April 10, 2020
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 18/25-2

10:45 a.m., March 26, 2018

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

Documents: SM/18/56 and Supplement 1; SM/18/62

Staff: Ghura, AFR; Nolan, SPR

Length: 1 hour,15 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	O. Odonye (AE), Temporary
D. Sembene (AF)	
	J. Corvalan (AG), Temporary
	C. Barron (AP)
	B. Saraiva (BR)
Z. Jin (CC)	
	T. Gonzalez (CE), Temporary
	D. Hart (CO), Temporary
M. Erbenova (EC)	
H. de Villeroché (FF)	
	K. Merk (GR)
	H. Joshi (IN), Temporary
A. Leipold (IT)	
	Y. Saito (JA)
	M. Daïri (MD)
	M. Merhi (MI), Temporary
A. De Lannoy (NE)	
	K. Virolainen (NO)
	A. Tolstikov (RU), Temporary
H. Alogeel (SA)	
	E. Villa (ST)
	P. Inderbinen (SZ)
	V. White (UK)
	M. Sobel (US), Temporary

G. Bauche, Acting Secretary
S. Kalra, Summing Up Officer
L. Briamonte, Board Operations Officer

Also Present
African Department: W. Balima, H. Devine, A. Feler, D. Ghura, A. Gulde, D. Robinson, B. Yontcheva. European Central Bank: A. Meyler, K. Nikolaou. Finance Department: C. Blandin de Soyres, G. Fernandez, A. Manzanera Escribano. Legal Department: K. Christopherson Puh, H. Pham. Monetary and Capital Markets Department: J. Khallouf. Strategy, Policy, and Review Department: G. Everaert, S. Nolan, K. Wang. Statistics Department: S. Manzi. World Bank Group: L. Moller.

Executive Director: M. Raghani (AF). Senior Advisors to Executive Directors: V. Djokovic (SZ), E. Hagara (EC), A. Lieber (GR), R. N'Sonde (AF), T. Sand (NO), A. Tivane (AE). Advisors to Executive Directors: P. Al-Riffai (MI), A. Arevalo Arroyo (CE), D. Crane (US), S. Fan (CC), J. Garang (AE), G. Kim (AP), I. Lopes (IT), T. Manchev (NE), H. Mori (JA).

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

Statement by the staff representative on West African Economic and Monetary Union:

This statement contains information that has become available since the staff report was circulated to the Executive Board. The information does not alter the thrust of the staff appraisal.

Senegal and Côte d'Ivoire recently issued Eurobonds for the following amounts and terms:

On March 6, 2018, Senegal issued two Eurobonds in an amount equivalent to about US$2.2 billion. A 10-year bond of Euro1 billion (about US$1.2 billion) with a yield of 4.75 percent; and a 30-year bond of US$ 1 billion with a yield of 6.75 percent. US$200 million of the proceeds were used to buy back 40 percent of Senegal's 2011 10-year Eurobond, which carried a coupon of 8.75 percent.

On March 15, 2018, Côte d'Ivoire issued two Eurobonds of Euro 850 million each, for a total of Euro1.7 billion (about US$2.1 billion): a 12-year bond with a yield of 5.25 percent; and a 30-year bond with a yield of 6.625 percent.

At its meeting on March 7, 2018, WAEMU's Monetary Policy Committee decided to leave its policy rates and reserve requirements unchanged.

Mr. Sembene and Mr. N'Sonde submitted the following statement:

Our WAEMU authorities are appreciative of the Fund's constructive policy dialogue and the valuable technical cooperation that the Fund has maintained with the Union. The recent discussions held in Ouagadougou, Lomé, Abidjan, and Dakar were a welcome opportunity to benefit from staff's perspectives on common policies of member countries.

The WAEMU authorities are of the view that sustaining the growth momentum and meeting their development objectives will require continuously supporting economic activity, strengthening social inclusion and increasing resilience to shocks, notably through carefully planned and sustainable public investment to overcome infrastructure bottlenecks, and efficient social protection schemes. In this connection, the insightful selected issues paper makes evidence of the need for the Union to invest in human and physical capital and promote trade, among others, with the view to accelerating growth and reducing poverty. At the same time, the authorities concur on the need for sustained implementation of a mix of macroeconomic policies aimed at rebuilding fiscal buffers and preserving external stability.

Recent Economic Developments and Outlook

The authorities broadly agree with the staff's account of recent macroeconomic developments in WAEMU. The WAEMU continues to enjoy strong economic expansion relative to its peers. Preliminary estimates suggest that real GDP growth hovered around 6.5 percent in 2017 amid unfavorable terms of trade, security threats, and political turmoil in a number of countries. Increase in agricultural production, coupled with a rebalanced monetary policy stance, helped maintain the rate of inflation below 1 percent.

The aggregate fiscal position deteriorated slightly in 2017, largely on account of weaker-than-expected revenue performance and spending pressures emanating from aforementioned exogenous shocks and infrastructure development needs. While public debt has increased in nominal terms mostly due to large investments in infrastructure, it remained constant at 48 percent as a share of GDP given the strong growth performance and exchange rate developments. In addition, WAEMU countries continue to be assessed at either moderate or low risk of debt distress. Nevertheless, the WAEMU authorities continue to monitor closely fiscal and debt developments in member countries, stressing the importance of fiscal consolidation and coordination between regional and national policies.

In December 2016, the regional central bank (BCEAO) took steps to raise its policy rate and limit banks' access to its credit facility to twice their regulatory capital level. These measures helped stimulate the interbank market, reduce banks' demand for government securities and pressures on international reserves, and incentivize the financing of government deficits with external resources, thus paving the way for the recent issuance of Eurobonds by the two largest WAEMU sovereigns (Côte d'Ivoire and Senegal). Going forward, BCEAO continues to monitor closely liquidity pressures.

External account developments were adversely affected by the evolution of the terms of trade and imports related to members' investment programs. At the same time, international reserves' coverage at end-2017 increased moderately to 4.2 months from 4.0 months at end-2016. We also note staff assessment that the Union’s external position remains broadly in line with regional medium-term fundamentals

Going forward, the regional outlook is favorable. Medium-term growth is projected to remain above 6 percent with inflation maintained around 2 percent. Sound and timely policy implementation is expected to translate into gradual improvements in fiscal, debt, and external sector indicators, thereby contributing to strengthening further macroeconomic and external stability and safeguarding debt sustainability at the national and Union levels. s.

However, the staff report identifies a number of risks that must be closely monitored and promptly addressed should they materialize. These include spending pressures arising from social demands and security challenges; possible delays in revenue mobilization; delays in the implementation of structural reforms; and a deterioration in the external environment. They will build on their good track record of policy implementation, consistent with Fund advice and stand ready to take additional fiscal and monetary policy measures to preserve external stability if downside risks were to materialize.

The positive medium-term outlook described in the staff report is predicated on effective implementation by member countries of planned fiscal consolidation. In this regard, it is noteworthy that Fund-supported programs being implemented by all but one WAEMU member envisage to bring fiscal deficits in line with the regional convergence criterion of 3 percent of GDP by 2019. The authorities have also stated their commitment to make inroads in advancing their structural reform agenda which bodes well for their ability to reduce fiscal, debt and external vulnerabilities.

Policies and Reforms Looking Forward

Preserving Macroeconomic Stability and Debt Sustainability

The WAEMU authorities fully share staff’s view that growth-friendly fiscal consolidation is required to reduce public debt, alleviate pressures on monetary policy, and preserve external stability. Encouragingly, all but one of the eight WAEMU members are, at this juncture, on track to meet the regional convergence criterion of 3 percent of GDP by 2019. They agree with the recommendation that national authorities should steadfastly boost revenue and prioritize spending over the medium-term, with the view to safeguarding fiscal sustainability, while creating the needed fiscal space for priority infrastructure and social expenditures. It is their intention to continue raising awareness of national authorities on the need to pursue steadfast fiscal adjustment efforts and address fiscal risks arising from contingent liabilities in the public sector.

The central bank will maintain strict oversight of banks' compliance with capital and liquidity requirements. In this regard, they have called upon banks facing liquidity shortages to increase their capital and liquidity buffers and reduce their portfolio exposure by mid-2018. The monetary authorities are committed to making the interbank money market more dynamic, building on current efforts to create a repo contract framework and the newly adopted Basel II/III prudential regime. This regime is expected to lead banks to improve balance sheets and their evaluation of credit risks. The BCEAO has expressed concerns about staff's call for introducing differentiated discounts to governments securities pledged as collateral for central bank refinancing. In their view, this would not only undermine the central bank's equal treatment principle when it comes to sovereign risk weights, but also exert undue direct influence on the credit risk taken by banks that acquire sovereign securities.

The BCEAO authorities continue to highly value staff advice towards deepening the interbank market and improving monetary policy transmission. To this vein, they look forward to continuing their close dialogue with staff, including on achieving an integrated bond market and broadening the investor base beyond the banking sector. Finally, BCEAO officials continue to stress the critical importance for national authorities and domestic stakeholders to comply with the regulations on repatriation of export proceeds, as this would greatly help consolidate external buffers.

Fostering Financial Stability and Inclusion

As previously reported, WAEMU countries have made encouraging progress on financial development and inclusion, notably through the promotion of mobile payments and the adoption in 2016 of the regional strategy for financial inclusion. Implementation of this strategy which is scheduled this year will benefit from donors' financial and technical support. The authorities are also committed to keeping a close eye on the soundness of micro-finance institutions. The stability and profitability of the banking system is another source of optimism. The few undercapitalized banks in the Union have been asked by the regulatory authority to comply with their capital obligations by mid-2018, while the adequacy of their assets and resources is being closely monitored.

The regional banking supervisor, Banking Commission, has made considerable efforts to improve the effectiveness of its operations. While moving toward a more risk-based and consolidated approach to supervision, it has also begun consolidating supervision of cross-border financial groups. In addition, the resolution powers of the Banking Commission have been strengthened in late 2017, including through the commitment of all member countries to cooperate with it and respect its independent decision-making regarding resolution of banks.

The central bank is now endowed with a financial safety net to insure against systemic risks. This safety net includes a financial guarantee fund; a bank deposit guarantee scheme; and a bank resolution fund. The Committee for Financial Stability, comprising the central bank, the Banking Commission, and the financial market regulator (CREPMF), is tasked with assessing systemic risks and taking necessary measures to address them.

Sustaining Growth Over the Medium and Long-Term and Strengthening Regional Institutions

The WAEMU authorities acknowledge the need to tackle the impediments to growth by improving competitiveness, promoting economic diversification, and advancing regional integration. In this respect, strong reform efforts are being sustained by national authorities in the areas of business climate, governance, and infrastructure building and performance. To make further progress on these fronts, the authorities will build on ongoing efforts through a future community investment code and regional structural funds for infrastructure projects in the domains of energy, transport and agriculture.

BCEAO continues to maintain a solid internal control environment, as evidenced in the recent safeguards assessment. It has developed procedures in line with international practices as illustrated by the adoption of International Financial Reporting Standards (IFRS). It has also enhanced its selection criteria for external auditors while its audited financial statements are published on a timely basis.

The WAEMU Commission continues to work toward strengthening its capacities, including in the area of statistics. In this endeavor, they will welcome Fund technical assistance.

Conclusion

The authorities see no room for complacency especially in view of the challenges facing the region, including those related to oil price developments, security threats, and political economy factors. They will continue to carefully monitor developments at national and regional levels, standing ready to make the necessary policy adjustments to preserve macroeconomic and external stability.

Mr. Inderbinen and Mr. Djokovic submitted the following statement:

The economic growth of WAEMU members remains strong, at above 6 percent for the sixth year in a row. Still, vulnerabilities remain, stemming from the widening twin deficit, fiscal slippages, sluggish global commodity prices, and regional security issues. Sizable public investment projects have contributed to the current account deficit and delayed fiscal adjustment. This has put pressure to BCEAO foreign reserves, notwithstanding the recent euro-bond issuances. This calls for steadfast and consistent policy action to address imbalances and ensure external viability in the medium term.

Improved coordination of WAEMU members' fiscal policies with regional monetary policy is necessary to ensure fiscal and external viability. We are concerned by the difficulties and skepticism expressed by the regional authorities in relation to policy coordination and achievement of key monetary union targets. We also note that the regional authorities consider Fund engagement with union members as pivotal to achieving the WAEMU deficit target by 2019. A well-functioning regional policy coordination mechanism is crucial for the union's macroeconomic stability and cohesion. In that context we remain concerned by the limitations of the current framework. Could staff comment on the prospects of further improving the WAEMU policy coordination mechanism?

The larger-than-expected fiscal deficit and delayed consolidation are putting pressure on the current account. This is in turn jeopardizing foreign reserves, which, even under the assumption that the deficit target is met by most of the members by 2019, will reach the five months of imports target only in the medium term. This demands a steadfast and coordinated fiscal adjustment. We concur with staff that the focus should be on mobilizing domestic revenues, improving spending efficiency and strengthening public investment management. We are encouraged by Mr. Sembene and Mr. N'Sonde's assurance that all but one of the WAEMU members are, at this juncture, on track to meet the regional fiscal deficit target by 2019.

We welcome the ongoing financial reform, notably the gradual introduction of Basel II and Basel III prudential standards, and the move towards risk-based supervision. Further, the Banking Commission is broadening its powers, introducing consolidated supervision of cross-border banks and developing a regional bank resolution regime. While the banking system remains well capitalized and profitable overall, pockets of vulnerability remain, requiring a steadfast deleveraging and recapitalization of undercapitalized banks, or bank resolution in some cases. We encourage the authorities to take the necessary action in a timely manner. In addition, continuous efforts are needed to operationalize AML/CFT legal provisions and ensure compliance, including by strengthening supervision.

The region has achieved limited progress in improving competitiveness compared to African and Asian peer countries. Thus, a renewed commitment to structural reforms is called for. The aim should be to enhance diversification, improve the business environment, and foster private sector participation. Finally, we encourage the WAEMU authorities to improve the quality, coverage and timeliness of economic data.

Mr. Merk and Mr. Lieber submitted the following statement:

We thank Messrs. Sembene and N'Sonde for their candid buff statement and staff for an insightful set of papers. We broadly concur with the staff report's analysis and policy recommendations. We take positive note of the solid growth performance in the West African Economic and Monetary Union (WAEMU), which has remained robust despite rising oil prices and diverse regional challenges. Nevertheless, the outlook is subject to considerable downside risks given that fiscal consolidation has remained below expectations and current account deficits have further widened. Going forward, an ambitious adjustment effort is warranted along with continuously prudent monetary policy and comprehensive structural reforms aiming at fostering economic diversification and increasing competitiveness.

We welcome the accumulation of international reserves, albeit taking note that this development is largely attributable to the sizeable Eurobond issues in several member states. Against this backdrop, we encourage the authorities to implement, in a timely manner, the adjustment necessary to contain the looming external vulnerabilities. The staff's illustrative scenario, which assumes no fiscal adjustment and projects international reserves to fall to less than two months of imports by 2022, is testimony to the necessity of consolidation. We also note that staff recommends future Eurobond issuances in EUR in order to limit exchange rate risks. In this context, we would welcome if staff could provide further details on why the authorities have chosen to issue in USD.

While we broadly concur with staff's risk assessment, we would like to draw attention to some additional nuances. In light of the risks associated with further delays in fiscal adjustment, we would put a somewhat greater emphasis on regional risks than indicated in the Risk Assessment Matrix (RAM). Moreover, we note that a potential strengthening of both the US dollar and the euro vis-à-vis other currencies is mentioned as a risk source, but the potential impact assessment, as shown in the RAM, is only based on a stronger US dollar. While the EBA-lite exercise assesses the WAEMU's real exchange rate to be broadly in line with fundamentals, we see also risks stemming from a possible further appreciation of the euro (to which the CFAF is pegged). The staff's comments are welcome.

Against this background, addressing the structural impediments to a higher competitiveness of WAEMU member states remains of the essence. In particular, further progress is needed in improving the institutional quality, strengthening the business environment, as well as fostering electricity provision and financial inclusion.

Finally, we encourage the authorities to improve the quality, timeliness, and dissemination of economic statistics.

