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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 19/18-2

11:40 a.m., March 18, 2019

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

Documents: SM/19/44 and Correction 1; and Supplement 1; SM/19/45

Staff: Allard, AFR; Wiegand, SPR

Length: 40 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
	O. Odonye (AE), Temporary
M. Raghani (AF)	
	C. Moreno (AG), Temporary
N. Ray (AP)	
	K. Florestal (BR), Temporary
	Z. Huang (CC), Temporary
	J. Montero (CE), Temporary
	A. McKiernan (CO)
	C. Just (EC)
	A. Castets (FF)
	K. Merk (GR)
	M. Siriwardana (IN)
D. Fanizza (IT)	
Saito (JA)	
	K. Badsi (MD), Temporary
	P. Al-Riffai (MI), Temporary
	R. Doornbosch (NE)
	M. Bernatavicius (NO), Temporary
	P. Snisorenko (RU), Temporary
	W. Al Hafedh (SA), Temporary
	K.Tan (ST)
	P. Trabinski (SZ)
S. Riach (UK)	
	P. Pollard (US), Temporary

G. Bauche, Acting Secretary
H. Malothra, Summing Up Officer
J. Acheson, Board Operations Officer
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
European Central Bank: K. Nikolaou. Alternate Executive Director: D. Ronicle (UK), P. Sun (CC), F. Sylla (AF). Senior Advisors to Executive Directors: H. Etkes (NE), R. N'Sonde (AF). Advisors to Executive Directors: M. Kikiolo (AP), P. Mooney (CO), A. Zaborovskiy (EC).

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

Mr. Raghani, Mr. Razafindramanana and Mr. N'Sonde submitted the following statement:

On behalf of our WAEMU authorities, we thank staff for the candid and productive discussions held in Ouagadougou, Abidjan, Dakar and Cotonou in the context of the 2019 regional consultations on common policies. We appreciate the quality dialogue to help the authorities address vulnerabilities, build policy buffers, and sustain the region's growth momentum. We also thank Management and the Executive Board for their continued support to WAEMU member countries in their efforts to implement their Fund-supported programs.

The WAEMU authorities share the view that the staff report adequately reflects their discussions on economic developments, outlook and risks, and policy priorities. There is a broad agreement on the policies and reforms needed at the regional and national levels albeit nuances on the scope and significance of some measures.

RECENT ECONOMIC DEVELOPMENTS, PROSPECTS AND RISKS

Amid adverse terms of trade shocks and security challenges in some member countries, WAEMU remains one of the fastest growing regions worldwide, with growth rate again exceeding 6 percent in 2018, owing mainly to robust domestic demand. Inflation remains low thanks to strong agricultural supply, the exchange rate anchor and prudent monetary policy. On the fiscal front, countries have pursued their consolidation efforts which have helped maintain fiscal deficits on the path to meeting the convergence criterion of 3 percent of GDP by next year.

External buffers continue to strengthen as a result of the fiscal adjustment, improved enforcement of export proceed repatriation requirements, and significant Eurobond issuances by Côte d'Ivoire and Senegal in 2018. Specifically, the authorities estimate external reserves to have increased to 4.8 months of imports of goods and services at end-2018 against the staff's estimate of 4.3 months of import coverage. The disparity lies on differences in measuring imports of goods and services for this indicator. The authorities have agreed on working with staff to reconcile their methodological approaches. To further safeguard external reserves, BCEAO is undertaking a profound reform of foreign exchange regulations. Regarding the financial sector, Eurobond issuances have contributed to releasing liquidity pressures.

The authorities note that albeit these positive developments, vulnerabilities persist. Public debt ratios have risen significantly in recent years on the back of sizeable investment programs—which are bearing fruits—as well as quasi-fiscal operations of SOEs and realization of contingent liabilities. The authorities caution on the need to better reflect on country-specific circumstances behind the latter. The regional authorities also expressed concerns over external vulnerabilities stemming from volatile terms of trade, notably the movements of export commodity and oil prices, which may put pressure on external buffers.

Regarding the financial system, significant reforms were carried out in the banking regulatory framework in 2018, including the transition to the Basel II/III prudential norms and new bank accounting rules more in line with international standards. Under Basel II/III requirements, credit continued to increase in 2018 while banks strengthened their capital base significantly notably through more comfortable ratios of capital to risk-weighted assets. The Banking Commission will continue to closely monitor non-compliant banks, notably the relatively large ones. The Commission has strengthened banking supervision with the risk-sensitive consolidated approach applicable to groups and made further steps to operationalize its new resolution framework.

Moreover, the regional central bank BCEAO has conducted more sophisticated stress tests which reveal that the banking sector remains broadly resilient. Nevertheless, the concentration, credit and liquidity risks to which the region's banking sector is subject to remains sources of concerns, with the latter risk weighing on banks' recourse to the central bank refinancing. However, it is worth noting, that banks have already started to reduce their non-performing loans in 2018 under the tighter Basel II/III requirements.

Looking forward, the region's prospects remain positive, with medium-term growth projected to stay above 6 percent, external current account imbalances as percentage of GDP narrowing over the next few years, and external buffers further strengthening with international reserves gradually moving closer to the 5-months of import coverage. The regional authorities concur that this favorable outlook is predicated on smooth implementation of member countries' fiscal consolidation plans and structural reforms to ensure fiscal and debt sustainability, enhance competitiveness and foster private sector-led growth. The authorities are conscious of the importance of policymakers to remain steadfast in implementing their policy and reform agendas as downside risks are significant. Among these risks, they underscore fiscal slippages and delays in structural reforms but also the significant exogenous risks stemming from persistent security challenges, spillovers from global trade tensions, and more generally considerably slower global growth.

Policy and Reform Priorities Going Forward

Our WAEMU authorities share the priorities to durably preserve the region's growth impetus while safeguarding external and financial stability through continued fiscal consolidation, more effective monetary policy transmission, enhanced banking supervision and more developed financial markets to sustain the private sector development as main engine of growth and job creation. They continue to view the fixed exchange rate peg and regime as an essential anchor to external stability. They share the view that strengthening regional institutions to allow them to meet their mandate will be critical to achieving these objectives.

Pursuing Fiscal Consolidation

The regional authorities of WAEMU consider the national governments meeting the fiscal deficit target of 3 percent of GDP by 2019 as critical to achieving medium-term macroeconomic objectives, including preserving reserve buffers. Both the WEAMU Commission and BCEAO stress the importance of enhancing domestic revenue mobilization where there is considerable room for improvement notably on tax revenue. Fund's increased assistance to countries in this regard is critical. They also underscore the need to pay attention to preventing excessive capital spending cuts out of concern for growth. They have highlighted the need to allow space for spending related to security—which heavily weighs on some countries' growth prospects—in a way that is consistent with their respective fiscal consolidation schedules. In the same vein, they view strengthening fiscal planning as essential to meet unforeseen spending needs.

Albeit some differences with staff's estimations, the authorities also recognize the need to tackle below-the-line operations where they exist, notably through the implementation of WAEMU directives on public finance management which implies extending the budget coverage to the general government. On the debt ceiling criterion, the authorities remain to be convinced to lower the threshold from the current 70-percent to 60-percent of GDP. However, the WAEMU Commission concedes that this issue can be addressed in the context of the upcoming review of the regional surveillance framework while recognizing the need for fuller use of debt sustainability analyses to strengthen the assessments of countries' debt sustainability. The Commission stands ready to improve the effectiveness of its surveillance functions through the harmonization of national tax data and enhancing of tax coordination.

Further Strengthening Monetary Policy Transmission and Effectiveness

The regional central bank BCEAO will maintain a firm monetary policy stance as external buffers gradually improve over the medium-term but stand ready to use appropriate policy instruments to tighten its policy if reserves came under pressure. The Central Bank continues to rationalize banks' refinancing at its window to keep the sector leverage under control while promoting adequate capital and stable resource ratios for banks through active banking supervision. It plans to promote the deepening of the secondary debt and interbank markets, which will help banks meet their temporary liquidity needs and further enhance monetary policy transmission.

Fostering Financial Stability and Development

The Banking Commission (the regional banking supervisory authority) strives to enforce the new prudential regime aligned to Basel II/III especially as it relates to asset quality and capital base with the view to strengthening banks' resilience. The Banking Commission monitors ailing banks closely and intends to pursue their resolution, including where needed through withdrawal of license or restructuring. Recapitalization of public banks is also being contemplated although additional shareholder resources are seldom available. They would welcome Fund and World Bank's support in this regard. Preserving financial stability will also hinge on the banking supervisor's efforts to tackle concentration and liquidity risks, which it is committed to address through enforcing the relevant norms under Basel II/III. Regarding crisis prevention, progress is noticeable with the financial guarantee scheme and the deposit insurance scheme which was modified to allow the funding of bank resolution plans in complement to other sources of financing. Meanwhile, the 2015 AML/CFT law continues to be enforced, with banks induced to establish efficient financial information systems.

The regional authorities remain committed to further advance financial inclusion through enhanced access to basic financial services and mobile banking to remote areas as well as the strengthening and close monitoring of microfinance institutions. On a different front, relevant regional authorities, notably the financial market regulator CREPMF (Conseil Régional de l'Epargne Publique et des Marchés Financiers), BCEAO and the debt securities regulator Agence UMOA-Titres, are open to discuss the staff-proposed elimination of the security market fragmentation, with the view to further develop financial markets.

Bolstering Competitiveness and Inclusion

Cognizant of the need for the region to catch up with comparator countries on competitiveness and business climate, the authorities have initiated programs at the national and regional levels to address these impediments, promote governance and raise public investment efficiency. The WAEMU Commission coordinates a number of these initiatives. Moreover, actions undertaken by regional institutions include plans to promote access to financing for SMEs and individual entrepreneurs.

Our WAEMU authorities see merit in staff recommendations to reduce income and gender inequality, noting the significant benefits to be drawn in terms of growth of GDP per capita and economic diversification as made evident in the insightful Selected Issues paper on "Sharing the Dividends of Growth". They plan to move in those directions, building on current efforts to fund at the regional level projects in energy, transport, agriculture and infrastructure sectors. They will also intensify their efforts to address the income and gender inequalities through adequate measures to further decrease poverty in the WAEMU region. In this regard, the regional gender strategy will be forcefully implemented while further investment in education and health will help increase accessibility to, and quality of, public services and social protection.

CONCLUSION

Our WAEMU authorities remain committed to meeting their respective regional objectives and to assisting member countries in implementing their economic development, and convergence agendas. In this endeavor, they highly value Fund advice and technical assistance, and welcome any effort to further strengthen this constructive collaboration.

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

We thank staff for the informative papers and Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for their helpful buff statement. The

West African Economic and Monetary Union (WAEMU) continues growing at a fast pace, maintaining low inflation. On the positive note, and compared to the last review, fiscal deficit decreased, external reserves increased, and the banking sector incorporated supervisory and prudential measures. Nevertheless, risks are tilted to the downside mainly because public debt showed an important increase, in part explained by below-the-line budget operations. Structural reforms are advancing at a lower-than-expected pace undermining the business environment in the region. Overall, we agree we the thrust of staff's assessment, particularly with the emphasis that the positive medium-term outlook is sustained on implementing fiscal consolidation and structural reforms.

We acknowledge the efforts of the authorities in reducing the fiscal deficit, but more needs to be done to reach the 3 percent regional convergence criterion. The current 3.8 percent level could be addressed with enhanced revenue mobilization, widening the tax base and limiting exemptions, as staff points out. We are sympathetic to the authorities' concerns that some member countries face shocks due to security reasons, but buffers should be built to address these considerations. Growth-friendly fiscal consolidation is needed.

Below-the-line operations are sizable and stand out as a matter of concern. It would be interesting to know why the authorities differ on this perception stating that the size of these operations is not significant. To better assess fiscal risks, it appears that extending the coverage of fiscal accounts and implementing the directive on the transition to Government Finance Statistics Manual (GFSM) 2001 reporting standards are priorities.

Mainly because of below-the-line operations, the public debt burden has steadily risen reaching 52.5 percent at end-2018. In addition, debt servicing costs increased substantially. We would like staff to further explain how these trend changes are not affecting the bottom-line of the DSA analysis, and only result in an assessment that there is lower room for maneuver. It is not clear that this is the case given the composition change towards external debt and therefore increased exposure to global financial risks?

Private investment can be boosted as structural reforms advance. Reforms have been lagging and so has the business environment, which nevertheless has improved compared to the last review. Staff assesses a medium relative likelihood of the event that reforms are delayed, and a medium to high negative impact if it were to materialize. It not only risks inclusive growth, but also social cohesion and financial stability.

Measures have been taken to improve resilience of the financial sector, but a structural liquidity deficit persists. Measures to continue enhancing the interbank market are welcome. NPLs are still too high and measures to deleverage are slow, and better supervision and capitalization of the system is needed.

We encourage the authorities to continue their efforts in improving the quality, coverage, and timeliness of data. This input is key to produce high quality surveillance reports.

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

Mr. Ostros and Mr. Bernatavicius submitted the following statement:

We thank staff for their insightful reports and Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for their useful buff statement. The stronger economic environment provides a good opportunity to proceed with much needed fiscal consolidation and structural reforms. We urge the authorities to continue their efforts to seek greater domestic revenue mobilization, which could be translated into better development outcomes, lower poverty, and inequality. We broadly concur with the thrust of the staff's appraisal.

The region continues to grow at one of the fastest rates in Africa despite adverse shocks and persistent security threats. Notwithstanding recent success, there is an urgent need to further boost productivity growth by closing significant infrastructure gaps and improving business environment, which remains less favorable relative to comparator countries in Africa.

Shallow interbank and weak secondary bond markets prevent better monetary policy transmission. We welcome initial steps in promoting interbank transactions and secondary trading of debt securities, but further progress is needed. Absent this, and without continued fiscal consolidation, credit to the private sector would be further squeezed, preventing a switch to much needed private-sector-led growth. The central bank should stand ready to tighten its monetary policy stance in case reserves deteriorate.

