led growth. The appropriate phasing and effective enforcement of the new prudential rules aligned with Basle II/III principles offer the opportunity to proactively consolidate banks' balance sheets and address vulnerabilities. The authorities should bring all undercapitalized banks to meet capital requirements and promptly resolve ailing banks. They are also encouraged to make their Banking Commission's new bank resolution powers operational as soon as possible. Those measures are essential to allow the banking sector, and financial markets more broadly, to better tap regional savings and effectively allocate financing to the private sector. Strengthened AML/CFT supervision by the Banking Commission would help support national AML/CFT and anti-corruption efforts and preserve the integrity of the banking sector.

37. Increasing inclusiveness is a priority, including to foster reform acceptance. Staff encourages the authorities to implement the regional strategy for financial inclusion adopted to this end, while paying due consideration to financial stability and money-laundering and terrorism financing risks. Due attention should also be paid to social and gender equality, which could significantly boost real GDP per capita.

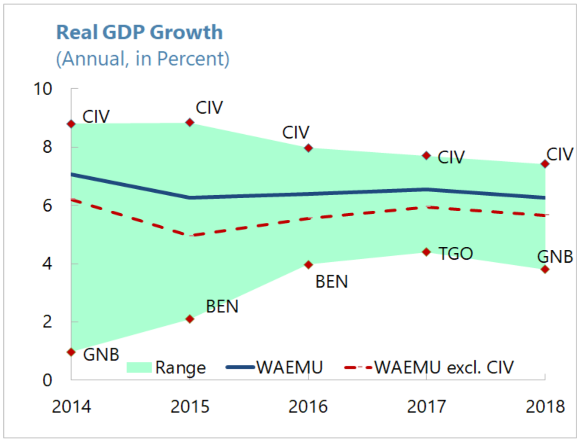
38. Addressing structural constraints to promote private investment, competitiveness and diversification will help secure sustainable growth. At the national level, member-countries should further improve the business environment, logistics performance, governance, and public investment efficiency. At the WAEMU level, additional efforts are needed to reduce barriers to regional integration.

39. Efforts to improve the quality, coverage and timeliness of regional data should be sustained. Senegal's adherence to the SDDS in late 2017 illustrates the progress recently achieved in this area. More needs to be done however, in particular regarding external sector and public finance statistics.

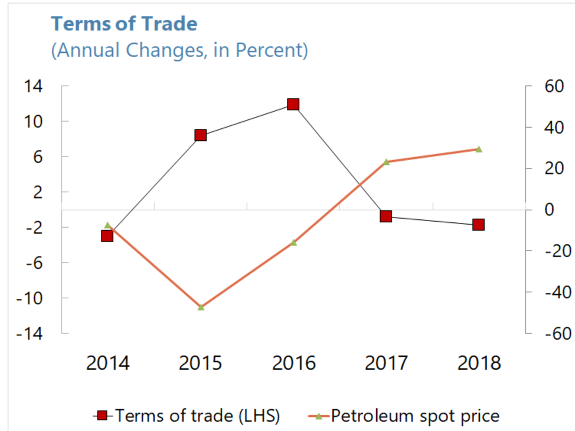
40. The discussions with the WAEMU authorities will be on the 12-month cycle in accordance with Decision No. 13656-(06/1), as amended.

Figure 1. WAEMU: Recent Economic Developments, 2014-18

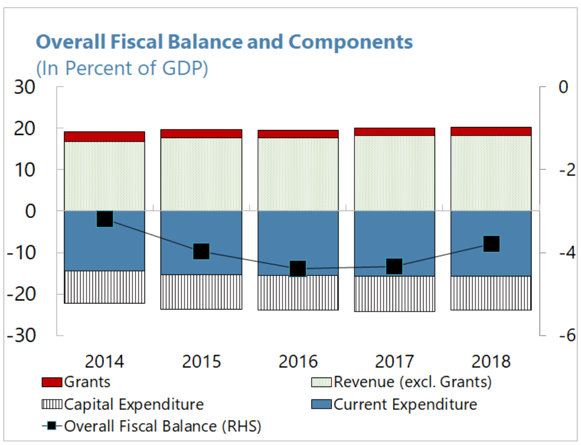
Economic activity remained strong in 2018 …



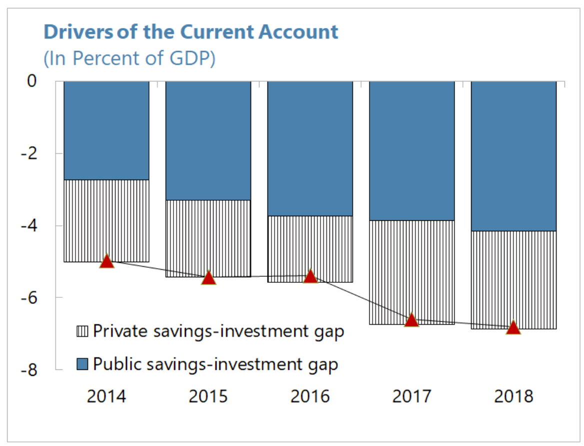
… despite unfavorable terms of trade.



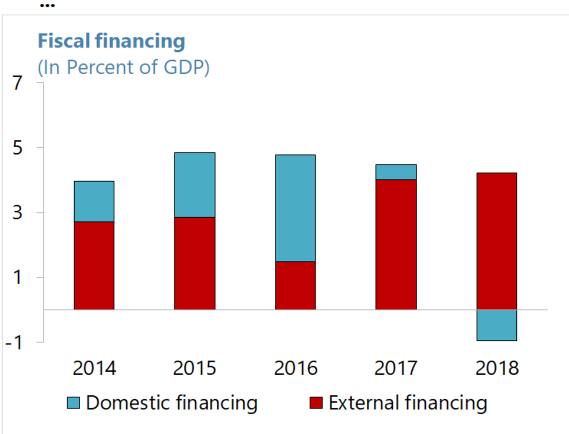
High capital expenditures contributed to higher fiscal deficits …



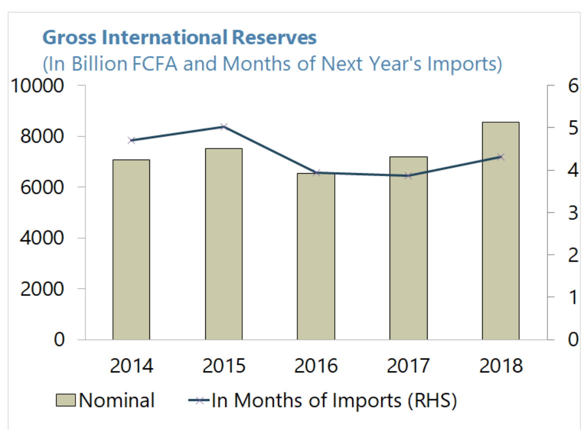
… as well as to high current account deficits.



A switch in the composition of fiscal financing since 2017 …



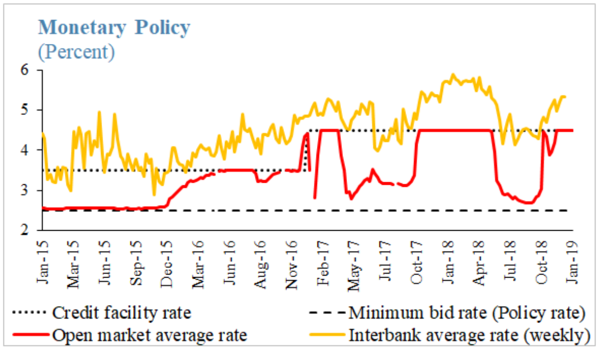
… has supported external buffers.



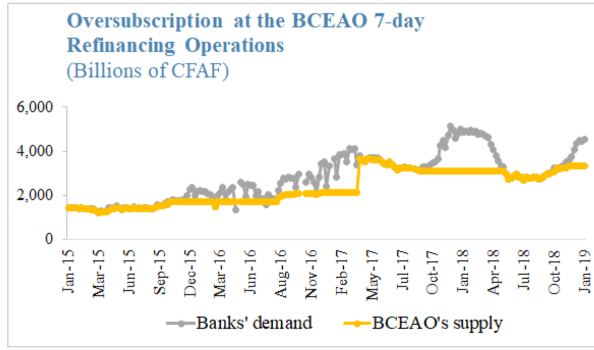
Sources: BCEAO; and IMF staff calculations.

Figure 2. WAEMU: Recent Financial Sector Developments, 2015-19

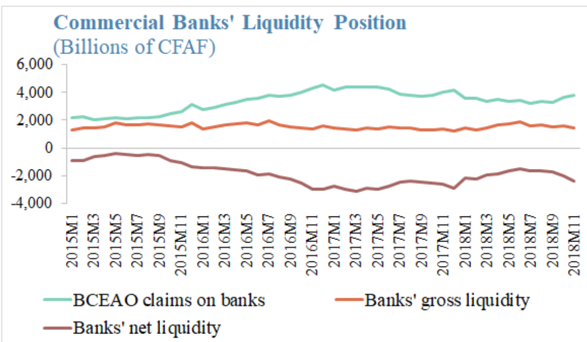
The interbank market rate has remained above the policy rate corridor, while money market pressures reemerged somewhat since October 2018, ...



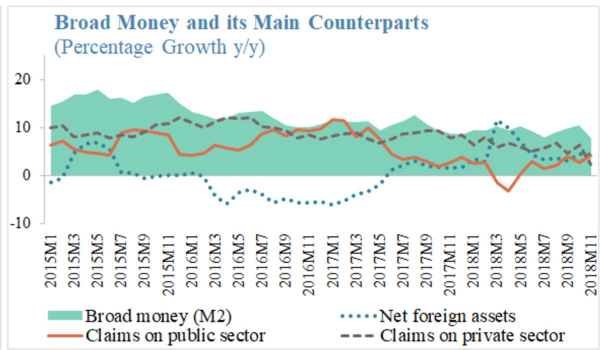
... with the appearance of the excess demand for liquidity at the BCEAO 7-day refinancing operations on the back of seasonal liquidity needs.