Ms. Barron and Mr. Kim submitted the following statement:

We thank staff for their comprehensive report and Mr. Sembene and Mr. N'Sonde for their informative buff statement. We welcome that WAEMU member countries have experienced a growth acceleration since 2012 due to an increase in macroeconomic stability and investment. However, we note the medium-term outlook remains subject to significant downside risks while internal and external imbalances widen. We agree with staff's appraisal and add some comments for emphasis.

Fiscal adjustment and monetary policy tightening are required to preserve external viability. Stepping up efforts to rebuild policy buffers, including adjusting the external-domestic financing mix, is essential in case downside risks materialize. In this vein, we note that it is expected that capital inflows, FDI and portfolio investment should finance the current account deficit and preserve international reserves. How do staff assess WAEMU member countries' ability to attract capital inflows? Does it rely on measures to improve the investment climate?

Fiscal deficit target and the convergence criteria should be observed to contain medium-term fiscal risks. But we note that the regional authorities pointed to the significant implementation risks of the member countries' fiscal adjustment plans. Could staff provide some more detailed background to the authorities' concern about implementation risks? The staff report notes that fiscal slippage could require monetary policy to be tighten. Could staff provide some information on the macroeconomic outlook if monetary policy is tighter and fiscal policy is looser than envisaged? We agree with staff that stock-flow discrepancies, mainly due to contingent liabilities linked to state-owned enterprises and public-private partnerships, should be tacked by fiscal transparency and fiscal risk management.

Sustaining the growth momentum will require improved economic competitiveness. We note the authorities' ongoing efforts to improve the business climate and reduce the infrastructure gap through 'regional structural funds.' Could staff provide some information on the magnitude and availability of such funds? We encourage the authorities to continue to promote financial inclusion. Lastly, we urge the authorities to give attention to improve the quality, coverage and hierarchies of regional data.

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

We thank staff for the well-focused set of reports and Mr. Sembene and Mr. N'Sonde for their informative buff statement. The report indicates that real GDP in the WAEMU region is expected to grow at over 6 percent for the next few years, while inflation slowly picks-up, and the external sector is assessed to be broadly consistent with regional medium-term fundamentals. Although economic activity has been strong, and the medium-term outlook remains positive, staff points to significant downside risks, and emphasizes that the growth outlook hinges on the planned fiscal consolidation and the decisive implementation of structural reforms. We note that further delays on these two fronts could threaten debt sustainability and external viability. We share staff's assessment and recommendations and would only like to make a few points for emphasis.

We agree with the direction and composition of staff's fiscal policy advice. We note that sustained public spending, notably to address infrastructure gaps, has not only supported domestic demand, but also contributed to fiscal and external current account deficits and rising public debt burdens. At the same time, we note that there have been limited improvements in the business climate which continue to hamper the region's competitiveness and private sector development. Clearly, a balance needs to be struck between making necessary infrastructure investments while preserving fiscal and debt sustainability over the medium term.

We welcome the progress made in modernizing and strengthening financial regulation and supervision and promoting financial stability. However, the report indicates that conditions in the banking system remain challenging, and we echo staff's advice that the various authorities must ensure banks meet the capital requirements in the course of the next few months, and to use the new bank resolution powers if needed. Fostering financial inclusion should also remain a top priority and we encourage the authorities to follow through with the regional strategy adopted to promote financial inclusion.

Finally, we encourage the WAEMU authorities to continue to improve the quality, coverage and timeliness of regional economic data.

Ms. Erbenova and Mr. Hagara submitted the following statement:

We thank staff for the well-written report and Messrs. Sembene and N'Sonde for their informative buff statement. We recognize the continued growth performance of WAEMU members driven by domestic demand and accompanied by stable inflation. However, as rightly pointed out by staff, internal and external imbalances widened and indicate downside risks further down the road. Given that many WAEMU members are currently under a Fund program, we would have appreciated it, if staff had more extensively discussed the respective program performances and their possible spillovers and interplay with union-wide performance and policies. We broadly agree with staff's appraisal and would like to add following comments.

We strongly encourage the authorities to pursue the growth-friendly fiscal consolidation to ensure sustainability and create the space for needed infrastructure investment. The fiscal deficit has continued to widen, reaching 4.7 percent of GDP in 2017, on sustained public spending and slow revenue mobilization. In turn, public debt remained unchanged in spite of the high economic growth and interest costs increased. While the latest DSAs assess the risk of debt distress as low to moderate for WAEMU members, fiscal slippages are also feeding into widening current account deficits and are adding risks to external stability. Against that backdrop, we agree with staff's recommendation for growth-friendly fiscal consolidation, based on revenue mobilization and spending prioritization. We acknowledge the large infrastructure gap and the need to address it to boost potential growth but note that this should go hand in hand with measures to improve the efficiency of public investment. At the same time, many WAEMU members continue to miss fiscal convergence criteria. We wonder whether staff discussed with the authorities how to improve the enforceability and effectiveness of the fiscal convergence criteria. We welcome that staff focuses in the selected issues paper on the need to develop a more comprehensive fiscal risk management framework, including contingent liabilities.

The Banque Centrale des Etats de l’Afrique de l’Ouest (BCEAO) should stay ready to tighten monetary policy. While inflation remains contained, the BCEAO should continue monitoring money market and external pressures and react if necessary. From the structural point of view, transaction volumes in the interbank market remain low and the secondary debt market underdeveloped, which may hamper monetary policy transmission. We encourage the authorities to undertake appropriate steps, including addressing fragmentation of debt securities market as suggested by staff. The well-functioning secondary debt market would also enable a more effective reduction of concentration risks stemming from the strong link between banks and sovereigns.

The authorities’ efforts to improve financial sector stability, including the ongoing implementation of Basel II and III standards and the new bank resolution framework, are welcome, but further actions are needed to strengthen capital and liquidity buffers and reduce concentration risks. Progress with the resolution of non-viable banks has been limited, the NPLs ratio remains elevated and high concentration adds further to the risks and the authorities will need to expedite their efforts to address these issues. We would welcome staff’s more detailed comments on the authorities’ plans to that end. At the same time, increasingly important microfinance institutions should be brought under the supervisory umbrella. While the implementation of the 2015 AML/CFT law should be accelerated, we wonder whether staff see this as sufficient to address AML/CFT risks.

Mr. Armas and Ms. Moreno submitted the following statement:

We thank staff for the informative staff report and selected issues paper. The overall outlook is not significantly different from the one discussed in 2017. Growth prospects have increased and policies in general have been in line with the Fund’s recommendations. Particularly important have been the improvements observed in financial soundness. Nevertheless, fiscal consolidation has seen no progress and public debt has continuously increased. The Fund is giving substantial technical assistance (TA), and most of the WAEMU countries have benefited from it. Social tension is a worrisome issue on its own but also a cause of risk to the economic outlook as the investment environment becomes more uncertain.

We commend the authorities for the efforts to boost economic growth, particularly by keeping low inflation rates, increasing public investment, and fostering productivity gains. This is not a recent development, but a trend observed since 2012, which we encourage the authorities to continue to promote. Even more, private-public partnerships should help increase private investment, though TA is needed in that regard. The staff also highlights the delay in the implementation of the structural reforms as another reason for the private sector not taking a more protagonist role in fostering growth.

We agree with staff that the convertibility at a fixed parity with the euro is an insurance mechanism against temporary and exogenous external liquidity shortfalls. They are not meant to be used to maintain domestic demand or respond to permanent exogenous shocks. This is a fact that rating agencies value positively as a mitigating factor for balance of payment crisis. After analyzing benefits and opportunity costs of holding reserves, staff estimates that an adequate level range is between 5 and 7 months of prospective extra-regional imports of goods and services. The calculations take into consideration the interest rate that the two new euro bond issuances by Cote d'Ivoire and Senegal will yield. Are those resources being kept at the central bank as deposits in CFS and, if that is the case, are the fiscal authorities maybe planning to use them to inject liquidity to the financial system and reduce the structural liquidity deficit?

Financial stability has improved in part by the incorporation of Basel II/III prudential standards, but risks remain elevated. The analysis of vulnerability scenarios shows two very worrisome issues. One is the high loan concentration ratios that could make banks prone to large borrowers' default. Another one is the fast deterioration in banks' loan portfolio should an extreme scenario occur. Public banks appear particularly weak even before the tests.

On the fiscal front, high risks remain. Private-public partnerships have increased, which is a welcome development, but they pose risks to the fiscal sector which needs to better capture contingent liabilities. This adds to the fact that SOEs, according to the staff report, are explicitly or implicitly guaranteed by the state and they are often tasked to carry out operations that may worsen their financial position. Finally, tax management, the broadening of the tax base, and lowering tax expenditures, are still a challenge.

We encourage the authorities to continue improving their data collection and coverage, on the macro, financial and fiscal areas, and taking advantage of the various IMF technical assistance programs. The issue of the government's arrears is particularly relevant for a comprehensive assessment of fiscal policy.

With these comments we wish the authorities of the WAEMU region the best in their future endeavors.

Ms. Horsman, Ms. McKiernan and Mr. Hart submitted the following statement:

We thank staff for their set of papers and Mr. Sembene and Mr. N'Sonde for their buff. We note that WAEMU member economies continue to grow at over 6 percent with low inflation and a stable banking sector. That said, debt levels continue to rise, and the region remains vulnerable to shocks. While we welcome the authorities' commitments to achieve the WAEMU convergence criteria, we note the significant downside risks to doing so. Since the authorities are broadly aligned with staff in terms of the outlook and policy priorities, we will limit ourselves to the following comments.

The widening "twin deficits" in 2017 suggests that growth-friendly fiscal consolidation remains the priority. The staff's baseline assumes full implementation of a wide-ranging policy effort. Bearing in mind capacity issues, fiscal risks, and strong public spending pressures, we note the risk that some of these targets could be missed. Therefore, we encourage both the national and regional authorities to stand ready to take further actions within their respective mandates to maintain debt and external sector sustainability, as required.

We recognize that investment needs in WAEMU are large, but there is ample room to improve the quality of investment, and public financial management more generally. This is supported by the observation that debt levels have increased by more than fiscal deficits would have suggested. We found the selected issues papers (SIP) on fiscal risks to be particularly useful in this regard, drawing attention to the risks related to state-owned enterprises and, increasingly, public-private partnerships. Noting that progress is being made, we strongly encourage well-tailored Fund advice and support in these areas as part of broader efforts to enhance fiscal management, governance, and transparency.

We welcome the recent and ongoing progress towards strengthening banking supervisory and regulatory powers and establishing a financial sector safety net. Further work is needed to implement reforms, including to address identified pockets of risk in the banking sector, tackle the high level of non-performing loans, and deepen the interbank market.

We encourage the authorities to push ahead with efforts to expand financial inclusion and enhance the business climate to promote sustainable and inclusive growth. However, we note that staff are calling for economic diversification without providing specific advice in this regard. Recognizing that such advice would need to be country-specific, can staff comment on whether WAEMU members are receiving well-tailored advice on economic diversification at the national level (and if so, by which institutions)?

Mr. Mahlinza and Mr. Odonye submitted the following statement:

We thank staff for an excellent set of papers and Mr. Sembene and Mr. N'Sonde for their informative buff statement.

Economic activity in the West African Economic and Monetary Union (WAEMU) has remained strong, driven by domestic demand, including public investment. As a result, in recent years, the region has been counted among the fastest growing regions in sub-Saharan Africa (SSA). Nevertheless, fiscal and external current account deficits have widened and public debt risen. Going forward, prospects for strong growth may be threatened owing to delays in fiscal adjustment and slow implementation of structural reforms. In this regard, a timely and well-coordinated national and regional policy response is urgently needed. We broadly agree with the thrust of the staff assessment and policy recommendations to address vulnerabilities in the currency union.

A growth-friendly fiscal consolidation is essential to lower public debt, lift pressures on international reserves, and preserve external viability over the medium term. The staff report clearly outlines the nature of vulnerabilities in the union, noting the widening internal and external imbalances, even as monetary policy remains tight. In this regard, the authorities are encouraged to undertake effective fiscal consolidation supported by a comprehensive assessment of risks related to fiscal and debt sustainability, stronger regional surveillance and robust debt management. It is worrying to learn in the staff report that several key WAEMU convergence criteria remain unobserved, and current projections suggest that breaches will persist for secondary criteria in most countries over the medium term. Could staff comment on the reasons for this.

We welcome efforts to develop the interbank and community debt securities markets to facilitate transmission of the monetary policy impulse. On the application of different discount rates to government securities, as proposed by staff, we would like to have an appreciation of the lessons from other monetary unions. Further, staff recommends that national fiscal policies should deliver the necessary deficit reductions and that BCEAO should tighten monetary policy in the event external pressures persist. While supporting the former, we are skeptical about the efficacy of the latter since monetary policy is already tight and does not seem to have further significant impact. The staff's comments on the benefits of further tightening are welcome.

Addressing vulnerabilities in the banking system remains critical for a durable currency union. In this regard, we commend the BCEAO for ensuring that the banking system remains stable and profitable and ensuring that the overall capital adequacy ratio (CAR) under Basel I remains sound. However, as staff notes, some banks are under-capitalized while several smaller banks had not met the minimum capital requirement. The banking sector also reflects a high concentration risk, with exposures to top 5 borrowers reaching 90 percent of equity, and an elevated industry wide non-performing loans (NPLs) portfolio of 15 percent. BCEAO stress-tests further confirmed that equity would be adversely affected should a strong shock hit credit quality. We note that BCEAO adopted Basel II/III in January 2018 with implementation anticipated to span a period of five years. However, we are curious to know whether banks will be able to meet target of 8.5 percent of risk-weighted assets at end-2018.

Sustaining the growth momentum will require strong efforts to improve competitiveness and promote diversification. While supporting ongoing regional efforts towards improvement in energy, transport, agriculture, business climate and competitiveness, and infrastructure, we wonder whether both regional and national authorities have explored the possibility of public and private sector partnerships to address these infrastructure gaps. As positively noted in the buff statement, we encourage the authorities to sustain progress on structural reforms to conclusively rebuild infrastructure, to lay a solid foundation for sustainable and inclusive growth.

Mr. Saraiva, Mrs. Buteau Allien and Mr. Lingoist submitted the following statement:

We thank staff for the set of reports on the West African Economic and Monetary Union (WAEMU) and Messrs. Sembene and N'Sonde for their insightful and comprehensive statement. The Fund engagement has been historically intense in the region and, as seven out of eight country members in the region have lending arrangements with the Fund, we welcome this candid assessment.

Economies in the WAEMU have succeeded in keeping growth relatively strong throughout the region while the monetary policy has kept inflation low. Real GDP has grown steadily and faster than sub-Saharan African average over the last six years and growth is projected to remain high and inflation under control in the medium term. However, fiscal and external balances require further attention, considering that fiscal balances continue to deteriorate and external balances are exposed to external shocks. Appropriate implementation of Basel II/III standards will increase financial resilience if accompanied by measures to tackle credit concentration and the resolution of targeted institutions. Risks to the outlook concentrate on security concerns, commodity prices and international monetary conditions. Additionally, the risk of delaying structural reforms could hamper improvements in competitiveness, productivity and, ultimately, economic growth, especially if demand support from public investments decreases as a result of fiscal consolidation, necessary to converge towards the three percent of GDP target by next year.

The monetary policy was rebalanced with lower reserve requirements and higher interest rate and was successful in keeping inflation low, stimulating the interbank market and reducing appetite for government bonds. As the domestic financing of the fiscal balance fell to its lowest level for the past four years, two large countries issued Eurobonds, increasing foreign reserves and helping to maintain the WAEMU's monetary arrangement coverage. Nonetheless, there seems to be room for improvements in monetary policy transmission by developments in the secondary debt market and the interbank money market.

We welcome financial regulation and supervision improvements made since the last report and we note that microfinance can pave the way for financial broadening, but it should be accompanied by appropriate and proportionate financial regulation to preserve financial stability while deepening the current shallow financial system. We welcome the authorities' efforts to enforce the capitalization of non-compliant banks. Although the financial system is stable, financial stability system should be reinforced with the adoption of risk-based approach with Basel II/III prudential regulation. In line with past policy recommendation, we welcome the new resolution powers of the supervisory authorities at the Banking Commission and the fact that the central bank is now endowed with a financial safety net, as pointed by Messrs. Sembene and N'Sonde. Finally, we consider that the authorities should remain vigilant on credit concentration and potential regional contagion to the regional financial sector.

