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STAFF REPORT ON COMMON POLICIES FOR MEMBER COUNTRIES—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE WAEMU

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

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 11, 2022, consideration of the staff report.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 11, 2022, following discussions that ended on November 19, 2021. Based on information available at the time of these discussions, the staff report was completed on January 20, 2022.
- A **Statement by the Executive Director** for the WAEMU member countries.

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

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PR22/55

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

FOR IMMEDIATE RELEASE

- *The WAEMU region has so far demonstrated strong resilience to the Covid crisis, and the economy is recovering on the back of supportive fiscal and monetary policies.*
- *Growth is projected to accelerate this year, mostly driven by a rebound in net exports. But there are important downside risks to the economic outlook, including from the possibility of further deterioration of the security situation and political uncertainty.*
- *A gradual fiscal consolidation is expected to start in 2022 and bring back the regional fiscal deficit towards 3 percent of regional GDP by 2024.*

Washington, DC – **March 2, 2022:** On February 11, the Executive Board of the International Monetary Fund (IMF) concluded the regional consultation[1] with the West African Economic and Monetary Union (WAEMU) on February 11, 2022.

The WAEMU has so far demonstrated strong resilience to the Covid crisis. Nonetheless, the region has been hard hit by the Omicron variant and security risks continue to increase in some countries. Despite these headwinds, the economic rebound that started in the second half of 2020 firmed up in 2021, while fiscal and monetary policies remained supportive. External reserves have risen to comfortable levels and the financial system appears to be broadly sound. Inflation has exceeded the 3 percent ceiling of the BCEAO's target band since April 2021, mainly on account of higher domestic and imported food prices.

Growth is expected to further accelerate to about 6 percent in 2022, primarily driven by a rebound in net exports and inflation is projected to return to the BCEAO's target band by the end of the year. A gradual fiscal consolidation is expected to start this year and bring the aggregate fiscal deficit to 3 percent of GDP by 2024. There are however significant downside risks to the outlook, particularly given slow and uneven progress with vaccination, the possibility of further deterioration of security risks and political uncertainty, and the likely tightening of global financial conditions.

Executive Board Assessment[2]

Executive Directors welcomed the region's strong resilience to the COVID crisis and that the recovery has firmed up in 2021. Directors noted important downside risks to the outlook, particularly from the evolution of the pandemic, a tightening in global financial conditions,

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[1]Staff reports on the annual consultations with regional institutions of currency unions and the ensuing Board discussion are both considered an integral part of the Article IV consultations with individual member countries. Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff f team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

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

deterioration in security conditions, and political instability. They underscored that efforts to ensure macroeconomic sustainability, while limiting scarring and supporting the recovery are crucial.

Directors agreed that a return to the aggregate fiscal deficit ceiling of 3 percent of GDP by 2024 is essential to maintain an adequate level of external reserves, limit the risk of regional financial market pressures, and ensure debt sustainability. The credibility of the medium-term adjustment path would be enhanced by re-establishing the WAEMU's Convergence Pact. Directors emphasized that the fiscal adjustment should promote an inclusive recovery. They recommended implementing revenue-enhancing measures, protecting priority social and infrastructure expenditure, and prioritizing vaccine rollout. Directors highlighted the importance of using the SDR allocation in a way that preserves fiscal sustainability and external stability.

Directors concurred that the accommodative monetary policy stance remains appropriate. They urged the BCEAO to stand ready to tighten monetary policy if the external position weakens or persistent inflationary pressures emerge. Directors welcomed the BCEAO's continuing efforts to modernize its policy and governance frameworks. They noted that reserves are adequate.

Directors welcomed the progress on finalizing the bank resolution framework and encouraged its full operationalization. They stressed the need to reduce the high reliance of some banks on BCEAO refinancing and to address structural fragilities in the microfinance institutions sector. Directors concurred that enhancing the depth and liquidity of the sovereign security market remained a priority.

Directors agreed that countering the possible scarring effects of the crisis would require strong actions at the regional and national levels to boost productivity growth and stimulate private investment. They noted that regional-level priorities were to foster trade integration, enhance regional competitiveness, and accelerate the implementation of regional infrastructure projects.

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.

Table 1. WAEMU: Selected Economic and Social Indicators, 2018–26[1]

Social Indicators

GDP		**Poverty (2015 or latest available)**	
Nominal GDP (2020, millions of US Dollars)	159,277	Headcount ratio at $1.90 a day (2011 PPP)	47.1
GDP per capita (2020, US Dollars)	1,218	Undernourishment (percent of population)	12.5
Populations characteristics		**Inequality (2015 or latest available)**	
Total (2020, millions)	131	Income share held by highest 10 percent of population	32.1
Urban Population (2020, percent of total)	40.8	Income share held by lowest 20 percent of population	6.1
Life expectancy at birth (2019, years)	61.3	Gini index	40.8

Economic Indicators

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			SM/21/5 [2]	Est.	SM/21/5 [2]	Proj.	Projected				
	(Annual percentage change)										
National income and prices											
GDP at constant prices [3]	6.5	5.8	0.3	2.0	5.4	5.7	6.1	7.0	7.2	6.1	5.8
GDP per capita at constant prices	3.4	2.8	-2.5	-1.0	2.5	2.8	3.1	3.9	4.1	3.1	2.8
Consumer prices (average)	1.0	-0.1	1.7	2.3	1.6	3.3	2.5	1.9	1.9	1.9	1.9
Terms of trade	-1.9	-3.2	18.4	19.4	2.3	-3.1	-1.7	-2.6	-2.2	-0.5	-0.6
Nominal effective exchange rate	4.1	-0.5	...	3.7	...	...	...	...	...	...	...
Real effective exchange rate	2.2	-3.7	...	3.7	...	...	...	...	...	...	...
	(Percent of GDP)										
National accounts											
Gross national savings	18.6	19.4	18.6	20.1	19.4	19.5	20.1	20.7	21.0	21.4	21.5
Gross domestic investment	24.4	24.2	24.0	24.6	25.1	25.4	25.9	26.0	25.5	25.8	26.0
Of which: public investment	6.4	6.1	7.1	7.1	7.1	7.5	7.8	7.4	6.9	7.0	7.1
	(Annual changes in percent of beginning-of-period broad money)										
Money and credit											
Net foreign assets	4.6	6.6	0.3	0.7	-0.5	2.5	-0.1	0.7	1.8	1.3	1.0
Net domestic assets	7.9	3.7	10.1	15.9	7.4	5.5	8.0	8.0	7.2	6.7	6.7
Broad money	12.5	10.3	10.4	16.5	6.9	8.0	8.0	8.7	9.0	8.0	7.7
Credit to the economy	5.9	4.2	5.6	4.1	3.3	2.6	2.5	3.8	4.6	3.9	3.8
	(Percent of GDP, unless otherwise indicated)										
Government financial operations											
Government total revenue, excl. grants	14.6	15.6	14.7	15.2	15.5	15.3	15.9	16.3	16.5	16.9	17.2
Government expenditure	19.7	19.8	23.1	22.9	22.3	22.9	22.4	21.6	21.0	21.2	21.4
Overall fiscal balance, excl. grants	-5.0	-4.1	-8.4	-7.6	-6.9	-7.6	-6.5	-5.4	-4.4	-4.3	-4.2
Overall fiscal balance, incl. grants	-3.3	-2.3	-5.9	-5.7	-4.9	-5.9	-4.7	-3.8	-3.0	-3.0	-3.0
External sector											
Exports of goods and services [4]	19.2	19.6	17.0	18.7	18.1	18.9	19.9	19.7	20.3	20.2	19.8
Imports of goods and services [4]	25.5	25.4	23.4	24.2	24.3	25.8	26.6	25.7	25.4	25.0	24.8
Current account, excl. grants	-6.7	-6.1	-6.9	-5.9	-6.8	-6.8	-6.8	-6.3	-5.4	-5.3	-5.3
Current account, incl. grants	-5.6	-4.9	-5.4	-4.5	-5.7	-5.9	-5.9	-5.3	-4.5	-4.5	-4.6
External public debt	28.0	30.2	32.9	33.6	33.3	36.4	35.1	33.5	31.8	30.3	29.4
Total public debt	43.4	45.5	48.5	52.1	49.6	55.6	55.5	54.5	52.7	51.5	50.8
Broad money	33.0	34.3	37.1	38.6	37.1	38.6	...	...	...	...	...
Memorandum items:											
Nominal GDP (billions of CFA francs)	83,301	88,519	90,231	91,545	96,476	98,891	106,762	116,024	126,456	136,513	147,001
Nominal GDP per capita (US dollars)	1,217	1,190	1,198	1,218	1,322	1,332	1,394	1,494	1,600	1,692	1,784
CFA franc per US dollars, average	555	585.9	...	574.8	...	...	...	...	...	...	...
Gross international reserves [5]											
In months of next year's imports (of goods and services)	4.6	5.6	5.5	5.5	5.0	5.8	5.5	5.3	5.3	5.2	5.0
In percent of this year's GDP	10.3	11.7	...	12.8	...	13.9	12.9	12.2	11.9	11.5	11.0
In percent of the BCEAO's sight liabilities	79.6	81.4	...	77.3	...	86.4	89.4	84.2	81.9	79.2	76.1
In millions of US dollars	14,853	17,547	19,275	21,764	19,497	24,228	24,898	25,827	27,626	29,035	30,043

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

[1] All projections presented in this staff report were prepared in the first half of December 2021 and do not incorporate any further developments.

[2] Shows data from the IMF Country Report No. 21/49, published on January 21, 2021 (Board document number SM/21/5).

[3] The acceleration in GDP growth in 2023 is due to the start of production of large hydrocarbon projects in Niger and Senegal.

[4] Excluding intraregional trade.

[5] Projections for 2021 include the 2021 SDR allocation which is equivalent to US$2,327 million, or 0.6 months of imports and 9.6 percent of the BCEAO's sight liabilities.

WEST AFRICA ECONOMIC AND MONETARY UNION

January 20, 2022

STAFF REPORT ON COMMON POLICIES OF MEMBER COUNTRIES

KEY ISSUES

Context. The WAEMU has, so far, demonstrated strong resilience to the Covid crisis. The economic rebound that started in the second half of 2020 firmed up in 2021, while fiscal and monetary policies remained supportive. External reserves have risen to comfortable levels and the financial system appears to be broadly sound. However, the region faces significant challenges to ensure the sustainability of macroeconomic policies, while supporting the economic recovery and navigating the uncertain outlook.

Policy Recommendations

- **Fiscal policy.** Convergence towards the regional fiscal deficit anchor of 3 percent of GDP by 2024 is key to preserve external and domestic stability. The credibility of the medium-term adjustment path would be enhanced by reinstating the WAEMU's Convergence Pact. The composition of the adjustment should promote an inclusive economic recovery by placing emphasis on revenue-enhancing measures and protecting priority social expenditure, vaccination rollout and infrastructure investment.
- **Monetary policy**. In light of the severity of the Covid shock, maintaining an accommodative stance has been appropriate. Nonetheless, the BCEAO should stand ready to tighten monetary policy if the external position weakens or inflation forecasts exceed durably the ceiling of the target band.
- **Financial markets.** The banking sector has been resilient during the crisis, but the high reliance of some commercial banks on BCEAO refinancing is a source of vulnerability. Structural weaknesses in the microfinance sector should be better understood and addressed. Fostering financial market development remains a priority to support the growth outlook and enhance financial inclusion.
- **Structural reforms.** Alongside national reforms, measures that enhance regional integration by fostering trade, improving competition, and developing cross-border infrastructure can contribute to mitigating the scarring effects of the pandemic.

Approved By
Annalisa Fedelino (AFR)
Bjorn Rother (SPR)

Discussions on the 2021 regional consultation were held in a hybrid format comprising virtual video conferences as well as physical meetings during October 25 - November 19, 2021. The staff team comprised Mr. Eyraud (head), Messrs. David, Féler, and Sever (all AFR), Ms. Fernandes (MCM) and Mr. Lisi (SPR). The mission was assisted by Messrs. Jenkinson, Koulet-Vickot, and Kalonji (resident representatives in Burkina Faso, Senegal, and Côte d'Ivoire). Ms. Iorgova, Messrs. Couderc, Khan, Pedras, and Veyrune (all MCM), Messrs. Loeprick and Nguenang (both from FAD), and Ms. Uguen, Messrs. Chaker, Jahjah, and Normand (all Afritac West) participated in some meetings. The concluding meetings were held on November 19, 2021, with BCEAO Governor Kone. Ms. Bentum provided research support and Ms. Jaghori provided assistance in the preparation of this report. The West African Economic and Monetary Union (WAEMU) covers eight countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

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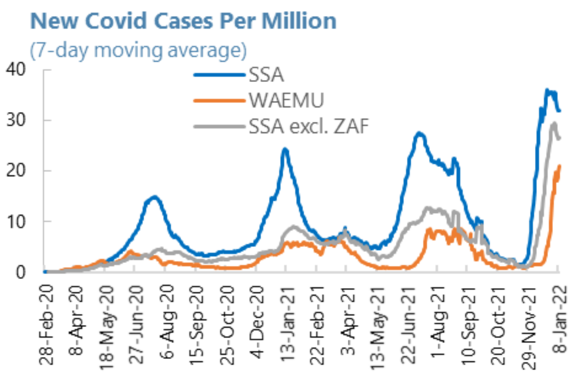
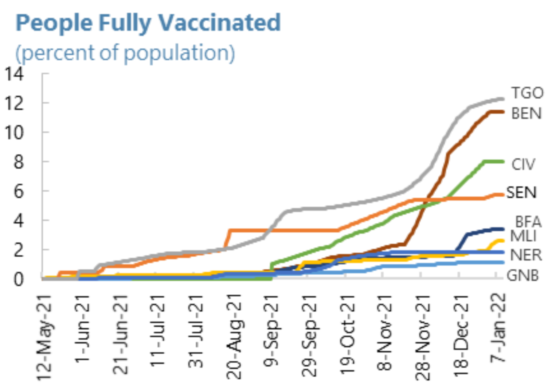
ANNEXES

RECENT DEVELOPMENTS

A. Health and Security Situation

1. **Although the impact of the pandemic seems to be less severe than in the rest of sub-Saharan Africa (SSA), the WAEMU has been hard hit by the Omicron variant.** The region has, so far, suffered four waves of the Covid virus. During the most recent one, the number of new cases per million soared to 21 as of January 10, 2022 (compared to 32 in SSA)—well above the average of 3 recorded since the beginning of the pandemic. Despite the increase in cases, countries had not introduced new significant restrictions on mobility at the time of drafting this report. As of January 10, the fatality rate for WAEMU countries was estimated at 1.6 percent of identified cases, compared to 2.0 percent for SSA.





Source: Our World In Data and IMF staff calculations.

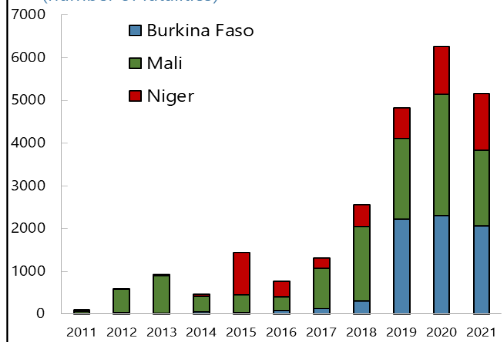
2. **Countries are making progress, but the pace of the vaccination campaign remains slow and uneven.** Overall, the number of fully vaccinated people in the WAEMU is still very low (below 10 percent in most countries as of the first week of January), partly because of supply constraints, albeit vaccine hesitancy also plays a role. National authorities are pursuing efforts to secure sufficient supply of shots from AVAT, COVAX, and bilateral partners. But given the current pace of vaccination, a significant inoculation rate is unlikely to be reached at the regional level before the second half of 2022.[1]

3. **The pandemic has aggravated the situation of countries already plagued by rising security risks.** The security situation has deteriorated in the Sahel region since 2012, with Burkina Faso, Mali and Niger being particularly impacted. In 2021, close to 2,500 security incidents (including

[1] If countries pursue the same pace of vaccination as in 2021, about 15 percent of the WAEMU population would be fully vaccinated at end-2022, compared to 5 percent at end-2021 (this simulation should be treated with caution since vaccination progresses through nonlinear increments).

battles, violence against civilians, and riots) were reported in these three countries, according to ACLED—an increase of about 15 percent relative to 2020. The number of fatalities is at historically high levels. Moreover, security incidents have spilled over to other countries in the region, notably to border areas in Benin and Côte d'Ivoire, raising alarm among policymakers and prompting a discussion about strengthening the response to these threats, including through additional information sharing and military spending.

Fatalities Linked to Security Incidents
(number of fatalities)



Note: Security incidents include battles, riots, explosions, and violence against civilians.
Sources: ACLED; and IMF staff calculations.

B. Economic Developments

4. Despite these headwinds, the economic recovery, which started in the third quarter of 2020, has firmed up in 2021. GDP growth in 2020 is estimated at 2 percent, significantly above the projection made at the time of the last regional consultation (0.3 percent), mainly due to higher-than-expected domestic demand. Monthly indicators of activity point to a robust recovery in 2021, especially in commerce and services (Figure 1). The economic rebound appears to be broad-based across countries. At the regional level, GDP growth is expected to bounce back to 5.7 percent in 2021, driven by an acceleration of private domestic demand.[2]

5. Supply disruptions and the strong economic activity have accentuated inflationary pressures. Headline inflation at the regional level has exceeded the ceiling of the BCEAO target range (1-3 percent) since April, and average inflation for 2021 is expected to be slightly above 3 percent. Higher prices of locally grown and imported food staples have been the main driver of rising inflation, which was nonetheless contained by administered prices. Core inflation, excluding energy and certain food items, has also increased from 1.6 percent in April to 3.6 percent in November, in part due to the higher cost of imported food items (Figure 1).

C. Macroeconomic Policy

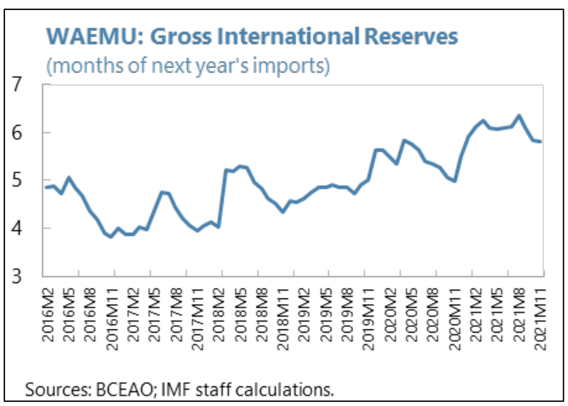
6. The fiscal stance was relaxed significantly in 2020 in response to the crisis and remained supportive in 2021. The overall deficit reached 5.7 percent of GDP in 2020, a relaxation of close to 3.5 percent of GDP relative to 2019 (Table 1). The additional financing needs were covered primarily externally, including through donor support, but issuances on the regional market also increased (Figure 2). For 2021, the regional fiscal deficit is estimated at 5.9 percent of GDP, with financing needs being most notably covered by further issuances in the regional market as well as

[2] Both private consumption and private investment are projected to accelerate in 2021. The latter is associated with strong business confidence and accommodative monetary conditions, while the former is, to a large extent, related to the easing of COVD-related restrictions and the supportive fiscal stance.