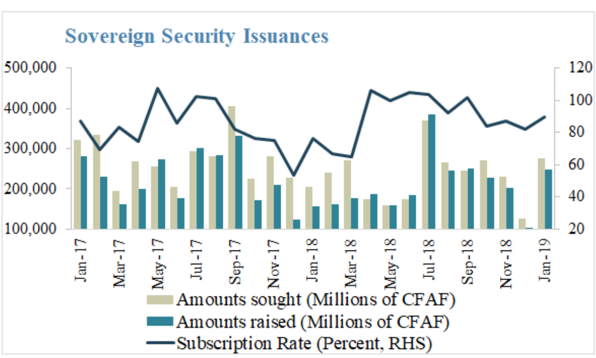
Banks' net liquidity improved in 2018 but still remains negative.



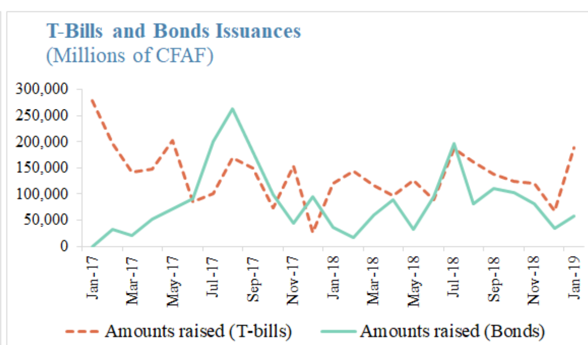
Large Eurobond issues supported a growth in net foreign assets and a decline in claims on public sector.



Subscription rates for sovereign securities auctions recovered in 2018 as funding demand dropped.



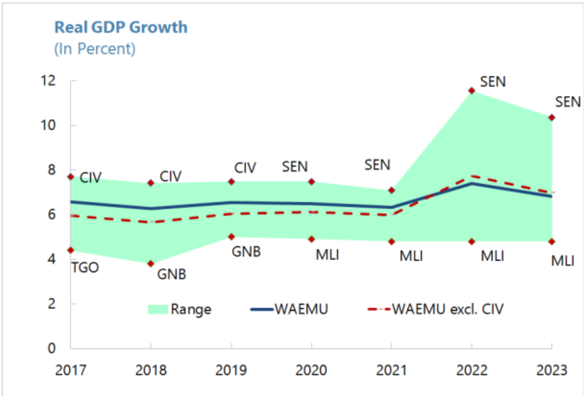
The composition of sovereign funding shifted from bonds to T-bills.



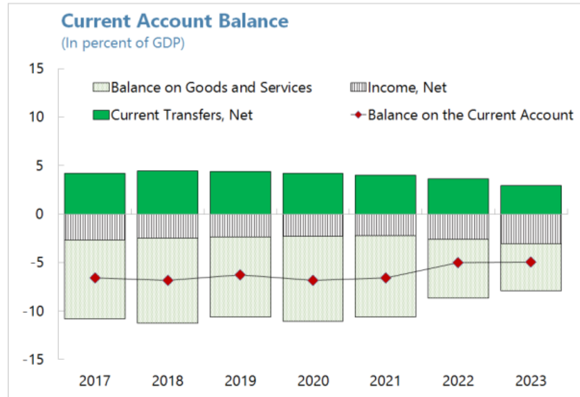
Sources: BCEAO and IMF staff calculations.

Figure 3. WAEMU: Medium Term Prospects, 2017-23

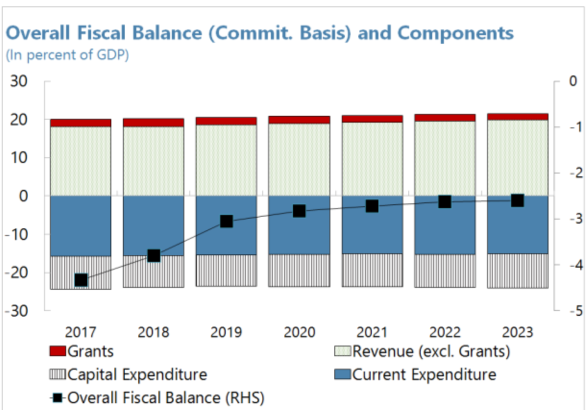
Medium-term regional growth is projected to remain strong …



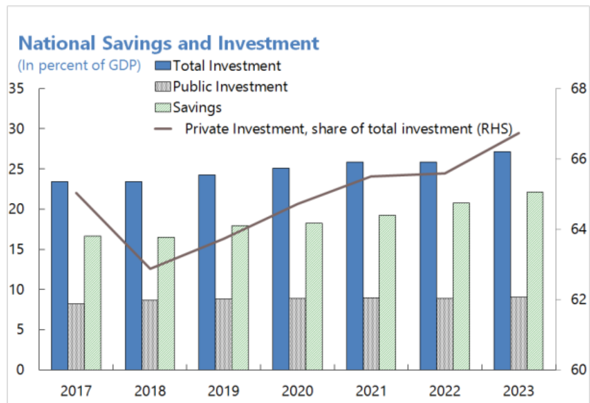
… and the current account deficit is expected to decrease over the medium term …



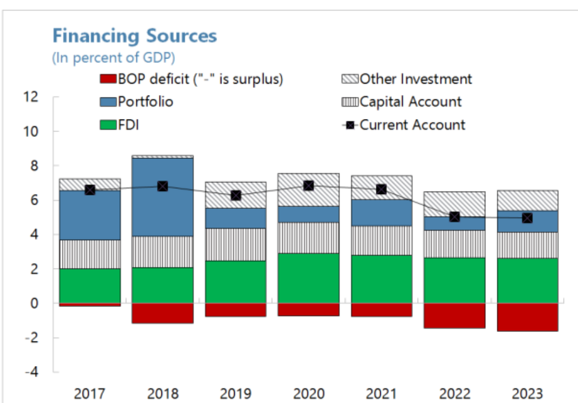
… with fiscal consolidation efforts toward meeting the regional convergence criterion from 2019 onwards …



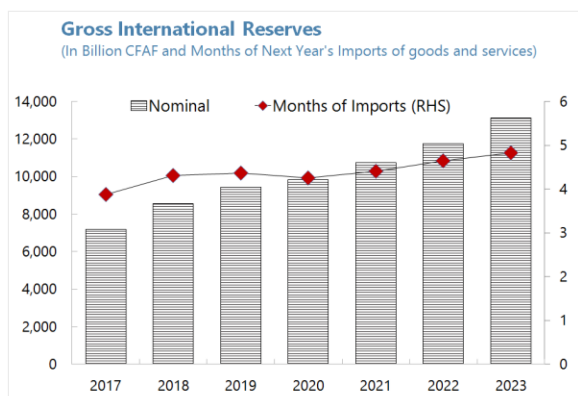
… while reform efforts would boost private investment.



Capital, FDI and portfolio inflows are expected to finance the current account deficit …



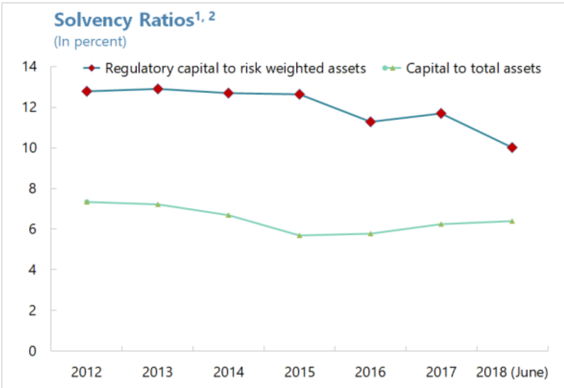
… while reserve coverage would rise to 4.8 months of imports by 2023.



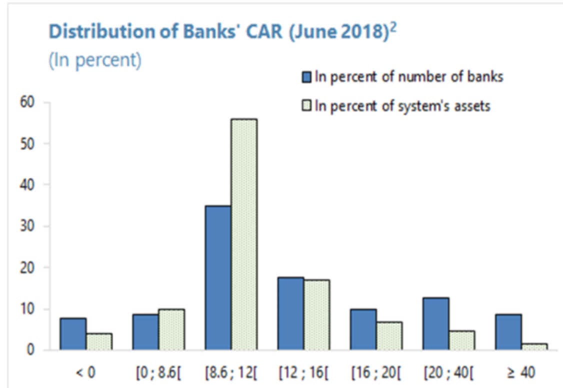
Sources: BCEAO; World Economic Outlook; and IMF staff calculations.

Figure 4. WAEMU: Banking Sector Soundness, 2012-18

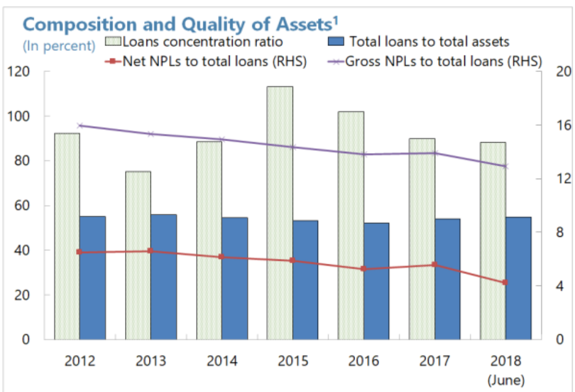
The banking system's CAR stood at 10 percent at end-June 2018 above the Basel II/III requirement of 8.625 percent.