Risks to fiscal balances persist with high aggregate fiscal deficits, pressures for social demands and security challenges. Despite a steady rise in government revenue, there has been a widening of fiscal deficits in WEAMU countries over the last few years. We agree with staff that fiscal consolidation should be growth-oriented and should also be enhanced with focus on revenue mobilization and better expenditure prioritization. We note that, if effective in the short term, appropriate selection and implementation of public investments can contribute to increase both tax base and revenue. We see room for further collaboration between the authorities and staff to find methods to increase enforceability of fiscal rules, especially expenditure rules, as demands for higher wages made seven out of eight countries fail to respect the second-order fiscal convergence criteria.

In the external sector, the current account deficit increased in 2017 on the back of higher fiscal deficits, unfavorable terms of trade and the euro appreciation, to which the CFA is pegged. Expected fiscal consolidation (to meet convergence criteria by 2019) can help to reverse the widening external deficit in the region. The issuance of Eurobonds by two large members and the regional development bank (BOAD) partially financed the wider deficit and also contributed to build external buffers, which increased by 11 percent in U.S. dollars. Despite of all difficulties involved in calculating the adequate level for international reserves, we agree that it is appropriate to increase them, as the region continues to be exposed to external shocks. We note that annex III gives us a good assessment on external reserve adequacy, but we would appreciate further comments by staff on how the cost of carrying reserves is shared among the union members. We note that accumulating reserves by issuing bonds can be costly and we expect the authorities to concentrate on concessional financing. We recognize that the foreign exchange system has served well the region, but it is somewhat difficult to reconcile persistent external deficits and low international reserves with the external sector assessment (ESA) results, which considers the exchange rate broadly aligned. The staff's comments are welcome.

The persistence of structural reforms is crucial to improve competitiveness. Moreover, continuous efforts to diversify economic activities could play an important role to smooth economic cycles and to mitigate macroeconomic risks. In this regard, we welcome the authorities' efforts to improve business environment and we see room for further support by multilateral institutions to assist WAEMU countries in fostering inclusive and sustainable growth in sub-Saharan Africa.

Mr. De Lannoy and Mr. Manchev submitted the following statement:

We thank staff for the comprehensive set of papers and Messrs. Sembene and N'Sonde for their informative buff statement. The WAEMU remains the fastest growing region inSub-Saharan Africa, despite the adverse impact of climate conditions, security challenges, and unfavorable terms-of-trade. However, internal and external imbalances are on the rise. To sustain growth momentum in the medium term, more efforts by the member countries and regional institutions will be needed to enhance the business climate, improve competitiveness, and access to finance. We note that the authorities have generally agreed with the staff analyses and recommendations. However, the fiscal consolidation has again been delayed, efficiency of the public investments remains low, and the WAEMU's public debt is on the raising trajectory. In this regard, we would like to provide the following comments for emphasis.

Growth friendly fiscal consolidation and measures to improve public finance management are warranted to re-build the policy buffers. The staff's analyses have clearly identified fiscal risk for the WAEMU's sustainable development. We are especially concerned by the rising debt sustainability risks and urge the member states to contain further debt accumulation on non-concessional terms, and enhance the efficiency of public investments. Although improving, the fiscal and debt reporting standards, coverage, and implementation should further expand to better capture these risks. Yet many WAEMU members do not respect the fiscal convergence criteria, and there is clear scope for better exploring concessional financing options and developing public-private partnerships to finance large infrastructure projects. Achieving an integrated debt securities market will be essential to increase market liquidity and adequately price the sovereign risks. In addition, we encourage the individual WAEMU members to focus primarily on enhancing revenue mobilization and containing current expenditure, thus ensuring more fiscal space for efficient public investments.

Effectiveness of the monetary policy should be further strengthened. The regional central bank BCEAO needs to efficiently use the window of opportunity provided by the current low inflation environment to improve functioning of the interbank money market. Going forward, the steadfast implementation of the new Basel prudential regime by the Banking Commission and better calibration of the BCEAO's liquidity interventions will be essential to improve the monetary policy transmission channels. These measures should be well sequenced with the next steps of integrating the debt securities market. Can staff shed some light on the BCEAO's capacity to forecast and manage liquidity, and on the plans for Fund's TA in this area, if needed?

We welcome the recent steps to strengthen the WAEMU's financial safety net trough establishing the financial stability committee, enhancing prudential standards, and launching systemic risk assessment and stress-testing. Although the WAEMU's banking system generally remains stable and profitable, we note the high-risk concentration in the portfolios, elevated gross NPLs, and the increasing potential for bank-sovereign spillovers. Thus, we urge the authorities to swiftly operationalize the banking resolution and restructuring process, and strictly enforce the new prudential standards. Can staff provide an assessment on how the forthcoming resolutions of the national systemically important banks may affect the implementation of the regional action plan for financial inclusion?

Finally, we encourage the WAEMU authorities and institutions to further improve the quality, coverage and timeliness of the regional data needed for effective surveillance.

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

We thank staff for the report and Mr. Sembene and Mr. N'Sonde for the informative buff statement.

The impressive track record of economic growth in WAEMU under benign inflationary conditions is appreciable. However, continuing social and security challenges and poor terms of trade have resulted in the vulnerability of both fiscal and external positions. Preserving the ongoing momentum of growth requires credible fiscal consolidation and structural reforms that underpin macroeconomic stability. We welcome the authorities' concurrence with the need for sustained implementation of prudent macroeconomic policies to maintain internal and external balances. WAEMU's economic outlook is circumscribed by downside risks from ToT and weather shocks, a slowdown in global growth, and the uncertainty of external demand and security challenges.

Considerable efforts are needed to put the region's fiscal consolidation on track, especially by focusing on enhanced mobilization of revenues, better spending efficiency and PFM including wage moderation. A fiscal strategy to achieve the WAEMU deficit target of 3 percent by 2019 without sacrificing productive and social spending would help to bolster productivity and economic growth while safeguarding the viability of the external account. We welcome the authorities' commitment to engage member states for pursuing consolidation plans in line with the regional convergence criterion. Despite low risks of debt distress, multilateral surveillance of debt levels and their sustainability across the WAEMU should be evaluated holistically in conjunction with the threat posed by the buildup of contingent liabilities in the region linked to SOEs and PPPs. A robust debt management strategy based on good reporting standards for pubic accounts under the WAEMU Directive would help in capturing fiscal risks more realistically and making targeted policy interventions. Could staff inform the share of total contingent liabilities owed by the SOEs?

The vulnerability of the external sector is reflected by the persistence of elevated CA deficit that warrants calibrated tightening of monetary policy for mitigating pressure on reserves. Monetary tightening should, however, weigh the implications of banks' search for alternative funding sources such as Eurobonds with the resulting increase in exposure to global financial markets. A liquidity management framework focused on managing autonomous factors and reduction in the recourse to central bank financing could contribute to the stability of RER and the external sector. We encourage the BCEAO to strengthen interbank money market operations through the development of repo markets and secondary trading of public debt securities and by facilitating auction-based issuances to eliminate market fragmentation and enable market based pricing of sovereign risk.

In the financial sector, efforts for the repair and resolution of banks' balance sheets burdened by high NPLs should go hand in hand with early application of prudential rules and capital requirements under Basel III framework to reduce vulnerabilities from potential shocks to credit quality. We welcome the initiatives taken by the Banking Commission on risk based supervision and consolidated supervision of cross-border financial groups. Strategies to expand financial inclusion while reducing risk concentration and mitigating AML/CFT risks would foster financial stability. Though the banking system is adequately capitalized and profitable, we note that the authorities' have asked undercapitalized banks to rebalance their assets by deleveraging and raising additional capital by mid-2018. Could staff comment on the timeline for raising capital as advised by the authorities?

We encourage the authorities to implement structural reforms to facilitate private investments, external competitiveness and lower cost of infrastructure inputs apart from removing regulatory and related administrative impediments to improve business climate and to realize the full economic potential of the WAEMU.

Finally, addressing data deficiencies, especially in the external sector and public finances would enhance transparency and investor confidence.

We wish the authorities the best for future endeavors.

Mr. Sobel, Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the report and informative selected issues papers and Messrs. Sembene and N'Sonde for the useful buff statement. Growth in the region has been encouraging, bolstered by public investment. However fiscal consolidation and structural reforms necessary to sustain growth, bolster reserves, and enhance competitiveness have been elusive. Seven of eight WAEMU countries face protracted balance of payments needs and are supported by extended IMF arrangements, and the eighth has an IMF policy support instrument. While the situation among WAEMU countries is not as acute as in CEMAC, regional authorities still have a critical role to play in supporting successful outcomes of IMF programs: an indirect role in facilitating fiscal coordination in line with the convergence criteria and promoting regional integration, and a direct role in adjusting monetary policy, strengthening banking supervision and resolving problem banks. We would like the IMF's WAEMU reviews to include more specific policy recommendations for regional authorities, and for the IMF's WAEMU country documents to better incorporate union-level policies, such as prompt resolution of the weak systemic banks in Togo and Guinea-Bissau.

Fiscal Policy Coordination. We agree with staff's emphasis on fiscal consolidation as the primary means to strengthen the external sector and enable sustained growth. We encourage national authorities to move steadily toward the fiscal deficit convergence criterion with growth-friendly measures, as recommended by staff. We encourage the WAEMU Commission to play its part in regional surveillance by highlighting deviations from fiscal plans and encouraging authorities to take contingent fiscal measures promptly. The risk of fiscal slippage is real (as the failure to achieve consolidation in 2017 demonstrates), and authorities need to have back-up plans at the ready.

Fiscal Coverage and Transparency. We appreciated the selected issues paper on Sources of Fiscal Risks. Considering the discrepancy between stock and flow data in WAEMU countries, it is imperative that national authorities broaden fiscal coverage to general government and properly identify and constrain contingent liabilities from SOEs and PPPs. Countries at moderate risk of debt distress (seven of eight WAEMU countries) could be one "fiscal surprise" away from high risk. What role can regional authorities play in supporting staff recommendations on fiscal/debt transparency and sustainability?

Monetary Policy. We would appreciate more elaboration on the trade-offs of different monetary policy choices. The staff recommends that BCEAO should stand ready to further tighten monetary policy if pressures on reserves and money markets persist. The staff also says that the Eurobond-driven recovery in reserves in 2017 "masks continued underlying pressures in reserves" and that there have been renewed liquidity pressures since September 2017. On the other hand, inflation has been below target for some time, and fiscal consolidation plans are substantial, providing more room for easing. Can staff elaborate on its discussion with the authorities on the trade-offs involved in monetary tightening or loosening? Do staff see the need for further tightening if 2018 fiscal plans go off track? We welcomed the brief discussion of ways in which the authorities could develop the inter-bank and government debt markets to improve monetary policy transmission.

External Sector. The staff's external analysis concludes that WAEMU's external position is broadly consistent with fundamentals and desirable policies. How robust is this conclusion considering that the decline in reserves was stemmed primarily by the "exceptional" Eurobond issuance and that there is a sizeable current account deficit, which is only partially financed by FDI? Can staff elaborate on how the policy gap and its components are linked to this result? Are Cote d'Ivoire, Senegal, and BOAD investing the proceeds in ways that will raise growth and exports so that the rise in reserves will not be reversed as these bonds are repaid? We also took note of staff's call to potentially adjust the domestic/external financing mix. Could staff discuss the pros and cons of increasing reliance on external debt, including Eurobond issuance?

Financial Sector Supervision. We would like to see greater specificity about the actions required from the WAEMU Banking Commission and

BCEAO in support of IMF-supported country reform programs. The most recent CEMAC paper provides a good model. We welcome progress in strengthening supervision including the adoption of Basel II/III prudential regulations, setting a deadline of June 2018 for banks to comply with their capital obligations, and the recent stress tests of banks by BCEAO to identify risks. Considering that two systemic banks in Togo and one systemic bank in Guinea-Bissau need to be resolved, and that the WAEMU Banking Commission has clear authority for bank resolution, can the regional authorities provide assurance that these three banks will be resolved in a timely manner? We would like to see such regional assurances reflected in the upcoming reviews of the relevant country programs. Regarding staff's recommendation on microfinance regulation and supervision, what is the specific role of regional authorities and in which countries are the risks highest from gaps in supervision?

Mr. Hurtado, Mr. Gonzalez and Ms. Arevalo Arroyo submitted the following statement:

We thank staff for the report and Messrs. Sembene and N'Sonde for their helpful buff statement.

We take positive note that growth has remained strong and inflation subdued but remain concerned that macroeconomic buffers have deteriorated. Downside risks due to increased public debt, widening of the fiscal and current account deficit, inefficient public investment, increasing vulnerabilities in the banking system and slow implementation of structural reforms to improve competitiveness could materialize and threaten medium-term prospects.

For WAEMU to continue to be one of the fastest growing regions in sub-Saharan Africa, a growth friendly and credible fiscal consolidation strategy must be pursued. Even-though fiscal consolidation efforts by the countries in the region have fallen short in past years, we welcome the authorities' commitment to rebuild policy buffers. Going forward, we believe that authorities must find an adequate level of public investment spending to address, development needs and the existing infrastructure gap, while ensuring fiscal sustainability in the medium-term. At the same time, we stress the need of improving the efficiency of such public investments.

We remain concerned regarding the restrictions imposed by the existing policy framework. The current exchange rate regime puts most of the weight of dealing with macroeconomic imbalances on fiscal policy. Growth has been fundamentally supported by public spending, and medium-term prospects depend on having a strong domestic demand; at the same time, at this juncture governments are trying to reduce deficits, maintain essential social spending and remove barriers to competitiveness for the private sector to flourish. We would therefore like staff to provide a more detailed account on how in the current circumstances government spending is going to simultaneously meet the fiscal convergence-criteria, cover essential social and infrastructure spending and sustain growth?

Additionally, the current exchange regime could lead to significant monetary tightening to defend the peg if risks materialize. This would create additional burdens to the financial sector, stifle private sector activity and public debt and its cost has increased significantly as a risky strategy of issuing foreign currency denominated debt to build reserves and finance the deficit has been pursued. It is imperative that countries avoid the risk of falling in a new circle of increasing debt with an eventual need of relief.

We are also concerned by the exchange rate assessment. The EBA-lite points to an exchange rate aligned with fundamentals despite an average 6 percent current account deficit that is forecasted to remain at similar levels, a decline in international reserves only reverted by an extraordinary level of Eurobond issues, and a risk of delayed fiscal consolidation whose likelihood is determined to be medium. Moreover, reserves are projected to end 2017 at 80 percent of the lower bound of the adequacy range calculated by staff, and their estimates also indicate they could fall to less than half of that if the deficit stays at current levels.

Bearing the above in mind, and consistent with previous statements from this chair, we reiterate our reservations on the external sector's assessment and recommendations by staff. We believe some exchange rate flexibility could make the adjustment more credible growth friendly and easier to deal with socially, by opening needed policy space and providing countries with an additional line of defense to deal with external risks. An evidence-based discussion should provide estimates on the implications of exchange rate adjustments—and on whether the current timing could be beneficial given that inflation is well below target and all countries are meeting price-inflation first order convergence criteria. This analysis would also be in line with the Fund's endorsements expressed in many country assessments highlighting that allowing the exchange rate to act as a primary shock absorber was critical in having smoother transitions to external shocks. Especially since with such a policy most of the proposed fiscal, monetary and financial measures would still be necessary. We would therefore ask staff what the effect would be, in the current circumstances, of an exchange rate depreciation on growth, on the required levels of fiscal adjustment, on external balances and on inflation? How would the region’s economies need to prepare for such an ER movement?

Finally, we welcome progress in strengthening the financial sector, in particular, the adoption of prudential rules aligned to Basel II and III principles as well as the new resolution powers of the Banking Commission but remain concerned of the potential vulnerabilities of the banking system. We would appreciate staff’s comments regarding steps being taken to address the weakening of the quality and funding structure of assets.

Mr. Alogeel and Mr. Rouai submitted the following statement:

We thank staff for a comprehensive set of papers and Mr. Sembene and Mr. N’Sonde for their helpful buff statement. We broadly support staff’s findings and policy recommendations and would like to make the following comments for emphasis.