Eurobond issuances, in addition to the SDR allocation.[3] As a result of the relaxation of the fiscal stance, debt levels are estimated to reach 56 percent of GDP in 2021 and debt service burden indicators have deteriorated further (Table 6). Many of the Covid-related support measures were withdrawn during 2021.

7. **Monetary and financial conditions have continued to be accommodative in 2021.** The policy rate has remained at 2 percent since June 2020, and the BCEAO has followed the fixed rate full allotment (FRFA) policy of satisfying all banks' demand for liquidity at the policy rate, against adequate collateral. Overall, regional financing conditions have further eased over 2021. The average interbank rate has decreased and is now close to the policy rate. On the regional market, sovereign yields have declined, and the average maturity rose as several countries issued 7 and 10-year bonds (Figure 2). Furthermore, the structural liquidity of banks has improved markedly since the last quarter of 2020, mainly due to stronger export receipts and the diffusion in the economy of the fiscal stimulus.

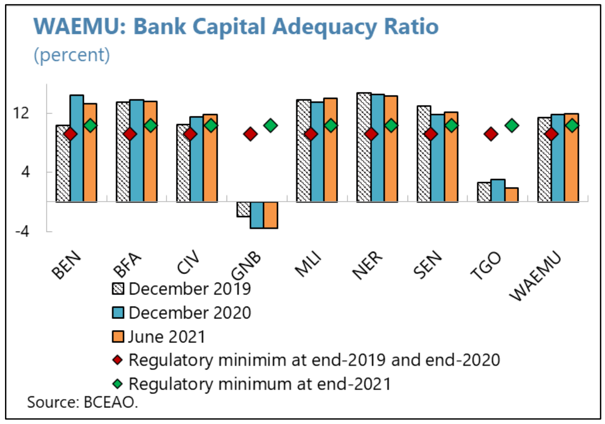
8. **The BCEAO's external reserves have risen to comfortable levels due to strong capital inflows.** Nominal reserves in dollar increased by 9 percent between end-2020 and end-November 2021 to reach USD 23.7 billion. Over the same period, the import cover increased from 5.5 months of importations to 5.8 months. This upward trend reflects a rebound in repatriation of export proceeds, the SDR allocation (USD 2.3 billion), and portfolio inflows linked to Eurobond issuances (USD 4.7 billion) by Benin, Côte d'Ivoire, Senegal and the BOAD. While both exports and imports recovered over the first half of 2021, the increase in imports has outpaced that of exports.[4]



[3] The increase in the aggregate fiscal deficit ratio in 2021 compared to 2020 is mostly due to higher security and social spending in Niger and higher capital investment in Benin.

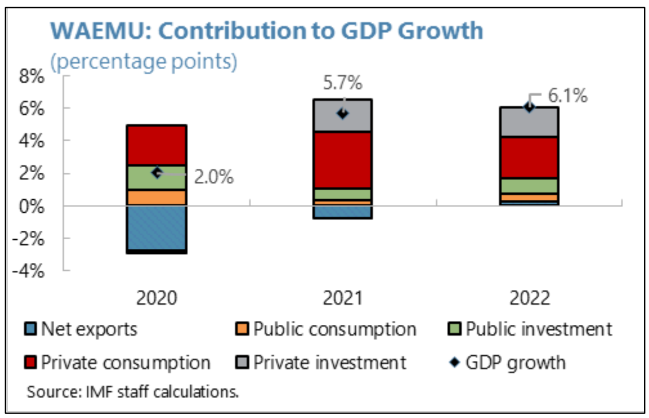
[4] The SDR allocation represented 1.3 percent of 2021 regional GDP, while Eurobonds issued in 2021 were equivalent to 2.6 percent of regional GDP.

9. The WAEMU banking system remained resilient during the crisis. The average bank capital adequacy ratio increased from 11.5 percent at end-2019 to 11.8 percent at end-2020, on the back of a call by the Banking Commission to limit the distribution of 2020 dividends, and reached 12.0 percent at end-June 2021. In line with the economic recovery, credit to the private sector showed robust growth (about 7 percent y-o-y monthly average) between January and October 2021—the latest data available (Figure 1). Banks' gross non-performing loans (NPL) decreased from 11.4 percent of total loans at end-2019 to 11.0 percent at end-2020 before returning to 11.3 percent in June 2021. The decline in NPLs in 2020 partly reflected the regulatory forbearance scheme for loan repayment deferral set up in response to the crisis.[5] In addition, the sector of microfinance institutions (MFIs), which is small,[6] saw a sharp deterioration in NPLs from 6.5 percent at-end 2019 to 12.6 percent in June 2020, before receding back to 9.0 percent in June 2021 (Annex I).[7]



OUTLOOK AND RISKS

10. Growth is projected to return to potential by 2022. Growth is expected to further accelerate to 6.1 percent in 2022 despite planned fiscal consolidation of over 1 percentage point of regional GDP. The acceleration is primarily driven by a rebound in net exports. Inflation is projected to return to the BCEAO's target band by end-2022. Over the medium term, GDP growth would stabilize around 6 percent, after a temporary rise over 2023-24 due to the hydrocarbon projects coming on stream in Niger and Senegal. Nonetheless, staff estimates that the pandemic could reduce growth prospects in the absence of proactive measures to prevent scarring effects (Selected Issues Paper SIP #1).



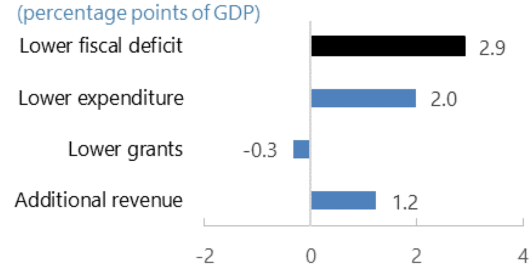
[5] Between March and December 2020, the BCEAO established a framework allowing banks and MFIs to postpone, for a renewable period of 3 months, the debt repayments of distressed customers that they assessed to be solvent, without reclassifying these claims as non-performing.

[6] MFI credit at end-2020 represented about 1.8 percent of GDP and 7.8 percent of bank credit to the private sector.

[7] The surge in NPLs in 2020 is partly explained by the fact that MFIs are particularly exposed to sectors, like agriculture, that have been heavily impacted by the Covid crisis. In addition, contrary to banks, most MFIs did not make significant use of the regulatory forbearance measures due to capacity constraints.

11. **Fiscal policy will gradually adjust towards a 3 percent deficit by 2024.** Medium-term projections reflect a consolidation of around 1 percent of GDP per year until the deficit ceiling is reached by 2024. In staff's assessment, the adjustment path embedded in current projections is challenging but feasible within the proposed timeframe. It will require considerable efforts, especially from countries with initially higher deficits (Table 4). The adjustment is tilted towards expenditure containment relative to revenue mobilization. In the near term, a large part of the retrenchment on the expenditure side will be concentrated on current spending, with most remaining Covid-related support measures to firms and households being discontinued in 2022.[8] On the revenue side, domestic revenue mobilization efforts should be significant.[9] The largest increases are expected in countries with hydrocarbon projects (Niger, Senegal), as well as in Burkina Faso, where tax policy and revenue administration reforms are envisaged by the authorities.[10]

WAEMU: Fiscal Adjustment between 2021 and 2024
(percentage points of GDP)



Source: IMF staff calculations.

12. **After deteriorating in the short term, the region's current account is forecast to narrow.** The current account deficit is projected to widen to 5.9 percent of GDP in 2021-22, as the effect of higher prices of commodities exported by WAEMU countries would be more than offset by a rising import bill, reflecting the ongoing economic recovery and higher international oil prices. Subsequently, the current account would narrow by around 1½ percent of GDP on the back of declining import ratios, given gradual fiscal consolidation and the completion of import-intensive hydrocarbon projects in Niger and Senegal. The reserve coverage is projected to gradually stabilize at 5 months of imports by the end of the forecast horizon, reflecting the uncertain environment for future Eurobond issuances and the fast growth of nominal imports.[11]

13. **Uncertainty surrounding the baseline outlook is high, with risks tilted to the downside in the near term.** The main risks pertain to the evolution of the pandemic (Annex II). Slow and uneven progress with vaccination could lead to more rapid spread of new variants potentially resistant to vaccines and higher risks of breakthrough infections. Moreover, an abrupt tightening of global financial conditions could negatively affect growth prospects, especially if inflationary pressures lead to a faster-than-expected normalization of monetary policy in advanced economies.

[8] In Burkina Faso and Senegal, where a significant reduction in current expenditure is projected, the adjustment also assumes new measures to contain wage bill growth, reduce fuel subsidies, and better control spending on goods and services.

[9] Revenue efforts are projected to be larger than anticipated before the pandemic. In February 2020, the regional framework projected an increase in the revenue ratio (excluding grants) of 0.9 percent of GDP between 2021 and 2024. In the current framework, the increase is 1.2 percent of GDP over the same period.

[10] These include reforms of the VAT (streamlining of exemptions and improving administration), mining and property taxation, as well as tax digitalization.

[11] Other factors include: (1) the reduction in the FDI ratio following the completion of the hydrocarbon projects, and (2) lower expected project grants (reflected in a decline in the capital account).

Adverse developments in terms of trade, in particular higher oil prices, are another important risk factor for the outlook, including on the inflation front. At the regional level, further deterioration of security risks, political uncertainties, and delays in hydrocarbon projects could also hurt economic prospects. Slower fiscal adjustment could undermine the credibility of the convergence path and have adverse consequences on FX reserves. Box 1 outlines a downside scenario with a slower recovery.

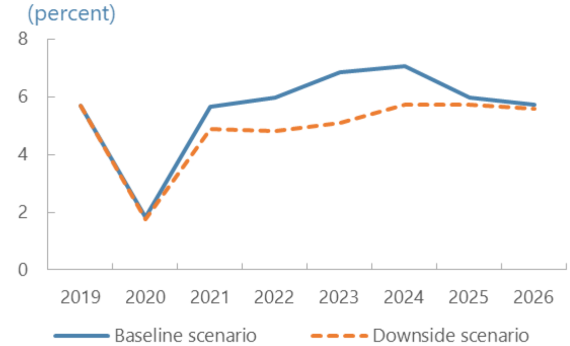
Box 1. Alternative Scenario with a More Gradual Recovery

Baseline projections reflect expectations of a V-shaped rebound in economic activity in the WAEMU—a scenario supported by recent conjunctural indicators. However, there are substantial downside risks, which could lead to a slower and weaker recovery. This Box presents a downward scenario, which mimics the shape of past recoveries in the region. Given that the recovery in 2022-23 is mostly driven by external demand, a negative scenario could, for instance, materialize as a result of a global shock affecting trade (e.g. sharp oil price increase or trade disruptions due to new pandemic developments) or domestic delays in the gas and oil projects of Niger and Senegal.

The analysis is conducted in two steps. First, the GDP growth path is simulated with a Growth-at-Risk (GaR) model tailored to low-income countries and developed in the context of the current Financial Sector Assessment Program (FSAP).[1] The model estimates the distributional density of historical recovery patterns, and builds the scenario using, more specifically, the last two episodes of 1992 and 2011. Then, in a second step, the analysis quantifies the effect of lower economic growth on fiscal deficits and reserves. To evaluate the impact on the deficit ratio, a revenue to GDP elasticity of 1 is assumed, while nominal spending is kept unchanged relative to the baseline. Regarding reserves, the box replicates the analysis employed in the 2020 Staff Report on Common Policies of Member States, which estimated an econometric relationship between fiscal deficits and reserves.

WAEMU: GDP Growth

(percent)



Source: IMF staff calculations.

Simulations show that the growth rate would be, on average, about 1 percentage points lower than under the baseline over the period 2021-26 (Box Figure). In this scenario, the fiscal deficit ratio would increase to about 4 percent of GDP by the end of the forecast horizon, compared to 3 percent of GDP under the baseline. The reserve coverage would decline by about half a month of imports by 2026 compared to the baseline (4.5 months versus 5.0 months).

In terms of policy response, letting automatic stabilizers operate under the downside scenario would make it much more difficult for fiscal deficits to converge back to 3 percent of GDP by 2024. Therefore, staff would recommend offsetting any cyclical revenue shortfall through better expenditure prioritization. On the monetary policy front, maintaining an accommodative monetary stance for longer would seem warranted under this scenario.

[1] GDP growth simulations were prepared by Romain Lafarguette and Zhuohui Chen under the guidance of Romain Veyrune (all MCM).

Authorities' Views

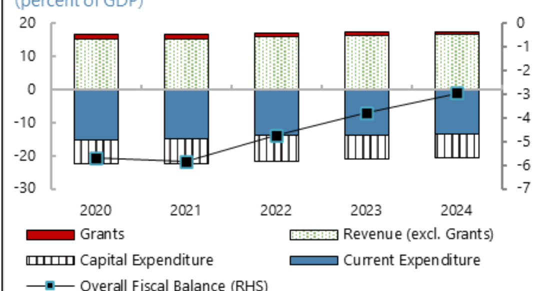
14. The regional authorities broadly agreed with IMF staff on the economic outlook and risks. Projections were broadly aligned, although the BCEAO and WAEMU Commission forecast more favorable medium-term growth (about half a percentage point higher than projected by staff over 2022-25), assuming full recovery of sectors affected by the crisis and a strong effect of public infrastructure projects on the economy. On the fiscal side, the authorities expect, like staff, that member states will converge to the 3 percent of GDP deficit target by 2024. Regarding the regional balance of payments, the BCEAO foresees higher capital inflows than staff, reflecting more favorable assumptions concerning foreign direct investments (FDIs) ahead of the planned realization of hydrocarbon projects in Senegal and Niger. This, together with a projected substantial reduction in the current account deficit from 2023 (linked to higher oil exports), implies a stronger reserve coverage, which would stabilize around 6 months of imports by 2023 (compared to close to 5 months in staff projections).

POLICY DISCUSSIONS

A. Recalibrating the Medium-Term Fiscal Strategy After the Crisis

15. Staff supports the authorities' decision to converge towards the regional fiscal deficit of 3 percent of GDP by 2024. In June 2021, the head of states of the ECOWAS (15 members, including all WAEMU countries) committed to converging towards the fiscal deficit anchor over the years 2024-26.[12] This is one year later than recommended in last year's report, but staff assesses the more gradual adjustment path, incorporated in baseline projections, to be compatible with external viability and fiscal sustainability.[13] The WAEMU's foreign exchange position is, in fact, stronger than expected at the time of last year's consultation and the regional financial market has shown some resilience in absorbing increased sovereign issuances.

WAEMU: Overall Fiscal Balance (Commit. Basis) and Components
(percent of GDP)



Source: IMF staff calculations.

16. The credibility of the medium-term fiscal trajectory would be strengthened by re-establishing the WAEMU Convergence Pact which was suspended in 2020. Although a convergence plan has been adopted at the ECOWAS level, the WAEMU set of fiscal rules has not yet been reinstated. The WAEMU Commission is expected to make a proposal to the Council of

[12] According to Article 6 of the Macroeconomic Convergence and Stability Pact among ECOWAS member states: "The deadline for macroeconomic convergence shall be 31 December 2026. By the aforementioned date, a majority of Member States shall, in a sustainable manner, have complied with all primary criteria over the last three (3) years (2024-2026)." The 3 percent of GDP deficit ceiling is one of the primary convergence criteria.

[13] Even with successful consolidation and strong growth, the public debt-to-GDP ratio would remain about 5 percentage points higher in 2026 compared with pre-Covid level of 45.5 percent in 2019.

Ministers in the first semester of 2022. Staff has conducted a detailed analysis of the calibration of fiscal targets (summarized in SIP #2), which shows that it would be preferable to maintain the debt and deficit ceilings at their previous levels of, respectively, 70 and 3 percent of GDP. The 70 percent debt ceiling appears to strike the right balance between growth and fiscal prudence considerations. Model-based simulations also show that raising the deficit ceiling from 3 to 4 percent of GDP could undermine domestic and external stability, except in very specific circumstances—namely with unconstrained access to external financing and significant progress in fiscal transparency. Both conditions may prove difficult to satisfy in the near term.

17. The credibility of the fiscal trajectory hinges also on the swift implementation of PFM reforms. As discussed in previous year's reports, PFM directives enacted at the regional level are in line with international best practices. However, their implementation at the national level is very uneven. One area of concern is the persistent discrepancy between the fiscal deficit (as measured in fiscal accounts "above the line"[14]) and the increase in government debt—typically called "stock-flow adjustments" (SFAs). SFAs have historically averaged 1 percent of GDP a year in the WAEMU and are estimated to be even larger in 2020 (see SIP#2). To some extent, the large size of SFAs signals PFM weaknesses, such as off-budget expenditure and materialization of contingent liabilities.

18. Beyond the credibility and relevance of medium-term fiscal targets, it is also essential that the composition of fiscal adjustment fosters an inclusive economic recovery. Countries should shift from broad fiscal support to more targeted policies. Emphasis should be placed on revenue-enhancing measures to create needed fiscal space and strengthen the capacity to service debt.[15] On the spending side, priority social expenditure and infrastructure investment should be protected.[16] Staff also encourages the authorities to accelerate vaccination rollout, including by stepping up information campaigns to overcome misinformation, addressing shortcomings in the logistics of vaccine distribution, and providing more incentives for citizens to get vaccinated. The 2021 SDR allocation will support the medium-term fiscal strategy (Box 2).

19. Regarding country relationships with the IMF, the WAEMU is still in a transition period. Most IMF supported programs in the region expired in 2020. As of early January 2022, only Mali, Niger and Senegal have financing arrangements. Guinea-Bissau has an ongoing staff-monitored program (with prospects for a financing arrangement in 2022), while all other countries are at different stages of program discussion or negotiation.

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[14] The "above the line" fiscal deficit is measured as government revenue (including grants) minus expenditure.

[15] Revenue measures at the country level could include improvements in tax administration through increased digitalization as envisaged in Burkina Faso and Senegal; broadening the tax base by eliminating some tax exemptions and tax expenditures as recommended in Senegal and Niger; as well as measures to enhance the efficiency of customs collections.

[16] These could include spending on education with a stronger focus on primary and secondary education (as envisaged in the Niger program) as well as social protection, including cash transfer programs to support the most vulnerable.