We strongly support commitments by all WAEMU member states to reach the regional convergence criterion of 3 percent budget deficit in 2019 and beyond (with Niger for 2020). Nevertheless, we are concerned that in the

BUFF statement the target year to achieve the fiscal deficit of 3 percent was extended to 2020. Staff comments would be welcome. We also support staff proposals to upgrade the fiscal surveillance framework and reduce the current public debt ceiling of 70 percent of GDP to 60 percent, as non-concessional borrowing is becoming more prominent in recent years and public debts are continuing to rise rapidly.

The benefits of strong economic growth could be better shared across the population. Poverty and income inequality in the WAEMU remain higher than in African peers. The level of human capital ranks at the bottom of countries worldwide and inequities in the legal system constrain women from being economically active. There are no easy fixes to solve these complex challenges, but regional guidelines, monitoring, and peer pressure could provide an additional impetus to implement recommended policies. Better socio-economic outcomes would provide stronger popular support for even deeper structural reforms, which are difficult to implement in the current environment.

Mr. Ray and Mr. Kikiolo submitted the following statement:

We thank staff for their comprehensive set of reports and Mr. Raghani, Mr. Razafindramanana and Mr. N'Sonde for their useful buff statement. The West African Economic and Monetary Union (WAEMU) region recorded strong economic growth for the seventh consecutive year in 2018 at above 6 percent. Inflation remains low and reserve buffers continue to build up. Medium-term growth prospects remain favorable but could be weighed down by downside risks if realized. More needs to be done to address remaining vulnerabilities, sustain macroeconomic stability and achieve inclusive growth. We agree with the thrust of the staff assessment and recommendations and provide the following comments for emphasis.

We encourage the authorities to preserve external viability and lower debt pressures by building on the fiscal gains in 2018. To this end, we see revenue mobilization and improvements to spending efficiencies as critical. We also emphasize that capital spending should be protected in support of private sector activities and long-term growth. We commend the authorities for the incremental convergence towards the 3 percent fiscal deficit target but also noted in the buff statement that the authorities considered 2020 as the critical target date to meet the fiscal target. We are concerned that the differences in the underlying assumptions not only on this deficit target but also the debt ceiling criterion might affect policy traction among member countries.

We are encouraged by the regional authorities' commitment to safeguard financial stability. We noted the significant reforms the authorities undertook within the banking sector in 2018 to ensure prudential norms and accounting rules are in line with Basel II/III. Strong enforcement of the new prudential regime combined with the close monitoring of ailing banks are steps in the right direction. We share the concern that the current level of credit concentration and liquidity levels may pose some risks to the system and urge the authorities to remain vigilant. We see value in the authorities' request for the Fund and the World Bank to provide support on the recapitalization of banks. Could staff discuss how the Fund or the World Bank could assist in this area?

We appreciate the authorities' continued focus on structural reforms. The initiatives to improve business conditions while promoting good governance and public investment efficiency both at the regional and national level are positive steps. In this connection, we value the coordination role of the WAEMU commission in promoting reform initiatives. Strong policy commitment from national authorities is also critical to any speedy success. We thank staff for the useful selected issues paper and encourage the authorities to follow through their commitments with actions to address the gender and income disparities.

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

We thank staff for the informative set of papers and Messrs. Raghani, Razafindramanana, and N'Sonde for their helpful buff statement. Despite solid economic growth and subdued inflation, the underlying vulnerabilities of the WAEMU member-countries remain significant, including growing debt, soaring debt servicing costs which reinforce weak external and fiscal balances and structural impediments. This calls for advancing policies at the national level and strengthening the union-level coordination to facilitate sustainable growth in the long run. We broadly share the thrust of staff's appraisal and would like to add the following comments for emphasis.

Growth-friendly fiscal consolidation, addressing all debt-creating flows, remains critical to ensure debt and external sustainability. As clearly presented in the staff papers, progress on the fiscal front is mixed, and the assessment of the fiscal stance in the WAEMU countries is clouded by below-the-line budget operations and a lacking quality of public finance statistics. Against this backdrop, we call for the appropriate strengthening of debt-stabilizing fiscal targets to ensure that achieving fiscal goals is consistent with reducing debt vulnerabilities. Since "residual factors" from the DSAs (averaging at 1.2 percent of GDP annually in 2013-2018) are entirely attributed by staff to below-the-line operations, we would appreciate staff's comments on any other factors that could drive residuals in DSAs, as well as further elaborations on how these are consistent with other country cases with persistently high residuals. We echo staff's call for mobilizing domestic revenues by curbing countries' tax exemptions and enforcing implementation of regional directives on tax policy. More progress in public finance management reforms and transitioning of all WAEMU member-countries to the GFSM 2001 fiscal reporting also remains critical.

Lowering the public debt criterion significantly below 70 percent of GDP and advancing the Surveillance Framework would serve the WAEMU member countries well. The authorities should draw on staff's findings presented in the useful Selected Issues Paper on reforms to foster public debt sustainability. We encourage the national and sub-national authorities to move forward in enforcing the union-level agreements and directives to facilitate convergence among the WAEMU member-countries. We would feel more comfortable with a public debt criterion well below 70 percent of GDP in view of the more limited debt carrying capacity of many of WAEMU's members. We are therefore concerned about the growing debt level that reached 52.5 percent of GDP in 2018, and especially about the soaring total debt service costs that have increased to 33 percent of GDP in 2018 from 26.4 percent in 2017. Could staff elaborate further on this issue, including on the debt composition, drivers of debt service costs, and their expected dynamic in 2019-2020 given elevated risks for LICs?

Monetary policy should be adjusted appropriately in case of growing pressures on the FX-reserves. We note staff's conclusion that the current monetary policy stance appears appropriate notwithstanding the growing current account deficit and sluggish FX-reserves increase after the sizable Eurobond issues by Côte d'Ivoire and Senegal. The external sector assessment results also point to somewhat opposite directions, with the REER model showing the REER's slight undervaluation while the EBA's Current Account model suggesting the REER's overvaluation. Against this backdrop, we would have preferred further analysis on an appropriate monetary policy stance and the transmission mechanism in the WAEMU. Regarding staff's call for advancing the BCEAO's collateral framework, we wonder whether there are any capacity constraints that hinder its implementation.

The WAEMU financial stability architecture needs to be further strengthened to address vulnerabilities while supporting an effective financial resource allocation. We welcome the progress in moving to the new prudential regulation aligned to Basel II/III, which should help advance accounting standards, and strengthen supervision. Staff's views on the overall impact of Basle II/III on WAEMU and whether certain aspects could be procyclical would be welcome. However, risks stemming from weak banks, structural liquidity deficits, elevated levels of NPLs, and fragile entities in the microfinance sector remain significant and require urgent coordinated remedial actions as suggested by staff. We call on the WAEMU national authorities and the union-level institutions to press ahead with steadfast implementation, including of the AML/CFT law.

Structural reforms are vital to unleash the growth potential in the WAEMU. Common union-level initiatives in the areas of infrastructure, education, innovation, private sector development, and financial integration could boost the WAEMU's competitiveness and facilitate convergence among member-countries. Given that many WAEMU members are currently under Fund-supported programs, we repeat our previous call for a more extensive discussion in the staff papers on the respective program performances and their possible spillovers and interplay with union-wide performance and policies. Staff comments are welcome.

Mr. Saraiva, Ms. Benoit and Ms. Florestal submitted the following statement:

We thank staff for their comprehensive set of reports on the West African Economic and Monetary Union (WAEMU) and, Mr. Raghani, Mr. Razafindramanana and Mr. N'Sondé for their informative statement.

The WAEMU has continued to post strong economic performance with growth rates exceeding 6 percent for the seventh year in a row, well above its regional peers. Nonetheless, a slight deceleration of growth is registered mainly driven by its two leading economies (Cote d'Ivoire and Senegal). Inflation has remained subdued at below 3 percent while slowly edging up. However, despite a widening of the current account deficit with the sharp deterioration of the terms of trade, external reserves have firmed up to 4.3 months of imports, helped by a surge in capital inflows. The WAEMU's vulnerability to security related risks, commodity price shocks and adverse weather conditions dampens the otherwise positive outlook. We note that both Fund staff and the authorities considers that the medium-term outlook should remain positive if the reform momentum is maintained.

Efforts to raise fiscal revenue at the national level must be accompanied by measures to preserve public investment and strengthen social safety nets. The WAEMU is on track to meet the convergence criterion of 3 percent of GDP by 2019 as intended last year. In 2018, the fiscal deficit decreased by ½ percentage point of GDP to 3.8 percent while off-budget operations lowered from 2.3 percent of GDP at end 2017 to 1.3 percent in 2018. Poverty and inequality including gender-based disparities remain significant in many member countries. Concurrently, domestic revenue remained essentially flat and most member countries have seen a decline in the ratio of Government revenues over GDP. Hence, the Fund's call for an accelerated fiscal consolidation in 2019 to meet the 3 percent convergence criterion needs to be clearly based on stronger progress in domestic revenue mobilization particularly to make room for development spending.

Information on the relative role of the domestic and external bond issuances in the increase of non-concessional borrowing, as well as their effective impact on debt sustainability may help justify the adoption of the recommended lower debt ceiling. The staff report argues for a reduction of the WAEMU public debt to GDP first order convergence criterion from 70 to 60 percent. Such proposal is based on the premise that the current debt ceiling of 70 percent of GDP was set when most WAEMU countries primarily relied on concessional financing and "with the growing recourse to non-concessional borrowing, this threshold now appears to exceed for several countries the level that would preserve the current risk of debt distress". If adopted today the new ceiling would be binding for two countries (Senegal and Togo) and would significantly reduce borrowing space for most other members. However, the weight of debt service on government revenue does not seem well correlated with total debt to GDP. For instance, the country with the highest debt service to revenue ratio (Benin, at 71 percent) registered a debt to GDP ratio of 54.2 percent, the fourth highest. We note that the WAEMU Commission signaled that this issue could be discussed soon. Staff's comments would be welcome.

Tight monetary policy has supported the strengthening of reserve buffers in 2018. The BCEAO commitment to "maintain a firm monetary policy stance as external buffers gradually improve over the medium-term" while "stand[ing] ready to use appropriate policy instruments to tighten its policy if reserves came under pressure" is reassuring.

Commendable progress was made in the governance of the banking sector with the implementation of Basel II/III, strengthened bank resolution and shrinking reliance on BCEAO financing. However, although capital ratios have on average firmed up, several banks have yet to meet capital requirements and comply with concentration guidelines. In addition, the persistence of credit and liquidity risks adds a layer of uncertainty to financial stability. We also commend the BCEAO for its efforts in recent years to facilitate access to financial services to underserved population, including through the issuance in 2015 of guidelines for E-money providers allowing thus accelerated payments through mobile telephone operators. We encourage the Fund to pursue discussions on the elimination of the securities market fragmentation with a view to further develop financial markets as desired by the authorities.

While there is great heterogeneity among countries in the region, we see room for boosting private-sector-led growth. According to the 2018 Doing Business report by the World Bank the regional business climate has improved, mainly with progress made by Cote d'Ivoire and Togo. However, the WAEMU lags African and Asian comparator countries in competitiveness and business climate. Comprehensive reforms are needed in several WAEMU member countries to foster private investment and promote diversification, particularly for economies that still rely primarily on commodities and mineral resources.

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

We thank staff for the reports and Mr. Raghani, Mr. Razafindramanana and Mr. N'Sonde for their informative buff statement. We commend the impressive track record of economic growth in West African Economic and Monetary Union (WAEMU) under benign inflationary conditions. The budget deficit has declined, and foreign exchange reserves have increased although the current account has deteriorated slightly. However, public debt has risen steadily, leading to significantly high debt service payments. The continuing social and security challenges and unfavorable terms of trade have affected both fiscal and external positions. The region is subjected to significant downside risks emanating from elevated global policy uncertainty, including trade tensions, and the risk of weaker-than-expected global growth. Hence, given the positive outlook, authorities are encouraged to avoid delays in implementing national reform programs and continue the adjustment efforts with prudent fiscal and monetary policies, improved financial regulation and supervision, and comprehensive structural reforms. We broadly concur with staff's assessment and limit our remarks for following points for emphasis.

Persistently high growth has broadly helped reduce overall poverty. However, significant heterogeneities persist among income groups requiring continued actions, as revealed in the informative SIP on Sharing the Dividends of the Growth. The gaps in education and health, constraints in the legal system and lack of access to financial services have limited economic opportunities and affected the efforts to diversification. Boosting infrastructure, social protection and public services as well as the effective implementation of the regional gender strategy will also be critical in this process. Hence, we encourage the WAEMU authorities to pursue appropriate policies to distribute the benefits of growth within a wider share of population while preserving the growth momentum.

This requires continued fiscal consolidation efforts, taken without sacrificing productive and social spending, to bolster productivity and economic growth while safeguarding external stability. We positively note the national authorities' intension to work towards the regional deficit convergence criterion. In this process, we welcome the authorities' strong commitment to implement their national fiscal consolidation plans, which should rely on greater domestic revenue mobilization and better expenditure prioritization while creating fiscal space to priority infrastructure, social and security related spending. The adequate identification and disclosure of fiscal risks, emanating from quasi-fiscal operations of SOEs, contingent liabilities and increasing recourse to PPPs, is also important while transiting to the GFSM 2001 standards to extend the fiscal coverage. We note that authorities remain to be convinced about lowering the debt convergence criterion to around 60 percent of GDP from current 70 percent as proposed by staff, based on the current risk of debt distress. We would welcome staff's further elaboration on the rationale for this proposal.

Monetary policy has been successful in keeping inflation low with the peg to the Euro and favorable supply-side developments. We note staff's recommendation and authorities' readiness to tighten the monetary policy if reserves come under pressure. Authorities are also encouraged to improve the effectiveness of monetary policy transmission through developing the domestic secondary bond market and interbank money market while gradually reducing the dependence on the banking system for refinancing.