Member countries of the WAEMU continue to register fast growth and low inflation but, despite recent improvement in external buffers, they remain vulnerable and subject to considerable downside risks, as detailed in the RAM. To mitigate these risks and address the high fiscal and current account deficits, we encourage the authorities to give due consideration to staff recommendations to engage in a growth-friendly fiscal consolidation, under the WAEMU’s convergence target, to lower public debt, maintain prudent monetary policy, and implement comprehensive structural reforms to improve competitiveness, economic diversification, and safeguard financial stability.

We take note of staff recommendation to improve monetary policy transmission and support the development of the interbank market, including, among other things, applying different discounts to government securities pledged as collateral for central bank refinancing. We note, and indeed sympathize with the BCEAO on its reservations, including on the ground of uniformity of treatment. Could staff clarify if such differentiation has been applied in other monetary unions?

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

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

We thank staff for a set of informative papers and Mr. Sembene and Mr. N'Sonde for their helpful buff statement. Over the last several years, the WAEMU has been one of the fastest growing regions in the world, with average growth above 6 percent of GDP amid subdued inflation. Important structural reforms have been recently implemented on the regional level, strengthening financial stability. However, high growth has been accompanied by increasing fiscal and current account deficits and rising public debt. Risks to the outlook are tilted to the downside, including risks to debt sustainability and external viability. Coordinated policy response at the national and regional levels is needed. Growth-friendly fiscal consolidation is a priority, while the regional central bank (BCEAO) should stand ready to further tighten monetary policy in case of increasing pressures. We broadly agree with staff appraisal and recommendations and will make only a few comments.

The regional authorities are appropriately concerned about widening macroeconomic imbalances fueled by fiscal deficits. Several key WAEMU convergence criteria remain unobserved in the fiscal area. It is important to coordinate policy response with member governments in order to gradually reduce fiscal deficits while preserving infrastructure investment and priority social spending. The risks associated with insufficient fiscal discipline among the union members should be consistently brought to the attention of the national authorities. They should be also addressed in the context of the current IMF-supported programs in the WAEMU countries.

Notwithstanding the current low inflation environment, the BCEAO should stand ready to tighten its monetary policy stance in case of increasing external or money market pressures. At the same time, there is a need to improve efficiency of the monetary policy, which is limited by the underdeveloped interbank market and secondary market for government securities. We note the recent positive steps in this direction, including the creation of the repo contract framework and implementation of the new Basel II/III regime, which should improve transparency and stimulate interbank transactions. Further steps are needed to eliminate current fragmentation of the bond market. The BCEAO should continue to press member countries to improve compliance with regulations on repatriation of export proceeds.

We welcome the progress made by the WAEMU on financial development and inclusion, as well as adoption of the regional strategy in this area. While, in general, banking system remains sound and profitable, certain vulnerabilities, such as undercapitalized banks, high concentration of bank loans and growing NPLs, require close monitoring. The authorities need to strengthen supervision, crisis prevention and resolution framework. We welcome the beginning of implementation of Basel II/III prudential standards and shift to a more risk-based approach to bank supervision. The new resolution powers for the Banking Commission will permit more effective resolution of insolvent banks across the region.

We support staff recommendations on structural reforms, which are critical to improve competitiveness, promote diversification, and reduce income and gender inequality. We also urge the authorities to implement further measures to strengthen the timeliness and quality of regional economic statistics and improve data dissemination. We would welcome some additional information on the Open Data Platform developed by the African Development Bank in collaboration with the Fund in late 2017. Could it be used in the context of the Fund's Global Data Commons initiative? The staff's comments are welcome.

Mr. Saito and Ms. Mori submitted the following statement:

We thank staff for the comprehensive report and Mr. Sembene and Mr. N'Sonde for their informative statement. We note that West African Economic and Monetary Union (WAEMU) region's economic activity remained strong in 2017 supported by sustaining public spending including public infrastructure investment which contributes to widening fiscal and external current deficit. We also note that risks to the outlook are mainly on the downside. While acknowledging the measures taken by the WAEMU national authorities and regional institutions, steady implementation of fiscal consolidation measures and structural reforms are crucial to sustain medium-term growth. As we broadly concur with the thrust of staff's evaluation and appraisals, we will limit our comments to the following points:

Fiscal Policy

We agree with staff that Growth-friendly fiscal consolidation is needed to lower public debt and lift pressures on monetary policy and reserves. Reflecting WAEMU governments' difficulties to raise revenue yield and contain public expenditure, fiscal deficit remains high and public debt service cost increases. Against this background, it is important to achieve the WAEMU convergence criterion of 3 percent of GDP by 2019 while addressing infrastructure gaps and maintaining social spending. Current projections suggest that breaches will persist for second-order criteria in most countries over the medium term. The staff's comments on main obstacle of this breach, recommended policy measures to address it, and national authorities' response for that are welcome. We encourage national authorities to increase the efficiency of public investment, capture fiscal risks including contingent liabilities and strengthen debt coverage and management.

Monetary Policy and Financial Sector

It is encouraging that the BCEAO's overall actions to tighten monetary policy stimulated the interbank market and reduced bank's appetite for government debt. We note that the tight monetary policy has also led to the issuance of Eurobond. While the issuance of Eurobond increases external reserves and reduces banks' exposure to sovereign debt, it makes the country vulnerable to external market conditions and increases external debt burden. In this light, we would like to hear staff's overall assessment of the Eurobond issuance taking into account the pros and cons. We concur with staff that developing the interbank and the debt securities markets is important to improve monetary policy transmission. In this regard, we note that staff points out that the interbank market would be stimulated by the availability of more information on counterparty risks. We welcome staff comment on the concrete measures to improve information of counterparty risks.

While the banking system is stable and profitable overall, addressing the weaknesses stemming from the quality of assets, such as a high risk concentration and elevated gross NPLs, are important to ensure financial stability and facilitate credit to private sector. We welcome the progress made by the regional supervisory authorities (Banking Commission) on financial reforms including the move to Basel II/III standards, shift to risk-based consolidated bank supervision.

Fostering Sustainable Growth

Structural reforms to address the bottlenecks to private sector development is needed as the role of private sector in sustaining the growth increases amid the fiscal consolidation takes hold. We welcome that WAEMU's structural competitiveness improved though less than other benchmark countries. We encourage the authorities' further effort to ease impediments of doing business such as registering property, dealing with construction permits, getting credit and electricity, and paying taxes.

Ms. Villa and Mr. Machmud submitted the following statement:

We thank staff for a set of well-written reports and Messrs. Sembene and N'Sonde for their informative buff statement.

The West African Economic and Monetary Union (WAEMU) region has experienced robust growth over the last six years, driven by public investment, and benign inflation. Nevertheless, vulnerabilities remain as reflected by high fiscal and current account deficits. While the policies implemented thus far have been generally consistent with previous Fund recommendations, we are of the view that sustaining growth momentum with continued macroeconomic stability will require more decisive policy actions focusing on credible fiscal consolidation, appropriate monetary policy, bold financial policy to improve financial stability, and steadfast structural reforms to promote competitiveness and economic diversification. We broadly agree with staff's appraisal and limit our comments to the following points for emphasis.

Credible fiscal consolidation is critical in maintaining debt sustainability and external stability. We note that the aggregate fiscal deficit in 2017 stood at 4.5 percent of GDP, relatively high compared to WAEMU fiscal deficit criterion of 3 percent of GDP by 2019.This was due to lower-than-expected revenue performance and spending pressures amidst large development needs. In this regard, we support staff's suggestion for the authorities to effectively implement growth-friendly fiscal consolidation through bolstering revenue, prioritizing spending, capturing fiscal risks arising from contingent liabilities, and increasing the efficiency of public investment through improving planning and selection of public-private partnerships and the effectiveness of project appraisal and selection. While the regional authorities concur with staff's advice and intend to remind member governments of the need to effectively implement fiscal adjustment plans in line with regional convergence criteria, the regional authorities indicated that implementing these plans pose significant implementation risks. Could staff provide more explanation on these implementation risks?

In addition to fiscal policy, appropriate monetary policy adjustment is essential for preserving external stability. We welcome BCEAO's decision to stand ready to further adjust the monetary policy stance in case of renewed pressures on external positions. We broadly concur with staff's advice that the BCEAO should eliminate the existing fragmentation of the debt securties market to improve monetary policy transmission and to develop the interbank market. The BCEAO has reservations about staff's advice for it to consider employing different discount rates to government securities pledged as collateral for central bank refinancing, since such would be inconsistent with the central bank's equal treatment principle on sovereign risk weights and would exercise unwarranted direct influence on the credit risk taken by banks that acquire sovereign securities. The staff's comments are welcome in explaining the difference in views. On efforts to prevent money-laundering and terrorism financing activities, we take a positive note on the authorities' commitment to continue operationalizing the 2015 AML/CFT law, by requiring banks to set up information systems to track down financial operations and thresholds for the declaration of cash payments and transactions.

Accelerated structural reforms will be important to foster sustainable and inclusive growth. We commend member country authorities' ongoing efforts to advance structural reforms, including through regional structure funds for infrastructure projects and preparation of a community investment code to improve the business climate. While we note that WAEMU's competitiveness improves in 2017, its improvement is less than other African benchmark countries, reflecting a need for more steadfast effort to enhance the business environment and reduce barriers to regional trade, including cumbersome administrative procedures. On financial inclusion, we commend the significant progress on financial development and inclusion, particularly through the promotion of mobile payments and the adoption of the regional strategy for financial inclusion.

With these comments, we wish the authorities success in their future endeavors.

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

The West African Economic and Monetary Union (WAEMU) has continued to record robust economic growth and low inflation. Nonetheless, possible fiscal slippages and delays in implementing structural reforms could jeopardize the growth momentum and negatively affect the external position and debt sustainability. Fiscal consolidation efforts should therefore continue. We welcome the authorities' policy commitments in this regard as highlighted in Messrs. Sembene and N'Sonde's helpful buff. We agree with the staff appraisal and highlight a few points:

There is scope to strengthen the fiscal position through increasing domestic fiscal revenues and prioritizing spending. This would help to create the fiscal space for social spending and priority infrastructure, while preserving debt sustainability. The efficiency of spending and public investment management could also be improved, which would help to deliver greater returns on capital investments as elaborated in the informative SIP. It would be important to strengthen debt management and closely monitor all public and guaranteed debt, including state-owned enterprise debt. These enterprises remain an important source of fiscal risk, especially energy sector enterprises.

Despite the progress made by the BCEAO and the Banking Commission in enhancing financial sector stability, notably the gradual introduction of Basel II and Basel III prudential standards and the move towards risk-based and consolidated approach to supervision, many vulnerabilities remain with regards to credit and operational risks. These risks include high loan concentration and a segmented banking sector. Moreover, NPLs remain large and continue to increase, and we note that many banks did not meet certain prudential requirements for years. It is important to bring vulnerable banks to deleverage and recapitalize in order to improve balance sheets. The adoption of the new resolution powers in late 2017 should help accelerate progress in the resolution of problem banks.

Efforts to boost financial development and inclusion could be accelerated. While the digital financial services in WAEMU have been growing over the past few years, these services are still relatively limited compared with their potential and mobile money remains relatively low. We hope that the implementation of the regional strategy will help to promote financial inclusion. Finally, we would be interested to learn from staff updates about the withdrawal of correspondent banking relationships and whether it has continued to impede access to financial services in the WAEMU?

Given that most WAEMU member countries have Fund-supported programs and given that individual country' performances affect monetary union policies and developments, we see merit in the point raised by Ms. Erbenova and Mr. Hagara to include in this report country performances under the programs, as well as possible spillovers to union policies if any.

With these remarks, we wish the WAEMU authorities the best in their reform efforts.

Mr. Leipold and Ms. Lopes submitted the following statement:

We thank staff for the insightful set of reports and Mr. Sembene and Mr. N'Sonde for their helpful buff statement. Performance in the West

African Economic and Monetary Union (WAEMU) has been marked by continued strong economic growth coupled with low inflation, despite security challenges, social tensions, and unfavorable terms of trade. However, fiscal and external balances continued to widen, and, while the public debt-to-GDP ratio stabilized, the interest cost of public debt has risen. We agree that the positive medium-term outlook hinges on implementing the planned fiscal consolidation and on forcefully tackling structural bottlenecks. We broadly share the staff's recommendations and would add the following comments for emphasis.

Feasibility of the Medium-Term Outlook

We have some concerns about the feasibility of the staff's medium-term scenario. This scenario incorporates governments' planned fiscal consolidation under the IMF arrangements with WAEMU countries. This implies, for some of the countries, a reduction of the overall fiscal deficit by more than 5 percentage points of GDP over 3 years. Furthermore, this adjustment is assumed to take place at a time when security-related expenditures in the region are rising. We also note that, despite the consolidation, no significant deceleration of growth is expected for this period. The staff's comments on the feasibility of the baseline scenario and on the fiscal multipliers used would be appreciated.

In this context, we encourage the national fiscal authorities to step up the efforts to increase the efficiency of public investment and to implement structural reforms to foster a friendly business climate.

Fiscal Risks and the Role of the Regional Institutions

We agree that fiscal consolidation needs to be accompanied by an adequate identification of risks. Having comprehensive and accurate data, also on below-the-line operations and contingent liabilities, is key to effective surveillance.

We commend the informative SIP on the sources of fiscal risks in WAEMU countries. We share the priority it assigns to the ongoing reform program related to fiscal transparency and fiscal risk management. It provides very useful diagnosis and suggestions, especially at the country level. In light of the "Common Policies" nature of the report, we would recommend a stronger focus on what could be done at the union level. In this regard, we note for example that financial system contingent liabilities, assessed to be potentially large, were excluded from the analysis as they "should be dealt with at WAEMU regional level". As such, should they not be discussed in a report on the Union's common policies? The staff's comments would be appreciated.

Banking Sector and Financial Stability

While the banking system is broadly stable, vulnerabilities remain. We support the recent steps taken to align prudential rules with the Basel II/III principles, gradually increase capital requirements, and consolidate the supervision of banking groups. We also encourage the move towards a more risk-based supervision and hope that the new banking resolution powers will contribute to an effective solution for the fragile banks.

Mr. de Villeroché, Mr. Castets and Mr. Bellocq submitted the following statement:

We thank staff for this insightful and comprehensive set of reports. We also thank Mr. Sembene and Mr. N'Sonde for their helpful buff statement.

We largely agree with staff appraisal on the economic and financial situation of West African Economic and Monetary Union (WAEMU). We would like to highlight the following issues for emphasis.

Growth Performance and Macro Stability

In recent years, WAEMU's growth performance has been among the most dynamic in sub-Sharan Africa (SSA) and inflation has remained subdued, with inflation rates among the lowest in SSA. The empirical analysis laid out in the selected issues finds that recent growth acceleration observed in WAEMU is broad-based as it results from macroeconomic stability, investment pick-up, as well as improvement in institutional quality. We note positively that these drivers are mainly endogenous and we encourage the WAEMU authorities to preserve this positive momentum through appropriate policies allowing long-lasting macroeconomic stability and debt sustainability. Indeed, as highlighted by staff, the balance of risks is tilted to the downside and decisive actions are warranted to preserve macroeconomic stability which remains a precondition to high economic growth rate. In that regard, we encourage the authorities of the monetary union to implement fiscal consolidation and speed up structural reforms.

The Need of Fiscal Consolidation

Fiscal and external buffers have been weakening for some years. Moving forward, staff's projections suggest that in case WAEMU countries' fiscal deficits remain at their 2017 levels, international reserves will come down to one month of imports by 2022. As such a dynamic would be unsustainable, we encourage the authorities to implement fiscal consolidation, without delay, in order to maintain public debt dynamics on sustainable paths and to increase international reserves. We note positively that Mr. Sembene and Mr. N'Sonde highlight in their buff that WAEMU authorities agree with staff that a growth-friendly fiscal consolidation is required. Indeed, adjustment trajectories have to be as growth-friendly as possible, by relying mainly on greater domestic resources mobilization and investment streamlining, while preserving social spending, as well as creating fiscal space for security spending when necessary, in particular in Sahelian countries. In this regard, while we fully share staff recommendation to improve the efficiency of public spending, we would be cautious to identify the targeting of social spending as one of the main way to rebuild fiscal buffers if this option results in a decrease of overall social spending.

We note that Côte d'Ivoire, Senegal and the BOAD issued Eurobonds which supported the increase of external reserves last year. Could staff indicate if other WAEMU countries plan to issue such debt instruments in the coming months? How does staff perceive the existing trade-offs between regional and international issuances?