Box 2. The SDR Allocation and its Use in the WAEMU

Out of the August 2021 general SDR allocation, about US$2.3 billion (SDR 1.6 billion or 1.3 percent of regional GDP) was transferred to the BCEAO, acting as fiscal agent of WAEMU member countries. The CFAF-equivalent of the SDR allocation was on-lent to all member countries by the BCEAO on August 23, through MOUs under the following terms: 20-year maturity (with possibility of rollover) at a fixed interest rate of 0.05 percent. By comparison, the 2009 allocation (1.2 percent of rebased GDP) was on-lent at 3 percent for a period of 10 years. The amounts range from 0.8 percent of GDP (Burkina Faso) to 2.4 percent of GDP (Guinea-Bissau and Togo) (Box Table 1). To put these amounts into perspective, total gross borrowing needs at the regional level average about 10 percent of GDP per year (over 2021-23).

Staff encourages member states to use the allocation in a way that preserves fiscal sustainability and external stability, and does not delay needed policy adjustment. Larger and/or more protracted fiscal deficits financed by on-lent resources could erode external buffers and undermine the credibility of the regional convergence path. Nonetheless, these risks appear contained at this stage.

Box Table 1. 2021 SDR Allocations

Country	SDR million	CFAF billion	US$ million	Percent of GDP
BEN	118.7	94.2	168.3	1.0
BFA	115.4	91.6	163.7	0.8
CIV	623.4	495.0	884.2	1.3
GNB	27.2	21.6	38.6	2.4
MLI	178.8	142.0	253.7	1.3
NER	126.1	100.2	178.9	1.2
SEN	310.2	246.3	439.9	1.6
TGO	140.7	111.7	199.6	2.4
WAEMU Total	1,640.5	1,302.6	2,327.0	1.3

Sources: FIN and BCEAO. Notes: The exchange rate used in all on-lending convention was SDR1 = CFAF794.042. In order to convert SDR to US$, exchange rate was used as of August 23, 2021 (SDR1=US$1.419).

Based on information available at the time of drafting this report, the intended use of the SDR allocation by country authorities could be summarized as follows:

- *Above-the line use*. Benin has used the allocation to finance the 2021 budget deficit, including security spending and health and social measures to mitigate the impact of the pandemic. Niger plans to spend half of the allocation during 2021 to finance measures meant to improve the food security of vulnerable populations (e.g., food transfers), support security expenditures and finance road infrastructure, but this is unlikely to change the fiscal deficit trajectory because of containment of other spending; discussions are still being held regarding the use of the rest of the allocation in 2022. Overall, at the region level, the above-the-line use of the allocation in 2021 is estimated at less than half a percent of GDP.
- *Below-the line use*. In Burkina Faso and Côte d'Ivoire, the authorities communicated that they would use the SDR allocation during 2021 as a substitute for more expensive domestic financing, while the Togolese authorities decided to keep the SDRs in a special account at the BCEAO for future use as substitute for domestic financing. The Malian authorities intend to use about one third of the on-lent amount during 2021 in case privatization receipts (recorded below the line) do not materialize, and the remaining in 2022 to replace domestic debt issuances.
- *Mixed use*. Guinea-Bissau plans to use the entire allocation in 2021 to finance Covid-related expenditures and to meet anticipated debt service payments to BOAD in 2021-22 (both interest and principal payments). In Senegal, more than half of the allocation will be used in 2021 to finance Covid-related expenses and clear unmet obligations, while the rest is planned to be used for targeted financial transactions and as substitute for other financing during 2021-22.

Authorities' Views

20. Regional authorities acknowledged the importance of re-establishing the Convergence Pact in 2022. They welcomed IMF staff's analysis on the calibration of fiscal rules and concurred that compliance with the 3 percent of GDP deficit anchor would help maintain an adequate level of external reserves, prevent pressures on the regional public security market, and preserve debt sustainability. However, they indicated that the discussion among policymakers on medium-term fiscal targets was still ongoing. They also noted that the revised Convergence Pact would encompass institutional reforms such as the introduction of more precise escape clauses.

21. The authorities also highlighted a number of steps being taken to enhance PFM. They noted that, as of July 2021, two thirds of the eight regional PFM directives had been implemented, with the six directives adopted in 2009 being already fully transposed at the national level. Moreover, five member states have already transitioned towards program-based budgeting, of which two in 2020-21. The authorities also highlighted several practical difficulties in advancing the PFM reform agenda, including limitations of national budgetary and accounting systems, challenges in implementing accrual accounting, and limited access to budgetary information by the general public. They also noted that six member states were able to produce general government financial statistics, albeit not yet on a consolidated basis.

B. Monetary Policy: Balancing Support for the Recovery, Price Stability, and External Buffers

22. The BCEAO has responded very effectively to the crisis, preventing the emergence of financial stress and contagion to the banking sector. In 2020-21, the central bank took important steps to mitigate the impact of the pandemic on economic activity, including by cutting the policy rate by 50 basis points in June 2020 and launching new 6-months and 12-months refinancing windows for government securities at the minimum bid rate (2 percent). Since March 2020, refinancing operations have been conducted through FRFA tenders—whereby banks' demand for liquidity is fully satisfied at a fixed rate, against adequate collateral. So far, the regional financial market has been able to accommodate the increased demand for sovereign funding without tightening of financial conditions and crowding-out of private sector credit. In addition, the 2020 and 2021 WAEMU's external positions are assessed as broadly consistent with fundamentals and desirable policy settings (Annex III).

23. The BCEAO should stand ready to tighten monetary policy if the external position weakens or inflation forecasts exceed durably the ceiling of the target band. In light of the severity of the shock and risks to the recovery, maintaining an accommodative stance has been appropriate. The fast rise in prices during the pandemic, with headline inflation exceeding the upper limit of the central bank's target band since April 2021, may call for a monetary policy response if inflation pressures persist and forecasts do not return within the target band at a 24-month horizon (Annex IV). Various monetary policy rules estimated by staff would support a moderate rate hike if the economic recovery continues and inflationary pressures prove to be persistent (Annex V).

24. Staff encourages the BCEAO to pursue the modernization of its policy and governance frameworks. The BCEAO has conducted wide-ranging reforms since 2010, including by introducing changes in decision-making bodies, redefining policy objectives, and broadening the set of its operational tools. The reform momentum has not abated in recent years, which were marked by the new monetary arrangement with France announced at end-2019. The latest IMF safeguards assessment from 2018 deemed that the central bank's control, accounting, reporting, and auditing systems were adequate to ensure the integrity of operations. Going forward, the authorities could continue their modernization efforts by contemplating the structural reforms described in Box 3.

25. Future use of SDRs could entail costs for the central bank, which may not be fully offset by the low fixed rate at which the 2021 SDR allocation is on-lent to member states. As of end-December 2021, the net SDR position of the eight WAEMU countries (defined as holdings minus cumulative allocations) recorded a surplus of SDR 1.9 billion (equivalent to 1.5 percent of regional GDP), reflecting SDR receipts in the context of IMF-supported programs and prudent reserve management by the central bank. However, future uses of SDR—possibly related to program repurchases or fiscal deficits causing pressures on international reserves—may push holdings below allocations, and lead the BCEAO to pay the SDR rate on the difference. Staff encourages the BCEAO to assess the implications of such scenario on its capital, given the low fixed rate at which the 2021 SDR allocation was on-lent to member states, leaving exchange rate and interest rate risks with the central bank.

Box 3. Reforms of Central Bank Operations and Monetary Arrangements

Tender procedure. Staff encourages the BCEAO to examine the opportunity of maintaining the FRFA procedure after macroeconomic conditions normalize. By guaranteeing adequate supply of liquidity, the FRFA implementation has reduced the uncertainty around banks' access to refinancing, eliminating the risk of overbidding and lowering the liquidity premium. The FRFA has also enhanced the ability of the policy rate to steer financial conditions by eliminating the discrepancy between minimum bid rate and average rate across bids. All these factors have contributed to enhancing monetary policy transmission.

Collateral framework. The BCEAO has expanded the pool of collateral eligible for its refinancing operations in 2020, by accepting bank loans to prequalified private companies.[1] The BCEAO applies a uniform 10 percent haircut to all assets used as collateral, regardless of the underlying risk and their public or private nature. Staff encourages the central bank to assess whether the 10 percent haircut would be sufficient to protect the central bank's balance sheet in case of severe stress scenarios. Staff also advises the BCEAO to explore various ways of achieving greater differentiation in the framework, such as introducing different haircut rates (possibly grouped in broad buckets), using haircut premiums for specific risk categories, and moving towards applying haircuts to the market value of collateralized assets more broadly in the medium term.

Emergency liquidity assistance (ELA). While the BCEAO has, in the past, provided ad hoc liquidity assistance to banks facing temporary liquidity problems, staff advises the BCEAO to formalize this type of interventions by establishing a proper ELA framework, as exists in most other jurisdictions including in Africa. Such formalization would have a number of benefits, including (1) better preparation for potential emergency liquidity needs in the context of the normalization of monetary policies globally, (2) more explicit rules for lender-of-last-resort operations (including close supervision, conditionality and cost), which create predictability and limit moral hazard behavior, and (3) better safeguards for the central bank (due to the existence of a solvency requirement, risk control measures on assets used as collateral, and possible government guarantees).

Box 3. Reforms of Central Bank Operations and Monetary Arrangements (concluded)

Transparency and independence. As noted by the 2018 safeguards assessment, the institutional setting of the central bank supports sound governance. To further strengthen the perception of independence, staff advises national authorities to appoint independent experts like academics (rather than civil servants) in the monetary policy committee, as four member states already do. Since governance reforms are a continuous process in which central banks periodically re-examine their existing arrangements and adapt to the changing expectations of market participants, staff also encourages the BCEAO to review the transparency framework established in 2010. This review could rely on the new IMF's Central Bank Transparency Code (CBT), which allows central banks and their stakeholders to map their transparency practices into international best practices, with a view to enhancing policy effectiveness.

ECO reform. The latest developments in the reform of the monetary arrangements are summarized in Annex VI. Going forward, it will be important to continue to communicate with private investors and development partners about the next steps of the currency reform and its articulation with the ECOWAS roadmap, with a view to ensuring that the transition to a new arrangement is gradual and predictable.

[1] The BCEAO accepts either the loans to companies rated A (lowest credit risk) or B (relatively higher credit risk), provided that B issuances benefit from government guarantees.

Authorities' Views

26. **The BCEAO broadly concurred with IMF staff's assessment of the monetary policy stance.** At the time of the consultation discussions, the BCEAO viewed the increase in inflation as a temporary phenomenon which would not call for immediate policy tightening. The BCEAO expected inflation to return below 3 percent within the next 24 months. They argued that inflation remained concentrated on food products and they did not detect signs of transmission to other categories, partly because of administered prices. In addition, various indicators of underlying pressures (inflation expectations, wage growth) did not signal second-round effects. Regarding the external assessment, the BCEAO agreed that the current level of reserves was adequate, and the exchange rate was in line with fundamentals.

27. **The authorities welcomed the discussion on the reform of the central bank's governance and policy frameworks.** Regarding the collateral framework, they agreed on the principle of protecting the central bank's balance sheet but expressed reservations about the benefits of differentiating haircut rates, which could conflict with the principle of solidarity in the union and discourage the development of markets for longer-term securities as well as their efforts to develop the use of bank loans to private companies as collateral. On the FRFA tender procedure, the authorities agreed on its benefits, but felt that deeper analysis was still needed given possible implications in terms of liquidity control. The authorities were interested in exploring the possibility of formalizing the ELA framework and will pursue the discussion in the context of the FSAP mission. They also took note of the possible balance sheet implications related to the use of the SDR allocation, but deemed that this scenario had a low probability and the central bank had mechanisms in place to manage currency and interest risks.

C. Fostering Financial Stability and Inclusion

28. **The banking sector has been resilient during the crisis, partly because of the proactive**

measures taken by the Banking Commission and the BCEAO. In response to the pandemic, the transition path to Basel II/III has been postponed by one year, with the convergence to a regulatory capital adequacy ratio of 11.5 percent now expected in 2023. The BCEAO has also set up a regulatory forbearance scheme for banks and MFIs to defer repayments of distressed customers, without reclassifying these claims as NPLs. The scheme was terminated in December 2020. On the AML/CFT front, physical onsite inspections have resumed in October 2020 after being suspended in March, but virtual off-site monitoring continued to take place during the whole period. At end-October, 48 onsite inspections had taken place in 2021 compared to 27 in 2020 and 36 in 2019. And the proportion of thematic inspections focused on AML/CFT has increased to about 20 percent in 2021 from 5 percent in 2019.[17] The IMF is conducting a FSAP at the regional level, which started in 2021 and will be completed at the end of the first quarter of 2022 (see CD strategy in Annex VII). The FSAP will assess the financial sector's main risks and vulnerabilities, review the institutional framework (including bank supervision and regulation and AML/CFT oversight), examine crisis management and bank resolution mechanisms, and offer options to further develop financial markets.

29. Significant progress has been made in operationalizing the bank resolution framework. As of October 2021, 25 of the 28 systemic banks had presented preventive restructuring plans (PRP) to the General Secretariat of the Banking Commission, five of which were formally approved by the Supervisory Board. The supervisor will subsequently prepare resolution plans for the institutions whose PRPs are approved. The adoption of these resolution plans, expected for all systemic institutions in 2022, is a crucial step in operationalizing the banking resolution framework. But this exercise does not mark the end of the reform process. In order to make the resolution mechanism fully effective, this step must be supplemented by some technical, procedural, regulatory or legislative measures.[18]

30. The high reliance of some commercial banks on BCEAO refinancing is a source of vulnerability in the financial system. Some banks hold large portfolios of government securities that are refinanced at the central bank.[19] This trade, which offers elevated risk-adjusted returns, is attractive compared with private credit.[20] Nevertheless, it increases maturity and interest rate

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[17] For 2021, the ratio is computed using data until October.

[18] These measures include: the update of MOUs with foreign supervisors for subsidiaries of foreign groups operating in the WAEMU; decisions concerning the design of resolution options (such as the shareholder structure of bridge banks); and more clarity on the financing of resolution operations (especially if the guarantee and resolution fund proves insufficient in some cases and financial backstops are needed). Some of the legislative measures necessary for the full operationalization of the resolution framework will be incorporated into the new draft Banking Law under preparation.

[19] Banks' exposure to WAEMU sovereigns has expanded in the context of the supportive monetary policy during the pandemic. At the aggregate level, bank's claims on central governments increased from 27 percent of total assets at end-2019 to 34 percent at end-September 2021.

[20] Currently, BCEAO refinancing is provided for the main open market operations at 2 percent, which is well below yields on government bonds (e.g., yields on 3-year bonds averaged 5.6 percent in the first 10 months of 2021 across all member states). In addition, government securities benefit from favorable regulatory treatment: they carry a zero-risk weight (no capital need); they can be refinanced at the BCEAO with a uniform 10 percent haircut; and they are included in regulatory liquid assets without discount.

mismatches and may reduce incentives for banks to implement adequate liquidity risk management and control. The existing quantitative limits on access to refinancing[21] do contain banks' leverage but they present shortcomings: (1) they lack gradualism and flexibility, since banks' demand for refinancing becomes suddenly constrained once the ceilings are breached; (2) their credibility can be called into question if a systemic bank at the limit encounters liquidity stress, such as deposit flight or loss of access to the interbank market; and (3) they do not mandate corrective actions and do not provide support to banks in designing their deleveraging strategy. Staff advises the regional authorities to consider requesting "funding plans" from banks excessively reliant on refinancing. These plans, which would be assessed and monitored by the supervisor, have been implemented with success in other jurisdictions, including in Africa, to encourage banks to resort to other forms of financing (such as the interbank market) and set explicit targets for the diversification of their resources. These plans could initially complement—rather than substitute for—existing quantitative limits in order to curb access to BCEAO refinancing.

31. The diagnostic missions of MFIs, currently conducted by the BCEAO, will be essential to better understand the causes of the sector's fragilities and propose effective solutions. Although the MFI sector has been hit hard by the pandemic, its fundamental weaknesses have structural causes, such as poor governance and risk management, exposure to informal and rural sectors where asymmetry of information is elevated, and a lack of adequate information and reporting systems. The fragility of the sector, which poses important risks for financial inclusion and poverty, calls for better monitoring, further actions to strengthen capacity, and restructuring of distressed institutions. In this regard, staff welcomes the BCEAO's diagnostic project, carried out with the support of the AFD in 2020-21, to identify the MFIs in difficulty and conduct review missions. Regarding other dimensions of financial inclusion, staff advises regional institutions to pursue their efforts (jointly with national authorities) to improve digital and financial literacy, develop technological infrastructure, mitigate financial risks related to mobile money (fraud, cyberattacks), and improve customer service.

32. Fostering financial market development remains a priority to support the growth outlook and ensure that the medium-term fiscal plans do not create financial stress. A systematic analysis of the segments of the regional market is presented in SIP#3 using a new tool developed by the IMF's Monetary and Capital Markets department. The depth and liquidity of the secondary sovereign security market could be increased by (1) improving transparency and price formation through the development of an electronic platform for auctioned securities; (2) increasing the incentives for sovereign security dealers (SVT) to animate the primary and secondary markets; (3) developing benchmark maturities through reopening sovereign security issues and better planning issuances in the context of each member's medium-term debt strategy; and (4) advancing towards greater fungibility between syndicated and auctioned securities with a view to gradually eliminating market segmentation.

[21] Banks' access to refinancing is capped at 35 percent of their assets (all windows) and twice their regulatory capital (specifically for the marginal lending facility).

Authorities' Views

33. The authorities are committed to further strengthening the resilience of the financial sector. They noted that the financial system appeared globally sound. They also indicated their intention to finalize the resolution plans for all banks of systemic importance by 2022 and committed to work diligently on remaining procedures and legal measures to ensure that the bank resolution framework becomes fully operational. The authorities agreed that excessive bank's reliance on refinancing could be a source of vulnerability in the financial system, especially to the risk of higher interest rates. Nevertheless, they expressed concerns about the administrative burden that could be associated with supervising funding plans and saw existing quantitative limits for access to refinancing as being broadly effective. Regarding MFIs, the authorities emphasized their vital role for financial inclusion. They noted that action plans were in place to further modernize information systems and foster access of MFIs to regional payment systems. They stressed that the diagnostic missions being undertaken would be essential to tailoring policy responses to address the vulnerabilities of the sector.

34. The authorities broadly shared IMF staff's diagnostic and recommendations to further develop the regional financial market. They highlighted several initiatives to address constraints to the development of the market, including a review of the regulatory framework for non-bank financial market intermediaries and a project to improve incentives for government-security dealers (SVTs) to act as true market makers. Regarding the need to develop benchmark securities, the authorities noted that some issuances were already being reopened, but agreed that further progress in this area would require greater tolerance on the issuers' side for bond price changes[22] as well as cashflow management improvements (since volumes would increase and principal repayments would become lumpier).