Despite the recent increase in foreign reserves, the external sector is exposed to shocks. The current account deficit continues to be elevated mainly due to the unfavorable terms of trade. We note that the recent improvement in the foreign reserves has been largely due to the issuance of Euro bonds by two states, easing liquidity in the banking sector. Going forward, further measures to increase reserves are imperative to maintain regional stability.

Significant efforts have been made to improve financial system stability, but risks remain elevated, requiring further measures. We commend the authorities for their recent steps, particularly the major reforms introduced consistent with Basel II/III prudential standards. However, the effective enforcement of these measures is critical to improve the stability and the resilience of the financial system and support the private sector to effectively undertake economic activities. Addressing the structural liquidity deficit as well as the reduction of concentration, credit and liquidity risks in the banking sector remain as priorities. We encourage the authorities to step up their efforts, including the enforcement of the 2015 AML/CFT law, to address AML/CFT related concerns.

Structural reforms are critical to enhance competitiveness, boost private investment and realize medium-term objectives. In particular, strengthening the business environment, promoting diversification, increasing financial inclusion, improving institutional quality and raising public investment quality are important to support the region's strong growth momentum, led by the private sector.

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

Mr. Agung and Mr. Pham submitted the following statement:

We thank staff for the report and informative selected issues paper and Messrs. Raghani, Razafindramanana, and N'Sonde for their informative buff statement.

GDP growth in the WAEMU has been encouraging for several consecutive years, bolstered by public investment despite the recent adverse terms of trade shocks and security concerns in some members. We note from the staff's report that growth outlook remains favorable but is subject to downside risks, including delays in implementing national planned reform programs, lower terms of trade and weather shocks, further security concerns as well as uncertainties on global growth and tighter international financial market conditions. While we acknowledge the measures taken by the WAEMU national authorities and regional institutions as stated in the buff statement, we consider steady implementation of planned fiscal consolidation and structural reforms measures as crucial to sustain medium-term growth. 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 as the primary means to strengthen the external sector and enable sustained growth. We encourage national authorities to move steadily toward achieving the fiscal deficit convergence criterion of 3 percent with growth-friendly measures as recommended by staff. Fiscal consolidation based on revenue mobilization and spending prioritization will help create fiscal space to meet important development needs, including investment in infrastructure, social and security spending. The risk of fiscal slippages requires a more comprehensive fiscal risk management framework, including managing contingent liabilities. In this regard, we agree with the staff that the authorities should reform their current surveillance framework to get a more effective control on the sources of debt accumulation. As the enforceability and effectiveness of the fiscal convergence criteria are weak as demonstrated by fiscal consolidation delays, can staff comment on possible back-up plans the authorities should have at the ready?

In the light of recent positive developments in foreign exchange reserves, we support the authorities' current monetary policy stance. We encourage the BCEAO to stand ready to further tighten monetary policy if pressures on reserves and money markets persist. We agree with the staff on the need to enhance the transmission of monetary policy by developing a more active and liquid secondary market for government securities, as well as the interbank market. This is essential for the development of the regional financial market and the private sector. In this regard, we stress the importance of improved coordination between WAEMU members' fiscal policies and regional monetary policy, which is necessary to ensure fiscal and external viability. Such an effective regional policy coordination framework is key for the region's macroeconomic stability and cohesion.

We welcome the progress made by the regional supervisory authorities on financial reforms. These progresses include the move to Basel II/III standards and shift to risk-based consolidated bank supervision. The effective implementation of these important reforms will help make the financial system more stable and resilient to shocks and create more space to finance WAEMU economic development. In addition, we encourage the authorities' continued efforts to operationalize AML/CFT legal provisions and ensure compliance.

Addressing the structural impediments to a higher competitiveness of member countries remains top priority. In particular, we call for a renewed commitment to implement planned structural reforms, including improving the institutional quality, strengthening the business environment, as well as fostering financial inclusion. Lastly, we encourage the authorities to improve the quality, coverage and timeliness of economic data.

Mr. Saito and Mr. Minoura submitted the following statement:

We thank staff for the comprehensive reports and Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for their informative statement. We welcome that West African Economic and Monetary Union (WAEMU) region's growth has remained strong, which exhibited one of the fastest growth rates in Africa in 2018. We take note that external reserves increased and liquidity pressures in the regional financial system were temporarily eased, underpinned by Eurobond issuances. Nevertheless, we share staff's concern that the aggregate fiscal deficit remains above the convergence criterion of 3 percent of GDP and public debts have risen in recent years. Against this background, steady implementation of fiscal consolidation measures and structural reforms by both the WAEMU national authorities and regional institutions are crucial to sustain medium-term growth and preserve buffers. As we broadly concur with the thrust of staff's appraisals, we will limit our comments to the following points:

Fiscal Policy

We agree with staff that adherence to the regional convergence criterion of 3 percent of GDP for the budget deficit in 2019 and beyond is critical to prevent crowding out and pressures on external reserves. While it is a positive step that WAEMU member countries consolidated their fiscal position in 2018, the aggregate fiscal deficit remains above the convergence criterion. Moreover, we take note with concern that the fiscal consolidation in 2018 mainly on account of lower public capital spending, considering the region's infrastructure gap. Staff's comments are welcome. Given the low average tax revenue to GDP ratio in the region, domestic revenue mobilization is essential to generate space for development spending while advancing fiscal consolidation. We encourage the authorities' further efforts to curb tax exemptions and harmonize national tax data. At the same time, fiscal assessments need to better integrate below-the-line operations, including quasi-fiscal activities of some public entities, losses by state-owned enterprises, or increasing recourse to PPPs, by both regional and national levels. We also concur with the staff's appraisal that there would be merit in lowering the debt convergence criterion from 70 percent to around 60 percent of GDP, given the growing reliance on non-concessional borrowing. It would contribute to enhancing consistency with the Debt Sustainability Assessment (DSA) thresholds. We would like to know whether there are similar cases in other regions that regional criterion could be better aligned with DSA thresholds. Considerations could also be given to upgrading the status of the tax revenue to GDP ratio from a second-order to a first-order convergence criterion.

Monetary and Financial Sector Policy

While the current monetary policy stance appears appropriate, the BCEAO should stand ready to tighten in case reserves deteriorate. We also concur with staff that more active and liquid secondary debt and interbank markets are key for enhancing monetary policy transmission. Moreover, this would also contribute to easing prompt bank deleveraging, reducing overreliance on the BCEAO in case of temporary liquidity needs. Differentiated haircuts to sovereign securities for central bank refinancing could be also considered.

We welcome the smooth transition to the new prudential regime and its risk-based supervision framework, and encourage further accumulation of capitals, reduction of NPLs and concentration risks in line with prudential norms. At the same time, we urge the Banking Commission to finalize the operationalizing of the new resolution framework rapidly. Moreover, given the fact that ailing banks have had substantial negative equity, resolution actions for these banks need be taken urgently. We also agree that supervision should continue to evolve alongside financial innovations and strengthening AML/CFT risk-based supervision of banks by the Banking Commission is important to support national AML/CFT and anti-corruption efforts.

Promoting Competitiveness and Inclusiveness

Further initiatives to improve competitiveness should be taken by both the national and the regional levels. At the regional level, we welcome that the WAEMU Commission is coordinating several initiatives, such as cross-border infrastructure projects and the facilitation of custom procedures and it is also commendable that the BCEAO and the Regional Stock Exchange have launched initiatives to facilitate access to financing for small and medium-size enterprises. Going forward, we encourage the authorities’ further effort to ease impediments of business climate and improve governance and public investment efficiency. We also agree with the importance of reduction in income and gender inequality to boost real GDP per capita and economic diversification, and encourage the continued efforts by the WAEMU Commission to effectively implement the regional gender strategy.

Mr. Doornbosch and Mr. Etkes submitted the following statement:

We thank staff for the comprehensive set of papers and Messrs. Raghani, Razafindramanana, and N'Sonde for their informative buff statement. The WAEMU continues to grow at a high rate of more than 6 percent per annum, despite the adverse impact of climate conditions, security challenges, and unfavorable terms-of-trade. However, internal and external imbalances are on the rise mainly due to fiscal imbalances. We broadly concur with staff's appraisal and would like to provide the following comments for emphasis.

We commend the authorities for the steps taken to reduce fiscal deficits and urge them to continue converging towards the 3 percent of GDP target mainly by increasing revenues. We concur with staff that fiscal transparency, including below-the-line operations, is crucial for effective fiscal consolidation, and note that estimated public debt in 2017 increased by about 2 percent of GDP between last year's and the current report, partly due to under-the-line-operations.

At the same time, we believe that increasing the efficiency of public spending is highly important for supporting growth during times of fiscal prudency. We recall the 2018 SIP which found that the WAEMU's public investment efficiency compares unfavorably with benchmark countries, including other sub-Saharan African countries. The 2018 SIP advised the authorities to strengthen public investment management institutions. Can staff comment on the progress made by WAEMU members with enhancing investment efficiency in the last year and future plans for further improvements, including TA by the Fund?

We commend the authorities for their efforts with implementing Basel II and III rules for the banks. This undertaking will ultimately strengthen the stability of the banking sector. We are somewhat concerned about the status of other financial mediators, including mobile payments. It is well known that some parts of Africa are leading in the use of mobile payments. Moreover, a 2015 SIP on WAEMU concluded that mobile payments could prove to be — under proper supervision— an important vehicle for financial inclusion. Finally, staff and some media reports suggest that these services expanded rapidly over the last few years. Yet, the current staff report includes limited information on mobile payments. Can staff comment on the status of financial supervision on mobile payment services? Does the supervision address also cyber-risks?

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

We broadly agree with the staff's appraisal and would like to highlight a few points:

More efforts are needed to better ensure debt sustainability and create the fiscal space needed for development needs. In addition to adhering to the WAEMU fiscal deficit rule and increasing domestic resource mobilization, countries must control below-the-budget-line operations, which have recently contributed to the rapid increase in public debt. There is a need to monitor and mitigate fiscal risks, originating from public and guaranteed debt, and build adequate budget provisions to address these risks before they materialize. We would be interested to hear from staff about the rationale for not including these expenditures in the deficit target. What are the staff recommendations for a more broadly defined fiscal target? It is also important to accelerate PFM reforms, including strengthening debt management and oversight of state-owned enterprises, which remain an important source of fiscal risk, especially in the energy sector. In this regard, cost recovery prices for services provided by SOEs, including fuel and electricity, would be critical to avoid the accumulation of losses and arrears and the need to cover them through public debt issuances.

Vulnerabilities in the banking sector need to be addressed. These include bringing all undercapitalized banks to meet capital requirements and promptly resolving ailing banks, in addition to mitigating concentration and liquidity risks. We welcome the significant regulatory reforms carried out in 2018, including the transition to the Basel II/III prudential norms and new bank accounting rules. We are also pleased to note that banks have already started to reduce their non-performing loans in 2018. We note from the buff that the authorities would welcome the Fund's and World Bank's support for recapitalizing public banks. We would be, therefore, interested to learn more about the fiscal cost associated with this recapitalization and whether technical assistance will be given in this regard.

The staff report notes that monetary policy is appropriate, making a reference to the adequacy of international reserves. It also notes that international reserves benefitted from the issuance of Eurobonds. Would the staff assessment of monetary policy been different had there not been these Eurobond issues?

We welcome the focus on poverty and human capital in the SIP given that about 45 million out of a population of 102 million live in extreme poverty in the WAEMU. We agree with the findings that the WAEMU's real GDP per capita growth rate and diversification could significantly benefit from decreases in income and gender inequality. A lessening in inequality could be facilitated by improvements in education opportunities. We support staff recommendations on structural reforms, and income and gender inequality, which are critical to improve competitiveness, promote diversification, and meet the SDGs.

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

Mr. Trabinski and Mr. Tola submitted the following statement:

We thank staff for their insightful set of reports and Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for their informative buff statement. We welcome the good economic performance of the WAEMU member countries, illustrated by strong growth, narrowing fiscal deficits and increasing external reserves. We also note the significant progress with banking sector reforms, in particular the transition to Basel II/III prudential norms. At the same time, we encourage the authorities to carry on with fiscal consolidation and structural reforms aiming at enhancing competitiveness in order to reduce risks stemming from high public debt and safeguard external stability.

We encourage the authorities to address the factors impeding the attainment of the fiscal deficit target of 3 percent of GDP. While the success in this direction will depend to a large extent on national governments' efforts, we share staff's view on the importance of the regional authorities' role in policy coordination. In particular, the implementation of the WAEMU directives on PFM reforms is paramount in curtailing below-the-line operations, which are one of the main drivers of public debt accumulation. However, we take note that the implementation of these directives remains mixed, not least because of a lack of penalties for non-complying member countries. Given past experience with the implementation of the WAEMU directives, we would be interested in staff's view on potential ways to improve their traction.

We strongly support staff's recommendation to lower the public debt convergence criterion below 70 percent of GDP. The region's aggregate public debt has increased significantly between 2015 and 2018, notwithstanding the strong GDP growth, and member-countries are increasingly relying on non-concessional financing. Moreover, risks to medium-term growth outlook are tilted to the downside. We see merit in the three policy options presented by staff to ensure public debt sustainability. However, considering the difficulties in dealing with below-the-line operations and the risk of fiscal slippage, we believe that lowering the public debt convergence criterion to 70 percent of GDP is the best option to ensure that member-countries do not fall back into debt distress.

Impediments to the development of the secondary debt and interbank markets should be addressed to increase the monetary policy effectiveness. We note staff's recommendation for tightened monetary policy if pressures on foreign reserves reemerge. For this measure to be effective, it will be necessary to enhance the monetary policy transmission mechanisms, particularly through the deepening of secondary debt and interbank markets. This will in turn reduce the banks' reliance on BCEAO financing, which constrains monetary policy.