Finally, with regard to the policy mix, we agree with staff that fiscal policy has to be the first line of defense to restore fiscal and external buffers. In that regard, WAEMU convergence criteria remain the target to be reached. Beyond the first line of defense, in case fiscal and external buffers would weaken further, we are of the view that monetary tightening would be necessary.

Public Investment Efficiency and the Need of Structural Reforms to Foster Private Investment

We value the in-depth analysis of public investment efficiency in the selected issues. This shows that despite the high level of public investment in WAEMU, public investment efficiency is below what is observed in peer countries, including in SSA. We note positively that three WAEMU countries (Burkina Faso, Côte d'Ivoire, Togo) have benefited from a Public Investment Management Assessment (PIMA). We would be grateful to staff to indicate what were the concrete measures taken by the authorities after these PIMA? Could staff also indicate which WAEMU countries could benefit from a PIMA in the coming months? With regard to private investment, the selected issues suggest the private investment-to-GDP ratio has been lower in WAEMU countries than in LIDCs in recent years. Could staff indicate if this difference is significant and if private investment in WAEMU countries encounter specific impediments in comparisons to peers? If so, what are these impediments? As fiscal consolidation should result in lower public investment-to-GDP ratio, we encourage the authorities to speed up the necessary reforms to foster private investment.

Banking Supervision

The situation of the banking sector is still challenging and necessitate a careful monitoring of credit concentration, asset quality and funding structure. AML/CFT legal and regulatory requirements have to be strengthened to become compliant with the FATF international recommendations. In three WAEMU countries, the 2015 Uniform Law has not been integrated yet into national laws. We encourage the authorities of these three countries to accelerate the transposition process.

Mr. Jin and Mr. Fan submitted the following statement:

We thank staff for the comprehensive papers and Messrs. Sembene and N'Sonde for the informative buff statement. The WEAMU region has enjoyed high real GDP growth of over 6 percent in recent years amid unfavorable terms of trade, security threat, and political turmoil in some countries. However, challenges remain associated with slow progress in addressing fiscal and external deficit. We broadly agree with staff's analysis and policy recommendations and would limit our comments to the following.

Improving revenue mobilization and public spending quality remains critical for fiscal consolidation and policy buffer. Due to their state of development, we can understand that most WAEMU economies have large infrastructural development needs. Nevertheless, persistent large fiscal and external deficits have maintained pressure on fiscal and debt sustainability, as well as foreign exchange reserves. We therefore concur with the staff that continuous fiscal consolidation is needed to meet the convergence criteria, and especially to control the fiscal deficit within 3 percent of GDP. Meanwhile, we also support the staff that the consolidation should be implemented in a growth-friendly manner. Thus, the WAEMU authorities are encouraged to further improve the quality and efficiency of expenditure, and explore alternative forms of financing to support infrastructure investment.

More should be done to contain debt risks. We are encouraged to note that the risk of debt distress in WAEMU countries continues to remain moderate or low, and the absolute level of public debt and external debt is not high. However, we noticed that the public debt in WAEMU countries has built up substantially since 2012, and the unanticipated debt increase accounts for a large share in total increase, as identified in the selected issues paper. Given the subdued progress in fiscal deficit and potential tightening of financing conditions at the international level, the risks in public debt might soon be exacerbated. Therefore, we suggest that the public debt should be monitored closely and kept on a downward path with concrete measures. Furthermore, we encourage the authorities to enhance transparency in debt management and welcome more details on the source of rapid debt increase.

Continuous efforts are warranted to enhance monetary policy transmission. We take positive note that the interbank market doubled in 2017 under BCEAO's reform measure. However, as the market remains small, we welcome authorities' continuous efforts on promoting interbank money market and integration of interbank rate into its monetary policy corridor. Furthermore, we share the staff's appraisal that integrated bond market and broader investor base would help improve the development of bond market. We noticed that the authorities have different opinions on applying different discount to government securities pledged as collateral for central bank refinancing. We encourage the staff to comment on the authorities' opinion and possible solutions.

Improvement in asset quality is essential for financial stability and inclusion. We encourage the authorities to address the duration mismatch between Banks' exposure to sovereign debts and its funding, and the risk of over-concentration of exposure to top borrowers. The asset quality remains a potential risk, with NPLs remaining high and large banks undercapitalized. According to the selected issue paper, 7 out of 12 public banks were undercapitalized and some even had significant negative capital. Since the dead line of minimum social capital requirement compliance is coming, we welcome staff's introduction on current gap in the smaller banks with respect to the minimum requirement of FCFA 10 billion and how to promote their compliance, and how to address the negative assets in public banks.

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

We thank staff for their comprehensive report and interesting SIPs, and Mr. Sembene and Mr. N'Sonde for their candid and informative buff statement.

The WAEMU region has been enjoying strong growth with low inflation for the past 6 years, notwithstanding a number of headwinds, including terms of trade shocks and difficult security and political conditions in some countries. However, while tight monetary policies and the peg to the euro has helped maintain low inflation, higher fiscal deficits to help reduce infrastructure gaps and sustain growth has led to an increase in public debt and higher pressures on the external position. Despite a slight increase in the current account deficit, reserves increased but remained less than adequate. The outlook is positive, subject to steadfast implementation of planned fiscal consolidation and structural reforms. We agree with the WAEMU authorities that continued support to the growth momentum and social inclusion will be crucial, as underscored by Mr. Sembene and Mr. N'Sonde, and welcome their recognition of the importance of implementing macroeconomic policies conducive to preserving external stability and enhancing resilience to shocks, while further strengthening the business climate and competitiveness. We agree with the thrust of staff appraisal.

Fiscal consolidation should be the highest priority for member countries to create space for development needs, lower public debt over the medium term, and reduce external pressures. Revenue mobilization and expenditure prioritization, as intended, will be crucial to achieve their consolidation objectives, and their readiness to introduce additional measures, as needed, is reassuring. Going forward, as the region strives to close its infrastructure gap, appropriate mechanisms should be in place to secure better use of public resources and reduce contingent risks, including from PPPs.

The BCEAO's December 2016 decisions were successful in reducing banks' access to central bank facility, stimulating the interbank market, and reducing government recourse to domestic resources, which along with increased access to Eurobond market, has helped alleviate pressures on foreign reserves. We welcome the regional authorities' intention to closely monitor liquidity conditions, tighten monetary conditions, if needed, further develop the money market, and enhance monetary transmission. We note their concern regarding staff recommendation to introduce differentiated discounts to government paper pledged as collateral, and look forward to further staff engagement with the authorities to reach a common understanding on the issue

Despite progress made in recent years on financial development and inclusion, more needs to be done in these areas, and the banking system, although stable and profitable, is exhibiting vulnerabilities. Some banks have fallen short of the minimum capital requirement, high credit and concentration exposures remain, public banks are mostly undercapitalized requiring resolution in some cases, and NPLs are still high. Forging ahead with the implementation of essential reforms along the lines of transitioning to Basel II/III prudential standards, and moving towards a more risk-based and consolidated approach to supervision will be needed to align with international best practices. We welcome the passage of the amendments to the Banking Commission's statutes, paving the way for the commission to deal resolutely with banks that demonstrate persistent negative equity. We fully support the authorities' steps at rolling out a financial safety net.

To foster greater economic activity, the WAEMU authorities will have to speed up efforts at tackling impediments to growth by improving the business climate to enhance competitiveness, including by advancing regional integration. Ongoing efforts through the setting up of regional structural funds for projects covering key sectors should be sustained. We note from Table 2 that, while average ICOR in WAEMU region is at about 3.5, it ranges between 1.5 in Guinea Bissau to more than 6 in Togo and Niger. Could staff indicate how WAEMU compares with other LICs, in particular in Sub-Saharan Africa, and what explains such large differences across members?

Finally, like staff, we underscore the importance of strengthening the quality, timeliness and dissemination of economic statistics. Progress has been made on this front and we commend steps taken with the Senegalese authorities in collaboration with the African Development Bank and the Fund on the setting up of the open data platform, which has resulted in Senegal's adherence to the SDDS. More actionable steps in member countries will be needed in strengthening capacity for enhancing data quality, and like Mr. Sembene and Mr. N'Sonde, we call for more Fund TA in this area.

Mr. Sembene made the following statement:

We issued a buff statement in which we expressed the view of the West African Economic and Monetary Union (WAEMU) authorities as well as the broad agreement they have with the staff on the analysis of economic developments in the union, as well as the policy and reform agenda that has been implemented. Since the gray statements were issued, we received additional comments from the WAEMU authorities, so I would like to convey them at the outset of this meeting.

First, WAEMU countries continue to enjoy a strong growth rate, on average higher than their peers, amid a challenging global, regional, and domestic environment; and this, according to the authorities, illustrates the WAEMU economies' strong resilience to shocks. It was their hope that this could have been better emphasized in the main staff report. Part of this resilience stems from progress made in advancing structural reforms, which helped increase the contribution of total factor productivity (TFP) to growth in the WAEMU, as evidenced in the selected issues paper.

While more remains to be done on the structural front and potential implementation delays are understandably among the downside risks that the staff identified, it is important that the authorities are credited for the implementation of critical and politically challenging structural measures.

Second, on monetary policy, a clarification is in order, according to the Central Bank of West African States (BCEAO). The central bank underscored that its December 2016 decision to increase the central bank's marginal credit facility rate and to limit banks' access to this facility was not intended to tighten the stance of monetary policy, but rather was aimed at rebalancing banks' balance sheets in light of risks facing the sector.

The subsequent step taken by the Monetary Policy Committee in March 2017 to lower the required reserves ratio by 200 basis points was ultimately aimed at stimulating activity in the interbank market. Overall, these actions, along with the BCEAO's open market policy, as well as other measures taken to strengthen the existing liquidity management framework and ensure efficient use of the marginal credit facility, have helped achieve the intended objective, as they have resulted in a significant increase in transactions carried out in the interbank market and a drastic reduction of access to the central bank's credit facility.

That being said, the central bank stands ready to tighten its monetary policy stance whenever it is appropriate. However, it is the authorities' view that such a move needs to be made in light of macro-financial and inflation developments in the union, and certainly not with the aim of addressing structural weaknesses, such as those emanating from delayed structural reforms on the fiscal front. In any case, any monetary policy tightening would have to be considered in the current context of subdued inflation and low inflation expectation prevailing in the union.

Furthermore, the BCEAO would like to dispel the notion that the union foreign exchange reserves have strengthened in 2017 solely because of recent Eurobond issuances by Portugal and Senegal. Eurobonds have, indeed, contributed to the improvement of reserves, and the recent issuance by Côte d'Ivoire and Senegal this month will help further enhance buffers.

However, in the same vein, it is important to note that the central bank has undertaken rigorous actions to improve compliance with existing regulation on repatriation of export receipts. As a result, the repatriation rate has increased from 39.8 percent in September 2016, to 42.3 percent in September 2017. They understand that more is needed to improve regulatory compliance and bring foreign reserves to a more comfortable level, and this is why an action plan including outreach and potential sanctions for economic actors that fail to comply with their foreign exchange regulation is being finalized. The implementation of this action plan will hopefully help enhance export receipts repatriation.

On the staff's suggested application of differentiated discount to government securities, the BCEAO makes a point of not overstepping its role. The central bank is of the view that it must treat government equally regarding sovereign risks as per the existing prudential regulations. Moreover, the central bank believes that banks should make their own assessment of credit risk associated with each sovereign based on economic and financial information published at each auction by the UMOA-Titres, which is the auction organizer.

Nonetheless, the authorities remain open to pursuing discussions with Fund staff on ways to further support the development of the debt securities market and improve monetary policy transmission.

I would like to make a final point based on a discussion that I was privileged to have last Friday with the WAEMU Finance Ministers and the head of the Fund's African Department. During the discussion, they made a call for the Fund to assist them in dealing with security-related shocks that many countries are facing in the region. Burkina Faso, Côte d'Ivoire, Mali, and Niger have been subject to terrorist attacks recently. The other WAEMU countries that are not exempt from this risk are scaling up security-related spending to confront these threats, which can durably undermine the attractiveness of their economy to foreign investment, exert unsustainable pressure on their budgets, and crowd out other development priorities.

Last week, the Board discussed the Independent Evaluation Office's (IEO) evaluation of the IMF and fragile states, and we look forward to the recommendations that the IEO made, which were endorsed by the Board with a view to improving the Fund's engagement in fragile states. This is an urgent matter that deserves careful consideration and prompt action from the Fund. They look forward to addressing these pressing issues in the context of Fund engagement in WAEMU members' countries.

Ms. White made the following statement:

We did not issue a gray statement, but I wish to take a few moments this morning to indicate our broad support for the staff papers and for the helpful comments made by Mr. Sembene.

I will make three points. We welcome the strong GDP growth in the WAEMU region and agree with the staff's recommendations for improving competitiveness and fostering regional integration to ensure that the growth momentum is sustainable and more inclusive. We encourage the authorities of the monetary union to implement fiscal consolidation and structural reforms to keep public debt dynamics on a sustainable path. Care will also have to be taken to ensure that there is sufficient fiscal space for necessary social spending and security where needed, particularly in the Sahel.

We also note the ongoing vulnerabilities in the banking sector and agree that authorities should use bank supervision and resolution tools to improve bank balance sheets and resolve fragile banks in order to protect regional financial stability issues.

Mr. de Villeroché made the following statement:

I thank the team for an excellent set of reports. I thank Mr. Sembene as well for his helpful statement and today's oral remarks. We broadly concur with the staff's analysis and policy recommendations. I would like to elaborate on three main issues. The first one is on aggregate growth. The WAEMU's aggregate growth performance remains among the most elevated in sub-Saharan Africa. It is encouraging that many growth drivers have been endogenous, such as macro stability, investment, and some improvement in institutional quality. This is welcome, and it shows that sub-Saharan African countries which are not already dependent on commodity price cycles are able to perform well. Nonetheless, while the stronger performance registered over the past years is welcome, the growth of the GDP per capita has been muted in the context of rapid population growth.

The second point, which we made the last year, is that this growth path is also associated with significant risks which have to be tackled through urgent and decisive measures. The staff projects that without fiscal consolidation, gross international reserves would come down to 1 month of imports by 2022. This path is unsustainable, and we encourage the authorities to implement growth-friendly fiscal consolidation to reach for a general convergence criterion of 3 percent of GDP of public deficit by next year.

What do we call growth-friendly fiscal consolidation? It is a balanced consolidation based on enhanced domestic resources mobilization on the revenue side and more targeted expenditure on the spending side. In that regard, we welcome the public investment measure and assessment performed in three countries and encourage the authorities to implement the staff's recommendation to improve public investment efficiency.

Third, we all know that Sahelian countries are facing challenging security conditions, and these security conditions are becoming macro-critical. The reports could have brought more insights on these aspects, which definitely have negative spillovers in some countries, as we recently discussed with the adoption of the program for Burkina Faso.

To start with, we need to better assess what we call security spending in these countries; and looking at the different country reports, we do not have comparable metrics, so I am calling for joint work with the Fiscal Affairs Department (FAD) to better assess what we call security spending. In some cases, it covers police spending. In others it does not. Sometimes it is a bit hard to discern what is classified as spending in budgets. The transparency is there in these countries. We just need to have a full picture and comparable data on this, an area where the Fund is lagging.

Looking ahead, we would like to repeat our message of caution regarding what is meant by targeting social spending as well. While this chair fully supports efforts to improve the efficiency of social spending, we do not see much room for spending cuts. This issue is intertwined with security issues in many WAEMU member countries and access to basic services, including in remote regions, and we believe these social spending measures are key to ensure stability.

Mr. Merk made the following statement:

We thank the staff for the report and Mr. Sembene for his buff statement. As we have issued a comprehensive gray statement, I have only two remarks. First, we broadly concur with the staff's analysis and policy recommendations, and we take positive note of the robust growth performance in the region. However, the generally positive medium-term outlook is subject to considerable downside risks given that fiscal consolidation has remained below expectations and current account deficits have further widened. Going forward, an ambitious adjustment effort is warranted, along with continuously prudent monetary policy and comprehensive structural reforms aimed at fostering economic diversification and increasing competitiveness.