D. Mitigating the Risk of Scarring Effects on Medium-Term Growth

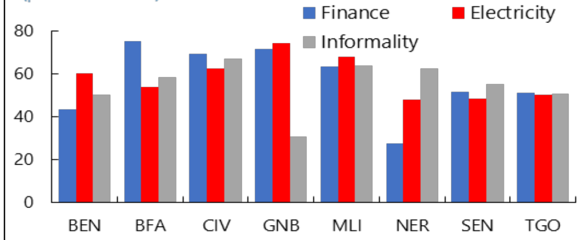
35. The pandemic is likely to have persistent effects on the economies of the region. The size and duration of the recovery will depend on the persistence of the economic damage, or "scarring", in the medium term. Staff analysis suggests that the pandemic could reduce GDP growth by up to 1 percentage point over the medium term in the absence of corrective measures (SIP #1). This is primarily due to the more subdued outlook for investment, the negative effect of school closures on human capital accumulation, and productivity losses associated with the possible increase in informality.

36. The risk of scarring calls for accelerating reforms, both at the national and regional levels, to address key growth bottlenecks. Although these bottlenecks vary across countries, there are common impediments, including limited access to electricity, lack of bank financing for private ventures, and the large size of the informal sector. Discussions during the regional consultation

[22] In a bond reopening, additional amounts of a previously issues security are auctioned. For a given coupon structure, any variation in market yields would translate into price changes.

focused mostly on regional reforms but there is also an extensive policy agenda at the national level, covered by individual countries' Article IV reports, including improving governance, accelerating economic diversification, facilitating access to finance, and strengthening the educational system as well as professional and vocational training programs.

WAEMU: Firms Identifying Issue as Major Constraint
(percent of firms)



Source: World Bank Enterprise Surveys.
Note: Latest available surveys used for each country.

37. Deeper trade integration is key to foster economic resilience and boost productivity post-Covid. Greater integration contributes to the diffusion of knowledge and ideas, reduces costs for businesses, and allows firms to reap economies of scale by expanding the size of the regional market. Trade is by law free of customs' duties within the WAEMU and the broader ECOWAS community. Nevertheless, trade among member states remains relatively limited, in part due to various non-tariff barriers, including the lack of common documentation for customs procedures and ad-hoc levies charged for road transit. The simplification and harmonization of procedures are priority areas to foster regional integration. More broadly, there is also scope for better integrating the WAEMU with other sub-regions within Africa as well as the global economy. In that context, the African Continental Free Trade Area (AfCFTA) could play a significant catalyst role to coordinate integration efforts at the regional level.[23] The effective establishment of this framework is likely to boost trade and competition, enhance prospects for FDI, and facilitate the development of regional supply chains.

38. Regional infrastructure projects could also be an engine of medium-term growth. Better coordination and faster implementation of investments and pooled resources could enhance digital infrastructure and foster the construction of regional transportation and energy networks that would promote movements of goods and persons. Nevertheless, there are important bottlenecks to the implementation of regional investment projects, resulting in weak execution rates. Impediments to the execution of these projects include weaknesses in budget programming, lack of financing, cumbersome administrative procedures (in particular for public procurement), as well as capacity constraints to monitor project implementation.

39. Regional initiatives to improve the business climate would also mitigate the scarring effects of the pandemic. At the regional level, establishing a "level playing field" by enhancing the competition framework is particularly important to foster cross-border investment and boost productivity growth. In particular, the revision of the legal framework to enhance the division of responsibilities and cooperation between the WAEMU Commission and national competition authorities could improve the capacity to monitor and sanction anti-competitive practices within the region.

[23] The AfCTA agreement aims at eliminating tariffs on most goods, liberalizing trade in services, addressing nontariff barriers to trade, and eventually creating a single market with free movement of labor and capital. As of September 2021, the AfCTA had been ratified by 38 countries including Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo.

Authorities' Views

40. The authorities broadly concurred with IMF staff's analysis and diagnosis of structural bottlenecks to growth. They highlighted a number of initiatives being implemented at the regional level to address these issues. These include the Regional Economic Program (*Programme Economique Régional*- PER), which comprises key regional infrastructure projects in priority areas such as transportation, electricity and the digital economy, as well as an infrastructure fund financed by the BOAD (which would be operational by 2022), in addition to specific programs on the energy sector and human capital development. The latest phase of the PER comprises 102 projects (43 of which are being implemented by the WAEMU commission and other regional institutions) amounting to about 7 percent of regional GDP. In addition, the WAEMU Commission and member states have put in place measures to foster the reduction of non-tariff barriers to trade within the union, including the elaboration of trade surveillance reports, the undertaking of review missions within the different trade corridors, and the implementation of a framework to identify and settle problems encountered by economic agents when undertaking cross-border trade activities (*Mécanisme d'Alerte sur les Obstacles au Commerce*-MAOC).

STAFF APPRAISAL

41. The WAEMU region has, so far, shown remarkable resilience in the face of the Covid shock. Member states entered the crisis in a relatively strong macroeconomic position, supported by robust regional institutional frameworks for fiscal, monetary, and financial policies. In addition, national and regional authorities have provided a forceful and appropriate response to the shock.

42. The region is experiencing a fast economic recovery, although uncertainty about the economic outlook remains elevated. Economic prospects are favorable in the near and medium-term, with growth likely to stabilize around 6 percent and the external current account deficit eventually narrowing. Nonetheless, uncertainty surrounding the baseline scenario is still high, with risks tilted to the downside. Economic prospects could be undermined by the rapid spread of new Covid variants in a context of low vaccination, an abrupt tightening of global financial conditions, further deterioration of the security situation, and delays in fiscal adjustment.

43. After two years of relaxation of fiscal deficits, there is a need to re-anchor the fiscal trajectory in a credible medium-term fiscal framework. Staff supports the authorities' decision to converge towards the regional fiscal deficit anchor of 3 percent of GDP by 2024, which is necessary to preserve external and fiscal sustainability over the medium term. The credibility of the adjustment path would be enhanced by re-introducing the WAEMU Convergence Pact suspended in 2020. In staff's view, the medium-term fiscal targets embedded in the pre-crisis fiscal framework (70 percent of GDP debt ceiling and 3 percent of GDP deficit ceiling) appear to strike the right balance between growth and fiscal prudence considerations.

44. It is also crucial to ensure that the composition of fiscal adjustment fosters an inclusive economic recovery. Countries should shift from broad fiscal support to more targeted policies. Emphasis should be placed on revenue-enhancing measures to create needed fiscal space for the provision of essential public goods and strengthen debt servicing capacity. On the spending side, health expenditures, in particular those linked to the vaccination rollout, other priority social expenditure, and infrastructure investment should be protected.

45. The monetary policy stance appears appropriate. In light of the severity of the shock and uncertainty regarding near-term economic prospects, maintaining an accommodative stance has been adequate. The BCEAO should stand ready to tighten monetary policy if the external position weakens or inflation forecasts exceed durably the ceiling of the target band. The 2020 and 2021 external positions are assessed as broadly consistent with fundamentals and desirable policy settings.

46. Staff supports the BCEAO's continuous efforts to modernize its policy and governance frameworks. In response to the Covid crisis, the central bank has expanded the range and scale of its interventions. Some of these reforms could be maintained or developed further in the coming years. In particular, staff encourages the authorities to consider the possibility of extending the FRFA procedure after macroeconomic conditions normalize. Staff also recommends that the BCEAO explores various ways of achieving greater differentiation in the treatment of the expanded pool of collateral eligible for refinancing operations.

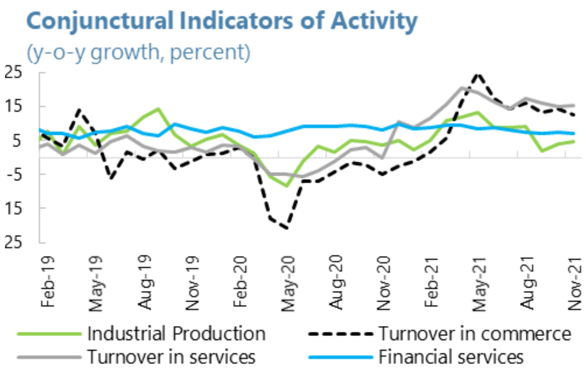
47. Although the financial sector has weathered well the crisis, financial stability and deepening should remain top priorities to foster growth and resilience. Commendable progress was achieved in 2021 to finalize the bank resolution framework, but some legislative, regulatory, and procedural measures are still needed to make it fully operational. The high reliance of some banks on BCEAO refinancing is a source of vulnerability that should be addressed, possibly by using the instrument of funding plans to encourage recourse to other forms of financing. Structural fragilities in the MFI sector should be tackled by enhancing monitoring, strengthening capacity, and restructuring distressed institutions. Finally, the depth and liquidity of the secondary sovereign security market could be increased by improving transparency and the price formation process, developing further benchmark maturities, and gradually eliminating market segmentation between syndicated and auctioned government securities.

48. Countering the possible scarring effects of the crisis will require bold actions at both the regional and national levels to boost productivity growth and stimulate private investment. At the regional level, the priorities are to foster trade integration, enhance the regional competition framework, and accelerate the implementation of regional infrastructure projects in the areas of transportation, electricity, and digitalization.

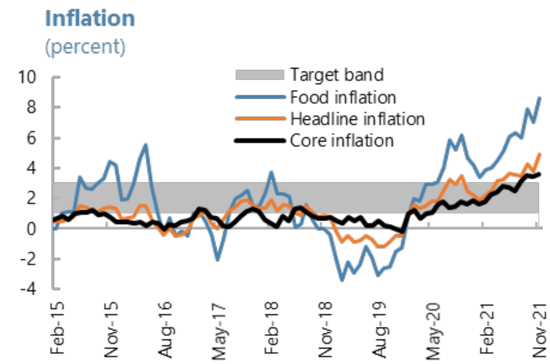
49. The discussions with the WAEMU authorities will be on the 12-month cycle in accordance with Decision No. 13656-(06/1), as amended.

Figure 1. WAEMU: Recent Economic Developments

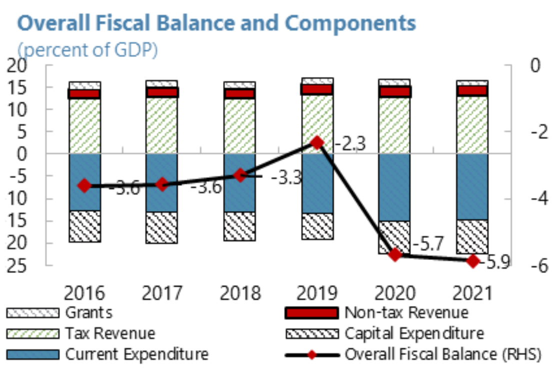
Activity indicators point to a consolidation of the recovery over 2021, though with an inflection around the third Covid wave.



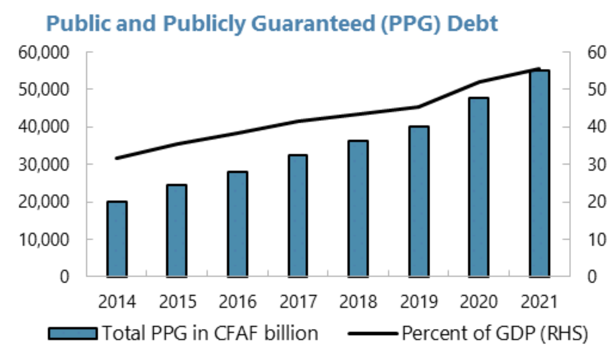
Inflation has drifted above the upper limit of the target band, driven by higher food prices.



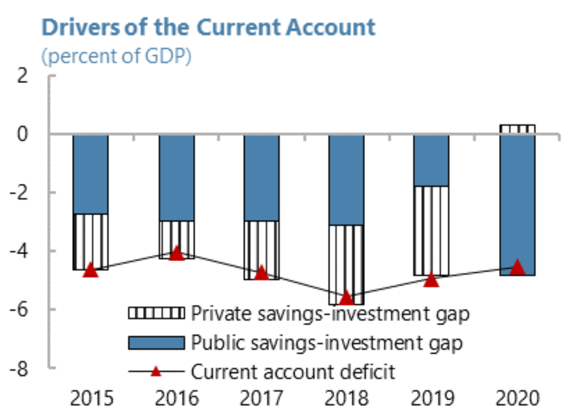
The fiscal stance was relaxed significantly in 2020 and 2021 in response to the crisis…



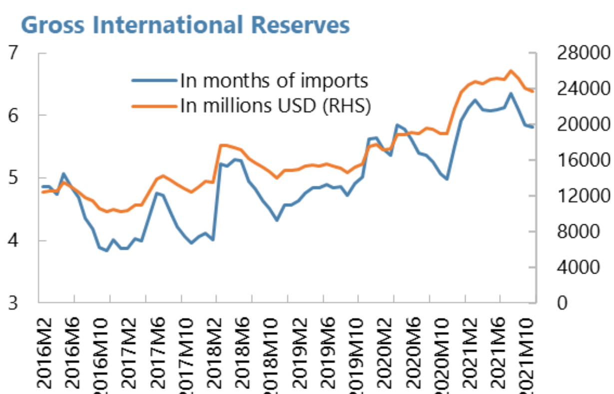
… and debt levels have increased rapidly in a context of low growth.



The current account deficit narrowed modestly in 2020.



Reserves rose to comfortable levels on the back of strong capital inflows, including Eurobond issuances.

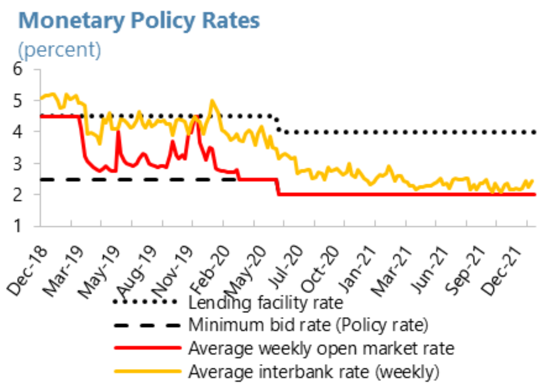


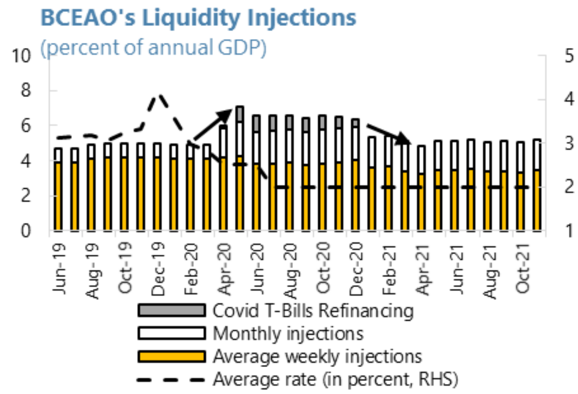
Sources: BCEAO, World Economic Outlook and IMF staff calculations.

Figure 2. WAEMU: Recent Monetary and Financial Sector Developments

Monetary policy continued to be accommodative in 2021.

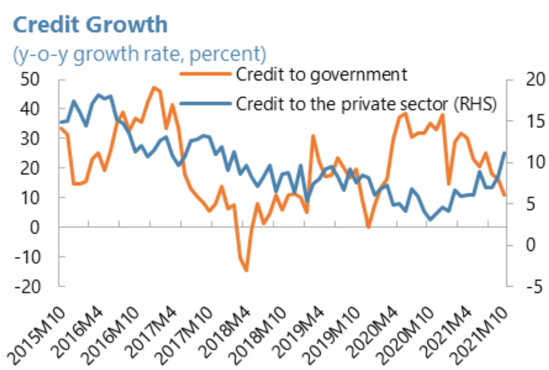
Banks' demand for BCEAO's liquidity is below the peaks of the start of the pandemic.

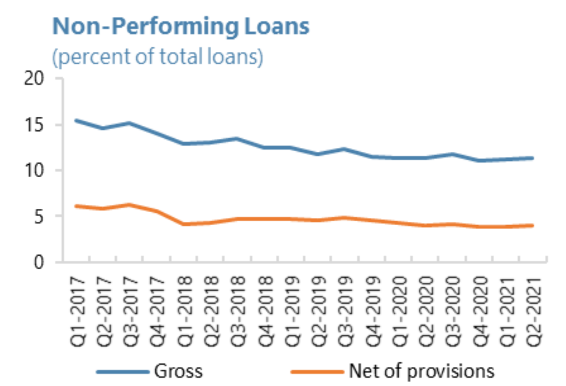




Private credit has showed resilience during the crisis…

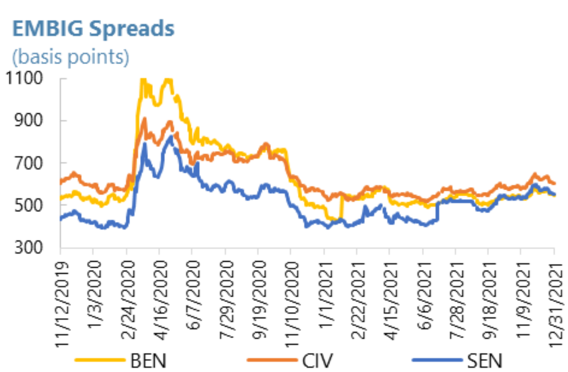
… and NPLs were stable in part due to the regulatory forbearance measures.

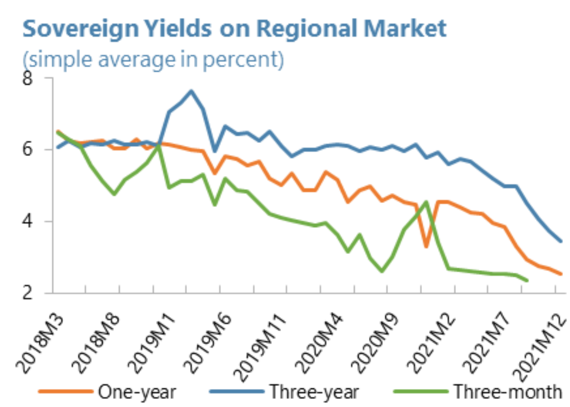




EMBIG spreads on Euro-denominated Eurobonds issued by WAEMU sovereigns have abated since 2020 peaks.

Domestic financial conditions have been favorable over 2021.

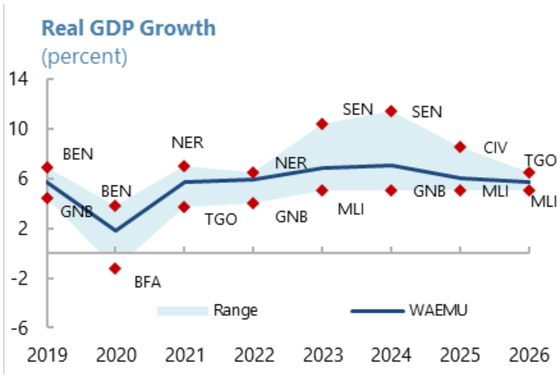




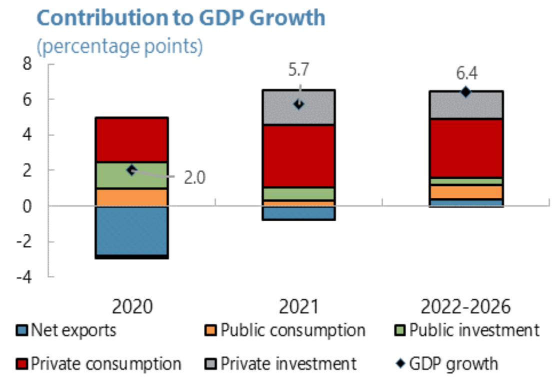
Sources: BCEAO; Agence UMOA-Titres; and IMF staff calculations.