Mr. Mozhin and Mr. Snisorenko submitted the following statement:

For the seventh year in a row economic growth of the WAEMU members remains strong, at above 6 percent, despite the adverse terms-of-trade shocks and persistent security concerns in some member countries. Inflation remains subdued. Some fiscal consolidation could not prevent increases in public debt. Debt servicing costs kept rising. External current deficit also kept widening. Overall, the medium-term outlook remains subject to significant downside risks. In this context, to sustain growth momentum, resolute efforts by the member countries and regional institutions are necessary. The authorities should persevere with fiscal consolidation and structural reforms.

Reaching the regional fiscal deficit convergence criterion of 3 percent of GDP by 2019 may be hindered by insufficient progress in domestic revenue mobilization. We agree with reform proposals in the SIP on the WAEMU surveillance framework. We agree with staff's recommendation to accelerate implementation of public financial management reforms to contain below-the-line operations. In order to set the region's public debt on a sustainable path the authorities could also consider lowering the public debt convergence criterion below 70 percent and elevating the 20 percent threshold on tax revenue from a second to a first order criterion. Conducting regular Debt Sustainability Analyses by the WAEMU Commission could further enhance the surveillance framework.

We agree that the current monetary policy stance is appropriate. However, the increase in foreign exchange reserves was mostly due to large Eurobond issuances. Despite 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. To enhance monetary policy transmission the BCEAO should further develop secondary debt and interbank markets.

We welcome continuing progress in the financial reform, especially the move to the Basel II/III prudential standards. At the same time, the authorities need to further strengthen capital and liquidity buffers, reduce concentration risks and restructure and resolve weak banks. The latter is possible within the current supervisory regime. However, timely operationalizing of the new resolution framework is also welcome. Strengthening AML/CFT risk-based supervision by the Banking Commission is essential to support national efforts.

Vigorous structural reforms are important to foster economic diversification and increase competitiveness. According to the insightful SIP "Boosting Competitiveness to Foster Trade Performance, Weather Terms-of-Trade Shocks and Support External buffer", the WAEMU's competitiveness is subject to substantial structural constraints. Easing these constraints could significantly boost the WAEMU bilateral trade flows and help the WAEMU catch up with the successful comparator countries in Africa and Asia. We encourage the WAEMU authorities to push ahead with reducing barriers to regional integration, while the member countries should further improve their business environment, logistics performance, governance, and public investment efficiency.

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

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

We thank staff for the quite insightful set of papers, as well as Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for their helpful buff statement.

Economic performance in the WAEMU region has been remarkable with growth above 6 percent. The key question at this stage is how strong growth can be maintained in the medium term, and, in the context of this discussion, what role can regional institutions and regional policies play in helping to achieve this objective. Worrying signs from debt developments and large current account deficits warrant caution going forward. We agree with staff's general assessment that fiscal prudence and structural reforms are key to foster private sector-led sustainable growth.

We welcome the very interesting SIP on how can the WAEMU surveillance framework be enhanced to foster debt sustainability. The fact that debt has been increasing more than envisaged, resulting from below-the-line operations, indicates how weak the current framework actually is. Therefore, we agree that PFM needs to improve and the directive on fiscal statistics fully implemented, so that SOEs and extra-budgetary funds are reflected in the fiscal accounts. While we see the rationale for complementing the existing debt ceiling with a DSA, we wonder whether there is sufficient capacity to undertake such an exercise at the regional level and what would be its value added while compared with, for example, the IMF/World Bank's DSA. Staff's comments would be appreciated. Like staff, we think that it might be preferable to maintain the current nominal fiscal deficit rule even in the framework's stability phase – estimating output gaps in the WAEMU countries is really a guessing game.

We note that reserves have increased, on the back of Eurobond issuances by Côte d'Ivoire and Senegal. While we welcome them, these issuances are not without risks and we emphasize the importance of strengthening the external position. For that, the region needs a more competitive, diversified and inclusive economy through reforms aimed at improving the business environment and governance.

Mr. Meyer and Mr. Buetzer submitted the following statement:

We thank staff for its set of reports and broadly concur with its analysis and policy recommendations. We also thank Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for their insightful buff statement. The growth performance in the West African Economic and Monetary Union (WAEMU) remains strong, inflation is contained, and some progress in fiscal consolidation was achieved last year. At the same time, vulnerabilities persist, and the outlook is subject to considerable risks given that the public debt ratio has continued to rise, and the current account deficit has further widened in 2018.

Against this backdrop, greater fiscal consolidation efforts with a focus on revenue-enhancing measures are warranted. The authorities should maintain their prudent monetary policy stance and undertake comprehensive structural reforms aimed at improving competitiveness and growth inclusiveness.

We note with some concern that the public debt ratio has steadily risen in recent years, owing inter alia to below-the-line budget operations. We thus strongly agree with staff that adherence to the regional convergence criterion of 3 percent of GDP for the budget deficit in 2019 and beyond is of the essence while better integrating below-the-line operations into fiscal assessments. In this context, we agree with staff that the WAEMU Commission, along with national governments, should improve the analysis, management, and disclosure of fiscal risks. Moreover, greater progress on revenue mobilization is needed to preserve development spending at times of fiscal consolidation.

Given that most WAEMU countries rely increasingly on non-concessional borrowing, we see merits in staff's reasoning arguing in favour of lowering the public debt convergence criterion from its current level of 70 percent of GDP. Could staff provide additional comments whether the suggested debt ceiling of around 60 percent of GDP would be sufficient to keep the probability of debt distress low? In this context, we would encourage staff to replicate work done in the case of the 2019 Article IV Consultation for Ecuador (SM/19/43, "Calibrating Ecuador's Debt Ceiling") to advise the WAEMU authorities going forward.

We fully share staff's recommendation that structural impediments to private investment need to be tackled. In this regard, and with view to many member countries' participation in the Compact with Africa, we would have appreciated a reference to this initiative and how it can be used to catalyse private investment.

Staff rightly accentuates the need to reduce income and gender inequality in the WAEMU. As highlighted in the related chapter of the Selected Issues Paper, addressing these inequities and improving education opportunities could be an avenue to boost economic diversification, growth and stability in the region.

It is encouraging to learn that the authorities made substantial progress to improve the quality, timeliness, and dissemination of economic statistics. At the same time, we support staff's call to consolidate these achievements and further address remaining weaknesses of data compilation and reporting.

Lastly, and as also pointed out in our Gray on the CEMAC region, we would have appreciated a brief presentation of GDP dynamics in per capita terms across member countries which can be very heterogeneous (cf. Question 40 in Staff's Responses to Executive Directors' Technical Questions on CEMAC, EBM/18/107). Generally speaking, we would like to see real per capita growth rates presented as a standard feature in staff reports, in particular when it comes to countries with exceptionally high or low population growth rates.

Ms. Levonian, Ms. McKiernan and Mr. Mooney submitted the following statement:

We thank staff for their set of papers and Mr. Raghani, Mr. Razafindramanana and Mr. N'Sonde for their comprehensive buff. We note that WAEMU member economies continue to grow at over 6 percent per annum on average with low inflation and strengthening bank balance sheets. That said, the public debt burden continues to rise and security concerns remain in some member countries. Since the authorities are broadly aligned with staff in terms of the outlook and policy priorities, we will limit ourselves to the following comments.

We agree with staff that adherence to the regional convergence criterion of 3 percent of GDP for the budget deficit in 2019 and beyond is crucial, and note that authorities concur in this regard. However, we note the view of authorities that some member countries face idiosyncratic shocks that need to be addressed without jeopardizing the common fiscal consolidation effort. In line with the views of staff in the SIP, we would encourage those countries who have yet to transpose the WAEMU directives on PFM reforms into national legislation to do so as soon as possible.

We note that investment needs in WAEMU are large, but there is ample room to improve the quality of investment and public financial management more generally. In this regard, we encourage well-tailored Fund advice to enhance fiscal management, governance and transparency.

We welcome the new prudential regime, capital requirements and bank accounting standards, which should foster confidence in the banking sector and help to underpin more private sector growth. In this regard, we agree that the new resolution framework should be finalized rapidly, while noting the view of authorities that the existing supervisory regime allows for orderly resolutions. We agree that strengthened AML/CFT supervision by the Banking Commission would preserve the integrity of the banking sector. We welcome the authorities' commitment to promote financial inclusion and closely monitor micro-finance institutions.

As regards the promotion of competitiveness, we agree that member countries should accelerate reforms to raise structural competitiveness through improvements in the business climate and public efficiency. We welcome the ongoing work to launch initiatives to facilitate access to financing for SMEs.

Reducing income and gender inequality in the WAEMU could significantly boost real GDP per capita and economic diversification; the recent adoption of a regional strategy towards greater gender equality is a helpful step. We also welcome the ongoing utilization of regional structural funds for projects covering energy, transport and agriculture.

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. Raghani, Mr. Razafindramanana and Mr. N'Sonde for their helpful buff statement.

Growth performance and macro stability

WAEMU's growth performance remains among the most dynamic in Sub-Sharan Africa (SSA) with a GDP growth rate exceeding 6 percent for a seventh year in a row despite the terms of trade deterioration observed last year and long-lasting security challenges in Sahelian countries. Despite this good growth performance, inflation remains subdued thanks to a prudent monetary policy, as well as the nominal anchor associated with the exchange rate regime underlined in their BUFF by Mr. Raghani, Mr. Razafindramanana and Mr. N'Sonde. Moreover, several countries of the region are highly vulnerable to weather events and more globally to global warming. On the fiscal side, the convergence towards the fiscal deficit target of 3 percent of GDP has helped in consolidating the WAEMU aggregated fiscal position and we note an acceleration of the convergence towards the target in 2018. When it comes to the external sector, we note positively that the external buffers have been improving somewhat as a result of the appropriate fiscal and monetary stance implemented at the regional level.

Against this background, we encourage the WAEMU authorities to preserve this positive momentum through appropriate policies allowing to preserve macroeconomic stability and debt sustainability. In that regard, we believe that maintaining a growth-friendly fiscal consolidation will be paramount in the coming month to curb the public debt trajectory and to further strengthen the external buffers. In order to answer to the infrastructure, social and rapidly growing security needs, we remain convinced that enhanced Domestic Resources Mobilization is warranted, notably by addressing tax and custom administration management, taxation policies and exemption streamlining.

Fiscal consolidation and debt dynamics

We agree with staff that greater progress on domestic revenue mobilization is needed for preserving debt sustainability, funding development expenditure and accommodating rising security needs in several members. As underlined by staff, there is substantial room for progress in that area: the tax revenue-to-GDP ratio reached 15.9 percent in 2018 which is 1 percentage point higher than 10 years ago. In that regard, we would appreciate if staff could provide a performance assessment of IMF-supported programs currently implemented in WAEMU regarding DRM policies: Do these programs result in higher tax to GDP ratio? Do these programs allow to preserve key development spending, including social spending? More broadly, we note that the additional tax revenue potential is estimated between 3.5 and 5.0 points of percentage of GDP Sub-Saharan Africa but we would be interested in getting such an estimate country by country within the WAEMU region. We also note with interest staff's recommendation to upgrade the tax revenue-to-GDP ratio under the regional surveillance framework.

When it comes to Public Finance Management, we fully agree with staff when it stresses the need to better integrate below-the-lines operations to fiscal assessment and monitoring at the regional level. Does staff consider that the WAEMU commission needs Technical Assistance support to address below-the-line operations? Could staff further elaborate on the communication strategy mentioned in paragraph 16 in that regard?

Regarding public debt dynamics, we are concerned by the increase of the debt service-to-revenue ratio observed on average in the WAEMU region. This ratio has raised from 20.8 to 33.0 percent since 2015 and was last year over 40 percent in 4 out 8 WAEMU countries. Could the staff provide details about non-concessional debt issuance intentions in WAEMU for the coming month? Going forward, it would be useful if such reports could entail an update on the interest rates on the domestic, regional and international markets, for different maturities. Could staff also indicate whether its projections of the funding cost, both on international and domestic markets, have changed in the aftermath of the recent announcements of the Fed and ECB on their respective pace of monetary policy normalization?

Banking supervision

We welcome the implementation of a new prudential regulation aligned with Basel II/III and new bank accounting standard. We note that staff underlined the need to increase further bank capitalization to achieve the 11.5

percent of Capital Adequacy Ratio targeted at end-2022. More broadly, a very careful monitoring of credit concentration, asset quality and funding structure is warranted and weak banks have to be restructured with minimum delays, in particular in countries where the Non-Performing Loans ratios are the highest.

We note the risk mentioned by staff (paragraph 11) that deviation from fiscal consolidation trajectories might crowd-out credit to the private sector by domestic banks. In this regard, could staff indicate whether the progress of financial inclusion, notably through mobile banking operators, mentioned (at paragraph 21) contribute to a widening of the size of the domestic banks balance sheets, and so to an increase in the volume of domestic credit capacity?

Statistics and data

We welcome the progress underscored by staff regarding quality, timeliness and dissemination of economic statistics. We encourage the authorities to maintain their efforts to address the remaining weaknesses of balance of payment data and to accelerate the transition of all WAEMU member-countries to the GFSM 2001 fiscal reporting. Regarding national accounts, we would like staff to update the board about the GDP rebasing process recently undertaken, or expected in the coming months, in WAEMU member-countries.

Ms. Mannathoko and Mr. Odonye submitted the following statement:

We thank staff for the well written report and selected issues paper, and Messrs. Raghani, Razafindramanana and N'Sonde for their insightful buff statement. We wish to commend the authorities on WAEMU's sustained strong GDP growth performance. We are in broad agreement with staff's appraisal of the group's performance, while noting the significant disparities in macroeconomic reform progress across member states. We expect, however, that the differences in reform progress will be addressed in the WAEMU Commission's recommendations to the Council of Ministers. We encourage authorities to continue with reforms in order to preserve strong growth performance going forward, noting that precautions are needed against the varied downside risks that pose a challenge to the outlook. In this regard, we highlight the following considerations on fiscal deficits, rising debt, price competitiveness, and financial stability.