Second, we highlight that conditionality in the respective Fund programs with WAEMU countries rightly needs to focus on national policies. Fiscal consolidation is the cornerstone of these programs and is necessary to meet the convergence criteria and lift pressures on monetary policy and reserves.

Mr. Saito made the following statement:

We thank the staff for the reports and Mr. Sembene for the buff statement and today's remarks. We issued a gray statement and broadly agree with the staff's appraisal. I would like to make two points for emphasis.

First, while we positively note that economic activity remains strong in the region, widening internal and external imbalances are a concern. In the meantime, it is welcome that the international reserves rebounded following the sizeable Eurobond issues.

Having said that, as the staff pointed out in its written responses to technical questions, Eurobond had exchange rate and rollover risks, even though they can be mitigated. Therefore, overreliance on the external debt, including Eurobonds, is not desirable. Like Mr. de Villeroché, I would like to underscore the importance of growth-friendly fiscal consolidation.

Second, while inflation has remained subdued, the regional central banks should remain vigilant to the markets and external pressures and stand ready to react if needed. At the same time, we agree with the staff that developing the interbank markets and debt securities market is important to improve monetary policy transmission.

Mr. Inderbinen made the following statement:

We are grateful to the staff for the reports, to Mr. Sembene and Mr. N'Sonde for their buff statement, and to Mr. Sembene for his remarks, which gave some additional context.

In our gray statement, one of the concerns we voiced was on the lack of an effective coordination of fiscal policy in the region, and we asked about the prospects of further improvement in this regard. We are grateful for the answer the staff provided us ahead of the meeting, and we understand that an assessment of the effectiveness of the fiscal convergence framework will be undertaken later this year and that there will be attempts to disseminate further the findings and increase the amount of information that is brought to the heads of state in the region.

One important aspect was the commitments that the countries have made under their individual Fund-supported programs. In this review of effectiveness, will there be any element of sanctioning envisaged on the union level when fiscal targets are missed? Would that be part of the ongoing review?

Second, we took note of the strengthening of the supervision and the resolution powers of the Banking Commission. This is welcome, and Mr. Sembene also underlines the commitment of the national authorities to respect the independent decision making of the supervisor, and also any resolution steps that would be taken. The proof will come when the regime is actually tested and whether decisions are challenged at the national level and creditor rights are overrode and claims written down. Maybe the staff could comment on that as well. Are there provisions in the countries' national legislation that would defer to the decisions made by the resolution authority, or does a shareholder or a creditor have the ability to undertake action in national calls, to challenge decisions? When it comes to the measures at the union level in the financial sector, or the competences at the union level in the financial sector, or when measures are taken in the context of individual programs, the documentation in the individual program country documents in the countries with Fund-supported programs should clearly reflect the commitments of the national authorities and the regional authorities. This should be clear in the individual country documents. This is a point that Mr. Sobel and his colleagues make clearly in their gray statement, and we would support that.

We have come quite a long way in the Central African Economic and Monetary Community (CEMAC) context, but in the individual country context, there is some improvement in the WAEMU countries.

Ms. Erbenova made the following statement:

We thank the staff for the answers to technical questions and Mr. Sembene for his informative buff statement and helpful opening remarks. We have issued a gray statement, so I will limit myself to just a few comments.

First, we recognize and note positively the continued strong growth performance in the region against the backdrop of stable inflation, and we broadly concur with the staff's policy recommendations. As mentioned in our statement, we would have expected a more in-depth discussion on the performance of Fund programs and their spillovers among WAEMU members and interplay with union-wide policies. The WAEMU report regrettably does not even provide basic information on the Fund-supported programs which are being implemented in seven out of eight WAEMU members.

While the situation may be perhaps less severe than in the CEMAC region, Fund program measures are definitely very high on the policy agenda of almost all members of the union, and that should be clearly acknowledged and discussed. We welcome the staff's clarification on the approach chosen for this regional report.

We also welcome that the Banking Commission has been endowed with new resolution powers in late 2017 and that the authorities requested the undercapitalized banks to comply with the capital requirements by mid-2018. Similar to Mr. Gokarn, we wonder whether the undercapitalized banks have already taken some steps or announced their recapitalization plans, and we would be grateful for the staff's comments. At the same time, we support the staff's call for the authorities to use their new powers to deliver necessary action in case of bank failure.

Complementing Mr. Inderbinen's question about the legal underpinnings of the new union-level resolution powers, I wanted to ask the staff to comment on the authorities' practical readiness to apply the new resolution powers and the progress with resolution planning, if any, for the weak banks.

Ms. Villa made the following statement:

We join other Directors in thanking the staff for the reports and Mr. Sembene for his written and oral statements. We welcome the strong performance of WAEMU, but as noted by Directors, there are vulnerabilities that remain, including security issues, and we support Mr. de Villeroché's comment that there should be a review of expenses for security issues.

There continues to be a need for well-coordinated policies, as noted by many Directors, at the regional level and the national level. We also issued a gray statement, and like Mr. Inderbinen, we asked about policy coordination. The answers to the technical questions are helpful for us to understand the role of regional authorities in policymaking in the region.

The staff's answers to questions No. 4 and 11 were illustrative, but we would like to better understand the role of the Fund and its relationship with regional authorities. After this review, what occurs? What happens after a review such as this? Like Mr. Sobel, we would prefer it if Fund reviews include more specific policy recommendations for regional authorities. As Mr. Sembene said this morning, this should become part of the Fund engagement in fragile states.

Mr. Sobel made the following statement:

We thank the staff for the papers and Mr. Sembene and Mr. N'Sonde for the helpful buff statement. We would like to highlight a few points. Seven of eight WAEMU countries are supported by Fund arrangements. The regional authorities have an important role to play in supporting successful outcomes of Fund programs. We would like to see future WAEMU reviews include more specific policy recommendations for regional authorities, and we would like the WAEMU country documents to better incorporate union-level policies. I would like to touch on two examples.

First, we appreciated question No. 16 on financial sector contingent liabilities, which are potentially large but were not analyzed in the report, and the role for action by regional authorities. We encourage the staff to undertake additional analysis in this area and draw out the implications for policies at the union level.

Second, following up on the question in our gray statement about prompt resolution of weak systemic banks, can the staff comment on whether they are coordinating with the Togo and Guinea Bissau country teams when discussing with regional authorities how union-level action on bank resolutions can be integrated into those country programs?

Our bottom line is that CEMAC, euro area, and WAEMU currency unions are an increasingly important part of the global landscape, which was highlighted by our discussions on program design in currency unions. The staff needs to do much more to consistently find the right balance between bilateral and union-level analysis, bearing down on the latter. As noted in our gray statement, perhaps the recent CEMAC paper could serve as the beginnings of a model.

Finally, we read the answers to questions No. 24 and 25 on the external sector assessment, including the argument that the contribution of the policy gap has been minimal. Frankly, we are not persuaded. In view of the large current account deficit and the fact that reserves that have been propped up through Eurobond borrowings, we should not be comforted that the external position is broadly consistent with fundamentals and desirable policies.

Furthermore, we continue to fret about the impact of euro borrowings on debt sustainability. We associate ourselves with Mr. Saito's remarks on this front. We hope the staff's views, however, are borne out.

Mr. Dairi made the following statement:

In view of the circumstances the region is facing, WAEMU's performance isvery good. It is important that the message sent by the Fund is that the authorities are on the right track. They can do better in some areas, and they want to do it, and they realize the challenges. But it is important that the credibility of regional institutions be protected throughout the process i.f the Fund is to succeed in helping these countries. t The role ofregional institutions is very important, and they are demonstrating strong resolve in assuming this role. They should be encouraged to do better, but if there are issues on which they do not see eye to eye with Fund staff, we should work better and enhance our engagement with them to send a clear and shared message to member countries and to the international community. We will not be able to settle all issues at once, it is better to prioritize and support the authorities as they try to overcome their limited capacity.

Many countries and regions would dream of having such a strong performance, not only in terms of growth, but also in terms of GDP per capita—3 to 4 percent growth in GDP per capita is not bad at all. We need to strike the right balance in the advice we give these countries.

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

I thank Directors for their comments and insights, including those that were made today at this Board meeting. We answered several technical questions in writing. I would like to address a few policy themes from the gray statements and also address some of the questions that were asked at the Board. These policy themes are related to the fiscal stance and implementation risks, the policy mix, the role of regional authorities, the external sector assessment, and the financing mix.

On the fiscal stance and risks, there were questions about the feasibility of the baseline fiscal adjustment against the backdrop of implementation risks. All but one of the WAEMU countries—that is Niger—have committed to meeting the regional convergence criterion on the fiscal deficit of 3 percent of GDP by 2019 under the Fund-supported programs. The staff considers this target to be feasible but ambitious. The regional authorities obviously support the commitment of the authorities to converge to the 3 percent of GDP in order to maintain macroeconomic stability as well as preserve fiscal and external sustainability.

There are a few countries where the adjustment looks particularly sharp—Benin and Burkina Faso—and this sharp adjustment is related to the unwinding of large and lumpy investment projects, as well as stricter implementation of procurement procedures; and these investment plans are in line with the authorities' development priorities.

As noted in the staff report, key implementation risks relate to a slower-than-expected revenue mobilization and pressures emanating from additional security related events, as have been emphasized in this meeting.

In the event of deviations from program targets, additional fiscal measures would be needed. These have been elaborated in the staff report. On the revenue side, rates could be hiked on excises. There is the VAT on exempted products and on real property taxes and also the scope to further streamline exemptions on the investment code and other codes. I would add

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

that the WAEMU Commission has done an exhaustive study on the issue of revenue mobilization in close collaboration with the national authorities, and this has been shared with the national authorities. On the spending side, we believe that in case it is needed, the wage bills could be brought to the 35 percent of domestic revenues norm—which is one of the WAEMU convergence criterion—faster than envisaged, and capital outlays could be further streamlined and prioritized.

On the policy mix, there were questions on tradeoffs from the monetary tightening or loosening, the efficacy of monetary policy in the case of fiscal slippages, and the macro implications of tighter and looser fiscal policy than envisaged. As has been pointed out in the gray statements and the staff report, fiscal consolidation is key to ensuring the stability of the WAEMU monetary union; but in case of delays in fiscal consolidation, if undue pressures are exerted because of delays in fiscal consolidation on foreign exchange reserves, the BCEAO should stand ready to tighten monetary policy further; and we are comforted by the words of Mr. Sembene in this regard.

The experience of 2017 suggests that monetary policy tightening, as we can see from the charts on interest rates in the staff report, is effective in warding off pressures on reserves. However, the staff and authorities agree that excessive monetary tightening could have adverse implications, especially for weaker banks and also for credit to the economy.

A mix of tighter monetary policy and looser fiscal policy would raise the cost of credit. The higher fiscal deficit could possibly be financed through additional external debt, including Eurobonds, and that would further raise the debt level. That deficit could also be financed through arrears. That is not optimal, as it would adversely impact public financial management and the private sector. The impact on growth and the current account balance would depend on whether the overall stance was tighter or looser.

There were questions on the role of regional authorities in fiscal monitoring, bank restructuring, and data transparency. On fiscal monitoring, the institutional setup of the convergence criteria was revamped in 2014, and it favors a voluntary compliance supported by peer pressure. Prior to this, there was a question of whether sanctions were envisaged. There was a system of sanction envisaged prior to 2014, but it was never enforced. This new framework that was adopted in 2014 favors voluntary compliance and peer pressure. The WAEMU Commission has increased its involvement with member states through semi-annual consultations and missions to each member country to discuss the convergence criteria and their non-compliance. The WAEMU Council of Ministers meets regularly to discuss the region’s economic development and policies.

The WAEMU Commission plans to assess the effectiveness of the current system this year and to draw lessons from its review. The staff has encouraged the WAEMU Commission to increase the dissemination of its findings on the countries’ convergence criteria.

There were questions regarding the bank restructuring, in particular in Togo and Guinea Bissau. In Togo, the bank merger plan for two public banks is being developed by the country authorities in cooperation with Fund staff and is reflected in conditionality in the ECF-supported program. In Guinea Bissau, the regional Banking Commission has set up a deadline of end-June 2018 for a large private bank to meet its capital requirements. In both cases, Fund staff is working closely with the Banking Commission, as well as with the country authorities to ensure satisfactory resolution.

There was a question on the WAEMU Commission and strengthening data coverage. The WAEMU Commission is doing a substantial amount of work on this. The main conduit for this work has been the adoption of PFM-related directives that have been transposed into national laws and that are now being implemented. All WAEMU countries are expected to adopt the Government Finance Statistics Manual (GFSM) 2001 fiscal reporting, which would facilitate the compilation of consolidated public finance data, including the public sector’s borrowing requirements. Fund technical assistance (TA) is also active in this area, for example, in supporting Senegal’s adherence to the special data dissemination standard (SDDS).

On the external sector assessment, there were questions on how to reconcile the persistent external deficit. The staff’s analysis has confirmed that the WAEMU external position is broadly sustainable and could be covered by available financing from the official private and market sources. This analysis takes into account the envisaged fiscal consolidation plans and the fact that WAEMU’s largest economies, the frontier markets, have access to international capital markets and can raise financing from them including through Eurobonds. Recourse to markets is part of the normal borrowing strategy driven by considerations of interest rates, maturity, and other debt management considerations. The staff’s analysis assumes that under normal market conditions, these Eurobonds when they mature would be rolled over.

There was this question about the policy gap. The estimate that we did using the tools available and the External Balance Assessment (EBA)-lite does show that the policy gap is minimal and the policy variables that we use, which is standard in the EBA-lite are the adjusted fiscal balance, the degree of capital control, reserve accumulation, and private credit.

Still on the external sector, there was a question related to greater exchange rate flexibility and its macro impact, and whether the region's economies need to prepare for such an eventuality. While the decision on the type of monetary arrangement is that of the WAEMU authorities, the peg of the CFA franc to the euro, guaranteed by France, has provided an important policy anchor and is deeply ingrained in the socioeconomic fabric of WAEMU. Accordingly, the discussions during the regional consultation focused on the consistency of the current and prospective policies with the exchange rate peg. Such consistency has been judged adequate provided that WAEMU countries effectively implement their fiscal consolidation plans as committed under the current Fund-supported programs.

On the financing mix, there were questions related to the pros and cons of reliance on external debt, including Eurobonds, and whether Eurobond proceeds are being invested in ways to improve the productive capacity of the economy. The Eurobonds carry longer maturities than the currently available instruments in the regional financial market. While the dollar-denominated Eurobonds are subject to exchange rate risks, the credibility of the peg mitigate such risks. The recent 30-year Eurobond dollar-denominated bond issued by Senegal at 6.75 percent, for example, suggested that markets indeed perceived the peg to be credible. Moreover, as highlighted in the staff supplement, both Côte d'Ivoire and Senegal have recently issued euro-denominated bonds at even lower interest rates. Eurobonds carry greater rollover risks than domestically issued securities; but such risks can be managed for buyback operations, such as the one carried out by Côte d'Ivoire in 2017 and the one that was just recently carried out by Senegal under its most recent issuances.

In terms of the use of these Eurobonds, in Senegal and in Côte d'Ivoire, these proceeds are being used to finance the budget deficit; and these deficits provide inter alia space for investment spending on infrastructure, health and education, which are all expected to raise the productive capacity of the economy.

There were a few questions that were asked at the Board. On security spending, we take note of the recommendation to prepare joint work with

FAD. On the limitations of streamlining social spending, we also note that the idea was to better target the social spending; but we understand that there are constraints on this because such action should not come at the expense of cutting back on poverty-related spending.

There was a question on the fiscal coordination framework and whether sanctions are envisaged. I have addressed this question. Can the national authorities nullify the decision of the Banking Commission? Normally not. The national authorities are committed under a treaty to cooperate with the decision of the Banking Commission.

On the undercapitalized banks and how are they being approached, there is a requirement by end-June 2018 that the minimum capital of CFAF 10 billion would be met by all of these banks, and the Banking Commission and the BCEAO have reassured us that they are closely monitoring these banks. On the authorities' readiness to apply the new resolution powers that have been provided to the Banking Commission, we understand that the readiness is there. The Board of the BCEAO has approved the implementation of these new resolutions; and so our understanding is that the regional authorities are ready to implement these new resolution powers.