Figure 3. WAEMU: Medium-Term Prospects

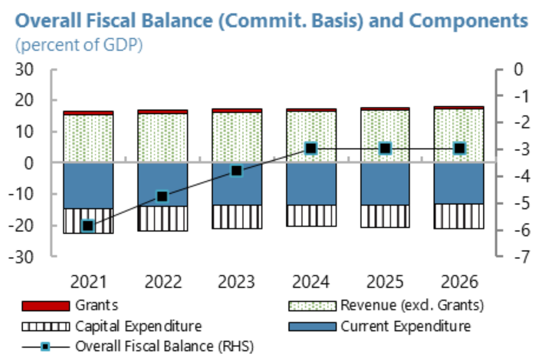
GDP growth is projected to converge back to around 6 percent in the medium-term...



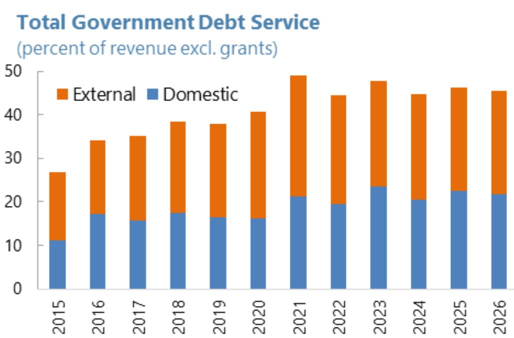
..., with the growth recovery being driven mostly by private consumption and a rebound in net exports.



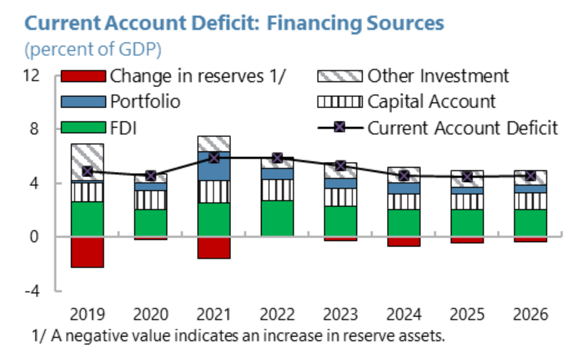
Consolidation towards the regional deficit ceiling should start in 2022...



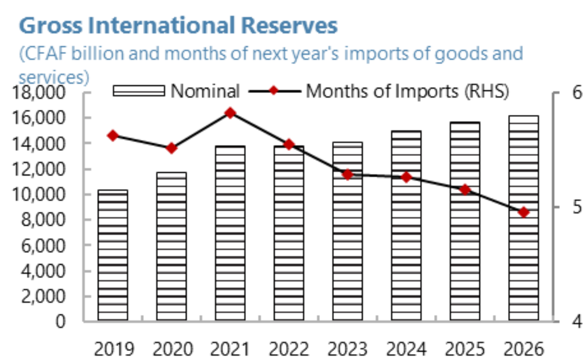
...gradually reducing high debt service levels.



The current account deficit is expected to widen in 2021-22 before converging to around 4.5 percent of GDP...



...and reserves would eventually stabilize at 5 months of imports

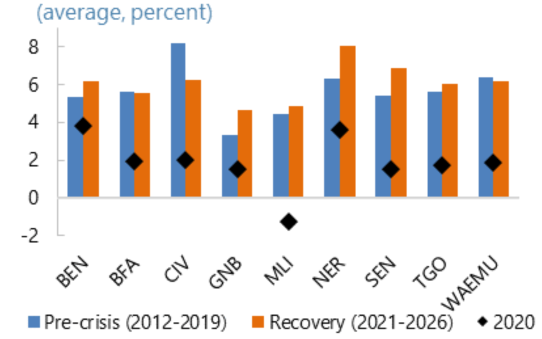


Sources: BCEAO; World Economic Outlook; and IMF staff calculations.

Figure 4. WAEMU: Regional Macroeconomic Heterogeneity

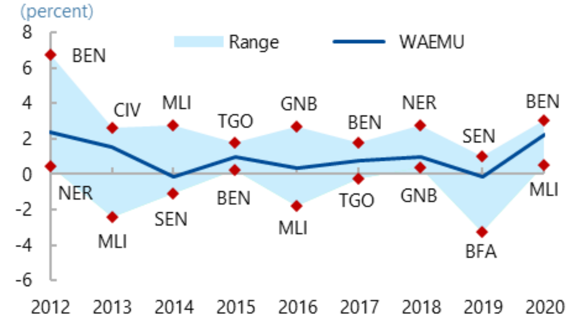
Most countries are expected to return to or even exceed pre-pandemic growth rates.

Real GDP Growth
(average, percent)



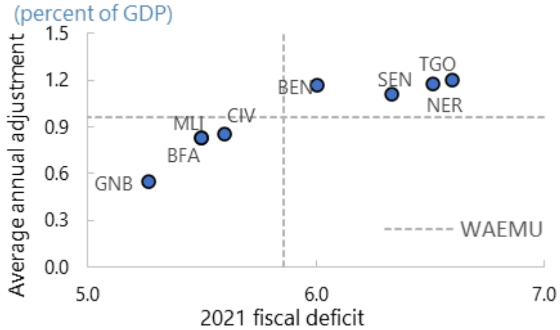
Inflation dispersion has narrowed over time and reflects, to some extent, differences in economic growth rates.

CPI Inflation
(percent)



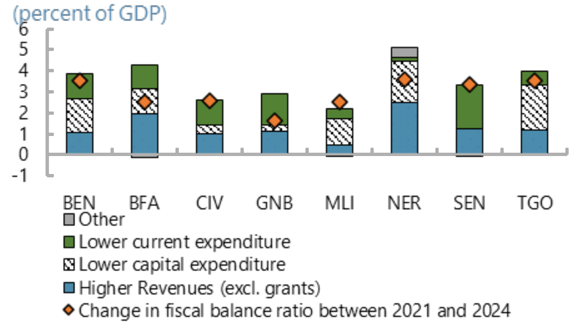
Fiscal adjustment is expected to be stronger in countries with initially higher fiscal deficits…

Average Annual Fiscal Deficit Adjustment between 2021 and 2024
(percent of GDP)



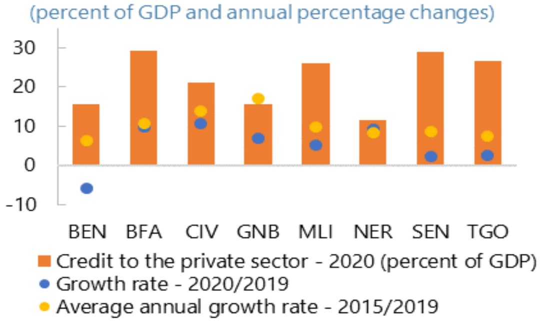
… and relies on a country-specific mix of current expenditure cuts and revenue mobilization efforts.

Composition of Cumulative Fiscal Adjustment between 2021 and 2024
(percent of GDP)



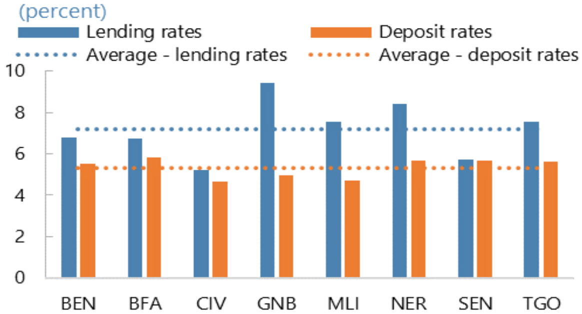
There is significant heterogeneity in the degree of financial depth across countries and no evident sign of convergence.

Credit to the Private Sector
(percent of GDP and annual percentage changes)



Despite the single monetary policy, bank lending rates differ substantially across countries.

Lending and Deposit Rates as of October 2021
(percent)



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

Table 1. WAEMU: Selected Economic and Social Indicators, 2018–26 [1]

Social Indicators

GDP		**Poverty (2015 or latest available)**	
Nominal GDP (2020, millions of US Dollars)	159,277	Headcount ratio at $1.90 a day (2011 PPP)	47.1
GDP per capita (2020, US Dollars)	1,218	Undernourishment (percent of population)	12.5
Populations characteristics		**Inequality (2015 or latest available)**	
Total (2020, millions)	131	Income share held by highest 10 percent of population	32.1
Urban Population (2020, percent of total)	40.8	Income share held by lowest 20 percent of population	6.1
Life expectancy at birth (2019, years)	61.3	Gini index	40.8

Economic Indicators

	2018	2019	2020		2021		2022	2023	2024	2025	2026
			SM/21/5 [2]	Est.	SM/21/5 [2]	Proj.	Projected				
					(Annual percentage change)						
National income and prices											
GDP at constant prices [3]	6.5	5.8	0.3	2.0	5.4	5.7	6.1	7.0	7.2	6.1	5.8
GDP per capita at constant prices	3.4	2.8	-2.5	-1.0	2.5	2.8	3.1	3.9	4.1	3.1	2.8
Consumer prices (average)	1.0	-0.1	1.7	2.3	1.6	3.3	2.5	1.9	1.9	1.9	1.9
Terms of trade	-1.9	-3.2	18.4	19.4	2.3	-3.1	-1.7	-2.6	-2.2	-0.5	-0.6
Nominal effective exchange rate	4.1	-0.5	...	3.7	...	...	...	...	...	...	...
Real effective exchange rate	2.2	-3.7	...	3.7	...	...	...	...	...	...	...
					(Percent of GDP)						
National accounts											
Gross national savings	18.6	19.4	18.6	20.1	19.4	19.5	20.1	20.7	21.0	21.4	21.5
Gross domestic investment	24.4	24.2	24.0	24.6	25.1	25.4	25.9	26.0	25.5	25.8	26.0
Of which: public investment	6.4	6.1	7.1	7.1	7.1	7.5	7.8	7.4	6.9	7.0	7.1
					(Annual changes in percent of beginning-of-period broad money)						
Money and credit											
Net foreign assets	4.6	6.6	0.3	0.7	-0.5	2.5	-0.1	0.7	1.8	1.3	1.0
Net domestic assets	7.9	3.7	10.1	15.9	7.4	5.5	8.0	8.0	7.2	6.7	6.7
Broad money	12.5	10.3	10.4	16.5	6.9	8.0	8.0	8.7	9.0	8.0	7.7
Credit to the economy	5.9	4.2	5.6	4.1	3.3	2.6	2.5	3.8	4.6	3.9	3.8
					(Percent of GDP, unless otherwise indicated)						
Government financial operations											
Government total revenue, excl. grants	14.6	15.6	14.7	15.2	15.5	15.3	15.9	16.3	16.5	16.9	17.2
Government expenditure	19.7	19.8	23.1	22.9	22.3	22.9	22.4	21.6	21.0	21.2	21.4
Overall fiscal balance, excl. grants	-5.0	-4.1	-8.4	-7.6	-6.9	-7.6	-6.5	-5.4	-4.4	-4.3	-4.2
Overall fiscal balance, incl. grants	-3.3	-2.3	-5.9	-5.7	-4.9	-5.9	-4.7	-3.8	-3.0	-3.0	-3.0
External sector											
Exports of goods and services [4]	19.2	19.6	17.0	18.7	18.1	18.9	19.9	19.7	20.3	20.2	19.8
Imports of goods and services [4]	25.5	25.4	23.4	24.2	24.3	25.8	26.6	25.7	25.4	25.0	24.8
Current account, excl. grants	-6.7	-6.1	-6.9	-5.9	-6.8	-6.8	-6.8	-6.3	-5.4	-5.3	-5.3
Current account, incl. grants	-5.6	-4.9	-5.4	-4.5	-5.7	-5.9	-5.9	-5.3	-4.5	-4.5	-4.6
External public debt	28.0	30.2	32.9	33.6	33.3	36.4	35.1	33.5	31.8	30.3	29.4
Total public debt	43.4	45.5	48.5	52.1	49.6	55.6	55.5	54.5	52.7	51.5	50.8
Broad money	33.0	34.3	37.1	38.6	37.1	38.6	...	...	...	...	...
Memorandum items:											
Nominal GDP (billions of CFA francs)	83,301	88,519	90,231	91,545	96,476	98,891	106,762	116,024	126,456	136,513	147,001
Nominal GDP per capita (US dollars)	1,217	1,190	1,198	1,218	1,322	1,332	1,394	1,494	1,600	1,692	1,784
CFA franc per US dollars, average	555	585.9	...	574.8	...	...	...	...	...	...	...
Gross international reserves [5]											
In months of next year's imports (of goods and services)	4.6	5.6	5.5	5.5	5.0	5.8	5.5	5.3	5.3	5.2	5.0
In percent of this year's GDP	10.3	11.7	...	12.8	...	13.9	12.9	12.2	11.9	11.5	11.0
In percent of the BCEAO's sight liabilities	79.6	81.4	...	77.3	...	86.4	89.4	84.2	81.9	79.2	76.1
In millions of US dollars	14,853	17,547	19,275	21,764	19,497	24,228	24,898	25,827	27,626	29,035	30,043

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

[1] All projections presented in this staff report were prepared in the first half of December 2021 and do not incorporate any further developments.

[2] Shows data from the IMF Country Report No. 21/49, published on January 21, 2021 (Board document number SM/21/5).

[3] The acceleration in GDP growth in 2023 is due to the start of production of large hydrocarbon projects in Niger and Senegal.

[4] Excluding intraregional trade.

[5] Projections for 2021 include the 2021 SDR allocation which is equivalent to US$2,327 million, or 0.6 months of imports and 9.6 percent of the BCEAO's sight liabilities.

Table 2. WAEMU: Selected National Accounts and Inflation Statistics, 2018–26

	2018	2019	2020		2021	2022	2023	2024	2025	2026
			SM/21/5 [1]	Est.			Proj.			
					(Annual percentage change)					
Real GDP										
Benin	6.7	6.9	2.0	3.8	7.0	6.0	6.0	6.0	6.0	6.0
Burkina Faso	6.7	5.7	-2.8	1.9	6.7	5.6	5.3	5.3	5.3	5.3
Côte d'Ivoire	6.9	6.2	1.8	2.0	6.0	6.5	6.4	6.3	6.1	6.0
Guinea-Bissau	3.4	4.5	-2.4	1.5	3.8	4.0	5.0	5.0	5.0	5.0
Mali	4.7	4.8	-2.0	-1.2	4.0	5.3	5.0	5.0	5.0	5.0
Niger [2]	7.2	5.9	1.2	3.6	5.4	6.5	10.4	11.4	8.5	6.0
Senegal [2]	6.2	4.4	-0.7	1.5	5.0	5.5	9.5	10.3	5.4	5.5
Togo	5.0	5.5	0.0	1.8	5.1	5.6	6.2	6.5	6.5	6.5
WAEMU	6.5	5.8	0.3	2.0	5.7	6.1	7.0	7.2	6.1	5.8
Real GDP per capita										
Benin	3.8	3.9	-0.8	1.0	4.0	3.1	3.1	3.2	3.1	3.1
Burkina Faso	3.7	2.7	-5.6	-1.0	3.7	2.6	2.4	2.3	2.3	2.3
Côte d'Ivoire	4.2	3.5	-0.8	-0.6	3.3	3.8	3.7	3.6	3.4	3.3
Guinea-Bissau	1.1	2.3	-4.5	-0.7	1.5	1.7	2.8	2.8	2.9	2.9
Mali	1.7	1.7	-4.8	-4.1	0.9	2.2	1.9	1.9	1.9	1.9
Niger	3.2	2.0	-2.5	-0.2	1.5	2.6	6.4	7.4	4.6	2.2
Senegal	3.3	1.6	-3.4	-1.3	2.2	2.6	6.5	7.3	2.5	2.6
Togo	2.4	2.9	-2.4	-0.7	2.6	3.0	3.6	3.9	3.9	3.9
WAEMU	3.4	2.8	-2.5	-1.0	2.8	3.1	3.9	4.1	3.1	2.8
Inflation										
Benin	0.8	-0.9	3.0	3.0	1.7	1.8	2.0	2.0	2.0	2.0
Burkina Faso	2.0	-3.2	2.2	1.9	3.0	2.6	2.5	2.5	2.5	2.5
Côte d'Ivoire	0.6	0.8	1.2	2.4	4.0	2.2	1.7	2.0	2.0	2.0
Guinea-Bissau	0.4	0.3	1.5	1.5	3.0	2.0	2.0	2.0	2.0	2.0
Mali	1.7	-2.9	0.5	0.5	3.6	3.6	2.5	2.0	2.0	2.0
Niger	2.8	-2.5	2.8	2.9	2.9	2.5	2.0	2.0	2.0	2.0
Senegal	0.5	1.0	2.0	2.5	2.5	2.5	1.5	1.5	1.5	1.5
Togo	0.9	0.7	1.4	1.8	4.3	3.1	2.0	2.0	2.0	2.0
WAEMU	1.0	-0.1	1.7	2.3	3.3	2.5	1.9	1.9	1.9	1.9
					(Percent of GDP)					
Gross national savings										
Benin	21.8	21.6	23.5	23.9	24.4	24.2	23.0	22.0	22.4	22.7
Burkina Faso	22.0	23.4	18.3	23.5	21.6	20.2	19.3	19.2	19.2	19.1
Côte d'Ivoire	16.7	18.0	18.3	18.7	19.0	20.8	21.1	21.4	22.4	23.5
Guinea-Bissau	11.1	5.4	13.9	19.2	16.3	15.6	17.1	16.5	16.2	16.8
Mali	15.6	15.1	16.6	15.5	10.9	11.0	10.7	10.0	10.2	9.6
Niger [3]	16.3	17.7	17.7	17.7	16.6	17.5	19.0	21.9	22.5	21.4
Senegal	23.8	23.8	19.8	22.8	23.1	23.0	27.3	27.9	26.4	25.1
Togo	15.5	19.8	15.4	22.1	22.8	23.0	21.1	20.7	22.1	22.9
WAEMU	18.6	19.4	18.6	20.1	19.5	20.1	20.7	21.0	21.4	21.5
Gross domestic investment										
Benin	26.4	25.6	27.2	25.6	28.4	28.1	27.8	26.8	26.9	27.1
Burkina Faso	26.1	26.7	21.8	23.7	24.1	24.3	24.0	24.1	24.1	24.0
Côte d'Ivoire	21.2	20.1	22.0	22.2	23.0	24.6	24.9	25.0	26.0	26.9
Guinea-Bissau	14.7	14.2	23.7	21.8	20.3	19.8	21.3	20.6	20.2	20.7
Mali	20.5	22.5	18.2	17.2	15.2	14.5	14.2	14.0	14.2	14.6
Niger [3]	28.9	30.2	30.7	31.2	31.9	33.8	30.6	30.6	30.3	30.1
Senegal	32.6	31.9	30.7	32.9	33.7	32.4	34.4	31.9	30.8	29.4
Togo	18.1	20.5	19.0	23.6	26.0	26.6	25.9	24.6	25.5	25.8
WAEMU	24.4	24.2	24.0	24.6	25.4	25.9	26.0	25.5	25.8	26.0

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

[1] Shows data from the IMF Country Report No. 21/49, published on January 21, 2021 (Board document number SM/21/5).