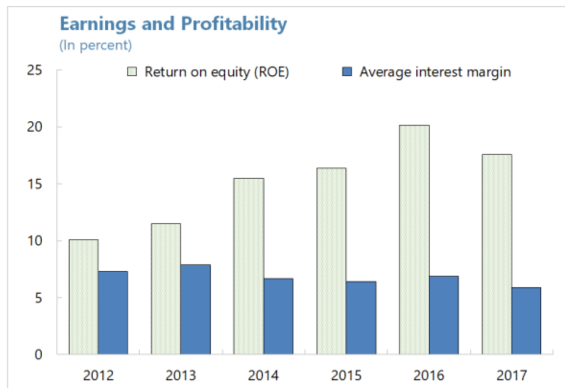
At end-June, about a fifth of banks, accounting for 16 percent of total assets were below the regulatory Basel II/III CAR.



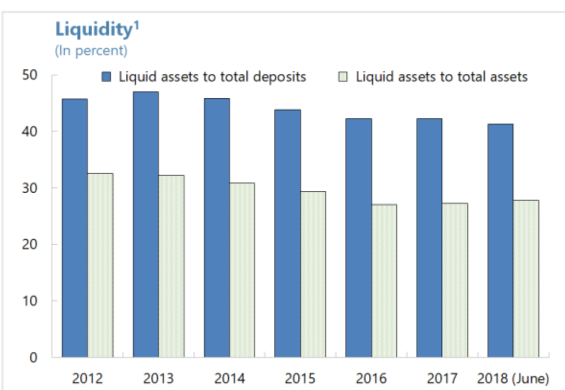
NPLs and risk concentration remained elevated.



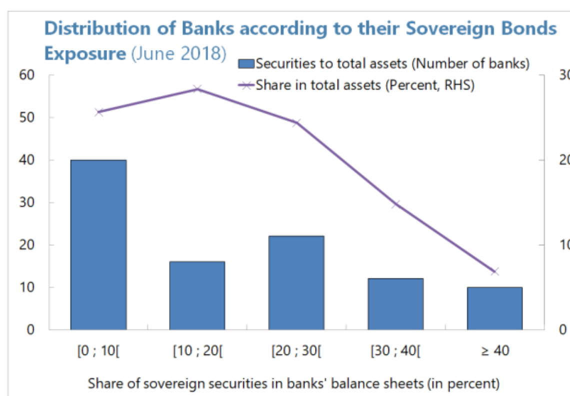
The banking sector's profitability has been high.



Banks' liquidity remained broadly unchanged in 2018.



Exposure to sovereign risk is concentrated over small banks.



Sources: BCEAO and IMF staff calculations.

[1] June 2018 corresponds to the first period of data reporting in accordance with Basel II/III prudential standards and the new banking chart of account (interim data).

[2] The minimum regulatory CAR at end-2018 under Basel II/III was 8.625 percent.

Table 1. WAEMU: Selected Economic and Social Indicators, 2015–23

Social Indicators

GDP		**Poverty (2015 or latest available)**	
Nominal GDP (2018, millions of US Dollars)	124,944	Headcount ratio at $1.90 a day (2011 PPP)	46.3
GDP per capita (2018, US Dollars)	1,227	Undernourishment (percent of population)	14.0
Populations charateristics		**Inequality (2015 or latest available)**	
Total (2018, millions)	102	Income share held by highest 10 percent of population	32.1
Urban Population (2017, percent of total)	41.1	Income share held by lowest 20 percent of population	6.1
Life expectancy at birth (2016, years)	59.7	Gini index	40.8

Economic Indicators

	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Est.		Proj.			
	(Annual percentage change)								
National income and prices									
GDP at constant prices	6.3	6.4	6.6	6.3	6.6	6.5	6.3	7.4	6.8
GDP per capita at constant prices	3.4	3.5	3.7	3.6	3.7	3.7	3.5	4.5	4.0
Broad money to GDP	6.2	4.0	1.2	0.8	1.7	2.2	...	...	...
Consumer prices (average)	1.0	0.3	0.8	1.4	1.6	1.9	1.9	1.9	1.9
Terms of trade	8.4	11.9	-0.8	-1.7	2.5	-0.6	-0.6	-2.0	-1.6
Nominal effective exchange rates	-3.8	2.0	1.8	3.2	...	...	...	...	...
Real effective exchange rates	-5.4	-0.6	0.0	1.9	...	...	...	...	...
	(Percent of GDP)								
National accounts									
Gross national savings	17.3	16.2	16.7	16.5	17.9	18.3	19.2	20.8	22.1
Gross domestic investment	23.2	21.8	23.4	23.4	24.2	25.1	25.8	25.8	27.1
Of which: public investment	7.7	7.7	8.2	8.7	8.8	8.9	8.9	8.9	9.0
	(Annual changes in percent of beginning-of-period broad money)								
Money and credit [1]									
Net foreign assets	0.0	-5.4	1.7	4.0	2.6	1.3	...	...	...
Net domestic assets	14.8	16.1	6.8	4.9	7.6	9.7	...	...	...
Broad money	14.8	10.7	8.5	8.9	10.2	11.0	...	...	...
Credit to the economy	17.4	9.9	9.4	8.0	8.3	7.1	...	...	...
	(Percent of GDP, unless otherwise indicated)								
Government financial operations									
Government total revenue, excl. grants	17.6	17.6	18.1	18.2	18.6	19.0	19.2	19.6	19.8
Government expenditure	23.9	24.1	24.6	24.1	23.8	24.0	24.0	24.2	24.3
Official grants	2.3	2.1	2.1	2.2	2.2	2.2	2.1	2.0	1.9
Overall fiscal balance, incl. grants (commitment basis)	-4.0	-4.4	-4.3	-3.8	-3.1	-2.8	-2.7	-2.6	-2.6
Basic fiscal balance, incl. grants & HIPC	-1.1	-1.6	-1.3	-0.9	-0.1	0.0	0.1	0.2	0.2
External sector									
Exports of goods and services [2]	23.2	21.9	22.1	22.5	22.6	22.2	22.1	23.2	23.2
Imports of goods and services [2]	32.0	29.9	31.0	32.1	31.7	31.9	31.4	30.1	28.8
Current account, excl. grants	-7.3	-7.2	-8.5	-8.9	-8.3	-8.7	-8.4	-6.6	-5.9
Current account, incl. grants	-5.4	-5.4	-6.6	-6.8	-6.3	-6.8	-6.6	-5.0	-5.0
External public debt	27.5	28.4	29.6	33.8	33.9	32.5	32.0	30.5	29.7
Total public debt	43.3	46.8	50.1	52.5	51.3	50.2	49.4	47.7	46.5
Broad money	28.4	28.9	28.9	31.1	33.3	33.8	...	...	...
Memorandum items:									
Nominal GDP (billions of CFA francs)	56,299	59,901	64,208	69,351	75,119	81,588	88,306	96,755	105,257
Nominal GDP per capita (US dollars)	1,013	1,045	1,112	1,227	1,258	1,343	1,421	1,525	1,619
CFA franc per US dollars, average	591	593	581	555	...	...	...	...	...
Foreign exchange cover ratio [3]	84.4	71.4	73.5	...	...	...	...	...	...
Gross international reserves									
In months of imports of goods and services [2]	5.0	3.9	3.9	4.3	4.4	4.3	4.4	4.6	4.8
In millions of US dollars	12,725	11,015	12,367	15,419	16,514	17,361	19,068	20,999	23,576
In percent of broad money	37.0	29.0	29.4	32.2	32.2	30.2	...	...	...

Sources: IMF, African Department database; World Economic Outlook; World Bank World Development Indicators; IMF staff estimates and projections.

[1] Year on year change, end December.

[2] Excluding intraregional trade.