Fiscal deficits and WAEMU's convergence criterion

A focus on the growth-friendly fiscal consolidation needed in order for WAEMU countries to meet their fiscal deficit target in 2019, is essential. In this regard we welcome the renewed commitment of members to the deficit target, noting that sustained fiscal consolidation will be required to counter the steady rise in public debt and enable a stable monetary union. We note that the half a percentage point reduction in the WAEMU fiscal deficit in 2018 was attributable to lower capital (rather than recurrent) spending. We would encourage the containment of recurrent expenditure instead. On progress towards the fiscal deficit target, based on the 2018 fiscal deficit estimates (Table 4), all WAEMU countries except for Togo still have deficits in excess of the 3 percent of GDP target ceiling for 2019. The 2019 staff projections thus suggest the need for significant reductions in member country fiscal deficits in order to meet the target. Could staff clarify the relative importance of the large economies in this adjustment and update us on country measures underway towards meeting the convergence target this year?

Rising debt

We urge the authorities to exercise caution with respect to the accumulation of debt. Public debt and the cost of its service have risen in recent years in WAEMU countries, partly due to sizable below-the-line operations, with the result that WAEMU debt ratios remain above the SSA average. Furthermore, we note that increased financing costs could adversely affect the region due to rising global interest rates, higher regional risk premia, and the exposure of some WAEMU countries to international financial markets. The significant expansion of the public debt burden over the last 5 years to 52½ percent of GDP at end-2018, therefore, underscores the importance of implementing a union-wide debt management strategy.

Exchange rate and competitiveness

The fact that WAEMU lags in price competitiveness relative to comparators in Africa and Asia (selected issues paper p. 25), may warrant further assessment in this area. We also note that while the union's exchange rate is in line with WAEMU fundamentals, it is not clear that it is also in line with each individual country's fundamentals; given the economic disparities between WAEMU members. The alignment of the exchange rate with an individual country's fundamentals is what matters for its output, therefore some reporting on this would be helpful. Is it possible that the exchange rate is aligned with fundamentals in some countries but not in others? Staff comments are welcome.

Financial stability

We recognize that key financial sector reforms are being undertaken to meet international prudential standards and risk-based supervisory requirements and encourage the authorities to continue on this path. This will help to reduce banking sector vulnerabilities and concentration and liquidity risks. We are also happy to note that the new resolution framework is now operational, and we encourage authorities to finalize the process. The Banking Commission's commitment to the resolution of ailing banks is noted. However, given that many of the banks are state-owned, alongside the reality of limited national public resources to recapitalize them, could staff comment on the Commission's plans to address this? Could staff also elaborate on the systemic implications of the three (3) under-capitalized banks referred to in para 6?

With these few comments, we wish the WAEMU authorities continued success.

Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the informative papers and Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for the helpful buff statement. We welcome continued strong growth and low inflation in the WAEMU region, despite ongoing challenges and a difficult security situation in some countries. Going forward, we encourage continued careful monetary management, proactive financial supervision, and support for growth-oriented fiscal efforts and improved competitiveness. This staff paper provides constructive, specific advice across key policy areas, as we had called for during last year's review. We hope this greater specificity will prove useful to regional policy makers, particularly ahead of the upcoming review of the regional surveillance framework. We encourage staff to draw connections between regional policies and country programs, and to consider establishing regional policy assurances if and when relevant. We concur with the staff assessment and would like to highlight several points.

Fiscal and Debt Sustainability. We share staff's concern on the 17.5 percentage points of GDP rise in public debt in the WAEMU region in the past 5 years. We agree that fiscal consolidation is needed to avoid crowding out private sector credit and depleting external buffers but see policies that boost growth as equally important. Staff note the fiscal consolidation in 2018 was a positive step toward reaching the regional deficit convergence criterion. We, however, are concerned that the fiscal consolidation in 2018 occurred as a result of a reduction in capital expenditures. More attention needs to be paid to the quality and not simply the size of the fiscal adjustment. We look to the WAEMU Commission's regional surveillance process and IMF country programs to focus more strongly on the growth-orientation of the fiscal effort. We support staff's suggestions on domestic resource mobilization, such as making regional tax directives stronger on curbing country tax exemptions, and the call by Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for Fund technical assistance to support these efforts.

We also believe better control of "below the line" operations – quasi-fiscal activity, SOE losses, contingent liabilities from PPPs – could make a significant contribution, considering its magnitude of 1.2 percent of regional GDP. The WAEMU Commission should play its part by insisting that regional analysis be based on comprehensive fiscal data. On debt sustainability, we found the first Selected Issues Paper very helpful. We urge the authorities to revisit the current public debt ceiling in light of rising debt risks and increased recourse to non-concessional borrowing, as suggested by staff.

Monetary and Financial Sector. Monetary policy has been broadly appropriate, and we welcome ongoing efforts to strengthen financial sector supervision. Further development of regional debt and inter-bank markets will serve the region well. Consistent activity in regional debt markets would seem helpful to continued market deepening. Can staff comment on current developments with respect to the mix of external vs. domestic financing? On financial sector supervision, we welcome the banking Commission's efforts toward Basel II/III standards. We agree with staff on the importance of a proactive approach by regional and national authorities to bring all undercapitalized banks up to standard, and promptly resolve problem banks. Can staff elaborate on the reasons why the resolution framework has not yet been implemented? We welcome the authorities attention to AML/CFT issues including through BCEAO's issuing of instructions in 2017 and initial efforts to incorporate AML/CFT into supervisory inspections. Can staff comment on whether the BCEAO's 2017 AML/CFT instructions are gaining traction with banks?

Bolstering Competitiveness and Inclusion. We found the Selected Issues Papers on Boosting Competitiveness, and on Sharing the Dividends of Growth very compelling and appreciate their mutually reinforcing regional-level policy recommendations in each paper. Regional authorities have an important role to play in promoting regional integration and focused efforts to improve regional competitiveness and economic diversification. The comparative analysis of WAEMU countries relative to higher performing African and Asian peer groups points to significant opportunities to both boost competitiveness and to make growth more inclusive through a focus on infrastructure, education, and access to credit. Stronger regional support for domestic resource mobilization could provide resources needed for investment in human and physical capital. We encourage the WAEMU Commission to monitor and promote the regional gender strategy, and facilitate WAEMU countries' peer learning from Senegal's National Strategy for Women's Economic Empowerment.

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

We thank staff for the set of papers and Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for their helpful buff statement. The WEAMU region has experienced strong economic growth above 6 percent for seven consecutive years. However, risks are tilted to the downside. The authorities need to continue fiscal consolidation, enhance monetary policy transmission efficiency, ensure financial stability, and boost regional competitiveness. We agree with the thrust of staff's appraisal and would limit our comments to the following for emphasis.

The increasing public debt is a major concern and further fiscal consolidation is the key to ensure debt remains sustainable. The public debt in WAEMU countries has built up rapidly over the past 5 years. We welcome the efforts that WAEMU member countries have made to cut the fiscal deficits by 0.5 percent of GDP in 2018. However, more should be done to bring the deficit down to the regional convergence criterion, and thus put debt on a steady downward path. We note with concern that the average tax to GDP ratio is only 1 percentage point higher than a decade ago and concur with staff that the authorities should improve the domestic resource mobilization. We see merit in staff's suggestion to improve the regional surveillance framework and lower the debt convergence criterion, but more factors besides the degree of debt concessionality may need to be considered, including whether the debt is for capital spending or current spending.

The monetary policy transmission warrants further enhancement. The secondary bond market and interbank market remains shallow. This not only poses a constraint for the banking sector and private sector financing, but also hampers the transmission channel of monetary policy. We broadly share staff's suggestions to develop the regional bond and interbank markets and agree that the BCEAO should bring the interbank rate into the monetary policy corridor. With currency pegging to the Euro, the region's real effective exchange rate (REER) appreciated, current account deficit deteriorated, and inflation remained low in 2018. Could staff elaborate more on whether the exchange rate is appropriate and its impact on the region's competitiveness?

The move to Basel II/III prudential standards is a significant positive step, but pockets of vulnerability remain. The regional banking sector has been more resilient, with the sector's capital base increased significantly, but some relatively large banks still failed to meet the minimum capital requirement. The authorities should continue the efforts to enhance banks' resilience and mitigate banks' concentration, credit, and liquidity risks. We agree with staff that finalizing the operationalization of the new banking resolution framework is a top priority.

Boosting competitiveness is the key to foster intra- and extra-regional trade, and thus benefits the region from trade integration. We noticed that the competitiveness of the WAEMU remains subject to structural constraints, including the quality of institutions, labor market efficiency, and access to finance. We emphasize the importance of cross-border infrastructure, transportation, and facilitating custom procedures, which will help to enhance the interconnectivity of the region. We encourage the regional development bank, the West African Development Bank (BOAD), to play a more important role.

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

Mr. Moreno and Mr. Montero submitted the following statement:

We thank staff for the comprehensive set of papers and Messrs. Raghani, Razafindramanana, and N'Sonde for their informative buff statement.

The WAEMU has maintained a strong growth path over the last few years—at a yearly rate of more than 6 percent—fueled by buoyant domestic demand despite the adverse impact of climate conditions, security challenges, and unfavorable terms-of-trade. Moreover, inflation remained low, underpinned by the peg to the euro, some fiscal consolidation was achieved in 2018, though mainly because of lower public capital spending, and international reserves increased supported by Eurobond issuances.

Notwithstanding this positive evolution, persistent vulnerabilities remain, notably in the areas of public accounts, external position and some pockets of the banking sector. Adding to these vulnerabilities is the fact that growth dividends have been slow to trickle down to the population at large.

Ensuring a strong and sustainable growth momentum in a context of a hard peg and a high sensitivity to terms of trade shocks entails an adequate degree of flexibility and a boost to competitiveness supported by robust productivity growth, which would require a shift toward more private sector-led growth. At the level of regional authorities, policies must ensure a credible fiscal consolidation, a deepening of financial markets, an adequate banking oversight, and a more effective monetary policy transmission. There is also some room, at the regional level, to improve competitiveness through cross-border infrastructure projects and the facilitation of custom procedures among others. Within this broad picture, we largely concur with staff's appraisal and policy recommendations, and would like to provide the following comments for emphasis on some specific areas.

We strongly support staff's proposal to lower the debt convergence criterion from 70 percent to around 60 percent of GDP, or even below that level, given the growing reliance on non-concessional borrowing, the increasing share of foreign currency denominated debt and the need to build fiscal buffers to deal with imbalances in a context of a fixed exchange rate regime, which naturally limits debt-carrying capacity of WAEMU's members. This lower debt level, along with a stricter adherence to the regional criterion of 3 percent of GDP for the public deficit, would open space for much-needed infrastructure and social spending. Further, it would have the additional benefit of avoiding crowding out bank credit to the private sector—as illustrated by staff in the paper—and the build-up of external buffers. We also share staff's views on the need to eliminate below-the-line operations and to mobilize domestic revenue, which staff suggests that has a potential for an additional 3.5-5 percent of GDP of tax revenues.

We welcome authorities' readiness to tighten the monetary policy if external reserves come under pressure. We concur with staff that authorities should enhance the effectiveness of monetary policy transmission through developing the domestic secondary bond market and the interbank market, while using a more proactive supervisory stance to gradually reduce banks' dependence on BCEAO for refinancing. In any case, the level of external reserves remains relatively low and we wonder whether there is some margin to tighten monetary policy to boost the reserve import-cover ratio towards more comfortable levels. Staff's comments are welcome.

Finally, we strongly agree with staff on the need to reduce income and gender inequality in the WAEMU. As highlighted in the Selected Issues Paper, tackling these inequalities would be crucial to ensure the acceptance of reforms and thus boosting GDP per capita growth and economic diversification. Member countries should therefore continue to develop social indicators to monitor progress in these areas and, at the regional level, the WAEMU Commission should effectively implement the regional gender strategy.

Mr. Daïri and Mr. Badsi submitted the following statement:

We thank staff for the well-written set of papers and Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for their informative buff statement. Notwithstanding adverse external environment and security issues in some member countries, the WAEMU continues to enjoy strong and steady growth which has been boosted by solid domestic demand, with public capital spending playing a major role. While inflationary pressures remain contained at low levels, the fiscal deficit narrowed and the external current account deficit slightly deteriorated. Against a backdrop of rising debt burden from Eurobond issuance and more stringent enforcement of repatriation requirement, external reserves increased. Risks to the outlook are skewed to the downside, mainly driven by tighter global financial conditions, structurally weak growth in key advanced and emerging economies, and adverse terms of trade developments. We agree with the thrust of the staff appraisal.

With the aim to support external stability, the WAEMU's authorities should be commended for their collective adherence to fiscal consolidation, with the regional convergence criterion of 3 percent of GDP deficit expected to be met next year. However, particular focus should be placed on the explicit and implicit contingent liabilities and fiscal risks analysis. We are pleased to note the WAEMU authorities' acknowledgement of the need for more effective control of the off-balance sheet, with due consideration to country-specific factors, as indicated by Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde. Staff suggests that, given the growing recourse to non-concessional borrowing, the debt convergence criterion should be lowered to around 60 percent of GDP from 70 percent of GDP. Although the authorities have reservations with this proposal, they attach high priority to debt sustainability and we are pleased to note that they intend to discuss this proposal at the regional level.

Monetary policy is appropriate, and we welcome the indication that the authorities stand ready to tighten policy in case of pressures on reserves. An adequate level of reserves, along with fiscal consolidation, are key to supporting the peg, which remains a crucial policy anchor. Efforts to deepen the secondary debt and interbank markets will be helpful. We commend the WAEMU authorities for the important banking reforms, including the transition to Basel II/III, the implementation of the new bank accounting rules and the introduction of banking supervision based on a risk-sensitive consolidated approach to groups. We are comforted by the authorities' awareness of the banking sector weaknesses and the need to address the main vulnerabilities, including high NPLs and concentration and liquidity risks, to ensure financial stability and sustained growth of credit to the economy. Notwithstanding the strides made on banking supervision, they should take swift action to operationalize the new resolution framework and address the ailing banks. We welcome the substantial improvement made on financial inclusion along with the AML/CFT strengthening.