There was a question on the role of the Fund. What do we do after this Board meeting? Many things will be done. There is outreach, including in the context of the Spring Meetings and the Annual Meetings. The messages and the policies in the staff report are taken into consideration in the preparation of the country missions, all of which have a program currently. As needed, these issues are discussed with the national authorities. Our senior staff from the African Department participate in some of the regional conferences and meetings to convey the messages of this consultation.

Mr. Daïri made the following statement:

I raised the issue about investment efficiency across the region. There is a wide variation across countries in terms of the incremental capital output ratio (ICOR), and I wanted the staff to indicate what factors are behind this wide variation and also how WAEMU compares to other regions and.

I also have a question regarding efficiency of intermediation. The table on financial sector indicators suggests that the interest rate margin in the region, at 6 percent or more, is high. Of course, NPLs contribute to the cost of intermediation, but they cannot explain all of the large real interest rate rates. Along with improvement in the business climate, it is an efficient banking system should allow enterprises and other borrowers to have access to financing at a reasonable cost. I wonder if the staff could elaborate on the issue and whether they have discussed it with the banking supervisors and with the authorities more broadly.

The staff representative from the African Department (Mr. Ghura), in response to further questions and comments from Executive Directors, made the following additional statement:

On the question of the efficiency of capital in the WAEMU versus sub-Saharan Africa, the selected issues paper on public investment efficiency shows that the capital efficiency in the WAEMU has been lower than the sub-Saharan African average; and Mr. Daïri is right that there is a wide range in terms of the measures of investment efficiency in WAEMU members countries, as implied by the ICOR in table 2 of the staff report. We believe that this range reflects the quality of the public investment management and also the public financial management in these countries. But we also have to bear in mind that the estimate of the ICOR has its own weaknesses. That is why we wrote the selected issues paper on the efficiency of capital in the WAEMU, which uses more robust data to look at the issue, and it still shows that the WAEMU's efficiency of capital is lower than that in sub-Saharan Africa. That means there is still further work to be done to improve the efficiency of public finance management, of public investment. A number of these countries are receiving TA. Three countries have received TA on the Public Investment Management Assessment (PIMA), and there was a question also on whether other countries in the region can benefit. Obviously, the other countries can also benefit from these PIMA assessments.

On the interest rate margin, they are relatively high also in real terms, but they are not as high as when we look at other regions in sub-Saharan Africa. That is a testament to two things. One is that work needs to continue to reinforce the financial sector, and the work that has been done with the adoption of the Basel II-III framework, the adoption of the consolidated accounting, and work that is being done to disseminate more information would help to increase, the supply of credit over time. At the same time, when one compares to other regions, it does show that a lot of work has been done in the region. The authorities need to be given credit for the areas that are not overly high. We agree that work has to continue in terms of reinforcing the financial system and also deepening the secondary market so that the supply of credit can keep pace with the demand given the high growth in the region.

Mr. Sembene made the following concluding statement:

Before reading my prepared remarks, I want to follow up on what the staff has just said about following up on the call to better address security-related spending; and we take good note of their intent to engage in outreach with the authorities on the margins of the Spring Meetings and to follow-up on Mr. de Villeroché's call for joint work with FAD to look at this spending and have comparable data. We cannot afford to wait for that work to be completed before addressing it. There is a sense of urgency from the authorities. Before the staff or management come back with the Management Implementation Plan and the IEO evaluation for engagement in fragile states and also the joint work, we need to do something.

One good way to start is to make sure that we demonstrate flexibility in program design in all eight member countries that are in program. That is one way to address these issues and to make sure that we support the authorities' efforts to advance reforms and sustain the reform momentum and accommodate the security need without undermining macroeconomic stability. That is a huge challenge, and they look forward to the Fund's support to be able to address it in an effective manner. Those outreach activities that are planned in the context of the Spring Meetings should be an opportunity to continue the discussion with the authorities, not only at the national level, but also at the regional level. This should rank high among those issues that would be discussed between management and the staff and the WAEMU authorities. This would be the best way to start demonstrating the Fund's interest of and readiness to help them address these issues as soon as possible.

I thank Directors for their helpful advice and specific recommendation, which I will convey to the authorities in a faithful manner. I also thank the staff and management for the continued dialogue with the WAEMU members and institutions and for the support they have provided to both domestic and regional institutions. I thank Mr. Ghura and his team for their consultation and their constructive policy advice to the WAEMU authorities.

There is a broad agreement between the authorities and the staff on the analysis of risk to the outlook and developments in WAEMU in the last two years. The agreed policies include the need for growth-friendly fiscal consolidation to preserve fiscal and debt sustainability and rebuild buffers; the need to safeguard financial stability while promoting interbank transaction and financial inclusion; and the importance of stepping up reforms on the structural reform front to enhance competitiveness and economic diversification.

The authorities agree with the staff on the importance of improving the quality, coverage, and timeliness of economic data, and notably on public finance and the external sector to better inform policymaking. The Fund's TA from the Statistics Department (STA) would be valued. There was an effort made by Senegal's authorities to adhere to the SDDS, which was supported by STA, and the authorities look forward to continuing this type of relationship with the Fund.

To achieve the policy objectives, the authorities are cognizant of the importance of all policymakers, both at the country and union level, to play their role consistent with their respective prerogative and mandate and in a coordinated manner. I associate myself with what the staff has said regarding the need for union-level institutions to support the individual countries' actions taken to address the difficulties in the banking sector.

We have approved the new policy on program design, but it is well understood that so long as the individual country programs are addressing those challenges in areas that are delegated to union institutions in a satisfactory manner, there will not be any need to request policy assurances. In the case of WAEMU, that is the case. It does not mean that the authorities will not do their part to closely monitor the banks that are facing difficulties and take necessary action in a prompt manner.

As recognized by many Directors, the outlook for the WAEMU economy is positive. This is underpinned by a stable exchange rate regime, which continues to serve this economy well. On the fiscal front, WAEMU authorities understand the importance of sound public finance management for the external stability of the union. All WAEMU countries but one have committed to meeting the convergence criterion of 3 percent GDP for the fiscal deficit by 2019. The remaining country is expected to meet this requirement in 2021.

The WAEMU Commission has also prepared a technical note on ways to improve tax revenue mobilization in member countries; and this document will be shared with the staff before its review and adoption by the WAEMU Ministerial Council scheduled in the coming month. I will add that the need for the Fund to support the effort to mobilize further domestic revenues was a prominent message that we received last week from the WAEMU Finance Minister. This is an important policy objective of the authorities that the Fund has so far supported, and they look forward to continuing that work in an expeditious manner with a view to mobilizing enough revenues to achieve their fiscal deficit objective.

In any case, WAEMU authorities greatly appreciate the insight of the staff's empirical assessment of public investment efficiency in WAEMU presented in the selected issues paper, and they note the weight carried out by the quality of institutions in promoting efficiency. They take good note of that weight, the importance of making sure that WAEMU-level institutions play their role in achieving this objective of increasing efficiency of public investment.

In the financial sector, I indicated what the BCEAO will have to say about the staff report in this area. I would add that stress tests have confirmed that the banking system is resilient to different shocks. However, high credit concentration in NPLs remains an important risk facing the sector. The policy advice offered by staff to address macrofinancial risks is well taken, and current efforts by BCEAO and individual countries to induce banks to meet their prudential obligation will contribute to tackling these vulnerabilities, while the establishment of credit bureau in the union will help banks better appreciate credit risk.

One additional issue that was also discussed between the WAEMU Finance Ministers and the head of the African Department was for the Fund to better support the effort that the authorities have taken to reduce the cost of credit. They believe that there is scope for the institution to do a better job in that regard, and continuous emphasis on this issue in the future regional consultation would be welcome, and also in individual country programs.

I thank Directors for their helpful recommendation, and the staff for the work in the run-up to this Board meeting.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the region's continued strong economic growth resilience and low inflation. Directors stressed that vulnerabilities had persisted in 2017 with increased fiscal and external account deficits, although risks to debt sustainability remain moderate for seven-member countries and low for one member, based on existing DSAs. Although international reserves had rebounded somewhat, this mainly reflects sizable Eurobond issuances. They took note that the exchange rate remains broadly in line with fundamentals.

Directors underscored that the medium-term outlook remains positive but is subject to downside risks, and regional security issues remain a concern. Sustaining the growth momentum and preserving external stability require continued macroeconomic stability and accelerated structural reforms.

Directors underscored the need for determined, growth-friendly fiscal consolidation to meet the WAEMU convergence criterion of 3 percent of GDP by 2019. Adjustment efforts should focus on reforms to enhance revenue mobilization and contain current expenditure while protecting priority capital and social spending. Directors emphasized the need to raise the efficiency of public investment, capture fiscal risks, and strengthen debt coverage and management.

Directors supported maintaining the current monetary policy stance. They called on the BCEAO to remain vigilant and stand ready to further tighten monetary policy if pressures persist on the money market or foreign exchange reserves. Directors encouraged the authorities to take steps to further reduce the banking system's dependence on refinancing, improve liquidity management, energize the interbank market, deepen financial markets and strengthen monetary policy transmission.

Directors commended the authorities for the important steps undertaken to modernize the financial sector, including the launch of an upgraded prudential regime in line with Basle II/III. They highlighted the importance of operationalizing the financial safety net and using upgraded bank supervision and resolution tools to address vulnerabilities in the banking system.

APPROVAL: April 17, 2020

JIANHAI LIN
Secretary

Annex

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

Outlook and Risks

1. ***We have some concerns about the feasibility of the staff's medium-term scenario. This scenario incorporates governments' planned fiscal consolidation under the IMF arrangements with WAEMU countries. This implies, for some of the countries, a reduction of the overall fiscal deficit by more than 5 percentage points of GDP over 3 years. Furthermore, this adjustment is assumed to take place at a time when security-related expenditures in the region are rising. We also note that, despite the consolidation, no significant deceleration of growth is expected for this period. The staff's comments on the feasibility of the baseline scenario and on the fiscal multipliers used would be appreciated.***

- The limited growth deceleration from the fiscal adjustment reflects increased private investment and productivity, resulting from past investments and structural reforms (e.g., infrastructure spending in the region, adoption of yield-improving varieties).

2. ***Could staff provide some information on the macroeconomic outlook if monetary policy is tighter and fiscal policy is looser than envisaged?***

- Such a policy combination would raise the cost of credit, and the short-term growth and current account impact would depend on the magnitude of the policy mix. The higher fiscal deficit would likely be financed by arrears and higher recourse to external financing, which would send a negative signal to the private sector and raise debt.

Fiscal Policy and Debt Sustainability

3. ***We also note that the regional authorities consider Fund engagement with union members as pivotal to achieving the WAEMU deficit target by 2019. A well-functioning regional policy coordination mechanism is crucial for the union's macroeconomic stability and cohesion. In that context we remain concerned by the limitations of the current framework. Could staff comment on the prospects of further improving the WAEMU policy coordination mechanism?***

4. ***We wonder whether staff discussed with the authorities how to improve the enforceability and effectiveness of the fiscal convergence criteria.***

- The institutional set up of the convergence criteria was revamped in 2014, with increased involvement of the WAEMU Commission (e.g. through missions to each WAEMU country to discuss non-compliance with convergence criteria). The role of Fund programs in abiding by the convergence criteria is acknowledged by the regional authorities.

- The WAEMU Commission plans to assess the effectiveness of the system later this year and draw lessons from its review. The mission encouraged the WAEMU Commission to increase dissemination of the Union countries' convergence criteria efforts and bring its views of fiscal risks to the attention of the next meeting of the WAEMU Head of States.

5. ***It is worrying to learn in the staff report that several key WAEMU convergence criteria remain unobserved, and current projections suggest that breaches will persist for secondary criteria in most countries over the medium term. Could staff comment on the reasons for this.***

6. ***It is important to achieve the WAEMU convergence criterion of 3 percent of GDP by 2019 while addressing infrastructure gaps and maintaining social spending. Current projections suggest that breaches will persist for second-order criteria in most countries over the medium term. The staff's comments on main obstacle of this breach, recommended policy measures to address it, and national authorities' response for that are welcome.***

- The staff projects almost full compliance with the first-order criteria by 2019. The projected non-compliance of the second-order criteria by several countries mainly stems from the difficulties of increasing tax revenues. The main challenge relates to low administrative capacity and large informal sectors. Technical assistance programs, with extensive Fund involvement, are ongoing in all WAEMU countries to improve tax policy and revenue administration to help address these issues. The measures are having positive outcomes, with a gradual and steady increases in revenues, even though progress has been uneven across countries.

7. ***Fiscal deficit target and the convergence criteria should be observed to contain medium-term fiscal risks. But we note that the regional authorities pointed to the significant implementation risks of the member countries' fiscal adjustment plans. Could staff provide some more detailed background to the authorities' concern about implementation risks?***

8. ***While the regional authorities concur with staff's advice and intend to remind member governments of the need to effectively implement fiscal adjustment plans in line with regional convergence criteria, the regional authorities indicated that***

implementing these plans pose significant implementation risks. Could staff provide more explanation on these implementation risks?

- The WAEMU Commission did a convergence outlook analysis by comparing a baseline scenario with trend-based scenarios. The baseline scenario is based on medium-term convergence programs of the member states; while the trend-based scenarios rely on moving averages of fiscal pressures and historical discrepancy data. Their results indicate risks to revenue mobilization. The Commission also highlighted the increasing security concerns with risks of pressures on spending.

9. ***We would therefore like staff to provide a more detailed account on how in the current circumstances government spending is going to simultaneously meet the fiscal convergence-criteria, cover essential social and infrastructure spending and sustain growth?***

- With a view to creating space for essential infrastructure and social spending, the fiscal consolidation should mainly rely on boosting revenue mobilization and curbing non-priority expenditures. Tax policy measures could include hiking rates on excises, VAT on exempted products and real property tax, and reducing the scope for tax exemptions. Spending measures would mainly focus on current expenditure and could include reducing wage bills toward the 35 percent of revenue convergence criterion and better targeting subsidies and social assistance to protect the most vulnerable.

10. ***What role can regional authorities play in supporting staff recommendations on fiscal/debt transparency and sustainability?***

- The regional authorities are already playing an important role in improving fiscal/debt transparency and sustainability. Debt sustainability will be helped by countries reaching the deficit convergence criterion in 2019. Further, WAEMU Commission is leading work on fiscal issues in the region. The main conduit for this work has been the adoption of PFM-related *directives* that have been transposed into national laws and that are now being implemented. The WAEMU Commission is also preparing a Directive on PPPs.

11. ***We also note that staff recommends future Eurobond issuances in EUR in order to limit exchange rate risks. In this context, we would welcome if staff could provide further details on why the authorities have chosen to issue in USD.***

12. ***We note that Côte d'Ivoire, Senegal and the BOAD issued Eurobonds which supported the increase of external reserves last year. Could staff indicate if other WAEMU countries plan to issue such debt instruments in the coming months?***

How does staff perceive the existing trade-offs between regional and international issuances?

13. ***Are Côte d'Ivoire, Senegal, and BOAD investing the proceeds in ways that will raise growth and exports so that the rise in reserves will not be reversed as these bonds are repaid? We also took note of staff's call to potentially adjust the domestic/external financing mix. Could staff discuss the pros and cons of increasing reliance on external debt, including Eurobond issuance?***

14. ***While the issuance of Eurobond increases external reserves and reduces banks' exposure to sovereign debt, it makes the country vulnerable to external market conditions and increases external debt burden. In this light, we would like to hear staff's overall assessment of the Eurobond issuance taking into account the pros and cons.***

- Côte d'Ivoire, Senegal and the BOAD chose to issue Eurobonds in U.S. dollars because of the much higher depth and liquidity of this segment of the Eurobond market. The Euro segment of this market has also recently gained in depth for frontier markets. The recently-issued Eurobonds by Côte d'Ivoire and Senegal are mainly denominated in Euros to which the CFA franc is pegged, which would lower foreign exchange risk. Eurobonds are of longer maturities than that available on the regional financial market. Dollar-denominated Eurobonds are subject to exchange rate risks. Also, Eurobonds carry greater roll-over risk than domestically issued securities, but such risk can be managed through buy-back operations such as the ones carried out by Cote d'Ivoire in 2017 and Senegal in 2018. Other sovereigns expect to raise funds from the regional debt market.