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

Table 2. WAEMU: Selected National Accounts and Inflation Statistics, 2015-23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Est.			Proj.		
	(Annual percentage change)								
Real GDP									
Benin	2.1	4.0	5.8	6.5	6.5	6.5	6.5	6.5	6.5
Burkina Faso	3.9	5.9	6.3	6.0	6.0	6.0	6.0	6.0	6.0
Côte d'Ivoire	8.8	8.0	7.7	7.4	7.5	7.2	7.0	6.7	6.5
Guinea-Bissau	6.1	6.3	5.9	3.8	5.0	5.0	5.0	5.0	5.0
Mali	6.2	5.8	5.4	4.9	5.0	4.9	4.8	4.8	4.8
Niger	4.3	4.9	4.9	5.2	6.5	6.0	5.6	11.0	6.8
Senegal	6.4	6.2	7.2	6.2	6.9	7.5	7.1	11.6	10.4
Togo	5.7	5.6	4.4	4.7	5.0	5.3	5.4	5.4	5.4
WAEMU	6.3	6.4	6.6	6.3	6.6	6.5	6.3	7.4	6.8
Real GDP per capita									
Benin	-0.6	1.2	3.1	3.8	3.7	3.8	3.9	3.9	3.9
Burkina Faso	0.9	2.9	3.3	4.6	3.1	3.2	3.2	3.3	3.3
Côte d'Ivoire	6.1	5.2	5.0	4.7	4.8	4.5	4.3	4.0	3.8
Guinea-Bissau	3.8	4.0	3.6	1.6	2.7	2.7	2.7	2.7	2.8
Mali	3.1	2.7	2.3	1.8	2.0	1.9	1.7	1.7	1.7
Niger	1.2	1.8	1.7	2.0	3.3	2.8	2.4	7.7	3.6
Senegal	3.3	3.2	4.2	3.2	3.9	4.5	4.1	8.4	7.2
Togo	3.1	2.9	1.8	2.2	2.5	2.7	2.8	2.8	2.8
WAEMU	3.4	3.5	3.7	3.6	3.7	3.7	3.5	4.5	4.0
Inflation									
Benin	0.3	-0.8	0.1	1.1	2.1	2.1	2.1	2.1	2.1
Burkina Faso	0.9	-0.2	0.4	2.0	2.0	2.0	2.0	2.0	2.0
Côte d'Ivoire	1.2	0.7	0.8	1.7	2.0	2.0	2.0	2.0	2.0
Guinea-Bissau	1.5	1.5	1.1	1.4	2.0	2.1	2.3	2.5	2.8
Mali	1.4	-1.8	1.8	1.7	1.5	2.0	2.0	2.0	2.0
Niger	1.0	0.2	2.4	3.3	2.4	2.1	2.0	2.0	2.0
Senegal	0.1	0.8	1.3	0.3	0.1	1.5	1.5	1.5	1.5
Togo	-10.4	1.3	-1.0	0.9	1.4	2.0	2.0	2.0	2.0
WAEMU	1.0	0.3	0.8	1.4	1.6	1.9	1.9	1.9	1.9
	(Percent of GDP)								
Gross national savings									
Benin	15.5	11.6	15.6	16.6	17.8	19.3	20.2	22.6	23.2
Burkina Faso	5.2	8.9	8.0	9.1	10.6	11.8	11.2	10.8	10.3
Côte d'Ivoire	19.5	16.1	16.4	17.5	18.0	18.9	20.7	22.2	24.0
Guinea-Bissau	10.5	10.1	8.4	9.3	6.7	7.5	8.0	8.2	8.3
Mali	15.4	15.5	16.2	13.1	15.9	15.8	15.5	15.3	15.0
Niger	21.3	22.1	23.3	23.0	23.6	23.8	23.7	22.2	21.0
Senegal	20.4	21.3	20.3	19.1	20.8	18.8	20.3	25.2	29.0
Togo	21.2	16.8	19.9	18.7	23.8	26.4	27.8	27.9	28.5
WAEMU	17.3	16.2	16.7	16.5	17.9	18.3	19.2	20.8	22.1
Gross domestic investment									
Benin	25.6	21.0	25.5	25.5	26.2	27.1	27.2	28.2	28.5
Burkina Faso	13.8	16.5	17.3	16.6	16.3	16.6	16.7	16.6	16.5
Côte d'Ivoire	20.1	17.7	19.5	20.6	21.0	21.7	23.3	24.9	26.5
Guinea-Bissau	8.6	8.8	9.0	10.9	10.5	10.8	11.0	11.1	11.2
Mali	20.8	22.7	22.1	20.6	20.9	21.6	21.7	21.8	21.8
Niger	42.4	38.4	40.2	43.0	45.5	47.8	43.8	37.4	35.5
Senegal	26.1	25.3	27.5	26.3	27.7	28.7	30.7	29.5	33.2
Togo	32.2	26.5	27.7	25.1	28.7	30.3	31.4	31.7	32.1
WAEMU	23.2	21.8	23.4	23.4	24.2	25.1	25.8	25.8	27.1

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

Table 3. Sub-Saharan Africa: Cross-Group Comparison, 2015-23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Est.		Proj.			
				(Annual percentage change)					
Real GDP									
WAEMU	6.3	6.4	6.6	6.3	6.6	6.5	6.3	7.4	6.8
CEMAC [1]	2.0	-0.3	0.3	1.7	3.1	3.4	3.3	3.7	4.2
Sub-Saharan Africa [2]	3.3	1.4	2.9	2.9	3.5	3.6	3.6	3.7	4.0
Inflation (annual averages)									
WAEMU	1.0	0.3	0.8	1.4	1.6	1.9	1.9	1.9	1.9
CEMAC [1]	2.7	1.3	0.8	1.5	1.8	2.3	2.4	2.5	2.5
Sub-Saharan Africa [2]	7.0	11.3	11.1	8.5	8.6	8.1	8.0	7.7	7.6
Terms of trade									
WAEMU	8.4	11.9	-0.8	-1.7	2.5	-0.6	-0.6	-2.0	-1.6
CEMAC [1]	-27.0	0.3	10.5	12.7	-2.9	-3.7	-3.5	-2.5	-1.6
Sub-Saharan Africa [2]	-12.9	0.8	5.5	2.0	-3.0	-0.3	-0.3	0.2	0.3
				(Percent of GDP, unless otherwise indicated)					
Gross national investment									
WAEMU	23.2	21.8	23.4	23.4	24.2	25.1	25.8	25.8	27.1
CEMAC [1]	32.7	30.3	25.6	25.9	26.4	26.4	26.9	28.3	27.5
Sub-Saharan Africa [2]	22.3	20.8	20.5	19.8	20.5	21.0	21.5	21.9	22.1
Overall fiscal balance, incl. grants									
WAEMU	-4.0	-4.4	-4.3	-3.8	-3.1	-2.8	-2.7	-2.6	-2.6
CEMAC [1]	-7.7	-7.3	-3.6	0.6	1.0	1.4	0.7	0.8	0.7
Sub-Saharan Africa [2]	-4.4	-4.5	-4.7	-4.0	-4.2	-4.2	-4.1	-4.1	-4.0
External current account, incl. grants									
WAEMU	-5.4	-5.4	-6.6	-6.8	-6.3	-6.8	-6.6	-5.0	-5.0
CEMAC [1]	-13.1	-13.7	-5.1	-1.8	-1.2	-1.3	-1.9	-3.6	-2.5
Sub-Saharan Africa [2]	-5.9	-3.9	-2.3	-2.2	-3.2	-3.5	-3.6	-3.6	-3.4
External public debt									
WAEMU	27.5	28.4	29.6	33.8	33.9	32.5	32.0	30.5	29.7
CEMAC [1]	23.2	25.0	26.5	25.4	27.1	26.9	26.9	26.6	25.6
Sub-Saharan Africa [2]	16.8	20.5	22.4	23.1	23.6	23.1	22.5	21.9	21.2

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

[1] Central African Economic and Monetary Community (CEMAC).

[2] Including Nigeria and South Africa.

Table 4. WAEMU: Selected Fiscal Indicators, 2015–23

	2015	2016	2017	2018	2019	2020	2021	2022	2023
				Est.			Proj.		
				(Percent of GDP)					
Primary fiscal balance									
Benin	-7.3	-4.8	-3.9	-2.5	-0.3	0.3	0.5	0.6	0.7
Burkina Faso	-1.5	-2.5	-6.9	-3.4	-1.7	-1.7	-1.6	-1.6	-1.5
Côte d'Ivoire	-1.3	-2.3	-2.8	-2.2	-1.1	-0.7	-0.7	-0.7	-0.8
Guinea-Bissau	-3.4	-4.4	-1.1	-4.0	-2.4	-2.7	-2.7	-2.6	-2.5
Mali	-1.2	-3.3	-2.0	-2.5	-2.1	-1.9	-1.7	-1.5	-1.3
Niger	-8.4	-5.1	-4.7	-3.2	-3.1	-1.8	-1.5	-1.1	-1.1
Senegal	-2.2	-1.6	-1.0	-1.4	-1.0	-1.1	-1.2	-1.2	-1.2
Togo	-6.5	-7.1	1.5	2.3	0.5	0.5	0.6	0.6	0.5
WAEMU	-2.8	-3.0	-2.8	-2.1	-1.3	-1.0	-1.0	-0.9	-0.9
Overall fiscal balance (including grants), commitment basis									
Benin	-8.0	-6.0	-5.9	-4.7	-2.7	-1.9	-1.6	-1.3	-1.1
Burkina Faso	-2.2	-3.5	-7.8	-4.7	-3.0	-3.0	-3.0	-3.0	-3.0
Côte d'Ivoire	-2.8	-4.0	-4.5	-4.0	-3.0	-3.0	-2.9	-2.9	-2.9
Guinea-Bissau	-3.5	-5.6	-1.4	-5.1	-2.8	-3.0	-3.0	-3.0	-2.8
Mali	-1.8	-3.9	-2.9	-3.3	-3.0	-2.8	-2.7	-2.5	-2.4
Niger	-9.0	-6.1	-5.7	-4.4	-4.5	-3.0	-2.7	-2.1	-2.0
Senegal	-3.7	-3.3	-2.9	-3.4	-3.0	-3.0	-3.0	-3.0	-3.0
Togo	-8.9	-9.5	-0.3	-0.1	-2.0	-1.8	-1.6	-1.5	-1.4
WAEMU	-4.0	-4.4	-4.3	-3.8	-3.1	-2.8	-2.7	-2.6	-2.6
Government revenue (excluding grants)									
Benin	16.7	14.7	17.5	17.7	17.7	18.1	18.2	18.2	18.2
Burkina Faso	17.0	19.1	19.4	18.7	19.9	20.4	20.8	21.2	21.2
Côte d'Ivoire	18.5	18.6	19.2	19.2	19.4	19.6	19.9	20.2	20.3
Guinea-Bissau	13.7	12.1	12.8	11.9	13.2	13.6	14.2	14.6	15.2
Mali	16.4	16.7	18.4	17.9	18.6	19.3	19.7	20.1	20.6
Niger	17.9	14.3	14.4	16.4	15.9	16.9	17.6	18.7	19.1
Senegal	17.1	18.6	17.4	17.2	17.6	18.1	17.6	18.2	18.5
Togo	19.5	18.6	18.2	19.6	20.0	20.2	20.5	20.9	21.3
WAEMU	17.6	17.6	18.1	18.2	18.6	19.0	19.2	19.6	19.8
Government expenditure									
Benin	25.3	21.4	24.5	23.3	22.0	21.3	21.1	20.8	20.5
Burkina Faso	22.9	25.3	29.9	27.5	25.8	26.0	26.3	26.7	26.7
Côte d'Ivoire	22.8	24.0	24.9	24.4	23.6	23.7	23.7	23.8	23.8
Guinea-Bissau	23.6	21.7	19.7	19.9	20.2	22.2	22.9	23.3	23.7
Mali	20.9	22.3	22.9	22.2	23.6	24.2	24.4	24.7	25.0
Niger	32.4	26.3	26.8	28.5	28.4	28.0	27.1	27.1	26.9
Senegal	23.0	24.0	22.3	22.1	22.0	22.4	22.6	23.0	23.3
Togo	30.7	31.0	21.7	23.6	26.1	26.1	26.2	26.5	26.8
WAEMU	23.9	24.1	24.6	24.1	23.8	24.0	24.0	24.2	24.3
Government current expenditure									
Benin	17.2	15.4	15.2	15.1	14.8	14.6	14.5	14.3	14.2
Burkina Faso	15.0	17.3	18.4	17.3	18.8	17.6	16.8	17.0	16.6
Côte d'Ivoire	16.4	17.2	18.0	17.5	17.0	17.0	17.0	17.1	16.8
Guinea-Bissau	15.1	14.6	12.6	13.0	12.9	13.6	14.2	14.5	14.8
Mali	11.9	12.2	12.4	12.7	12.8	12.6	12.7	12.9	13.2
Niger	15.4	14.0	14.1	13.6	13.5	13.1	12.8	12.6	12.5
Senegal	14.3	14.3	13.7	14.4	13.6	13.6	13.6	13.7	13.9
Togo	17.7	17.2	15.4	17.3	16.6	16.4	16.4	16.3	16.2
WAEMU	15.3	15.6	15.7	15.7	15.4	15.3	15.2	15.2	15.1
Government capital expenditure [1]									
Benin	7.7	5.9	9.1	8.2	7.2	6.7	6.6	6.5	6.3
Burkina Faso	8.1	8.2	11.6	10.2	7.0	8.5	9.5	9.7	10.1
Côte d'Ivoire	6.4	6.7	6.9	6.9	6.6	6.7	6.8	6.8	6.9
Guinea-Bissau	8.5	7.1	7.2	8.8	8.4	8.6	8.8	8.9	8.9
Mali	7.3	8.9	8.8	8.2	8.9	9.6	9.7	9.8	9.8
Niger	16.9	12.3	12.7	14.9	14.9	14.9	14.4	14.4	14.5
Senegal	8.7	9.7	8.6	7.7	8.4	8.8	9.0	9.3	9.4
Togo	12.9	13.8	6.3	6.3	9.5	9.6	9.8	10.2	10.7
WAEMU	8.3	8.4	8.6	8.3	8.1	8.4	8.6	8.7	8.9