[2] Higher growth rates in 2023 and 2024 in Niger and Senegal reflect coming on stream of hyrdrocarbon production.

[3] Investment in Niger includes the change in inventories.

Table 3. Sub-Saharan Africa: Cross-Group Comparison, 2018–26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.			Proj.			
				(Annual percentage change)					
Real GDP									
WAEMU	6.5	5.8	2.0	5.7	6.1	7.0	7.2	6.1	5.8
CEMAC [1]	1.0	2.0	-2.5	2.6	2.8	3.5	4.3	3.8	3.9
Sub-Saharan Africa [2]	3.3	3.2	-1.6	3.7	3.8	4.1	4.0	4.1	4.2
Inflation (annual averages)									
WAEMU	1.0	-0.1	2.3	3.3	2.5	1.9	1.9	1.9	1.9
CEMAC [1]	2.1	1.8	2.7	2.1	2.3	2.3	2.3	2.3	2.3
Sub-Saharan Africa [2]	8.3	7.1	8.7	10.2	8.4	7.0	6.6	6.4	6.3
Terms of trade									
WAEMU	-1.9	-3.2	19.4	-3.1	-1.7	-2.6	-2.2	-0.5	-0.6
CEMAC [1]	7.8	8.0	-12.2	14.8	-3.9	-6.7	-3.8	-4.3	-1.2
Sub-Saharan Africa [2]	2.1	-2.3	2.7	7.2	-2.8	-1.6	-1.2	-1.5	-0.6
				(Percent of GDP, unless otherwise indicated)					
Gross national investment									
WAEMU	24.4	24.2	24.6	25.4	25.9	26.0	25.5	25.8	26.0
CEMAC [1]	25.2	25.8	23.8	24.9	26.4	27.3	28.1	30.5	31.1
Sub-Saharan Africa [2]	22.0	23.6	23.4	23.8	23.7	24.4	24.3	24.4	24.3
Overall fiscal balance, incl. grants									
WAEMU	-3.3	-2.3	-5.7	-5.9	-4.7	-3.8	-3.0	-3.0	-3.0
CEMAC [1]	0.0	-0.1	-2.0	-1.8	-0.2	0.0	0.2	0.4	0.3
Sub-Saharan Africa [2]	-3.4	-4.0	-6.8	-6.0	-5.2	-4.5	-4.3	-4.3	-4.3
External current account, incl. grants									
WAEMU	-5.6	-4.9	-4.5	-5.9	-5.9	-5.3	-4.5	-4.5	-4.6
CEMAC [1]	-2.9	-3.3	-4.6	-1.7	-1.9	-2.9	-3.1	-4.4	-4.5
Sub-Saharan Africa [2]	-2.4	-3.5	-3.1	-2.3	-2.7	-3.0	-2.9	-2.8	-2.7
Total public debt									
WAEMU	43.4	45.5	52.1	55.6	55.5	54.5	52.7	51.5	50.8
CEMAC [1]	50.3	52.2	58.2	54.8	51.7	49.7	47.2	44.6	42.4
Sub-Saharan Africa [2]	47.5	50.4	57.3	56.6	56.4	55.8	55.3	54.9	54.5

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

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

[2] Including Nigeria and South Africa.

Table 4. WAEMU: Selected Fiscal Indicators, 2018–26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.			Proj.			
					(Percent of GDP)				
Primary fiscal balance									
Benin	-1.3	1.1	-2.8	-3.7	-2.6	-1.9	-0.8	-0.8	-0.8
Burkina Faso	-3.2	-1.9	-4.2	-3.9	-3.2	-2.2	-1.1	-1.0	-1.0
Côte d'Ivoire	-1.6	-0.8	-3.7	-3.6	-2.8	-1.8	-1.0	-1.0	-1.0
Guinea-Bissau	-5.1	-3.8	-7.6	-4.8	-3.7	-2.2	-1.7	-1.1	-1.0
Mali	-3.9	-0.7	-4.2	-4.3	-3.0	-1.8	-1.2	-1.2	-1.2
Niger	-2.1	-2.6	-4.3	-5.5	-4.3	-3.0	-1.7	-1.7	-1.7
Senegal	-1.7	-1.9	-4.3	-4.2	-2.6	-1.6	-1.0	-1.0	-1.0
Togo	1.2	3.6	-4.6	-4.0	-2.4	-1.5	-0.5	-0.6	-0.7
WAEMU	-1.9	-0.8	-4.0	-4.0	-2.9	-1.9	-1.1	-1.1	-1.0
Overall fiscal balance (including grants), commitment basis									
Benin	-2.9	-0.5	-4.7	-6.0	-4.5	-3.5	-2.5	-2.5	-2.5
Burkina Faso	-4.3	-3.2	-5.7	-5.5	-4.8	-4.0	-3.0	-3.0	-3.0
Côte d'Ivoire	-2.9	-2.3	-5.6	-5.6	-4.7	-3.8	-3.0	-3.0	-3.0
Guinea-Bissau	-4.9	-3.9	-10.0	-5.3	-4.2	-4.1	-3.6	-3.0	-3.0
Mali	-4.7	-1.7	-5.4	-5.5	-4.5	-3.5	-3.0	-3.0	-3.0
Niger	-3.0	-3.6	-5.3	-6.6	-5.4	-4.2	-3.0	-3.0	-3.0
Senegal	-3.7	-3.9	-6.4	-6.3	-4.8	-3.7	-3.0	-3.0	-3.0
Togo	-0.6	1.6	-6.9	-6.5	-4.8	-4.0	-3.0	-3.0	-3.0
WAEMU	-3.3	-2.3	-5.7	-5.9	-4.7	-3.8	-3.0	-3.0	-3.0
Government revenue (excluding grants)									
Benin	13.0	12.9	12.7	12.9	13.4	13.8	14.0	14.2	14.4
Burkina Faso	17.2	18.7	16.6	15.6	16.7	17.2	17.6	18.0	18.5
Côte d'Ivoire	14.0	14.2	14.5	14.1	14.7	14.9	15.0	15.0	15.0
Guinea-Bissau	11.6	12.5	11.8	13.2	13.5	14.0	14.3	14.4	14.3
Mali	14.3	19.6	19.5	20.6	20.9	21.0	21.0	21.1	21.2
Niger	12.1	11.2	10.8	10.9	11.5	12.7	13.4	13.8	14.0
Senegal	16.9	18.8	17.8	18.8	19.2	19.7	20.1	21.4	22.4
Togo	15.3	14.8	13.8	14.4	14.7	15.1	15.6	16.2	16.6
WAEMU	14.6	15.6	15.2	15.3	15.9	16.3	16.5	16.9	17.2
Government expenditure[1]									
Benin	16.5	14.6	19.1	20.1	18.7	18.2	17.3	17.5	17.7
Burkina Faso	23.9	23.2	25.4	24.4	24.4	22.9	22.2	22.5	22.8
Côte d'Ivoire	17.7	17.3	20.6	20.2	20.0	19.3	18.5	18.3	18.2
Guinea-Bissau	20.1	19.3	25.9	23.4	21.9	22.3	21.6	21.1	21.0
Mali	20.3	23.1	26.1	27.4	26.3	26.0	25.6	25.7	25.8
Niger	21.1	21.6	22.9	24.0	22.7	22.1	21.4	21.6	21.8
Senegal	22.6	24.3	26.4	26.7	25.7	25.1	24.7	25.9	26.9
Togo	18.6	16.0	23.1	23.3	23.5	22.2	20.5	21.1	21.6
WAEMU	19.7	19.8	22.9	22.9	22.4	21.6	21.0	21.2	21.4
Government current expenditure									
Benin	10.8	10.7	12.2	12.1	11.0	10.7	10.8	10.9	10.9
Burkina Faso	15.5	17.6	17.7	16.7	15.9	15.8	15.5	15.2	14.7
Côte d'Ivoire	12.9	13.0	15.2	14.7	13.9	13.6	13.5	13.3	13.2
Guinea-Bissau	12.6	14.8	17.0	15.6	14.6	14.3	14.2	14.0	13.8
Mali	12.0	12.6	15.6	16.0	15.6	15.6	15.5	15.3	15.1
Niger	9.9	9.6	10.3	10.9	10.4	10.6	10.7	11.1	11.3
Senegal	14.5	15.8	17.1	16.3	15.0	14.8	14.2	14.1	14.1
Togo	13.5	13.0	14.1	14.2	13.2	13.5	13.6	13.8	13.9
WAEMU	12.9	13.4	15.0	14.7	13.8	13.7	13.5	13.4	13.3
Government capital expenditure									
Benin	5.6	3.9	6.9	8.0	7.7	7.4	6.5	6.6	6.8
Burkina Faso	8.5	5.9	7.8	7.8	8.6	7.0	6.7	7.3	8.1
Côte d'Ivoire	4.8	4.4	5.4	5.5	6.1	5.7	5.1	5.1	5.0
Guinea-Bissau	7.5	4.6	8.9	7.8	7.3	8.0	7.5	7.1	7.2
Mali	6.5	6.5	6.1	6.4	5.7	5.3	5.1	5.4	5.7
Niger	11.2	12.0	12.1	12.6	11.7	11.0	10.6	10.5	10.5
Senegal	8.0	8.5	9.3	10.4	10.8	10.4	10.5	11.8	12.7
Togo	5.1	3.1	9.0	9.1	10.4	8.7	6.9	7.3	7.6
WAEMU	6.5	6.0	7.3	7.7	7.9	7.3	6.9	7.2	7.5

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

[1] In Mali operations linked to the Etablissements Publics Nationaux are included in total expenditures but classified as neither capital nor current. In Burkina Faso and Niger, discrepancies between total expenditures and the sum of capital and current expenditures reflect net lending.

Table 5. WAEMU: Balance of Payment, 2018–26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.			Proj.			
					(Percent of GDP)				
Balance on current account	-5.6	-4.9	-4.5	-5.9	-5.9	-5.3	-4.5	-4.5	-4.6
Excluding official transfers	-6.7	-6.1	-5.9	-6.8	-6.8	-6.3	-5.4	-5.3	-5.3
Balance on goods and services	-6.4	-5.8	-5.5	-6.9	-6.7	-6.0	-5.1	-4.9	-4.9
Exports of goods and services [1]	23.1	23.5	22.6	23.6	24.3	24.1	24.6	24.4	24.1
Exports of goods	19.6	20.0	19.7	20.5	21.0	20.7	21.2	21.0	20.6
Exports of services	3.4	3.5	2.9	3.1	3.4	3.4	3.4	3.5	3.5
Imports of goods and services [1]	-29.5	-29.2	-28.1	-30.4	-31.0	-30.1	-29.7	-29.3	-29.0
Imports of goods	-22.0	-21.6	-20.3	-22.7	-23.2	-22.4	-22.1	-21.8	-21.5
Imports of services	-7.5	-7.6	-7.8	-7.8	-7.8	-7.6	-7.6	-7.6	-7.6
Income, net	-2.3	-2.5	-2.5	-2.3	-2.3	-2.3	-2.3	-2.3	-2.4
Income credits	1.2	1.1	1.0	1.0	1.0	1.0	1.0	1.0	1.0
Income debits	-3.5	-3.6	-3.5	-3.3	-3.3	-3.3	-3.4	-3.4	-3.4
Of which									
Investment income, debit: interest	-0.7	-0.8	-0.7	-0.6	-0.6	-0.6	-0.6	-0.6	-0.6
Current transfers, net	3.2	3.3	3.4	3.2	3.1	3.0	2.9	2.8	2.7
Private current transfers, net	2.1	2.2	2.1	2.3	2.1	2.1	2.0	2.0	2.0
Official current transfers, net	1.1	1.2	1.4	1.0	1.0	0.9	0.9	0.8	0.7
Balance on capital and financial account	7.4	7.0	4.6	6.8	5.8	5.6	5.2	4.9	5.0
Balance on capital account	1.6	1.4	1.4	1.7	1.6	1.4	1.2	1.2	1.2
Balance on financial account	5.9	5.6	3.2	5.1	4.2	4.2	4.0	3.7	3.8
Direct investment, net	1.5	2.6	2.0	2.5	2.7	2.3	2.0	2.0	2.1
Portfolio and other investments, net	4.3	2.9	1.1	2.5	1.6	1.9	2.0	1.7	1.7
Errors and omissions, net	-0.6	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	1.3	2.3	0.0	0.9	0.0	0.2	0.7	0.5	0.4
Change in official NFA ("-" increase)	-1.3	-2.3	0.0	-0.9	0.0	-0.2	-0.7	-0.5	-0.4
of which: Change in NIR [2]	-1.3	-2.3	0.0	-2.2	0.0	-0.2	-0.7	-0.5	-0.4

Source: IMF, African Department database.

[1] Including intraregional trade.

[2] While it did not affect NFA, the 2021 SDR allocation increased NIR by the equivalent of 1.3 percent of regional GDP.

Table 6. WAEMU: Government Public Debt and Debt Service, 2018–26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.	Proj.					
	(Percent of GDP)								
External Debt									
Benin	19.4	25.3	28.4	36.1	34.6	34.0	32.9	31.9	30.5
Burkina Faso	21.7	23.4	23.8	23.5	22.4	21.6	20.7	19.9	19.2
Côte d'Ivoire	25.8	27.5	32.1	34.8	33.5	32.2	30.6	29.3	28.7
Guinea-Bissau	21.8	24.2	24.7	27.0	25.8	24.6	23.7	22.1	20.9
Mali	24.8	26.7	29.8	29.9	27.4	25.6	24.0	22.6	21.4
Niger	25.3	26.5	31.6	33.9	33.1	30.9	28.8	27.2	26.6
Senegal	50.1	52.8	54.0	57.9	57.2	53.4	49.5	46.8	44.9
Togo	15.4	17.8	26.9	28.8	27.9	26.3	24.8	23.4	22.1
WAEMU	28.0	30.2	33.6	36.4	35.1	33.5	31.8	30.3	29.4
Domestic Debt									
Benin	21.7	17.3	17.7	13.0	13.8	14.4	13.7	13.0	13.0
Burkina Faso	16.3	18.7	22.7	24.7	26.5	27.6	27.7	27.8	28.0
Côte d'Ivoire	12.8	13.3	17.7	18.1	19.6	20.5	21.0	21.4	21.2
Guinea-Bissau	37.3	41.7	53.3	51.7	51.4	50.7	49.5	48.4	47.2
Mali	12.7	14.1	17.5	21.9	24.4	25.5	26.1	27.0	28.1
Niger	11.6	13.3	13.4	16.0	17.6	18.2	17.4	17.4	18.0
Senegal	11.4	11.0	14.7	15.1	14.4	14.3	13.6	14.7	15.1
Togo	41.6	34.6	33.4	35.4	35.4	35.8	35.2	34.8	34.5
WAEMU	15.3	15.3	18.5	19.2	20.4	21.0	20.9	21.3	21.4
Total Debt									
Benin	41.1	42.5	46.1	49.1	48.4	48.4	46.6	44.9	43.5
Burkina Faso	38.0	42.0	46.5	48.2	48.9	49.1	48.4	47.8	47.2
Côte d'Ivoire	38.6	40.8	49.9	52.9	53.1	52.7	51.6	50.7	49.9
Guinea-Bissau	59.2	65.9	78.0	78.7	77.2	75.3	73.1	70.5	68.2
Mali	37.5	40.7	47.3	51.8	51.7	51.0	50.1	49.6	49.5
Niger	36.9	39.8	45.0	49.8	50.7	49.1	46.1	44.7	44.5
Senegal	61.5	63.8	68.8	73.0	71.6	67.7	63.1	61.5	60.0
Togo	57.0	52.4	60.3	64.2	63.4	62.1	60.0	58.2	56.6
WAEMU	43.4	45.5	52.1	55.6	55.5	54.5	52.7	51.5	50.8
	(Percent of government revenue excluding grants)								
Total debt service									
Benin	52.2	48.8	49.6	95.2	35.6	39.0	34.1	39.0	33.9
Burkina Faso	31.9	34.1	46.6	54.5	57.4	67.7	69.1	71.4	68.3
Côte d'Ivoire	32.2	38.0	35.6	37.8	37.0	35.8	36.7	37.6	36.3
Guinea-Bissau	44.4	68.8	68.5	102.9	53.5	61.6	63.2	76.2	96.0
Mali	35.5	26.1	32.5	26.7	37.6	49.6	48.8	51.9	52.6
Niger	46.2	60.1	74.1	104.9	89.8	101.3	83.8	86.1	86.1
Senegal	42.9	29.0	33.6	36.8	34.4	32.0	27.2	25.8	27.2
Togo	56.5	66.0	53.5	76.5	85.0	83.4	59.3	64.0	58.8
WAEMU	38.4	37.8	40.6	49.1	44.4	47.8	44.7	46.4	45.4
Debt service, interest									
Benin	12.2	13.9	13.0	16.0	11.4	11.8	11.7	11.1	10.4
Burkina Faso	4.1	5.7	6.8	8.8	9.9	10.6	10.9	10.9	10.9
Côte d'Ivoire	9.6	11.0	13.2	12.5	11.8	11.5	11.2	10.8	10.4
Guinea-Bissau	5.6	8.7	13.3	13.0	11.1	13.6	13.6	13.1	13.6
Mali	5.6	4.9	6.2	5.8	7.1	8.1	8.5	9.7	10.9
Niger	7.9	8.7	8.7	9.3	11.0	10.6	10.2	9.8	9.8
Senegal	11.8	10.2	11.5	11.3	11.1	10.6	9.9	9.4	9.1
Togo	11.7	13.7	17.0	18.8	17.0	14.3	13.6	12.7	12.0
WAEMU	9.0	9.5	11.0	11.2	10.9	10.8	10.7	10.4	10.3

Source: IMF, African Department database.