The WAEMU authorities' efforts made in maintaining a sustained growth momentum should be commended. However, more efforts are needed to strengthen efficiency and competitiveness to promote stronger growth and address high poverty and unemployment. We take positive note of the shared view on the staff's structural reforms recommendations and encourage the authorities to tackle all structural impediments that hinder the business environment, logistics performance, good governance, and public investment efficiency in order to foster private-sector led growth. In this regard, stronger efforts to improve inclusion, including by promoting gender and income equality, will be crucial.

We wish the authorities further success.

The Acting Chair (Mr. Furusawa) noted that the West African Economic and Monetary Union (WAEMU) region had been doing well. Growth remained strong. The fiscal deficit had narrowed, and inflation had stayed low. The medium-term outlook remained positive, although it was subject to downside risks. Directors noted that moving forward with the planned fiscal consolidation, enhancing the monetary policy transmission, and implementing structural reforms to improve competitiveness and foster inclusive private sector growth were important to reduce vulnerabilities and sustain macroeconomic stability.

Mr. Raghani made the following statement:

I would like to make a point of clarification. In our buff statement, we stated that WAEMU authorities consider all countries meeting the fiscal deficit target of 3 percent of GDP by 2020 as critical to achieving the medium-term objectives of reserve buffers. Indeed, seven out of the eight WAEMU countries are able to meet this criterion by the set deadline of 2019, with Niger having obtained a waiver and expected to reach the target in 2020 under its Fund-supported program. This implies that all countries would have effectively met the criterion by end 2020. This by no circumstance means that the deadline has been pushed back. In order to prevent any misinterpretation, we have issued a revised buff statement to correct the relevant sentence. We would like to reiterate that WAEMU authorities remain committed to the original convergence timetable.

Ms. Florestal made the following statement:

After reading Directors' gray statements and the written responses to Directors' questions, for which we thank the staff, we just want to emphasize one issue.

In Table 2 in the annex of the staff paper, we note there is a great variation, not only in terms of GDP growth, but also GDP per capita growth by member. We suspect that there are different population growth speeds and dynamics. We would appreciate it if the staff would elaborate on how migration and refugee movement, if any, would have an impact in these statistics.

The second issue we touched on is the quality of fiscal consolidation and emphasized the importance of domestic revenue mobilization going forward. Since in the recent past capital expenditures were squeezed to achieve fiscal consolidation, we would like to caution against a socially costly consolidation and stress the importance of growth-friendly measures.

Mr. Al Hafedh made the following statement:

We did not issue a gray statement, but we would like to limit our remarks to the following.

We commend the authorities for the continued strong growth performance with subdued inflation in the region. The medium-term outlook is also positive, but we note that vulnerabilities persist. We broadly agree with the staff's policy recommendations and would like to highlight a few areas for emphasis.

First, the authorities in the region are encouraged to increase efforts to sustain fiscal consolidation while enhancing government revenue mobilization to create fiscal space for priority infrastructure and social spending in addition to increasing the efficiency of public fiscal operations, as the staff highlighted.

Second, the exchange rate peg has served the region well, and we agree with the staff that the current monetary policy stance is broadly appropriate. We also see merit in the staff's recommendation to further develop the secondary debt market and interbank markets to allow for better monetary policy transmission.

Finally, delays in addressing the infrastructure gap and structural constraints in the business environment could pose risks to sustainable growth. We also encourage the region's authorities to put more efforts to reduce barriers to regional integration and promote diversification and inclusiveness. With these remarks, we wish the authorities further success.

Mr. Castets made the following statement:

We largely agree with the staff's assessment. I will elaborate on three points.

First, we note that the WAEMU's growth performance remains among the most elevated in sub-Saharan Africa, and inflation is under control, thanks to a prudent monetary policy. This positive development has taken place despite significant and long-lasting security challenges in Sahelian countries, and it illustrates that the WAEMU region has high growth potential even if the situation is heterogenous within the region. Within this context, we encourage the WAEMU authorities to preserve this positive momentum through appropriate macro policies and to seize this opportunity to develop sustainable and inclusive growth models going forward.

Second, this performance is also associated with risk, as pointed out by the staff report. These risks are mainly on the fiscal side, so in the coming months it will be critical to maintain, and in some countries, to strengthen growth-friendly fiscal consolidation to curb public debt trajectories and further consolidate the external buffers. As underlined in our gray statement, such a consolidation has to be driven mostly by measures addressing domestic resource mobilization in three areas: tax and custom administration, taxation policies, and exemptions streamlining.

As also underlined by the staff, the tax-to-GDP ratio has increased quite moderately over the past 10 years, and we are still far from the tax potential that is also well detailed by staff in its answers to our technical question. This is paramount to protect capital expenditures. We also note the staff's recommendation to enhance the surveillance in this field at a regional level.

Having said that, maintaining the sustainability of the public debt in the region is key, and we know that we have made progress within the institution over the past months with a multipronged approach that has been developed with the World Bank and also the new low-income country (LIC) Debt Sustainability Analysis (DSA) framework. Nonetheless, we will call attention to the rise in the debt-service-to-revenue ratios in some WAEMU countries, and call the attention of the authorities on this aspect. For example, we note the fact that some countries in the region such as Benin intend to issue Eurobonds in the years to come.

Third, several Sahelian countries are experiencing changing security conditions, which are becoming more macrocritical, so we believe the staff's reports might have brought more insight on these aspects, which have negative spillovers in many countries all over the region.

Ms. Pollard made the following statement:

Let me also thank staff for this excellent set of papers, including the several informative selected issues papers, and we appreciated the specific recommendations for the regional authorities in the staff report. I also thank Mr. Raghani and his colleagues for the buff statement and his remarks this morning.

I want to touch on a few points. One is on fiscal policy. We agree that the central challenge for the WAEMU economies is to improve the quality of their fiscal efforts to support both growth and sustainability, and we want to echo others in saying that growth-friendly fiscal measures are extremely important. There needs to be persistent efforts to broaden the tax base by reducing exemptions and bringing informal economic activity into the formal economy. Ensuring broad data coverage of fiscal activities will also help keep risks in sight and avoid debt surprises.

The regional authorities have an important role in supporting further deepening of regional financial markets and in strengthening banking supervision to ensure that banks can play their role in supporting growth. We also encourage the authorities to take into account the helpful analysis on competitiveness and economic inclusion from the selected issues papers.

A focus on inclusive infrastructure, education, and access to credit can help WAEMU economies improve economic outcomes and move toward higher performing regional peer countries. I also want to echo Mr. Castets's remarks on the need to take into account security issues in the region, as this also complicates the fiscal problems that countries are having.

Mr. Just made the following statement:

In addition to our gray statement, we have the following comments. WAEMU members need to secure the economic gains achieved over the past years and make them more sustainable. This will require more growth-friendly fiscal consolidation based on domestic revenue mobilization, and improve public financial management to deepen private sector-led growth and reduce vulnerabilities from governance weaknesses. Therefore, like other Directors, we urge the authorities and the national- and union-level authorities to more actively coordinate fiscal policies and better line fiscal targets with debt dynamics.

From the staff's answer to our question about the residual concept employed by staff to capture below-the-line operations, the staff mentioned that it slightly differs from the DSA residual. We would appreciate more details on this residual to better understand the calculation and whether it gives rise to an overestimation in debt.

As we mentioned in our statement, we would have expected a more in-depth discussion on the performance of Fund programs in the reports. Like Mr. de Villeroché and Mr. Castets, we would appreciate if the staff could provide a performance assessment of Fund-supported programs currently implemented in WAEMU, especially regarding the resource mobilization policies.

Like Ms. Pollard and Ms. Crane, we encourage the staff to draw connections between regional policies in country programs and to consider establishing regional policy assurances if and when relevant.

Mr. Fanizza made the following statement:

While we agree that the economic performance of the region has been remarkable, nevertheless there are signs that vulnerability might be brewing, so the paper rightly focuses on how growth could be sustained and risks could be minimized. Overall, we do not have any major issues with the paper.

I have a question concerning the discussion on monetary policy. I know that there is much talk in the Fund about the integrated policy framework. That might be the reason why the staff seems to suggest that there is some scope for monetary policy role in a situation where the regional currency is pegged to the euro. The standard, maybe old-fashioned approaches would say that there is no scope for monetary policy at the moment when two big countries need to finance themselves and so they go on the market and actually get funds. The idea in the staff appraisal is that a crowding-out effect might be present. In a situation of fixed exchange rate regimes, that is not accurate unless there is a story that should be built on and explained, so we would welcome comments from the staff on that.

Mr. Merk made the following statement:

We thank the staff for its set of reports and broadly concur with its policy recommendations. We thank Mr. Raghani for his helpful buff statement. We note with some concern that the public debt ratio has steady risen in recent years, owing probably to below-the-line budget operations. We strongly agree with the staff that adherence to the regional convergence criterion of 3 percent of GDP for the budget deficit in 2019 and beyond is of the essence while better integrating below-the-line operations into fiscal assessments.

We welcome the clarification of Mr. Raghani on his buff statement. We fully share the staff's recommendation that structural impediments to private investment need to be tackled, including by strengthening governance structures, the rule of law, and anti-corruption efforts. In this regard, we would have also welcomed the reference to the Compact with Africa initiative and how it can be used to catalyze private investment in the several participating countries.

Mr. Doornbosch made the following statement:

I would like to come back to a smaller issue in the reply to our question on the role of mobile payment systems. They are quite important in the region, and we asked a question on the security regulation, and the staff responded that mobile payments are regulated by the central bank and that the staff is not aware of specific actions and cyber risks which should relate mostly to web-supported intermediation channels.

I would like to point out that cyber breaches also occur on mobile phones and other computerized systems, and they are not only related to web-supported intermediation channels. Given the importance of the role of mobile payment systems, it might be interesting to also reach out to the MCM cybersecurity team on this issue in future engagement.

Mr. Moreno made the following statement:

First, we see that the fiscal challenge is at the center of the discussion with the authorities. We support or would like to stress the importance of revenue mobilization, so I associate myself with Mr. Castets. In terms of the design of the fiscal policy and the quality of the fiscal policy, we also highlight the importance of inclusion, and we particularly welcome the selected issues paper. We have made that point in our statement.

We ask the staff to elaborate on the issue of the debt ceiling, and where the discussions with the authorities stand, because I see in Mr. Raghani's buff statement that there is disagreement there.

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

I thank Mr. Raghani, Mr. Razafindramanana, and Mr. N'Sonde for their informative buff statement, and Directors for their insightful gray statements.

I heard a few questions. The first one and the one that also appeared prominently in the gray statements has to do about the nature of the fiscal consolidation, and we completely agree that to support the growth strategy in the region, this fiscal consolidation needs to be growth-friendly. It needs to be borne through further efforts in domestic revenue mobilization and preservation of development spending. It is true that the three quarter of a percentage point of fiscal consolidation that is expected for this year are evenly split between expenditure cuts and improvement in revenues, so those are borne by the Fund-supported programs, and there is extensive discussion

[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.

at every country level for measures that would be taken, and those measures vary country by country, but there is clearly in the 2019 plans some further efforts that are projected for revenue mobilization.

On the spending side, most of the effort in 2019 is foreseen to be made on current expenditure restraints, and the capital expenditure ratio is forecast to remain broadly stable. With economies growing in nominal terms between 7 and 8 percent of GDP, even a stable capital spending ratio already allows some space for human and capital spending.

There was one question on the debt ceiling and the discussion we had with the authorities on our recommendation. The ceiling that is currently in place in the regional framework is for debt to remain below 70 percent of GDP. We tried to look at the implication of this in relation to our Debt Sustainability Analysis (DSA). What comes out is that, in a context where as those economies are growing and increasingly going to markets, the share of concessional versus nonconcessional lending is changing, there is more recourse to nonconcessional spending, which means that for a given amount of debt, if there is a higher share of nonconcessional spending, the risks are higher. It is in this context that we looked at the current ratio of nonconcessional debt in the WAEMU country, and we found that if we factor that in, then preserving the moderate risk of debt distress that most of the countries have would warrant a headline debt number that is lower than 70 percent of GDP. We suggested 60 percent because it felt like it covered most of the countries, but there is no one magic number. We just wanted to flag that to the authorities and for them to factor that in during the upcoming review of the regional framework. They took note and said they would study it.

There was one question about security issues, and it is true that in several countries in the region those security issues are challenging and are having some negative spillovers on business confidence and activity. Those are flagged in our report in terms of risks, and the authorities were also concerned about those issues. Despite those challenges, we have seen strong growth momentum in all the countries in the region, but the negative spillovers are undeniable.

On monetary policy, let me clarify how we go at it. When a country is in a currency union with a peg, the role of monetary policy is clearly to preserve reserves, to ensure the stability of that exchange rate regime. In that context, the reason we are flagging the risk of private sector crowding out is that in that context where monetary policy only is focused on reserves, if there are higher government financing needs than currently planned, then there are two options, either banks or investors in the WAEMU fill that need, and there is less room for financing regionally domestic private credit, or there is more recourse to external financing, which will impact reserves. In both cases, this would have negative implications for the growth strategy that the authorities have, which is to make the private sector the main engine of growth. This was the context in which we referred to the risk of crowding out.