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

[1] Excludes net lending.

Table 5. WAEMU: Balance of Payments, 2015-23

		2015	2016	2017	2018	2019	2020	2021	2022	2023
					Est.			Proj.		
					(Percent of GDP)					
Balance on current account		-5.4	-5.4	-6.6	-6.8	-6.3	-6.8	-6.6	-5.0	-5.0
Excluding official transfers		-7.3	-7.2	-8.5	-8.9	-8.3	-8.7	-8.4	-6.6	-5.9
Balance on goods and services		-7.8	-7.3	-8.1	-8.8	-8.3	-8.7	-8.4	-6.1	-4.8
Exports of goods		24.2	22.5	22.8	23.6	23.7	23.4	23.2	24.2	24.2
Exports of services		4.0	4.0	3.9	3.8	3.7	3.7	3.7	3.6	3.4
Imports of goods		-26.6	-24.3	-25.2	-26.7	-26.2	-26.3	-25.8	-24.7	-24.2
Imports of services		-9.4	-9.6	-9.7	-9.5	-9.5	-9.6	-9.5	-9.2	-8.2
Income, net		-2.1	-2.4	-2.7	-2.5	-2.4	-2.3	-2.2	-2.6	-3.1
Income credits		1.3	1.4	1.4	1.3	1.4	1.4	1.3	1.3	1.3
Income debits		-3.5	-3.8	-4.0	-3.8	-3.7	-3.7	-3.6	-3.9	-4.3
Of which										
Investment income, debit: interest		-0.7	-0.7	-0.8	-0.8	-0.9	-0.9	-0.9	-1.1	-1.2
Current transfers, net		4.5	4.3	4.2	4.4	4.4	4.2	4.0	3.7	2.9
Private current transfers, net		2.6	2.5	2.2	2.3	2.3	2.1	2.0	1.8	1.8
Official current transfers, net		1.9	1.8	1.9	2.1	2.0	1.9	1.8	1.6	1.0
Balance on capital and financial account		6.5	2.5	7.7	9.3	7.5	7.3	7.6	6.1	5.8
Balance on capital account		1.9	1.7	1.7	1.8	1.9	1.8	1.7	1.6	1.6
Balance on financial account		4.5	0.8	6.1	7.5	5.6	5.5	5.9	4.5	4.2
Direct investment, net		1.9	1.4	2.0	2.1	2.5	2.9	2.8	2.6	2.4
Portfolio investment, net		1.9	1.2	2.9	4.6	1.2	0.9	1.5	0.8	1.2
Other investment, net		0.8	-1.9	1.2	0.8	1.9	1.7	1.6	1.1	0.6
Errors and omissions, net		0.8	-0.3	-0.5	-0.6	0.0	0.0	0.0	0.0	0.0
Overall balance		1.9	-3.1	0.7	1.9	1.2	0.5	1.0	1.0	0.8
Change in official NFA ("-" increase)	-0.5	-1.9	3.1	-0.7	-1.9	-1.2	-0.5	-1.0	-1.0	-0.8

Source: IMF, African Department database.

Table 6. WAEMU: Government Debt and Debt Service, 2015–23

	2015	2016	2017	2018 Est.	2019 Proj.	2020	2021	2022	2023
	(Percent of GDP)								
External Debt									
Benin	21.3	22.5	22.0	27.1	27.5	26.9	26.1	25.5	24.6
Burkina Faso	26.3	27.8	24.1	24.7	23.8	22.9	21.7	21.0	20.4
Côte d'Ivoire	29.5	29.0	30.5	36.4	36.8	34.0	34.2	32.6	32.6
Guinea-Bissau[1]	15.1	16.2	13.7	17.4	16.0	16.4	16.2	16.0	15.8
Mali	22.6	25.0	24.4	25.3	24.8	24.6	24.4	24.5	24.4
Niger	30.1	32.6	32.4	34.0	34.9	36.1	36.6	35.4	35.2
Senegal	32.3	33.6	40.4	47.5	47.2	45.0	43.0	38.8	35.8
Togo	21.7	20.1	19.7	20.7	22.4	21.9	21.6	21.2	20.7
WAEMU	27.5	28.4	29.6	33.8	33.9	32.5	32.0	30.5	29.7
Domestic Debt									
Benin	21.1	27.0	32.3	27.0	25.4	23.9	22.4	20.7	19.3
Burkina Faso	9.3	11.3	14.3	18.2	18.6	19.2	20.1	20.6	21.0
Côte d'Ivoire	17.8	19.3	19.3	15.9	14.2	15.6	14.7	15.3	14.6
Guinea-Bissau	38.0	38.6	38.1	40.2	40.1	39.0	38.6	38.2	37.5
Mali	8.0	11.0	11.0	12.5	13.3	14.1	14.9	15.5	15.8
Niger	9.6	11.1	16.8	16.5	15.8	13.6	11.8	9.3	7.6
Senegal	12.2	14.1	20.2	16.9	14.7	15.3	16.2	16.3	16.5
Togo	50.5	60.9	55.9	50.8	45.7	42.3	38.9	35.7	32.8
WAEMU	15.8	18.4	20.5	18.6	17.4	17.7	17.4	17.3	16.8
Total Debt									
Benin	42.4	49.5	54.3	54.2	52.8	50.8	48.5	46.2	43.8
Burkina Faso	35.6	39.2	38.4	43.0	42.5	42.1	41.9	41.7	41.5
Côte d'Ivoire	47.3	48.4	49.8	52.2	50.9	49.7	48.9	47.9	47.2
Guinea-Bissau[1]	53.1	54.8	51.8	57.5	56.0	55.4	54.8	54.2	53.3
Mali	30.7	35.9	35.4	37.8	38.1	38.7	39.4	40.1	40.2
Niger	39.7	43.7	49.3	50.5	50.8	49.8	48.3	44.7	42.8
Senegal	44.5	47.7	60.6	64.4	61.9	60.2	59.3	55.1	52.3
Togo	72.1	81.1	75.6	71.5	68.0	64.2	60.4	56.9	53.6
WAEMU	43.3	46.8	50.1	52.5	51.3	50.2	49.4	47.7	46.5
	(Percent of Government revenue excluding grants)								
Total debt service									
Benin	14.9	19.0	38.0	71.0	56.5	46.2	45.0	42.4	34.8
Burkina Faso	16.4	30.8	27.1	35.8	42.9	42.9	41.3	40.8	40.7
Côte d'Ivoire	18.6	30.5	20.3	19.3	20.3	18.5	14.4	13.5	12.4
Guinea-Bissau[1,2]	8.7	10.8	38.0	37.2	39.0	34.4	28.4	29.7	23.3
Mali	13.1	10.5	11.6	12.9	13.8	12.6	12.8	12.7	12.1
Niger	9.0	19.7	31.5	42.6	30.8	32.5	28.7	24.2	21.5
Senegal	29.7	32.8	33.7	45.7	31.6	24.3	30.9	22.2	22.6
Togo	65.2	62.8	61.9	61.9	60.7	65.0	61.0	52.6	51.0
WAEMU	20.8	28.3	26.4	33.0	29.8	27.1	26.1	23.2	21.3
Debt service, interest									
Benin	4.4	8.5	11.3	12.5	13.8	12.3	11.5	10.8	10.1
Burkina Faso	3.9	5.2	4.7	6.4	5.8	5.8	5.9	5.8	5.7
Côte d'Ivoire	8.2	9.3	9.5	9.6	10.2	9.2	8.3	7.9	7.2
Guinea-Bissau	5.4	6.0	4.0	5.6	5.1	4.9	4.4	4.2	3.9
Mali	3.6	4.0	4.5	4.6	5.3	4.8	4.9	4.9	5.0
Niger	3.5	6.5	6.9	7.5	8.4	7.2	6.4	5.4	4.8
Senegal	8.9	9.0	10.9	11.6	11.0	10.3	10.4	9.7	9.6
Togo	11.2	13.5	10.8	11.9	12.3	11.6	10.5	9.7	8.5
WAEMU	6.7	8.0	8.5	9.1	9.4	8.6	8.1	7.7	7.3

Source: IMF, African Department database.