Table 7. WAEMU: Monetary Survey, 2018–26

	2018	2019	2020	2021	2022	2023	2024	2025	2026
			Est.			Proj.			
					(Billions of CFA francs)				
Net foreign assets	5,126	6,945	7,147	8,037	8,006	8,290	9,112	9,738	10,281
of which:									
BCEAO	6,335	7,927	8,082	8,972	8,940	9,224	10,046	10,672	11,215
Commercial Banks	-1,209	-981	-934	-934	-934	-934	-934	-934	-934
Net domestic assets	22,364	23,387	28,198	30,144	33,215	36,507	39,713	42,970	46,476
Domestic credit	29,434	30,586	36,061	38,157	41,327	44,520	47,726	50,982	54,488
Net credit to government	8,143	8,147	12,376	13,561	15,761	17,386	18,530	19,891	21,387
Credit to the economy	21,291	22,439	23,684	24,597	25,567	27,134	29,196	31,091	33,102
Of which private sector	18,944	20,492	21,561	21,893	22,756	24,151	25,986	27,674	29,463
Other items, net	-7,070	-7,198	-7,863	-8,013	-8,113	-8,013	-8,013	-8,013	-8,013
Broad Money	27,490	30,333	35,346	38,182	41,221	44,797	48,825	52,708	56,757
Money	18,228	19,902	24,057	…	…	…	…	…	…
of which: Currency in circulation	6,308	6,971	8,359	…	…	…	…	…	…
Quasi-money	9,262	10,431	11,289	…	…	…	…	…	…
					(Annual changes in beginning of period broad money)				
Net foreign assets	4.6	6.6	0.7	2.5	-0.1	0.7	1.8	1.3	1.0
Net domestic assets	7.9	3.7	15.9	5.5	8.0	8.0	7.2	6.7	6.7
Domestic credit	9.3	4.2	18.0	5.9	8.3	7.7	7.2	6.7	6.7
Net credit to government	3.4	0.0	13.9	3.4	5.8	3.9	2.6	2.8	2.8
Credit to the economy	5.9	4.2	4.1	2.6	2.5	3.8	4.6	3.9	3.8
Of which private sector	4.6	5.6	3.5	0.9	2.3	3.4	4.1	3.5	3.4
Other items, net	-1.4	-0.5	-2.2	-0.4	-0.3	0.2	0.0	0.0	0.0
Broad Money	12.5	10.3	16.5	8.0	8.0	8.7	9.0	8.0	7.7
					(Year on year percent change)				
Net foreign assets	27.7	35.5	2.9	12.5	-0.4	3.5	9.9	6.9	5.6
Net domestic assets	9.5	4.6	20.6	6.9	10.2	9.9	8.8	8.2	8.2
Domestic credit	8.4	3.9	17.9	5.8	8.3	7.7	7.2	6.8	6.9
Net credit to government	11.4	0.1	51.9	9.6	16.2	10.3	6.6	7.3	7.5
Credit to the economy	7.2	5.4	5.6	3.9	3.9	6.1	7.6	6.5	6.5
Of which private sector	6.3	8.2	5.2	1.5	3.9	6.1	7.6	6.5	6.5
Other items, net	5.0	1.8	9.2	1.9	1.2	-1.2	0.0	0.0	0.0
Broad Money	12.5	10.3	16.5	8.0	8.0	8.7	9.0	8.0	7.7
Memorandum items:									
Change in net credit to government									
In CFAF billion	835	4	4,229	1,184	2,200	1,625	1,144	1,361	1,495
In percent of current GDP	1.0	0.0	4.6	1.2	2.1	1.4	0.9	1.0	1.0

Sources: BCEAO; and IMF staff calculations.

Table 8. WAEMU: Financial Soundness Indicators, 2016–21

	2016	2017	2018 [1]	2019	2020		2021
	December				June	December	June
	(Percent, unless otherwise indicated)						
Solvency ratios							
Regulatory capital to risk weighted assets	11.3	11.7	10.5	11.5	12.1	11.8	12.0
Tier I capital to risk-weighted assets	10.3	10.8	9.7	10.6	11.2	11.1	11.2
Provisions to risk-weighted assets	10.1	9.8	7.5	7.6	7.5	7.5	7.5
Capital to total assets	5.8	6.3	6.8	6.6	6.9	6.6	6.5
Composition and quality of assets							
Total loans to total assets	52.2	54.1	55.7	56.2	52.1	52.3	50.1
Concentration: loans to 5 largest borrowers to capital	101.9	89.8	82.6	86.1	78.1	76.9	84.4
Sectoral distribution of loans							
Agriculture	3.2	3.9	4.6	3.0	3.4	3.0	2.6
Extractive industries	1.6	1.5	1.7	1.7	1.7	1.8	1.7
Manufacturing	15.5	16.2	15.1	14.3	14.1	13.0	11.6
Electricity, water and gas	4.9	5.6	5.6	4.6	4.7	4.7	4.9
Construction	10.8	9.8	10.6	11.2	11.5	10.2	11.0
Retail and wholesale trade, restaurants and hotels	26.7	26.8	27.7	25.9	26.7	26.5	26.7
Transportation and communication	9.9	11.6	10.5	11.3	11.3	10.8	10.6
Insurance, real estate and services	7.2	7.2	6.8	7.2	7.9	8.4	8.8
Other services	20.1	17.4	17.5	20.8	18.6	21.7	22.1
Gross NPLs to total loans	13.8	13.9	12.4	11.4	11.4	11.0	11.3
Provisioning rate	65.5	63.6	65.3	63.3	67.1	67.2	67.1
Net NPLs to total loans	5.2	5.5	4.7	4.5	4.0	3.9	4.0
Net NPLs to capital	47.2	48.0	38.2	38.3	30.5	31.0	30.9
Earnings and profitability							
Average cost of borrowed funds	2.9	2.5	2.4	0.7	...	0.9	...
Average interest rate on loans	9.8	8.4	7.6	7.1	...	7.6	...
Average interest margin	6.9	5.9	5.2	6.4	...	6.7	...
After-tax return on average assets (ROA)	1.3	1.3	1.2	1.3	...	1.2	...
After-tax return on average equity (ROE)	20.2	17.6	14.6	15.3	...	13.9	...
Noninterest expenses/net banking income	58.5	58.3	60.5	58.9	...	58.1	...
Salaries and wages/net banking income	25.6	25.0	25.9	24.8	...	25.1	...
Liquidity							
Liquid assets to total assets	27.1	27.3	27.8	26.0	23.8	24.4	22.5
Liquid assets to total deposits	42.3	42.3	42.4	38.7	35.8	35.5	31.5
Total loans to total deposits	89.5	92.0	92.2	90.2	84.7	82.2	76.0
Total deposits to total liabilities	64.1	64.5	65.7	67.1	66.6	68.7	71.4
Sight deposits to total liabilities	34.4	34.7	35.1	35.8	35.9	37.1	39.1
Term deposits to total liabilities	29.7	29.8	30.6	31.4	30.7	31.5	32.3

Source: BCEAO.

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

Annex I. Impact of the Pandemic on Financial Inclusion[1]

This annex provides a preliminary analysis of the impact of the Covid pandemic on financial inclusion in the WAEMU during 2020. The focus is on three dimensions of financial inclusion, namely microfinance institutions (MFIs), e-money and banking sector. Overall, while MFIs have remained mired in persistent vulnerabilities, there are reasons to believe that progress made on e-money and digital transactions could outlast the pandemic and deepen as Covid recedes.

A. Financial Inclusion and the Pandemic

1. **Boosting financial inclusion is a policy priority in the WAEMU, considering its role in economic development through supporting growth, reducing poverty and mitigating inequality.** Greater availability of financial services unlocks business opportunities for individuals and firms, while allowing citizens to invest in education, cushion negative shocks, and save for old age. Moreover, small and young firms, which are subject to financing constraints, can contribute to job creation in more inclusive financial systems. Therefore, financial inclusion can help countries alleviate inequality and promote economic development.[2]

2. **This annex focuses on three key dimensions of financial inclusion**. These three pillars—a common typology in the literature—are MFIs, e-money, and banks' activities targeted towards enhancing access and quality of financial services (Box 1). In the WAEMU, the MFI sector is relatively small, with its end-2020 credit outstanding representing about 1.8 percent of GDP. By comparison, banks' credit to the private sector stood at about 23 percent of GDP. The total value of e-money transactions (including digital payments) was about 44 percent of GDP during 2020.

Box 1. Concepts

Financial inclusion. It is a multidimensional concept and can broadly be defined as the extent to which individuals and firms have access to, and effectively use, formal financial services at high quality and low costs. Banking sector, MFIs and e-money are three important aspects of inclusive finance.

MFI sector. It consists of financial institutions that provide financial services mainly to low-income households and small- or micro-sized enterprises, which are typically excluded from traditional banking services.

Mobile money and e-money. "Mobile money" can be defined as financial services offered by mobile network operators or other financial institutions which partner with network operators, generally without the requirement of having a bank account. Hence, the pre-requisite is often to have a mobile phone subscription. "E-money" is a broader concept that also covers other digital financial services (DFS) such as services provided by banks or other traditional financial institutions that can be done using mobile phone, internet, or other electronic devices (e.g. deposits, bill payments, or online transfers).

[1] Prepared by Can Sever (AFR).

[2] The literature shows how the lack of access to finance can lead to poverty traps and inequality (see 2014 World Bank *Global Financial Development Report*).

3. The Covid pandemic may have created both challenges and opportunities for financial inclusion. The ambiguous effect of the pandemic is apparent when analyzing the potential channels of transmission:

- Lockdowns, travel restrictions and social distancing measures have disrupted economies in Africa, while the slow pace of vaccine rollout has imposed further strains on the economies. Financial institutions are facing a deterioration of credit quality, with customers having difficulties to repay their debt. The MFI sector has been particularly impacted, since it engages with lower income groups and small-sized firms, groups that have been disproportionately hit by the pandemic. Moreover, MFI operations have been affected by social distancing measures that disrupted collection of repayments, face-to-face meetings with clients, and flow of work.
- The Covid shock may also have created opportunities for financial inclusion, particularly in the area of e-money. Virus containment measures have promoted contactless transactions and compelled many people to adopt DFS for the first time. In addition, central banks in many countries, including the BCEAO, have launched new measures to boost the use of DFS (such as reducing transaction fees), and governments have introduced mobile cash transfers (such as the Novissi program in Togo) to reach out the vulnerable populations.

B. Evolution of Financial Inclusion Pre-Pandemic

Microfinance Institutions

4. The MFI sector went through extensive restructuring in the years preceding the pandemic. Based on data from the BCEAO, the nominal stock of loans provided by MFIs increased by about 60 percent, from 934 to 1,483CFAF billion, between the end of 2015 and the end of 2019. As share of GDP, the loan ratio increased from 1.4 to 1.7 percent over the same period (Figure 1).[3] This increase in credit happened in the context of a restructuring of the sector (which started in the second half of the 2000s) prompted by measures to close nonviable MFIs and tighten conditions to grant new licenses. In the meantime, the number of MFIs declined from 679 at end-2015 to 508 by end-2019. The total number of MFI clients was broadly stable at around 14-15 million over the period.

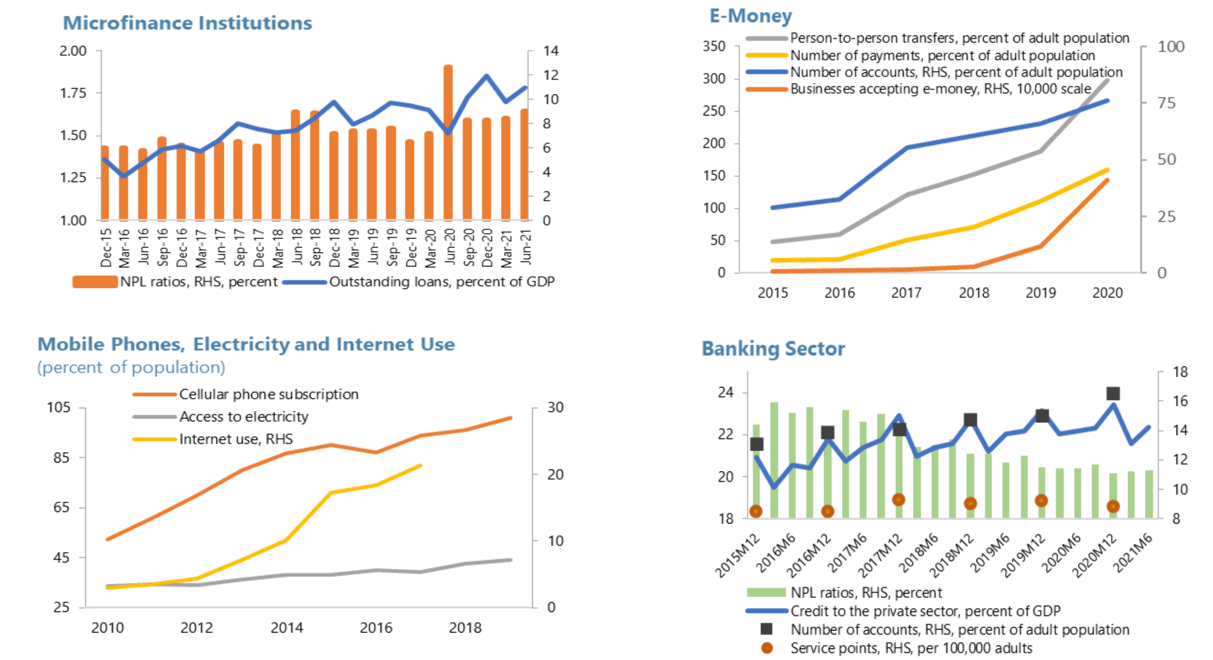
E-money

5. E-money displayed robust improvements over the period, becoming crucial for financial inclusion in the WAEMU. BCEAO data shows a widespread increase in the use of e-money over the period 2015-19. The number of accounts (as a share of adult population) increased more than twofold, from 29 to 66 percent. During the same period, more and more businesses started accepting e-money payments. The number of person-to-person transfers and total volume of payments also increased fourfold and sixfold, respectively (Figure 1).

[3] Due to data availability limitations, the analysis focuses on the past five years before the pandemic for all financial inclusion measures.

6. **Improvements in cellular phone subscriptions, internet use and access to electricity over the past decade have helped unlock the potential for e-money in the region**. According to the World Bank's World Development Indicators, cellular phone subscriptions reached 100 (per 100 people) in 2019, doubling from 52 in 2010. Internet use, as a share of total population, also jumped from 3 to 21 percent over 2010-17, and access to electricity increased from 34 to 44 percent of population during 2010-19 (Figure 1).

Figure 1. Financial Inclusion Indicators in the WAEMU



Sources: BCEAO, World Bank, IMF World Economic Outlook, IMF staff estimates. Data from the BCEAO regarding MFIs, E-Money and banking sector are obtained from monthly bulletins, quarterly reports on MFIs, annual reports on financial inclusion and information provided by the authorities in the context of the consultation. Data for internet use not yet available after 2017.

Banking Sector

7. **Indicators of financial inclusion in the banking sector point to steady improvements before the pandemic.** The number of bank accounts increased from 13 to 15 percent of adult population during 2015-19. Service points—defined as any type of physical place where clients can receive banking services—also showed modest progress. Although being an imperfect measure of inclusion, credit to the private sector grew by about 40 percent, from a nominal value of 14,400 at end-2015 to 21,000 CFAF billion at end-2019. In proportion of GDP, credit to the private sector increased from 21 to 23 percent during the same period (Figure 1).

C. Financial Inclusion During the Crisis

Microfinance Institutions

8. **The pandemic does not seem to have durably impacted the loan provision by MFIs.**

The Covid shock led to an initial decline in the nominal stock of loans in the second quarter of 2020, but the effect was short-lived. Loans showed a rebound during the second half of 2020, with an average quarterly growth rate of about 10 percent (y-o-y), as the economies started to reopen. During the first half of 2021, consistent with the economic recovery in the region, credit from MFIs rebounded significantly with an average quarterly growth of 19 percent y-o-y, although some of it reflected the base effect of slowdown in the second quarter of 2020 (Figure 1). The number of MFI clients has increased by about 1.5 million people since the beginning of 2020, reaching 16 million at the end of the first quarter of 2021.

9. However, the quality of MFIs portfolio has deteriorated significantly during the crisis. The aggregate NPL ratio increased from 6.5 percent at the end of 2019 to a peak of 12.6 percent in the second quarter of 2020. This large increase was due to several factors, including (1) the low adoption by MFIs of the forbearance measures provided by the BCEAO during the pandemic (Box 2); (2) weaknesses of the MFIs' information systems that did not allow forborne loans to be classified as performing, even when the forbearance measures were implemented; and (3) large exposure of MFIs to the agriculture sector, which was hardly hit by the crisis. Afterwards, with the economic recovery and the removal of the lockdown and social distancing measures, repayments resumed and the MFIs' NPL ratio declined to 9.0 percent in the second quarter of 2021 (Figure 1). This is still 2.5 percentage points higher than in the last quarter of 2019, reflecting the structural fragilities of the sector (poor governance and risk management, inadequate staffing, weak legal structures etc), which were further aggravated by the pandemic.

Box 2. Authorities' Actions to Foster Inclusion During the Pandemic

The BCEAO has taken some actions to protect financial inclusion, as the pandemic hit the region. In order to incentivize the use of e-money, the BCEAO reduced fees and commissions in various types of e-money transactions and relaxed the conditions for opening e-money accounts during 2020.

In addition, the BCEAO launched a framework in 2020 encouraging banks and MFI to postpone the debt repayments of customers that were affected by the pandemic (but evaluated as solvent), without reclassifying those claims as non-performing. The loan forbearance framework provided a breathing space to firms and households hit by the economic downturn and supported the goal of an inclusive financial system. Furthermore, in order to facilitate MFI access to bank financing, bank loans granted to eligible MFIs became eligible, as collateral, for a special refinancing window of the BCEAO (thereby creating additional incentives for banks to lend to MFIs).

E-money

10. The pandemic has boosted the use of e-money across the WAEMU, reinforcing the gains accumulated before the pandemic. The number of e-money accounts (as a share of adult population) increased from 66 at end-2019 to 76 percent at the end of 2020. The number of businesses accepting e-payments increased almost fourfold during the pandemic, reaching almost 413,000 by the end of 2020 compared to end-2019. Person to person transactions also improved markedly, from 190 to almost 300 percent of adult population by end-2020, while the number of payments increased from 111 to 160 percent of adult population between 2019 and 2020 (Figure 1).

11. It is unclear whether all the gains achieved in 2020 in e-money use will be preserved in the post-pandemic environment. Virus containment measures and the BCEAO policy response contributed to the positive developments in the use of e-money. Some of these effects may be transitory and reversed, as economies go back to normal. That said, three main factors could make the gains more durable. First, as mentioned above, the pandemic counted many first-time users, and some of them will continue to use e-money beyond the Covid period. Second, the increase in digitalization and internet use during the pandemic could lead to permanent gains in e-money use.[4] Third, the BCEAO is likely to continue incentivizing e-money transactions beyond the pandemic.