Finally, in reference to population growth and migration, population growth in the country ranges between 2½ and 3 percent annually, as one can see also from looking at the table of GDP growth versus per capita GDP growth. In terms of internal migration, in the past there were important population movements from the landlocked countries, mostly towards Côte d'Ivoire in the 1970s, and also more recently in the early 2000s, but it is not clear that there are currently large movements of the population within the region. At the same time, the large non-resident population in a country like Côte d'Ivoire also has macro implications for other countries in the region and especially in terms of remittances that are going from Cote d'Ivoire to the other countries, and to a lesser extent from Senegal to other countries. In a sense, the impact of migration within the region has some implications for growth focus. But this is also part of the study we did on competitiveness, and we are flagging the role of improving cross-border trade flows, but cross-border people flows are also important to have a truly integrated region.

Mr. Raghani made the following concluding statement:

Let me begin by expressing my appreciation to the staff for the quality and constructive policy dialogue they have held with the WAEMU regional authorities and for the set of excellent reports on common policies. I also thank the staff for the responses to the questions raised by Directors.

The WAEMU region continued to register robust growth mainly on the back of public investment. Growth differences across the union's member countries are narrowing. All continue to pursue fiscal consolidation efforts amid security challenges in parts of the region.

The union's external position has strengthened over the past year thanks to improvement in the external accounts following Eurobond issuance by two countries. Moreover, intense efforts by the central bank to enhance compliance with regional foreign exchange regulations have also contributed to strengthening reserve buffers.

Going forward, growth prospects remain positive owing to continued fiscal adjustment efforts and a greater role of the private sector, which is predicated on the implementation of reforms to enhance the quality and delivery of infrastructure and improve the business environment. The authorities are nonetheless conscious of vulnerabilities and risks to the outlook, and they broadly agree with the staff's policy advice to reduce them and build resilience. I have taken good note of valuable comments and policy recommendations made by Directors, which I will convey to my WAEMU authorities.

Regarding fiscal consolidation, Directors have cautioned against adjustments that excessively delay cutting capital spending out of concern for growth and infrastructure needs. Enhancing domestic revenue mobilization and improving public spending efficiency, including by better controlling public-private partnerships, are priorities shared by WAEMU authorities. They also hold the view of ensuring a sustainable medium- to long-term macro framework. This will continue to control inflation, which remains subdued. It intends to maintain its current monetary policy stance as reserve buffers increase, thanks to continued fiscal consolidation and the greater compliance with foreign exchange regulation, which will be further strengthened.

The central bank authorities remain vigilant to preserve the union's external stability. They will also continue prudent management of liquidity while promoting the development of the interbank and debt security markets.

Regarding the financial sector, the Banking Commission strives to enforce the new prudential regime aligned with Basel II/III standards, especially as it relates to asset quality and capital base with a view to strengthening banks' resilience and subsequent financial stability. It also monitors adherence to Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) regulation and compliance with best practices, including by banks with matching country operations and the subsidiaries of foreign-owned banks.

On structural reforms, I take good note of Directors' advice to intensify efforts toward raising competitiveness, reducing bias to intraregional trade, advancing financial inclusion, and reducing income and gender inequalities. The WAEMU Commission will continue to coordinate several regional initiatives to these, including projects in energy and transport and agriculture.

Finally, regarding the regional convergence framework, notably on the threshold for public debt-to-GDP ratio, the review of the WAEMU Commission on the threshold for public debt-to-GDP ratio differs slightly from staff. The commission also considers debt service, which weighs on the government budget and the capacity to meet medium- to long-term obligations, as a more relevant criterion. In any case, the WAEMU authorities will continue to reflect on this issue with the view to come up with the best strategy for member states to ensure fiscal and debt sustainability. The commission is eager to move progressively toward its own debt sustainability assessment as it improves its access to data and enhances information system capacity. Fund TA and training will be useful.

To conclude, I thank the Board for the support to WAEMU through valuable advice, technical assistance, and financial support to member countries under Fund programs. I cannot close my statement without thanking the Deputy Director, Mr. Desruelle, the mission chief, Ms. Allard, and her team for the continuous dialogue and support for my WAEMU authorities.

The following summing up was issued:

Executive Directors agreed with the thrust of the staff appraisal. They welcomed the region's continued strong growth despite the ongoing challenges and commended the authorities for the progress made in implementing banking sector reforms. Directors noted, however, that the medium-term outlook is subject to downside risks, including those from rising public debt burdens and higher external current account deficit. They emphasized that continued fiscal consolidation, more effective monetary policy transmission, and further financial and structural reforms are needed to support private sector-led growth and reduce vulnerabilities.

Directors underscored that growth-friendly fiscal consolidation is critical to reduce risks of public debt distress and preserve external stability. They urged member-countries to adhere to the regional fiscal deficit convergence criterion of 3 percent of GDP. Directors emphasized that adjustment efforts should focus on domestic revenue mobilization by curbing tax exemptions and enforcing regional tax policy directives, to generate space for development spending. They also urged more effective control of below-the-line budget operations and encouraged a review of the regional surveillance framework to better contain risks to debt sustainability.

Directors concurred that the current monetary policy is broadly appropriate but highlighted that the regional central bank (BCEAO) should stand ready to tighten its stance in case external reserves deteriorate. They encouraged the BCEAO to address cautiously the banking sector's structural liquidity deficit and advised the authorities to take steps to further develop more active and liquid secondary debt and interbank markets for deepening the WAEMU financial markets and enhancing monetary policy transmission.

Directors welcomed the smooth introduction of new Basel II/III prudential regulations and bank accounting standards in 2018. They highlighted the importance of increasing banks' capital and reducing concentration risks and non-performing loans to foster confidence in the banking sector. Directors also encouraged the authorities to promptly resolve ailing banks, operationalize the new resolution framework, improve banking groups' supervision, and identify criteria for defining systemic institutions.

Directors called for further efforts to improve financial inclusion. They highlighted the need for adequate supervision alongside financial innovations to ensure that such development does not create new risks to financial stability. Directors stressed the importance of closely monitoring microfinance institutions and strengthening AML/CFT risk-based supervision.

Directors emphasized the need to intensify the pace of structural reforms and regional initiatives to improve competitiveness and inclusiveness, including through continued efforts to promote cross-border infrastructure projects, and ease custom procedures. Directors also encouraged the authorities to sustain the progress made in improving the quality, coverage, and timeliness of regional data.

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

APPROVAL: October 5, 2021

CEDA OGADA
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:

Fiscal policy and debt sustainability

1. ***We are concerned that in the BUFF statement the target year to achieve the fiscal deficit of 3 percent was extended to 2020. Staff comments would be welcome.***

- The authorities' BUFF statement has since been revised to state that the target year to achieve the fiscal deficit of 3 percent is 2019, not 2020.

2. ***Could staff clarify the relative importance of the large economies in this [fiscal deficit] adjustment and update us on country measures underway towards meeting the convergence target this year?***

- Côte d'Ivoire and Senegal, which account for about 60 percent of the regional GDP, are expected to consolidate their fiscal deficits by 1 percentage point of GDP and 0.4 percentage points of GDP respectively in 2019, compared to a planned consolidation of 0.7 percentage points of GDP for the WAEMU as a whole.

3. ***We would be interested to hear from staff about the rationale for not including these expenditures in the deficit target. What are the staff recommendations for a more broadly defined fiscal target?***

- Gaps in fiscal data coverage mainly reflect the fact that most WAEMU countries are still transitioning toward GFSM 2001/14 reporting standards. As indicated in the Staff report and Chapter 1 of the SIP, staff's main recommendation is for member countries to effectively implement the regional PFM directive mandating such a transition. Technical assistance is being provided to this end by the Fund, through AFRITAC West.

4. ***As the enforceability and effectiveness of the fiscal convergence criteria are weak as demonstrated by fiscal consolidation delays, can staff comment on possible back-up plans the authorities should have at the ready?***

- As underscored in the Staff Report, fiscal consolidation is crucial to preserving debt sustainability and external viability. Under their respective Fund supported programs, all WAEMU member countries but Niger have committed to bring their fiscal deficit to 3 percent of GDP starting this year, and Niger has made a similar commitment for 2020. Some progress was achieved towards these commitments in 2018, as show in the decrease in the aggregate fiscal deficit. Significant and persistent fiscal slippages going forward would undermine macroeconomic stability, by crowding out private sector credit which would hamper private sector led growth or by leading to losses of external reserves which would jeopardize external viability and risk losing external investors. Countering such slippages through monetary policy tightening would likely weigh on the banking system and credit to the economy. Therefore, there is no substitute for fiscal consolidation if the current growth momentum and macroeconomic stability are to be preserved, and, in case of fiscal slippages, it would be essential that WAEMU member countries take prompt corrective revenue and/or expenditure measures to ensure that any deviation from their fiscal consolidation path remains limited and temporary

5. ***Does staff consider that the WAEMU commission needs Technical Assistance support to address below-the-line operations? Could staff further elaborate on the communication strategy mentioned in paragraph 16 in that regard?***

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- Staff recommends that WAEMU Commission better integrates the role of below-the-line operations into its assessment of member countries' fiscal and debt policies. This recommendation is not intended to imply a detailed analysis of such operations, but rather for the WAEMU Commission to conduct regular stock-flow analysis as part of DSAs, which would give it the tools to better impress upon member countries the need to curb such operations. The WAEMU Commission has expressed interest in building DSA capacity, and staff intends to address this need in conjunction with Technical Assistance provided to member countries in this area. The WAEMU Commission's regular assessments and recommendations about below-the-line operations should be fully reflected into its semi-annual surveillance reports, and related messages should be more widely disseminated through a variety of medias.

6. ***Given past experience with the implementation of the WAEMU directives, we would be interested in staff's view on potential ways to improve their traction.***

- Some WAEMU countries, such as Senegal, have made greater progress than other members towards the implementation of WAEMU PFM directives, as illustrated, for instance, through its transition to GFSM 2001/14. An intensification of peer learning among member countries, including through the organization of regional seminars, could potentially help improve the traction of WAEMU's PFM directives.

7. ***Moreover, we take note with concern that the fiscal consolidation in 2018 mainly on account of lower public capital spending, considering the region's infrastructure gap. Staff's comments are welcome.***

- Capital spending in percent of GDP declined modestly in 2018, reflecting both spending compression and in some places constraints in absorption capacity. Going forward, staff's recommendation is to combine fiscal consolidation with greater progress on domestic revenue mobilization to generate space for development spending, including for infrastructure needs. In addition, structural reforms are also needed to improve competitiveness, boost private investment, and promote a private sector-led growth.

8. ***Can staff comment on the progress made by WAEMU members with enhancing investment efficiency in the last year and future plans for further improvements, including TA by the Fund?***

- Improving public investment efficiency is a priority in WAEMU countries' Fund-supported programs. All WAEMU countries but Guinea Bissau have had PIMA TA missions, including Senegal and Niger since the last regional consultation. Building on recommendations from these missions, member countries have taken various measures during the last year, such as the publication of criteria for the selection of investment projects on an official website to enhance transparency and more systematic used of feasibility studies in Benin, the implementation of the Integrated Analysis, Programming and Monitoring and Evaluation System (SYNAPSE) to help improve project selection and the interconnexion between information systems to better linking the programming and public investment budgeting phases in Côte d'Ivoire, or the development of a methodological guide to select public investment projects through a cost-benefit analysis in Togo. Less progress was achieved towards improving public investment efficiency in Guinea Bissau and a FAD TA mission on capital expenditure budgeting will visit Bissau later this month to assess the situation, provide training, and suggest an action plan—potentially paving the way towards a PIMA mission in the future.

9. ***In that regard, we would appreciate if staff could provide a performance assessment of IMF-supported programs currently implemented in WAEMU regarding DRM policies: Do these programs result in higher tax to GDP ratio? Do these programs allow to preserve key development spending, including social spending? More broadly, we note that the additional tax revenue potential is estimated between 3.5 and 5.0 points of percentage of GDP Sub-Saharan Africa but we would be interested in getting such an estimate country by country within the WAEMU region.***

- As can be seen from the data in Table 4 of the staff report, there has been some progress in increasing government revenue, but that progress has been too modest. Programs have floor on social spending that allow to protect that key spending. The study that estimated that the tax potential for sub-Saharan Africa at between 3 ½ and 5 percent of GDP has been reported in the REO for SSA (April 2018). It estimated somewhat lower potential for the WAEMU region, averaging 2 to 2 ¼ percent of

GDP. However, more specific evaluations, based on country specific technical assistance, suggest that WAEMU countries' revenue potential is larger than what came out from the sub-Saharan Africa-wide evaluation.

10. ***The weight of debt service on government revenue does not seem well correlated with total debt to GDP. For instance, the country with the highest debt service to revenue ratio (Benin, at 71 percent) registered a debt to GDP ratio of 54.2 percent, the fourth highest. We note that the WAEMU Commission signaled that this issue [public debt to GDP target] could be discussed soon. Staff's comments would be welcome.***

- Debt service can vary substantially from year to year, depending on the profile of principal payments. In Benin, the spike in debt service in 2018 mainly reflects a debt restructuring operation, whereby expensive domestic debt was redeemed using the proceeds from new external debt benefitting a World Bank guarantee. The WAEMU Commission indicated that the appropriateness of the level of the 70 percent of GDP ceiling on member countries' public debt could be evaluated during an upcoming review of the WAEMU's regional surveillance framework which approaches the end of its convergence phase.

11. ***We note that authorities remain to be convinced about lowering the debt convergence criterion to around 60 percent of GDP from current 70 percent as proposed by staff, based on the current risk of debt distress. We would welcome staff's further elaboration on the rationale for this proposal.***

- There is no one magic number for the level at which the ceiling on public debt should be set to prevent high risk of debt distress among WAEMU countries. Staff's main message is that based on current levels of concessional borrowing by WAEMU sovereigns in the latest DSAs prepared by staffs from the World Bank and the IMF, nominal equivalents of DSA thresholds for the NPV of public debt are significantly lower than 70 percent for several WAEMU countries. This means that at its current level, the regional debt ceiling cannot perform its role as a signaling device to reduce the risk of debt distress for these countries.