[1] Reflects debt relief on Guinea-Bissau's arrears with Taiwan in 2017.

[2] Reflects expended coverage to include all treasury securities from 2018 onwards.

Table 7. WAEMU: Monetary Survey, 2014–20

	2014	2015	2016	2017	2018 Est.	2019 Proj.	2020 Proj.
	(Billions of CFA francs)						
Net foreign assets	**4,747**	**4,754**	**3,658**	**4,037**	**5,004**	**5,690**	**6,066**
of which:							
BCEAO	5,236	5,480	4,527	5,169	6,468	7,352	7,727
Commercial Banks	-488	-726	-868	-1,132	-1,463	-1,661	-1,661
Net domestic assets	**12,984**	**15,604**	**18,875**	**20,406**	**21,603**	**23,631**	**26,481**
Domestic credit	17,983	21,010	24,559	27,161	28,393	30,653	33,503
Net credit to government	3,926	4,506	6,420	7,308	6,948	7,432	8,636
Net credit to the economy	14,057	16,504	18,139	19,853	21,446	23,221	24,866
Of which private sector	12,258	14,391	15,927	17,816	18,935	20,504	21,956
Other items, net	-4,999	-5,406	-5,684	-6,755	-6,790	-7,022	-7,022
Broad Money	**17,731**	**20,358**	**22,533**	**24,442**	**26,608**	**29,322**	**32,547**
Money	11,808	13,542	14,993	16,231	...	...	...
of which: Currency in circulation	4,692	5,254	5,542	5,810	...	...	...
Quasi-money	5,923	6,816	7,540	8,211	...	...	...
	(Annual changes in beginning of period broad money)						
Net foreign assets	**0.1**	**0.0**	**-5.4**	**1.7**	**4.0**	**2.6**	**1.3**
Net domestic assets	**12.5**	**14.8**	**16.1**	**6.8**	**4.9**	**7.6**	**9.7**
Domestic credit	16.3	17.1	17.4	11.5	5.0	8.5	9.7
Net credit to government	4.9	3.3	9.4	3.9	-1.5	1.8	4.1
Net credit to the economy	11.5	13.8	8.0	7.6	6.5	6.7	5.6
Of which private sector	8.2	12.0	7.5	8.4	4.6	5.9	5.0
Other items, net	-3.9	-2.3	-1.4	-4.8	-0.1	-0.9	0.0
Broad Money	**12.6**	**14.8**	**10.7**	**8.5**	**8.9**	**10.2**	**11.0**
	(Year on year percent change)						
Net foreign assets	**0.3**	**0.1**	**-23.0**	**10.3**	**24.0**	**13.7**	**6.6**
Net domestic assets	**17.8**	**20.2**	**21.0**	**8.1**	**5.9**	**9.4**	**12.1**
Domestic credit	16.7	16.8	16.9	10.6	4.5	8.0	9.3
Net credit to government	24.3	14.8	42.5	13.8	-4.9	7.0	16.2
Net credit to the economy	14.7	17.4	9.9	9.4	8.0	8.3	7.1
Of which private sector	11.8	17.4	10.7	11.9	6.3	8.3	7.1
Other items, net	13.9	8.1	5.2	18.8	0.5	3.4	0.0
Broad Money	**12.6**	**14.8**	**10.7**	**8.5**	**8.9**	**10.2**	**11.0**
New credit to government							
In CFAF billion	767	580	1,914	889	-361	484	1,205
In percentage of GDP	1.5	1.0	3.2	1.4	-0.5	0.6	1.5

Sources: BCEAO and IMF staff calculations.

Table 8. WAEMU: Financial Soundness Indicators, December 2012–June 2018[1]

	2012	2013	2014	2015	2016	2017	2017	2018[1]
	December					Jun.	Dec.	Jun.
	(Percent, unless otherwise indicated)							
Solvency ratios								
Regulatory capital to risk weighted assets	12.8	12.9	12.7	12.6	11.3	11.4	11.7	10.0
Tier I capital to risk-weighted assets	12.0	11.8	11.2	10.5	10.3	10.6	10.8	9.3
Provisions to risk-weighted assets	10.8	10.3	10.7	11.7	10.1	9.9	9.8	8.6
Capital to total assets	7.3	7.2	6.7	5.7	5.8	6.2	6.3	6.4
Composition and quality of assets								
Total loans to total assets	55.0	55.9	54.6	53.1	52.2	52.9	54.1	54.9
Concentration: loans to 5 largest borrowers to capital[2]	92.3	75.1	88.6	113.1	101.9	89.6	89.8	88.2
Sectoral distribution of loans								
Agriculture	2.6	2.8	3.1	3.2	3.2	4.7	3.9	4.1
Extractive industries	1.6	1.8	2.0	1.9	1.6	1.3	1.5	1.7
Manufacturing	18.2	17.0	17.9	17.2	15.5	12.7	16.2	14.5
Electricity, water and gas	3.2	3.7	3.9	4.2	4.9	5.6	5.6	5.4
Construction	6.7	7.8	8.6	9.4	10.8	11.7	9.8	9.0
Retail and wholesale trade, restaurants and hotels	34.7	33.5	31.1	31.5	26.7	31.4	26.8	27.6
Transportation and communication	10.1	11.2	9.8	9.5	9.9	11.9	11.6	11.9
Insurance, real estate and services	6.1	5.9	6.5	6.6	7.2	7.3	7.2	6.0
Other services	16.8	16.2	17.0	16.4	20.1	13.3	17.4	19.9
Gross NPLs to total loans	16.0	15.3	14.9	14.4	13.8	14.6	13.9	12.9
Provisioning rate	63.4	61.0	62.8	62.7	65.5	63.4	63.6	70.2
Net NPLs to total loans	6.5	6.6	6.1	5.9	5.2	5.9	5.5	4.2
Net NPLs to capital	48.8	51.1	50.1	54.9	47.2	49.7	48.0	36.4
Earnings and profitability								
Average cost of borrowed funds	2.5	2.8	2.4	2.4	2.9	...	2.5	...
Average interest rate on loans	9.8	10.7	9.1	8.8	9.8	...	8.4	...
Average interest margin[3]	7.3	7.9	6.7	6.4	6.9	...	5.9	...
After-tax return on average assets (ROA)	0.9	0.9	1.1	1.2	1.3	...	1.3	...
After-tax return on average equity (ROE)	10.1	11.5	15.5	16.4	20.2	...	17.6	...
Noninterest expenses/net banking income	61.0	60.6	58.6	58.6	58.5	...	58.3	...
Salaries and wages/net banking income	25.7	26.5	25.4	25.4	25.6	...	25.0	...
Liquidity								
Liquid assets to total assets	32.5	32.2	30.9	29.4	27.1	26.7	27.3	27.8
Liquid assets to total deposits	45.8	47.1	45.9	43.8	42.3	40.8	42.3	41.3
Total loans to total deposits	86.2	90.0	89.5	87.0	89.5	89.1	92.0	89.9
Total deposits to total liabilities	71.1	68.5	67.3	67.1	64.1	65.3	64.5	67.2
Sight deposits to total liabilities[4]	36.5	35.5	34.5	35.4	34.4	34.8	34.7	35.8
Term deposits to total liabilities	34.6	32.9	32.8	31.7	29.7	30.6	29.8	31.3

Source: BCEAO.

[1] First year of data reporting in accordance with Basel II/III prudential standards and the new banking chart of account (interim data).

[2] Indicators do not account for the additional provisions required by the WAEMU Banking Commission.

[3] Excluding tax on bank operations.

[4] Including saving accounts.

Annex I. External Sector Assessment

External and current account developments. WAEMU's external current account deficit (including grants) is estimated to have increased by 0.2 percentage points of GDP in 2018 to reach 6.8 percent of GDP. This widening was mainly driven by a deterioration of terms-of-trade as a result of higher global oil prices, and strong petroleum imports. The trade balance is estimated to have deteriorated by 0.7 percentage points of GDP in 2018, while net income and current transfers would have increased slightly. The current account deficit is projected to decline over the medium-term to reach 5.0 percent of GDP by 2023, reflecting successful implementation of fiscal consolidations plans and structural reforms to boost competitiveness, improved terms of trade, and the slowdown of net oil imports with the expected increase of production in WAEMU's oil-producing countries.

External financing. Capital transfers and FDI are estimated to have increased slightly by about 0.1 percentage points of GDP in 2018, while portfolio inflows would have significantly increased, by 1.7 percentage points, reflecting Eurobonds issued by Côte d'Ivoire and Senegal in March 2018 of about US$4.3 billion in gross terms. External public debt is also estimated to have increased in 2018 to reach 33.8 percent of GDP, from 29.6 percent of GDP in 2017, reflecting in part the above-mentioned Eurobond issuances. External debt is expected to stabilize at 29.7 percent of GDP in 2023, as fiscal consolidation takes hold and WAEMU sovereigns rebalance their financing mix towards greater recourse to the regional market.