15. ***Could staff inform the share of total contingent liabilities owed by the SOEs?***

- At the Fund, analysis of fiscal risks and data coverage of both contingent liabilities in general and SOEs in particular, is still limited. Even though staff consequently does not have an estimate of total contingent liabilities, it is clear that SOEs are one of the main sources of fiscal risks. Work at the country level on both contingent liabilities and SOE-related fiscal risks is picking up, as can be seen for example from the discussion of these issues in recent staff reports and the inclusion of related structural benchmarks in WAEMU program countries.

16. ***We commend the informative SIP on the sources of fiscal risks in WAEMU countries. We share the priority it assigns to the ongoing reform program related to fiscal transparency and fiscal risk management. It provides very useful diagnosis and suggestions, especially at the country level. In light of the "Common Policies" nature of the report, we would recommend a stronger focus on what could be done***

at the union level. In this regard, we note for example that financial system contingent liabilities, assessed to be potentially large, were excluded from the analysis as they "should be dealt with at WAEMU regional level." As such, should they not be discussed in a report on the Union's common policies? The staff's comments would be appreciated.

- The staff acknowledges that the analysis in the fiscal risk SIP is not exhaustive, with only a couple of fiscal risk categories treated in depth. At this stage, the paper chose to focus more on risks that are in nature more relevant at the country level. Further work could usefully analyze other types of fiscal risks more in-depth, including the financial system contingent liabilities as suggested, which have indeed more repercussions for policies at the regional level.

17. ***The staff recommends that national fiscal policies should deliver the necessary deficit reductions and that BCEAO should tighten monetary policy in the event external pressures persist. While supporting the former, we are skeptical about the efficacy of the latter since monetary policy is already tight and does not seem to have further significant impact. The staff's comments on the benefits of further tightening are welcome.***

18. ***Can staff elaborate on its discussion with the authorities on the trade-offs involved in monetary tightening or loosening? Do staff see the need for further tightening if 2018 fiscal plans go off track?***

- Fiscal consolidation is the key to ensuring stability of the WAEMU monetary union. In case of further delays in fiscal consolidation or other factors putting pressures on the FX reserves or money market (such as regional or external shocks), BCEAO should stand ready to tighten monetary policy. The experience of 2017 confirmed that the monetary policy tightening could be effective in warding off pressures on the FX reserves even amid relatively slow fiscal policy or external shocks. However, staff and authorities concurred that excessive monetary policy tightening can have negative effects on the banking system and credit to the economy.

19. ***We take note of staff recommendation to improve monetary policy transmission and support the development of the interbank market, including, among other things, applying different discounts to government securities pledged as collateral for central bank refinancing. We note, and indeed sympathize with the BCEAO on its reservations, including on the ground of uniformity of treatment. Could staff clarify if such differentiation has been applied in other monetary unions?***

20. ***We welcome efforts to develop the interbank and community debt securities markets to facilitate transmission of the monetary policy impulse. On the***

application of different discount rates to government securities, as proposed by staff, we would like to have an appreciation of the lessons from other monetary unions.

- In the euro area, the ECB applies haircuts to different categories of eligible collateral since 2010. Sovereign debt securities get a differentiated haircut along their credit ratings by external agencies. In the CEMAC monetary union, the BEAC has just announced a revision to its collateral haircut framework, which includes a differentiation along country risks and residual maturities.

21. ***The BCEAO has reservations about staff's advice for it to consider employing different discount rates to government securities pledged as collateral for central bank refinancing, since such would be inconsistent with the central bank's equal treatment principle on sovereign risk weights and would exercise unwarranted direct influence on the credit risk taken by banks that acquire sovereign securities. The staff's comments are welcome in explaining the difference in views?***

- The staff views prudential ratios as meant to influence the risk content of bank balance sheets, in the process of extending loans and mobilizing adequate resources to fund them. Separately, the collateral framework of a central bank is meant to enable the injection of liquidity under transparent and safe rules to preserve financial stability while protecting the central bank balance sheet. By differentiating sovereign collaterals along criteria of sovereign risk and residual maturity, the BCEAO would entice banks to diversify their bond holdings, which would in turn stimulate secondary trading and market liquidity and make it easier for banks to deleverage. In addition, a more accurate pricing of sovereign risk would emerge in the debt market and would help sovereigns manage their borrowing and debt sustainably.

22. ***We concur with staff that developing the interbank and the debt securities markets is important to improve monetary policy transmission. In this regard, we note that staff points out that the interbank market would be stimulated by the availability of more information on counterparty risks. We welcome staff comment on the concrete measures to improve information of counterparty risks.***

- Under the Basel 2/3 prudential regime, banks are expected to publish data on the structure of their balance sheet and their profit & loss statement. The bank supervisor (CB in the WAEMU) can ensure that they effectively communicate to the market data required to assess counterparty risks. More broadly, the CB could communicate its overall assessment of the banking sector on a more frequent basis. Currently, the CB publishes its annual report on Year N at mid-Year N+1, which is a considerable lag for credit risk assessments. The CB has competent staff and could consider publishing a quarterly bulletin that would provide updates, without waiting for the full-fledged annual report. That should be enabled by the new reporting formats that the supervisor has requested banks to use.

23. ***Can staff shed some light on the BCEAO's capacity to forecast and manage liquidity, and on the plans for Fund's TA in this area, if needed?***

- Following a strengthening of its monetary toolkit, the BCEAO has been forecasting liquidity demand and has adequate tools to manage it. It can influence banking sector liquidity with the reserve ratio and provides liquidity to individual banks through competitive weekly auctions. Some banks carrying sovereign debt portfolios through short-term leverage have been in strong demand for BCEAO refinancing. Hence, for the past few months, the auction rate has been at its ceiling and the interbank rate significantly above that. MCM has already provided TA to the BCEAO.

External Sector and Exchange Rate

24. ***We recognize that the foreign exchange system has served well the region, but it is somewhat difficult to reconcile persistent external deficits and low international reserves with the external sector assessment (ESA) results, which considers the exchange rate broadly aligned. The staff's comments are welcome.***

25. ***The staff's external analysis concludes that WAEMU's external position is broadly consistent with fundamentals and desirable policies. How robust is this conclusion considering that the decline in reserves was stemmed primarily by the "exceptional" Eurobond issuance and that there is a sizeable current account deficit, which is only partially financed by FDI? Can staff elaborate on how the policy gap and its components are linked to this result?***

- The staff's analysis confirmed that the WAEMU external position is broadly sustainable and could be covered by the available financing from the official and market sources. Inter alia, this analysis takes into account that the WAEMU's largest economies can raise financing from international capital markets, including through Eurobonds. The robustness of the conclusion is assessed using three different approaches. Consistent with the estimated current account gap and real effective exchange rate gap, the contributions of the policy gap and its components have been marginal.

26. ***We note that a potential strengthening of both the U.S. dollar and the euro vis-à-vis other currencies is mentioned as a risk source, but the potential impact assessment, as shown in the RAM, is only based on a stronger U.S. dollar. While the EBA-lite exercise assesses the WAEMU's real exchange rate to be broadly in line with***

fundamentals, we see also risks stemming from a possible further appreciation of the euro (to which the CFAF is pegged). The staff's comments are welcome.

- With a further appreciation of the euro, ceteris paribus, the real effective exchange rate would appreciate and could adversely affect external competitiveness.

27. ***We note that annex III gives us a good assessment on external reserve adequacy, but we would appreciate further comments by staff on how the cost of carrying reserves is shared among the union members.***

28. ***The staff estimates that an adequate level range is between 5 and 7 months of prospective extra-regional imports of goods and services. The calculations take into consideration the interest rate that the yield of two Eurobond issuances by Côte d'Ivoire and Senegal. Are those resources being kept at the central bank as deposits in CFS and, if that is the case, are the fiscal authorities maybe planning to use them to inject liquidity to the financial system and reduce the structural liquidity deficit?***

- The cost of carrying reserves can be analyzed as the opportunity cost to an economy of devoting investible resources into holdings of liquid financial assets. Under such an approach, the cost of reserves would be the highest in countries where the productivity of capital is the highest. The proceeds of Eurobond issuances by Côte d'Ivoire and Senegal were used to finance their public expenditure, including to address their infrastructure gap. These proceeds were thus first deposited at the central bank against domestic currency, to become part of the BCEAO's pooled foreign exchange reserves. The latter are available to all WAEMU residents holding domestic currency to meet their foreign exchange needs related to bona fide current account and authorized capital transactions. Eurobond yields were used in the assessment of external reserve adequacy only as proxies of the opportunity cost of such reserves, consistent with the Fund's ARA methodology.

29. ***We note that it is expected that capital inflows, FDI and portfolio investment should finance the current account deficit and preserve international reserves. How do staff assess WAEMU member countries' ability to attract capital inflows? Does it rely on measures to improve the investment climate?***

- WAEMU member countries' ability to attract capital inflows depends on global or push factors and domestic or pull factors. Domestic factors include, among others, structural measures to improve the investment climate, including in the context of the ongoing G20 Compact with Africa initiative to promote private investment in Africa.

Financial Sector

30. ***Progress with the resolution of non-viable banks has been limited, the NPLs ratio remains elevated and high concentration adds further to the risks and the authorities will need to expedite their efforts to address these issues. We would welcome staff's more detailed comments on the authorities' plans to that end.***

31. ***Though the banking system is adequately capitalized and profitable, we note that the authorities' have asked undercapitalized banks to rebalance their assets by deleveraging and raising additional capital by mid-2018. Could staff comment on the timeline for raising capital as advised by the authorities?***

- In late 2017, the regional Council of Ministers endowed the Banking Commission (BC) with an independent resolution mandate. This should allow the BC to address ailing banks more effectively. The BCEAO and the BC have requested about 20 banks to increase their capital and liquidity buffers, including the non-distribution of dividends. Some of the banks need to deleverage by reducing their sovereign debt securities portfolios. To contain bank leverage and risk concentration, the BCEAO has tightened the terms of its refinancing facilities. That has effectively translated in reduced bank demand at sovereign debt auctions.

32. ***We note that BCEAO adopted Basel II/III in January 2018 with implementation anticipated to span a period of five years. However, we are curious to know whether banks will be able to meet target of 8.5 percent of risk-weighted assets at end-2018.***

- Most banks can meet the phased-in capital adequacy ratios (CAR) under Basel 2, specifically 8.5 percent of risk-weighted-assets at end-2018. The average CAR for the banking system was 11.4 percent at mid-2017 under Basel 1, and risk weights under the Basel 2 standard approach should not be too much higher given simple credit business models. Some of the smaller banks will probably have to increase their capital, in part through a full retention of earnings.

33. ***We would appreciate staff's comments regarding steps being taken to address the weakening of the quality and funding structure of assets.***

- The Banking Commission (CB) and the BCEAO are monitoring the overall quality of assets at each bank (with a risk-sensitive and consolidated supervisory approach). Some NPLs relate to payment arrears emanating from national public sectors, which are beyond the reach of regional authorities. The BCEAO and CB are taking steps to bring banks to reduce their risk concentration on their national sovereign and/or on specific sectors.

34. ***Can staff provide an assessment on how the forthcoming resolutions of the national systemically important banks may affect the implementation of the regional action plan for financial inclusion?***

- Likely candidates of systemically important banks are broadly stable and sound, with no need for restructuring. Public banks in WAEMU typically have wide networks in rural areas, and these banks' good financial health is important for promoting financial inclusion.

35. ***While the implementation of the 2015 AML/CFT law should be accelerated, we wonder whether staff see this as sufficient to address AML/CFT risks.***

- For the AML/CFT regime to be fully efficient, many actors from the national and regional public and private realms need to ensure that they effectively implement the measures for which they are responsible. In the context of the implementation of the WAEMU AML/CFT uniform law, the regional banking sector supervisor is in charge of ensuring that AML/CFT requirements are effectively implemented by financial institutions and that corrective measures are taken in case of deficiencies. These efforts should in turn be coupled with effective implementation of the national AML/CFT regimes, namely through AML/CFT supervision of other sectors and strengthening of the financial intelligence units, law enforcement agencies and the judiciary.

36. ***Regarding staff's recommendation on microfinance regulation and supervision, what is the specific role of regional authorities and in which countries are the risks highest from gaps in supervision?***

- The WAEMU includes a large web of microfinance institutions that collect deposits and extend loans, with the latter estimated by the BCEAO at about 7 percent of deposits collected by the banking sector. Those institutions have been overseen by national authorities and have not been brought yet under an effective regional supervisory regime.
- The microfinance sector has faced high operating costs and slim capital buffers.

37. ***We would be interested to learn from staff updates about the withdrawal of correspondent banking relationships and whether it has continued to impede access to financial services in the WAEMU?***

- Based on discussions with authorities and other market players, withdrawal of correspondent banking relationships was not cited as an issue impeding access to financial services.

Structural reforms

38. ***We note the authorities' ongoing efforts to improve the business climate and reduce the infrastructure gap through 'regional structural funds.' Could staff provide some information on the magnitude and availability of such funds?***

- The regional structural funds include the Regional Integration Aid Fund (RIAF) and the Regional Agriculture Development Fund (RADF). The cumulative annual budgets during 2014-16 have been CFAF 143 billion and CFAF 45 billion, respectively.

39. ***We encourage the authorities to push ahead with efforts to expand financial inclusion and enhance the business climate to promote sustainable and inclusive growth. However, we note that staff are calling for economic diversification without providing specific advice in this regard. Recognizing that such advice would need to be country-specific, can staff comment on whether WAEMU members are receiving well-tailored advice on economic diversification at the national level (and if so, by which institutions)?***

- WAEMU member countries are receiving advice on economic diversification from various institutions including the IMF, the World Bank, the United Nation Commission for Africa, and the recent G20 Compact with Africa Initiative. For instance, tailored advice at the national level was covered in the recent Regional Economic Outlook for Sub-Saharan Africa using country experiences. Case studies have also been done at the Fund using the diversification toolkit developed by Fund staff.

40. ***We note positively that three WAEMU countries (Burkina Faso, Côte d'Ivoire, Togo) have benefited from a Public Investment Management Assessment (PIMA). We would be grateful to staff to indicate what were the concrete measures taken by the authorities after these PIMA? Could staff also indicate which WAEMU countries could benefit from a PIMA in the coming months?***

- Côte d'Ivoire, Burkina Faso and Togo have taken concrete measures based on recommendations from PIMA missions. For instance, Côte d'Ivoire strengthened the transparency and financial management of PPP projects, developed a consolidated PPP database, and a Public Expenditure Assessment and Audit Unit was put in place to improve the monitoring and control of investment expenditure. In Burkina Faso, the Ministry of Finance has created a list of priority investment projects, and a specialized PPP unit was established to conduct evaluations of financial and fiscal fiscal risks from PPPs. The authorities plan to establish a database on PPP projects. In Togo, the PIMA report has been a useful guide for the authorities in regularizing and strengthening their PFM practices.

41. ***With regard to private investment, the selected issues suggest the private investment-to-GDP ratio has been lower in WAEMU countries than in LIDCs in recent years. Could staff indicate if this difference is significant and if private investment in WAEMU countries encounter specific impediments in comparisons to peers? If so, what are these impediments?***

- The difference in private investment level between LIDCs and WAEMU is statistically significant. WAEMU countries encounter some structural impediments in the ease of doing business (particularly in areas such as enforcing contracts, paying taxes, getting credit, or getting electricity). Other structural weaknesses include the logistics performance and the governance indicators.

Data Issues

42. ***We would welcome some additional information on the Open Data Platform developed by the African Development Bank in collaboration with the Fund in late 2017. Could it be used in the context of the Fund's Global Data Commons initiative? The staff's comments are welcome.***

- The African Information Highway (http://dataportal.opendataforafrica.org/) is a network of live open data platforms (ODPs) electronically linking all African countries and 16 regional organizations. Its objective is to increase public access to official and other statistics across Africa, while at the same time supporting African countries to improve data quality, management, and dissemination. It was developed in cooperation with the World Bank, the Fund and other partners including from the UN. The AIH data for National Accounts data, Balance of Payment data, and monetary statistics for its members are hosted on a Cloud-based data repository that is the technical framework underpinning the e-GDDS standard. The project of Global Data Commons offers some analogies with the AIH: the idea is to pull together all national and regional NSDPs to assemble a global, cloud-based, repository for all IMF member countries' official data. This will help countries achieving global data dissemination by simply updating one national porta, thus reducing costs and improving data quality (through adherence to IMF data standards rules).