12. ***Could staff provide additional comments whether the suggested debt ceiling of around 60 percent of GDP would be sufficient to keep the probability of debt distress low?***

- The suggested debt ceiling of around 60 percent of GDP would not be complemented with other indicators to keep the probability of debt distress low, as the latter depends on a variety of other factors, including the share of concessional debt (which varies through time and among member countries) and liquidity considerations. This is why staff recommended to complement this ceiling with DSAs, which focus on the present value of debt and also set thresholds for debt service in relations to government revenue or exports.

13. ***We would like to know whether there are similar cases in other regions that regional criterion could be better aligned with DSA thresholds.***

- Other currency unions also include public debt ceilings or benchmarks as part of their macroeconomic surveillance framework. The CEMAC also has a debt ceiling set at 70 percent of GDP. Past staff analysis had concluded that the risk of debt distress for the CEMAC would increase considerably if public debt exceeded 50 percent of GDP. On this basis, staff had recommended to lower the debt ceiling from 70 percent to around 50 percent of GDP. This issue has not been taken up in most recent discussions with the CEMAC authorities, which have focused more on the new fiscal deficit criteria. The East Caribbean Currency union (ECCU) has a 60 percent of GDP target for 2030 and staff has recommended to treat the 60 percent of GDP figure as a ceiling, while advising lower operational debt targets to be set on a country-specific basis. This country specificity is also a relevant consideration for the DSA thresholds: 3 ECCU countries use MAC DSA while 3 others use LIC DSA due to substantial cross-country differences in income. The EU/euro area has a debt benchmark where countries are required to gradually reduce debt to 60 percent of GDP, which is more prudent than the MAC DSA debt burden benchmark for advance economies of 85 percent of GDP.

14. ***We would like staff to further explain how these trend changes are not affecting the bottom-line of the DSA analysis, and only result in an assessment that there is lower room for maneuver. It is not clear that this is the case given the composition change towards external debt and therefore increased exposure to global financial risks?***

- Any changes driven by below-the-line fiscal operations automatically affect the DSA as those operations directly contribute to the building of public debt stock and its servicing costs. Servicing costs are used to compute liquidity and solvency indicators that are part of the risk of debt distress assessment. As reported in Figure 5 of the SIP on “The WAEMU surveillance framework”, even if the overall risk of debt remains moderate for all the WAEMU member-countries, (except for Senegal (low) and Togo (high)), higher public debt (including due to below-the-line operations) and the shift toward external financing in some countries have reduced the distance between their current levels of liquidity and solvency indicators and the applicable DSA thresholds.

15. ***We are therefore concerned about the growing debt level that reached 52.5 percent of GDP in 2018, and especially about the soaring total debt service costs that have***

increased to 33 percent of GDP in 2018 from 26.4 percent in 2017. Could staff elaborate further on this issue, including on the debt composition, drivers of debt service costs, and their expected dynamic in 2019-2020 given elevated risks for LICs?

- Total debt service and interest reported in the Staff Report (first bullet of paragraph 4 and Table 6) are in percentage of government revenue excluding grants, not in percentage of GDP. In terms of composition, the increase in debt is mainly driven by external debt, particularly with the consecutive issuances of Eurobonds by some member-countries in recent years. Between 2015 and 2018, the increase in public external debt accounted for 2/3 of the 9.1 percentage points of GDP increase in total debt. Regarding debt service costs, the increase is driven by (i) the reduction of concessional loans over time in member-countries, (ii) the concentration of maturities in the regional auction market in 2017, and (iii) the shortening of maturities on the regional market.
- Going forward, debt stocks and their service are expected to decrease in the context of the implementation of national fiscal consolidation plans.

16. ***Since "residual factors" from the DSAs (averaging at 1.2 percent of GDP annually in 2013-2018) are entirely attributed by staff to below-the-line operations, we would appreciate staff's comments on any other factors that could drive residuals in DSAs, as well as further elaborations on how these are consistent with other country cases with persistently high residuals.***

- The concept of residual or "below-the-line" operations used in the Staff report differs slightly from the residual in DSA. As shown in the second graph of page 5 of the Staff report, the term "below-the-line" operations is used to capture the debt dynamics that do not result from the fiscal deficit, valuation effects, nominal GDP growth, guarantees and debt of state-owned-enterprises. This concept captures quasi-fiscal operations of state-owned enterprises, operations from extrabudgetary funds and the realization of contingent liabilities

17. ***While we see the rationale for complementing the existing debt ceiling with a DSA, we wonder whether there is sufficient capacity to undertake such an exercise at the regional level and what would be its value added while compared with, for example, the IMF/World Bank's DSA. Staff's comments would be appreciated.***

- The Fund has provided technical assistance to its low-income members, including WAEMU countries, to develop their own DSA capacity. As a result, some WAEMU countries do prepare their own DSAs, which can usefully accompany their budget documents. Without necessarily acquiring the capacity to conduct DSAs, the WAEMU Commission would benefit, in the context of the surveillance framework, from being able to analyze critically such national DSAs, which often rely on optimistic assumptions for key macroeconomic variables such as GDP growth.

18. ***Could staff also indicate whether its projections of the funding cost, both on international and domestic markets, have changed in the aftermath of the recent announcements of the Fed and ECB on their respective pace of monetary policy normalization?***

- Since end-December 2018 and the Fed and ECB announcements on their respective pace of monetary policy normalization, the bond yield for Côte d'Ivoire's and Senegal's existing Eurobonds decreased by about 50 and 80 basis points respectively. However, borrowing costs on the regional market have not been impacted in the same magnitude. Given that plans for tapping international markets this year are relatively limited (see next question), at that stage, those developments are not expected to have a significant impact on funding costs.

19. ***Could the staff provide details about non-concessional debt issuance intentions in WAEMU for the coming month?***

- Only two member countries of the WAEMU (Côte d'Ivoire and Senegal) have tapped international capital markets in the past to issue market debt. In the coming months, the authorities of Côte d'Ivoire intend to go back to international markets, but for a level significantly lower than last year and to also tap the regional market. The authorities of Senegal intend to use part of the proceeds from last year's Eurobonds, while also tapping the regional market.
- The authorities of Benin have announced their intention to issue a first Eurobond in the near future, but details about the timing, amount and bond characteristics are still uncertain.
- The rest of the WAEMU countries plan to issue non-concessional market debt only on the regional market.

Monetary and exchange rate policies

20. ***Would the staff assessment of monetary policy have been different had there not been these Eurobond issues?***

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- It is hard to predict what the counterfactual would have been if Eurobond issuances had not occurred. External reserves benefitted from the issuance of Eurobonds, but buoyant domestic demand contributed to a wider current account. If the Eurobond issuances had not happened, the authorities could have either sought other forms of external financing or would have restrained capital spending. Given the high import content of those types of spending, the current account deficit would then not have

widened by as much. In this alternative scenario, our assessment of the monetary policy stance would have also been governed by the evolution of the reserve position.

- This being said, while it should remain prudent, recourse to Eurobond financing by the sovereigns of WAEMU's largest frontier economies is part of their normal borrowing strategy driven by the interest rates, maturity, and other debt management considerations, as they gradually graduate from access to more concessional sources of funding.

21. ***We wonder whether there is some margin to tighten monetary policy to boost the reserve import-cover ratio towards more comfortable levels. Staff's comments are welcome.***

- With external reserve import coverage projected to increase gradually over the medium-term, staff views the monetary policy stance as appropriate. The critical action to build up external reserve is the effective implementation of fiscal consolidation plans.

22. ***Regarding staff's call for advancing the BCEAO's collateral framework, we wonder whether there are any capacity constraints that hinder its implementation.***

- The BCEAO currently applies a flat 10 percent haircut on all sovereign bonds brought as collateral to its refinancing window. In our view, there would not be any capacity constraints to a move to differentiated haircuts based on specific sovereign risk assessments but the BCEAO has indicated that they are not contemplating such a move.

23. ***Could staff elaborate more on whether the exchange rate is appropriate and its impact on the region's competitiveness?***

- Our analysis is that the external position is moderately weaker than implied by current fundamentals. That said, the analysis conducted in chapter 2 of the SIP on "Boosting competitiveness to foster trade performance, weather terms-of-trade shocks and support external buffer" shows that, more than the evolution of the WAEMU REER, constraints on the WAEMU competitiveness are mostly driven by structural and non-price factors, including infrastructure and education.

24. ***Is it possible that the exchange rate is aligned with fundamentals in some countries but not in others? Staff comments are welcome.***

- The external assessment made in the context of the regional consultation is done for the WAEMU as a whole, using union-wide elasticities and variables. Such variables may differ from one member-country to another, because of structural differences but also the lack of perfect synchronization of business cycles. In addition, the current account gap estimated for the regional consultation only relates to transactions between the WAEMU and the rest of the world, whereas current gaps estimated for national Article IV consultations also relate to intra-regional transactions. Moreover, external sector assessments made in the context of national Article IV consultations are not done at the same time as similar assessments made in the context of the regional consultation. For all these reasons, although they should be relatively close to each other, external assessments for individual member countries and the currency union as a whole are not strictly equivalent to one another.

Financial sector

25. ***We see value in the authorities' request for the Fund and the World Bank to provide support on the recapitalization of banks. Could staff discuss how the Fund or the World Bank could assist in this area?***

26. ***We note from the buff that the authorities would welcome the Fund's and World Bank's support for recapitalizing public banks. We would be, therefore, interested to learn more about the fiscal cost associated with this recapitalization and whether technical assistance will be given in this regard.***

27. ***Given that many of the banks are state-owned, alongside the reality of limited national public resources to recapitalize them, could staff comment on the Commission's plans to address this? Could staff also elaborate on the systemic implications of the three (3) under-capitalized banks referred to in para 6?***

- Several weak banks are state-owned and should be restructured and recapitalized. These public banks are not of systemic importance at the regional level, but some seem to play a significant role on their national market. These restructurings are being overseen by the Commission Bancaire and being monitored under Fund-supported programs. Recapitalization needs will vary on a bank by bank basis, depending on NPLs and the restructured business priorities. The authorities' reference to Fund support in the process of public bank recapitalization is related to the monitoring under Fund-supported programs. Staff stands ready to provide technical assistance if and where requested.

28. ***Staff's views on the overall impact of Basle II/III on WAEMU and whether certain aspects could be procyclical would be welcome.***

- The WAEMU banking sector has fully supported the 7-year strong growth cycle with substantial credit growth to both the public and the private sectors. To continue to fulfill that role, banks must now increase significantly their capital and liquidity buffers. The transition to Basel II/III is therefore timely. There are mitigating factors that will reduce the risk of pro-cyclicality: (i) the transition is being phased out over 5 years and has been announced early on so that banks have started preparing for it, and (ii) the reduction in sovereign financing needs related to the planned fiscal consolidation will free resources to extend credit to the economy.

29. ***Can staff comment on the status of financial supervision on mobile payment services? Does the supervision address also cyber-risks?***

- Mobile payments are supervised by the central bank and the bank supervisor under an operational risk approach under the specific status of "electronic money issuer", and user funds are segregated from operator's own funds. Staff is not aware of specific actions on cyber-risks which should relate mostly to web-supported intermediation channels.

30. ***In this regard, could staff indicate whether the progress of financial inclusion, notably through mobile banking operators, mentioned (at paragraph 21) contribute to a widening of the size of the domestic banks balance sheets, and so to an increase in the volume of domestic credit capacity?***

- The development of mobile payments does not have a significant impact on bank balance sheets. In particular, the emerging offering of credit and savings products by two mobile operators is enabled by commercial ventures with some banks, as these activities are overseen and regulated as banking services. However, volumes have not been significant yet at bank level.

31. ***Can staff comment on current developments with respect to the mix of external vs. domestic financing?***

- The significant issuance of Eurobonds in recent years by the two largest countries has eased liquidity tensions in the regional financial system that had emerged in the wake of monetary policy tightening in end 2016. Recourse to financial market financing is nonetheless expected to increase in the medium term, and it is essential to implement the appropriate structural reforms to ensure that supply on the regional market is adequate—such as for example ensuring the depth and liquidity of secondary sovereign bond market and attracting new categories of investors to the markets.

32. ***Can staff elaborate on the reasons why the resolution framework has not yet been implemented?***

- The resolution framework endows the Commission Bancaire (CB) with resolution authority and powers in principle. The CB has been working on assessing best resolution practices against existing regional laws on financial restructuring and asset transfers, to secure legal certainty for resolution actions. In that respect, the Resolution College is now operational, and the authorities are finalizing the regulatory instruction governing operational processes.

33. ***Can staff comment on whether the BCEAO's 2017 AML/CFT instructions are gaining traction with banks?***

- Adherence to AML/CFT regulations and best practices is now controlled by the bank supervisor during its field inspections at banks. Large banking groups have rolled out operational processes to ensure compliance. WAEMU's regional banks with multi-country operations are controlled both on a consolidated and a stand-alone basis. Foreign-owned banks, mostly from the EU and Morocco, control a substantial market share and are jointly supervised by their host and home supervisors, which means they are operating along international standards.

Fund engagement

34. ***Given that many WAEMU members are currently under Fund-supported programs, we repeat our previous call for a more extensive discussion in the staff papers on the respective program performances and their possible spillovers and interplay with union-wide performance and policies. Staff comments are welcome.***

- The Staff Report does underscore the crucial spillovers from national policies, both on the fiscal and structural front, to the WAEMU's external viability. The regional consultation complements the national consultations, including the biannual reviews of Fund programs for the 8 WAEMU member-states, which discuss in detail WAEMU member countries' performance under their Fund supported programs and are submitted to the Executive's Board consideration.

Statistics and data

35. ***Regarding national accounts, we would like staff to update the board about the GDP rebasing process recently undertaken, or expected in the coming months, in WAEMU member-countries.***

- Rebased GDP series are expected to be available this month in Burkina Faso, at the end of next month in Guinea-Bissau and by the end of this year in Benin, Côte d'Ivoire, and Togo.