Reserves adequacy. After an increase of CFAF 655 billion (US$1.2 billion) in 2017, international reserves rose by CFAF 1,377 billion (US$2.4 billion) to reach CFAF 8,561 billion (US$14.9 billion) at end-2018. The increase in 2018 reflects Eurobond net proceeds, which were almost ¾ higher than the 2017 Eurobond issuances, as well as improved compliance with export receipts repatriation requirements. The rate of repatriation of export receipts is estimated to have increased from 43 percent in 2017 to 56 percent in 2018. At end-2018, external reserves are estimated to cover 4.3 months of prospective extra-regional imports of goods and services up from 3.9 months at end-2017. Under the baseline scenario of fiscal consolidation—where member states meet the regional fiscal deficit convergence criterion of 3 percent of GDP from 2019 onwards and external competitiveness improves in the medium-term—the reserve import cover is projected to reach 4.8 months by 2023. This medium-term projection remains somewhat below the lower bound of the estimated range of 5 months to 8 months for the WAEMU's adequate reserve import cover.[1] The outlook is surrounded by endogenous and exogenous downside risks whose materialization could result in significantly lower external buffers. Endogenous risks include delayed fiscal adjustment and the non-delivery of reforms to boost external competitiveness, while exogenous risks encompass

[1]The adequate reserve import cover in the WAEMU is examined using the Fund's ARA-CC approach, which balances the benefits from holding reserves in terms of both crisis prevention and mitigation against the opportunity costs of holding additional reserves. Based on data calibrated for the WAEMU, including on marginal product of capital and Eurobond yields used as proxies for the opportunity cost of holding reserves, the Fund's ARA-CC model estimates that WAEMU's external reserves should be within a range of 5 months to 8 months of prospective extra-regional imports of goods and services. Staff is of the view that a level of reserves close to the lower-bound of 5 months would seem adequate given the additional external buffers implied by the convertibility guarantee of WAEMU's currency to the euro by the French Treasury.

unusually elevated global policy uncertainty including trade tensions and the risk of weaker-than-expected global growth.

Exchange rate assessment. After being stable in 2017, the real effective exchange rate (REER) appreciated by 1.9 percent in 2018, partially reflecting the strengthening of the Euro (to which the WAEMU's CFAF is pegged). The EBA-based assessment suggests that the external position is moderately weaker than implied by current fundamentals and desirable policy settings, which would be addressed going forward through the region-wide fiscal consolidation and effective implementation of structural reforms as well as the coming on stream of new oil and gas production in Senegal**.**

External Sector Assessment Results	
Implied over (+)/under(-) valuation (percent	
REER Model	-0.5
Current Account (CA) model	5.0
Memorandum items (percent of GDP)	
Adjusted actual CA	-6.9
CA norm	-4.6
CA gap	-2.3
o/w Policy gap	1.5

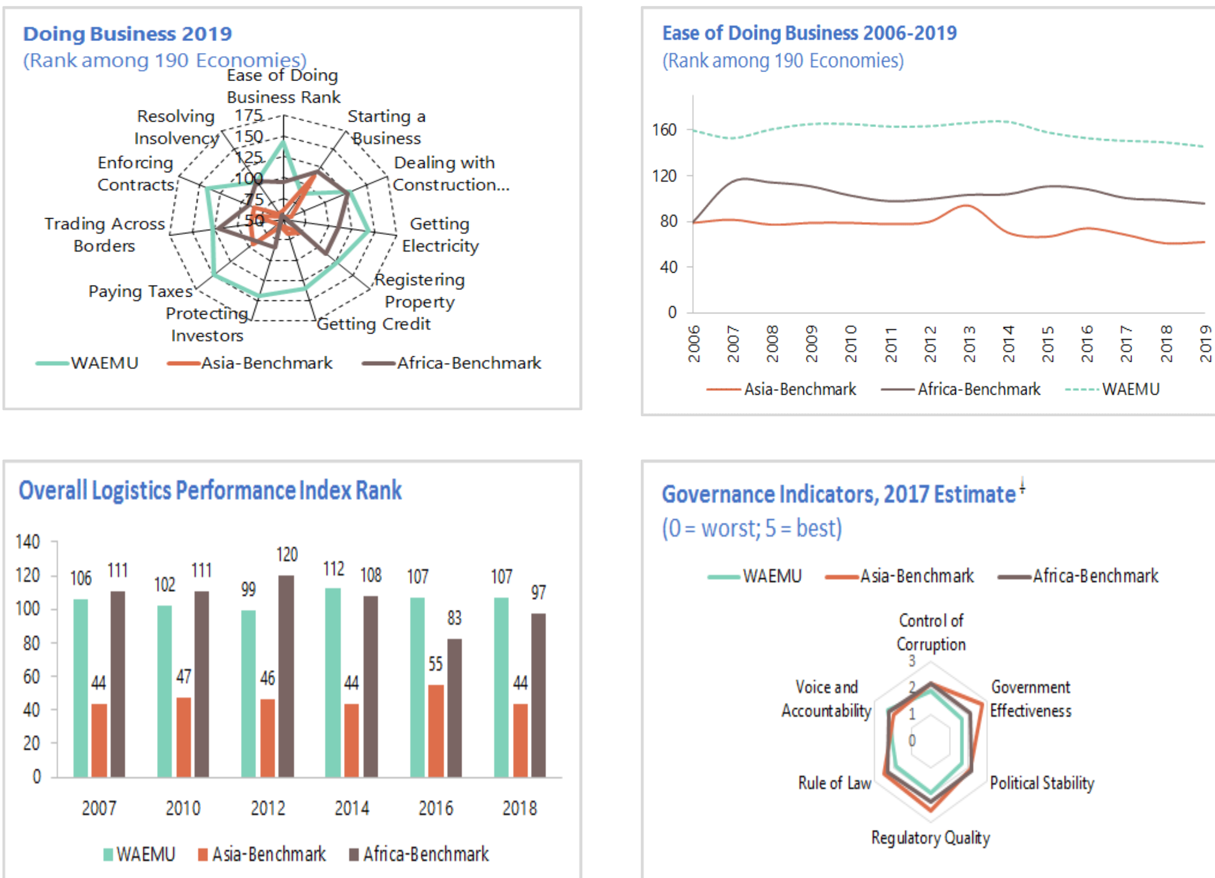
- The first approach, the EBA's Lite Index Real Effective Exchange Rate (REER), which compares the fitted REER and the REER norm, shows an undervaluation of 0.5 percent. However, this model does not properly consider the evolution of the REER.
- The second approach, the EBA's Current Account model, on which staff places more weight, and which compares the actual current account balance with the estimated current account norm, indicates an overvaluation of 5.0 percent and a current account gap of -2.3 percent (with an adjusted current account balance of -6.9 percent of GDP compared to an estimated norm of -4.6 percent of GDP).

Structural Competitiveness. The WAEMU's competitiveness remains hampered by significant structural constraints.[2]

[2] Structural competitiveness is captured by Doing Business, Global Competitiveness, Logistics Performance, and Governance Indicators, which are measures of perceptions of the investment climate and governance. Doing Business is based on the average of individual country's distance to frontier scores for 10 topics (as reported in the top left chart) included in the aggregate ranking. Global Competitiveness defines competitiveness as the set of factors that determine the level of productivity of a country based on 12 pillars including institutions and infrastructure, education, goods and labor markets efficiency, and financial market development. Logistics Performance combines data on six cores of logistics performance including the efficiency of customs and border clearance, and the quality of trade and transport infrastructure into a single aggregate indicator of logistics sector performance. Governance Indicators are measured by Voice and Accountability, Political Stability and Absence of Violence, Government Effectiveness, Regulatory Quality, Rule of Law, Control of Corruption. Voice and Accountability captures perceptions of the extent to which a country's citizens are able to participate in selecting their government, as well as freedom of expression, freedom of association, and a free media. Political Stability and Absence of Violence measures perceptions of the likelihood of political instability and/or politically-motivated violence. Government Effectiveness assesses perceptions of the quality of public services. Regulatory Quality evaluates perceptions of the ability of the government to formulate and implement sound policies and regulations that permit and promote private sector development. Rule of Law measures perceptions of the extent to which agents have confidence in and abide by the rules of society. Control of Corruption captures perceptions of the extent to which public power is exercised for private gain. Caution is needed when interpreting the results as they may be affected by sample size, questionnaire wording and design, nonresponse bias, and availability of information.

- The 2019 World Bank's Doing Business Report indicates that the regional business climate has improved though it remains less favorable relative to comparator countries in Africa and Asia. The average WAEMU rank moves up by 4 places between 2018 and 2019, driven mainly by progress in Côte d'Ivoire and Togo. In addition, the region has kept the pace of reforms particularly in the area of starting a business. However, WAEMU countries still lag far behind in the areas of getting electricity or credit, registering property, protecting investors, paying taxes, and enforcing contracts. Survey-based perception indicators from the Global Competitiveness Report also suggest some structural constraints to the WAEMU's competitiveness particularly when it comes to institutional and legal investor protection, infrastructure, labor skills and access to finance.[3]

WAEMU: Doing Business, Logistics, and Governance Indicators



Sources: World Bank Doing Business; Logistics Performance Index Dataset; World Governance Indicators; and IMF staff calculations.
+ Similar perceptions are obtained using data from Transparency International and International Country Risk Guide (ICRG).
Asia benchmark includes Indonesia, Malaysia, Philippines, Thailand, and Vietnam. Africa benchmark includes Ghana, Kenya, Lesotho, Rwanda, Tanzania, Uganda, and Zambia.

[3] An analysis of the WAEMU structural constraints using Global Competitiveness Report is covered by the chapter on competitiveness previously mentioned.

- The logistics performance index (LPI) also indicates lagging performance of the WAEMU. The LPI, which ranks 160 countries on various dimensions of trade including customs performance, infrastructure quality, and timeliness of shipments, shows that the regional LPI ranking has remained unchanged between 2016 and 2018, while comparator countries in Africa and Asia have made some progress.
- Governance indicators also demonstrate some structural weaknesses. According to the World Bank's Governance Indicators, the region's scores for government effectiveness, political stability, regulatory quality and rule of law remain weak, compared to comparator countries. However, the WAEMU relatively performs well in voice and accountability.

Annex II. Authorities' Responses to 2018 Policy Recommendations

(Scale: fully consistent, broadly consistent, partially consistent, and inconsistent)

	2018 Article IV Recommendations	Authorities' Response
Policy Mix	- While fiscal policy should be the first line of defense, the BCEAO should stand ready to tighten monetary conditions if pressures on external reserves persist or re-emerge.	**Broadly consistent** - The monetary policy stance remained broadly unchanged in 2018 as external reserves increased on the back of large Eurobond issues by Côte d'Ivoire and Senegal.
Fiscal Policy Coordination	- Governments need to adhere to their budget deficit reduction plans while maintaining public investment efforts, which will require increasing tax revenue and improving quality of spending. - There is a need to better control and limit off-budget operations.	**Partially consistent** - The aggregate fiscal deficit decreased by 0.5 pp to 3.8 percent of GDP in 2018 and is expected to converge to the 3 percent of GDP WAEMU target for 2019, based on member countries commitments under their respective Fund-supported programs. Off-budget operations averaged 1.3 percent of GDP in 2018 from 2.3 percent of GDP in 2017.
Monetary/ Financial sector Development	- Enhance monetary policy effectiveness and continue financial sector reforms. - Accelerate the development of the interbank and government debt markets.	**Partially consistent** - The regional debt agency is coordinating bond issuance through auctions, but the regional market remains segmented and under-developed. - Reforms to debt and interbank market still ongoing.
Financial Regulation and Supervision	- Speed up financial sector reform and implement existing prudential regulations, and new ones including capital standards consistent with Base II/III. - Strengthen risk-based supervision, avoid regulatory forbearance.	**Partially consistent** - The June 2017 requirement of CFAF 10 billion minimum capital remains unmet by a few banks. - New prudential regulations successfully launched in January 2018 and risk-based supervision gearing up on methodology and process. - Enforcement of regulations remains weak. - The Banking Commission's new resolution powers have yet to be made operational.
Structural Reforms/Competitiveness	- Improve the effectiveness of public investments and ease constraints on the business environment. - Enhance the effectiveness of regional structural funds in cross-border infrastructure projects.	**Partially consistent** Ease of doing business has improved in the WAEMU as the region's average rank of doing business move up by 4 places between 2018 and 2019—driven mainly by progress in Côte d'Ivoire and Togo. However, WAEMU countries still lag far behind in various areas of non-price competitiveness including the quality of institutions, the legal framework for investors, and transportation and electricity infrastructure (including cross-border infrastructure and electricity interconnection projects).

Annex III. WAEMU: Risk Assessment Matrix[1]

	Source of Risk	Relative Likelihood	Potential Impact
	Spillover Risks		
ST-MT	**Tighter global financial conditions:** Fed normalization and tapering by ECB increase global rates and term premia, strengthen the U.S. dollar and the euro vis-à-vis the other currencies, and correct market valuations. Adjustments could be disruptive if there are policy surprises	High	**Low to medium.** Increased financing costs could adversely affect the region through higher regional risk premium and WAEMU countries which are exposed to international financial markets. A recovery of U.S. dollar relative to the Euro could increase sovereign debt burden of countries with un-hedged dollar exposures and increase costs of certain imports. On the upside, stronger USD could increase export receipts of certain exports (e.g., cocoa, oil).
ST- MT	**Retreat from cross-border integration.**	Medium	**Medium.** The realization of this risk, particularly in Europe, could lower foreign aid, trade, and foreign investment in the region.
	Weaker-than-expected global growth:		
ST	- **Significant slowdown in China and its spillovers**	Medium	**Medium to high**. Sharper-than-expected downturn in China could significantly lower trade, investment, financing flows and affect WAEMU region through cross-border spillover effects from the Euro area.
ST- MT	- **Significant slowdown in other large Ems/frontier economies.**	Low /Medium	
MT	- **Structurally weak growth in key advanced and emerging economies.**	High	**Medium.** Slower growth and subsequently lower demand for commodities by emerging markets could dampen commodity prices and thus exports in some countries (e.g. gold, cocoa); a positive impact is expected for the region's current account deficit if this only leads to lower oil prices. lower growth in advanced markets, Europe, could lower trade, remittances, foreign aid and FDI.
ST -MT	**Sizeable deviations from baseline energy prices.** Risks are broadly balanced. Oil prices could rise sharply due to steeper-than-anticipated export declines in some producers. Oil prices could drop significantly if downside global growth risks materialize or supply exceeds expectations.	Medium	**Medium to high.** Except for Niger, all WAEMU countries are net oil importers. An additional increase in oil prices would further deteriorate the current account balance and negatively impact growth through an increase in production costs. The significant reversal of recent oil price increases would have opposite effects for WAEMU net-oil importing countries.
	Regional Risks		
ST	Political and security risks, including regional spillovers.	Medium	**High.** Security risks in the Sahel remain. Risks include a destruction of capital, negative effects on growth and inclusiveness, delays in reforms, and increased fiscal cost and liquidity risks for the affected sovereign as well as increased risk aversion by foreign investors. Political risks, including those related to presidential elections could delay fiscal consolidation.
MT	Delay in reforms at country and regional level related to (i) fiscal consolidation; (ii) infrastructure investment; (iii) the energy sector; (iii) PFM, (iv) the financial sector; and (iv) regional integration.	Medium	**Medium to high.** Fiscal consolidation and key reforms will require strong political will. Weak implementation capacity and bureaucratic hurdles pose risks to efficient reform implementation. With many countries targeting large infrastructure investments, a delay in PFM reforms and inefficient investment could give rise to debt, fiscal and external sustainability issues, with negative implications for growth and poverty reduction. Delays in supervisory reforms may pose financial stability risks.
ST	Adverse weather conditions.	Medium	**High.** Lower agricultural production could imply heightened food security risks, a decline in growth rates, and additional fiscal costs.
MT	Exchange rate pressure in the CEMAC.	Low	**High.** Given similarities between the two zones (e.g., CFAF peg agreement, economic and policy challenges) pressure on the XAF could have spillover effects on the XOF.

[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 percent and 30 percent, and "high" a probability between 30 percent and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term" and "medium term" are meant to indicate that the risk could materialize within 1 year and 3 years, respectively.

Annex IV. Strengthening Tax Coordination to Mobilize Revenue[1]

WAEMU member countries have coordinated domestic tax policies for over two decades. This coordination covers most tax revenue sources—including CIT, portfolio income taxation, VAT, excise taxes, and custom duties—and supports the objectives of the 1994 WAEMU Treaty of reducing distortions to intra-community trade and mobilizing additional tax revenue. In practice, member countries have also used regional coordination to obtain supranational endorsement of preexisting national policies that may not always be consistent with best practices (such as for example the systematic recourse to reduced VAT rates). Coordination also extends to other initiatives, such as the preparation and publication of tax expenditures according to a common framework.

Coordinating capital income taxation is desirable, as its mobility can lead to tax competition. The WAEMU's CIT directives define a standard tax base and allow a tax rate between 25 percent and 30 percent. Another directive governs the taxation of portfolio income, with rates for interest, dividends, and capital gains ranging from 0-15 percent based on different criteria. A multilateral tax treaty and an instrument governing the taxation of passive investment entities are also in effect.

Regional coordination can also help preserve indirect taxes, which remain the most important source of tax revenue. Regional VAT directives provide a comprehensive list of mandatory exemptions (e.g. education and health services) and allow a standard rate between 15-20 percent and a reduced rate between 5-10 percent on certain goods and services. Excise tax directives contemplate mandatory taxation of tobacco, alcohol and non-alcoholic beverages, and elective taxation within a limitative list of other goods. Since 2015, the WAEMU aligned its common external tariff policy with the ECOWAS; it now contains five categories with rates ranging from 0 percent (basic necessities) to 35 percent (final consumption).

Revisions to existing regional tax directives are needed to support revenue mobilization efforts across the WAEMU. In doing so, it will be critical to depart from the practice of using regional instruments to legitimize existing national policies, instead of having them guide WAEMU members towards better policy outcomes. Addressing countries' use of tax incentives for investment is a priority area for reform. The benefits from the current coordination of CIT are significantly weakened by the absence of constraints on members' ability to grant investment incentives, including through investment codes, sectoral codes,[1,2] free zones and taxpayer agreements. At a minimum, the regional framework could provide a negative list whereby the use of certain incentives (e.g., tax holidays and VAT exemptions) are precluded and certain sectors (e.g., extractives and telecoms) are excluded from receiving any type of incentive.

Other regional actions that could broaden and further harmonize tax cooperation, while supporting revenue mobilization, include: (i) strengthening anti-avoidance rules (e.g., interest deductions and indirect transfers); (ii) simplifying and improving the neutrality of portfolio income

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[1]Prepared by Sebastien Leduc (FAD).

[2]While a regional mining code was approved in 2003, the implementing regulation has not been issued.

taxation; (iii) reducing the number of VAT exemptions and making them optional, while using as necessary—but only temporarily—the reduced rate to facilitate a transition towards full taxation; (iv) reassessing the adequacy of excise tax rates on alcohol and petroleum products; and (v) strengthening requirements on tax expenditure reporting and analysis. Coordinated actions could also be envisaged to develop real estate taxes as a revenue source for local governments.

Effective implementation of regional tax directives is also needed. Member countries tend to follow the most visible parameters of the regional Directives: tax rates. Other aspects such as the calculation of tax bases are however more difficult to apprehend without an effective and credible surveillance structure and this difficulty has contributed to creating a gap between *de jure* and *de facto* coordination across the union (Mansour and Rota-Graziosi, 2014).