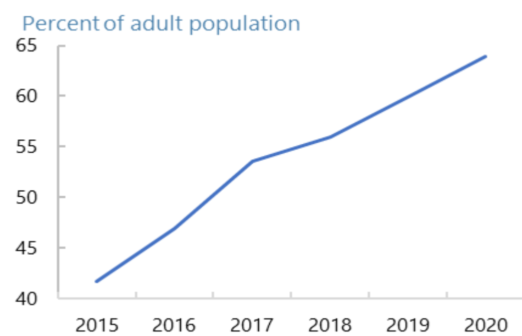
Banking Sector

12. The Covid shock has led to a sizable increase in the banked population, while other indicators of financial inclusion in the banking sector have not been much affected. Individuals with a bank account (as a share of adult population) increased from 15 percent at the end of 2019 to 16.5 at the end of 2020. Although the pandemic led to a small decline in the nominal stock of bank loans to the private sector during the first quarter of 2020, the effect was transitory. Loans resumed their increase afterwards, at a pace similar to the pre-pandemic level (with an average 5.6 percent quarterly growth y-o-y), reflecting the removal of the lockdown and social distancing measures and the ongoing economic recovery. Service points for the banking sector remained stable in 2020 (Figure 1).

Overall Use of Financial Services

13. Aggregate indicators of financial inclusion confirm the steady improvement in the use of financial services during the Covid crisis. The BCEAO produces several indicators of financial inclusion that combine the three dimensions discussed above (e-money, MFIs and banks). For instance, the share of adult population using at least one sort of financial services reached 64 percent at the end of 2020 from 60 percent at end-2019 (Figure 2). This shows a continuation of the steady improvement observed during the pre-pandemic period (the share of adult population that uses financial services stood at 42 percent by end-2015). Other aggregate indicators of financial inclusion display the same trend.

Figure 2. Indicator of Overall Use of Financial Services in the WAEMU



Source: BCEAO's annual report on financial inclusion. The indicator is corrected for individuals with multiple accounts, thereby representing citizens as share of adult population.

[4] See, for instance, Fu and Mishra 2020 ("The Global Impact of COVID-19 on Fintech Adoption"); Khera 2021 (Indonesia Selected Issues Papers in IMF Country Report No. 21/47); and the World Bank *Africa's Pulse* of April 2021.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood/ Time Horizon	Excepted Impact if Realized	Recommended Policy Response
Uncontrolled Covid local outbreaks and subpar/volatile growth	**High** **Short to Medium Term**	**High** Outbreaks in low-vaccination countries force new lockdowns and reduce growth prospects, worsen fiscal positions, and increase debt vulnerabilities. Effects could be large given health system weaknesses in the WAEMU.	Reintroduce containment and mitigation measures. Prioritize spending and target support to affected firms and households. Provide adequate liquidity to banks. Mobilize greater donor support to accelerate vaccine rollout.
De-anchoring of inflation expectations in the U.S. leads to rising core yields and risk premia.	**Medium** **Short to Medium Term**	**Medium** Following sustained above-target inflation readings and a de-anchoring of expectations, the Fed may react by signaling a need to tighten earlier than expected. The resulting repositioning by market participants leads to a front-loaded tightening of financial conditions and higher risk premia for frontier markets with adverse consequences for capital flows and reserves in the WAEMU.	Tighten monetary policy, as needed, to support reserves. Maintain a prudent fiscal policy stance to protect the peg and alleviate crowding-out in the regional market. Accelerate the implementation of the structural reform agenda to support capital flows (in particular FDI) and confidence.
Rising commodity prices amid bouts of volatility.	**Medium** **Short to Medium Term**	**Medium** Commodity prices increase by more than expected following post-pandemic pent-up demand and supply disruptions. Uncertainty leads to bouts of volatility, especially in oil prices, which would have growth, inflation, and fiscal implications given that the WAEMU, as a whole, is a net oil importer.	To mitigate the possible budgetary cost, adjust domestic energy prices to reflect changes in international prices. Mitigate adverse effects on the most vulnerable through targeted fiscal transfers.
Higher frequency and severity of natural disasters related to climate change	**Medium** **Short to Medium Term**	**High** Could adversely affect agricultural output and exports, increase subsidy needs, and reduce the populations' living standards.	Develop further food security strategy. Strengthen resilience through irrigation and productivity in agriculture. Mitigate the impact on the poor through targeted fiscal transfers and other types of public spending.
Widespread social discontent and political instability	**Medium** **Short to Medium Term**	**High** Social tensions erupt as the withdrawal of pandemic-related policy support and fiscal consolidation result in unemployment and, amid rising food inflation, hurts vulnerable groups. This and other forms of political instability could delay the regional fiscal convergence, with possible adverse effects on the external position.	Unwind support measures targeted to vulnerable groups more gradually. Improve spending efficiency, and reprioritize spending to enhance social safety nets.
Intensified security risks, including due to regional spillovers	**Medium** **Short to Medium Term**	**High** Intensification or contagion of security shocks could have large adverse effects on activity and public finances, and complicate policy implementation.	Create space for crisis response through better revenue mobilization and improved spending efficiency. Ensure that the pace of medium-term consolidation is gradual. Improve fiscal transparency and governance when scaling up security budget. Reach out to the international community to increase external financing and technical assistance.
Delays in the realization of oil and gas projects in Niger or Senegal	**Medium** **Medium Term**	**Medium** Delays in hydrocarbon projects or revised reserve estimations relative to baseline would weaken the current account and external buffers.	Adjust fiscal plans, improve spending quality and step-up structural reforms to improve competitiveness and foster private sector development in non-extractive sectors.

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

Annex III. External Sector Assessment[1]

***Overall Assessment**: The 2020 and 2021 WAEMU's external positions are assessed as broadly as broadly consistent with fundamentals and desirable policy settings. The current account deficit, which is estimated to have narrowed in 2020, is projected to expand in 2021 reflecting an increase in imports caused by the economic recovery and higher oil prices. The level of reserves is within the range suggested by reserve adequacy metrics using 2020 and preliminary 2021 data. The exchange rate is found to be broadly in line with fundamentals.*

***Potential Policy Responses:** In 2021, accommodative monetary and fiscal policies have been appropriate to support the economic recovery given considerable uncertainties surrounding the macroeconomic outlook. Over the medium term, fiscal consolidation towards 3 percent of GDP and implementation of structural reforms—including at the regional level—will be key to supporting the external position.*

A. Net International Position

1. 2019 position. The WAEMU's net international position (NIIP) deteriorated to - 44.4 percent of GDP at end-December 2019 (the date of the most recent observation), against -42.8 percent at end December 2018. This trend was largely driven by an increase in external debt, which passed from to 28.0 percent of GDP in 2018 to 30.2 percent in 2019.

2. Outlook. The improvement in the CA (current account) deficit in 2020 is expected to support the NIIP, while the expected weakening in the CA position in 2021 might contribute to a worsening of the NIIP ratio. Looking ahead, the projected improvement in the CA position from 2023 should contribute to stabilizing the NIIP ratio in the medium-term. Over 40 percent of the WAEMU external liabilities is constituted by foreign direct investments (FDI), while portfolio investments (which are more volatile than FDI) constitute a relatively small proportion of external liabilities; in this regard, risks to external sustainability arising from the negative NIIP appear contained.

B. Current Account

3. Background. The WAEMU external CA deficit (including grants) is estimated to have narrowed to 4.5 percent of GDP in 2020 from 4.9 percent in 2019, as some import compression in the context of the pandemic and an increase in official transfers more than offset the export contraction resulting from the decline in external demand.[2] In 2021, the CA deficit is projected to widen to 5.9 percent of GDP as the result of a rebound in imports, related to the ongoing economic recovery as well as higher international oil prices. Over the medium term, the CA deficit would progressively improve to reach 4.6 percent of GDP in 2026 (a level broadly similar to the 2016-20 average), reflecting the effect of fiscal consolidation as well as the expected import decline

[1] Prepared by Giulio Lisi (SPR). The analysis was conducted at end-2021 when data for 2021 constituted projections.

[2] 2020 CA data are still estimation. Final data will be available in the first quarter of 2022.

associated with the completion of planned hydrocarbon projects in Niger and Senegal.

4. **Assessment.** When applied to 2020 data, the Fund's EBA-Lite CA model estimates a CA norm of -5.24 against a cyclically-adjusted CA balance of -5.10 percent of GDP, resulting in small positive gap of 0.14 percent of GDP (Text Table). This result includes adjustors for the impact of the pandemic on oil trade balances and tourism (-0.09 percent on average in WAEMU countries) as well as natural disasters and conflicts (0.42 percent on average).[3] Using preliminary data for 2021, the model estimates a CA gap of -0.62 percent of GDP, wider than the one estimated using 2020 data but still within the threshold assessed to be in line with economic fundamentals according to the EBA-Lite methodology (-1 percent of GDP).[4] The difference between the 2020 and 2021 assessments reflects the expected widening of the CA deficit in 2021.

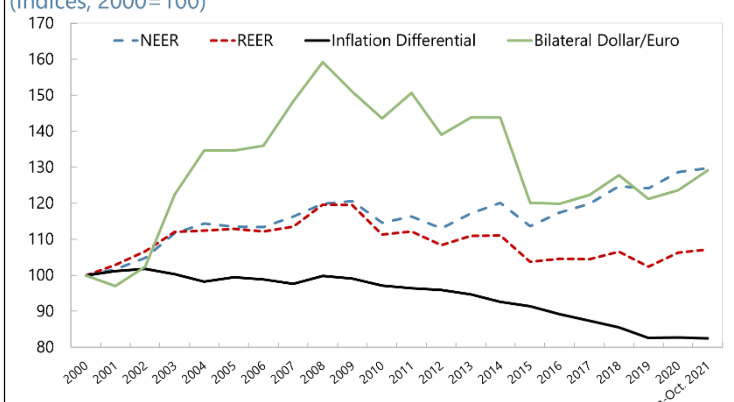
WAEMU: Model Estimates for 2020 (in percent of GDP)

	CA model	REER model
CA-Actual	**-4.50**	
Cyclical contributions (from model) (-)	0.09	
COVID-19 adjustor (+)	-0.09	
Additional temporary/statistical factors (+)	0.00	
Natural disasters and conflicts (-)	0.42	
Adjusted CA	**-5.10**	
CA Norm (from model)	**-5.24**	
Adjustments to the norm (+)	0.00	
Adjusted CA Norm	**-5.24**	
CA Gap	**0.14**	**0.24**
o/w Relative policy gap	1.67	
Elasticity	-0.18	
REER Gap (in percent)	**-0.23**	**-2.11**

C. Real Exchange Rate

5. **Background.** The CFA Franc (CFAF), in real effective terms, depreciated by about 14.3 percent between the peak of 2009 and 2019, reflecting both the nominal depreciation of the Euro vis-à-vis the US dollar and relatively low inflation in WAEMU countries compared to trading partners. Starting in 2020, the depreciating trend was halted. In 2020, the real effective exchange rate (REER) appreciated by about 3.9 percent compared to 2019 levels; this was largely the result of relative appreciation of the Euro against the USD, while the inflation differential with trading partners was stable over the same period. In 2021, the REER

WAEMU: Effective Exchange Rate, 2000-2021
(Indices, 2000=100)



Source: IFS.

[3] Estimates for the region reflect the average of WAEMU member countries, weighted by contribution to 2020 nominal GDP.

[4] These estimates should be interpreted with caution, given considerable uncertainty surrounding projections for 2021.

further appreciated by about 1.9 percent over January-October, compared to the average value over the same period in 2020, reflecting the nominal exchange rate appreciation.

6. Assessment. When applied to 2020 data, the EBA-Lite Index Real Effective Exchange Rate (IREER) model finds a marginal misalignment of CFAF, estimating an undervaluation of approximately 2.1 percent with respect to values implied by economic fundamentals and equilibrium policies. This result is broadly consistent with the estimates obtained using the EBA-Lite CA model, which suggest an undervaluation of 0.23 for 2020 assuming an elasticity of the real exchange rate to the CA deficit of -0.18 (using IMF staff assumptions). When applied to preliminary data covering the period between January and October 2021, results from the IREER suggest the CFA franc is broadly aligned with economic fundamentals; the small difference between two assessments reflects the mild appreciation of the currency in the first three quarters of 2021.

D. Capital Flows

7. Background. In 2020, net capital inflows are estimated to have declined to 3.2 percent of GDP, from 5.6 percent in 2019, largely driven by a contraction in FDI in the context of the pandemic. Portfolio inflows, in turn, increased from 0.2 percent of GDP in 2019 to 0.6 percent in 2020, partly driven by a Eurobond issuance by Côte d'Ivoire in the second half of the year. In 2021, the financial account is projected to recover to 5.1 percent of GDP, in line with the 2017-2019 average (5.2 percent), reflecting a projected rebound in FDI as well as a further increase in portfolio inflows, projected to reach 2.1 percent of GDP in 2021.[5] Over the medium term, the financial account would decline and oscillate around 4 percent of GDP, reflecting a decrease in FDI inflows (as a share of GDP) after the completion of planned hydrocarbon projects and a decline in the portfolio investments ratio —the latter reflects prudent assumptions on new net Eurobond issuances over the period (given uncertain access of Eurobond issuers to international markets).

8. Assessment. Market perceptions of WAEMU countries are broadly favorable. This is illustrated by the fact that sovereign spreads for Eurobond issuers declined, on average, by over 100 basis points over January-September 2021 compared to the second half of 2020, and are currently below their average pre-pandemic levels. Nonetheless, the outlook for capital inflows remains subject to considerable uncertainties. Shifts in global risk appetite resulting from monetary policy normalization in advanced economies and concerns related to debt sustainability in some WAEMU economies might complicate access to international markets for Eurobond issuers. Over the medium term, policies to improve the competitiveness of the region and guarantee the soundness of the macroeconomic framework will be important to enhance the attractiveness of domestic economies and boost capital inflows.

[5] At the time of drafting this annex, Benin, the BOAD, Cote d'Ivoire and Senegal had all issued Eurobonds in 2021 for a cumulative amount of around 2.6 percent of regional GDP.

E. Reserve Adequacy

9. Background. The WAEMU pooled reserves remained broadly stable in 2020, increasing mildly from CFAF 10,357 billion at end-2019 to about CFAF 11,731 billion at end-2020—equivalent to 5.5 months of 2021 imports[6] or 77.3 percent of the BCEAO's sight liabilities. In 2020, the reserve position was mostly supported by exceptional financial assistance received from the international community during the pandemic. In the same year, receipts related to export proceed surrender requirements declined given some deferrals of payments granted by exporters during the crisis. Between January and November 2021 (last month with available data), foreign reserves further increased to CFAF 13,630 billion, roughly equivalent to 5.8 of projected 2022 imports or 82.1 percent of the BCEAO's sight liabilities, as a result of several factors including (1) Eurobond issuances of Benin, Côte d'Ivoire, Senegal and the BOAD (2.6 percent of 2021 GDP or 1.1 months of 2022 imports), (2) a recovery in export repatriation proceeds, and (3) the August 2021 SDR allocation (about US$2.3 billion, equivalent to 1.3 percent of GDP or 0.6 months of 2022 imports). Reserves are projected to stand at 5.8 months of imports coverage by the end of 2021. In subsequent years, the reserve coverage ratio would decrease towards 5 months of imports, despite the decline in the CA ratio, reflecting the projected reduction in net capital inflows (in percent of GDP) as well as the expected growth in nominal imports (see above).

10. Assessment. The ARA CC approach based on 2020 data estimates an adequate level of reserves of 4.4 to 6.5 months of prospective import coverage for the WAEMU, with the lower end calibrated on fragile states and the higher end calibrated on non-resource rich countries. Based on this model, the level of reserves projected for end-2021 (5.8 months of imports) as well as the medium-term projection (5 months at end-2026) are assessed as being adequate. Growth-friendly fiscal consolidation and implementation of structural reforms will be key to maintaining reserves within the estimated optimal range.

F. Competitiveness

11. Trade performance. Over the past few years, the CA balance has marginally worsened, passing from about -4.5 percent of GDP on average between 2012 and 2015 to -4.8 percent between 2016 and 2019. Over the same period, the share of exports over GDP in the region has declined, from 25.4 percent on average in 2012-15 to 23.4 percent in 2016-19. The bulk of WAEMU exports is constituted by raw materials including gold, cotton, unrefined oil, and agricultural commodities, while manufacturing exports account for about 18 percent of total merchandise exports. Improving the trade performance of the region requires enhancing the competitiveness of the WAEMU's export sector. While trends in exchange rates have been broadly favorable in recent years, various structural factors hinder the competitiveness of the region.

12. Price and non-price competitiveness. As noted above, the REER has depreciated in the past decade, suggesting that trends in *price competitiveness* for the WAEMU have been favorable

[6] The import cover ratio is based on prospective imports.

during this period. Moreover, the EBA-Lite methodology suggests that the REER is currently consistent with economic fundamentals. Thus, space for further improvements in price competitiveness might be limited in the near term. At the same time, the WAEMU's *non-price competitiveness* appears constrained by several structural factors. According to the 2020 World Bank governance indicators (WGI), for example, WAEMU countries fall behind key competitors in Africa and Asia in policy areas such as government effectiveness, control of corruption, regulatory quality, and rule of law. Survey-based indicators included in the 2019 World Economic Forum's "Global Competitiveness Report" also suggest that member states exhibit relatively low scores on several dimensions such as dealing with insolvency regulations and paying taxes, as well infrastructure endowment—notably road quality and access to electricity. Consistent data from the World Bank's Logistics Performance Index (LPI) suggests that the quality of trade connectivity in the region has not improved significantly between 2010 and 2018,[7] given relative underperformance on several indicators including the ease to deal with customs procedures and the timeliness of shipments.

Non-Price Competitiveness Indicators

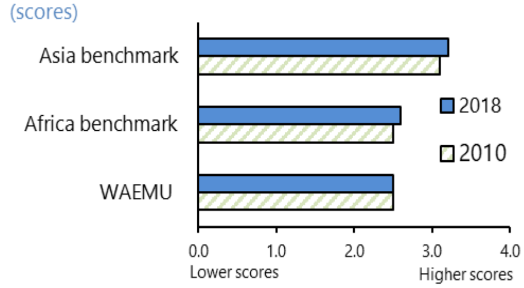
Governance Indicators, 2020 Estimates[1]

(0 = worst; 5 =best)

Source: World Bank's Worldwide Governance Indicators Dataset.
[1] These indicators should be interpreted carefully, as they are derived from perceptions-based data.

Logistics Perfomance, 2018 and 2010[1]

(scores)



Source: World Bank Logistics Performance Index Dataset.
[1]This indicator should be interpreted carefully, as it is derived from perceptions-based data.

13. Intra-regional trade. Trade in local products is by law free of customs' duties within the WAEMU and the broader ECOWAS community. Nevertheless, trade among WAEMU member states remains relatively limited. Between 2010 and 2017, exports to other WAEMU countries[8] were broadly stable at about 15 percent of total exports, while the largest part of trade exchanges took place with countries outside the WAEMU. Two factors contribute to the low level of trade integration. First, as noted above, member states' exports are dominated by non-transformed commodity and agricultural goods, whose production is not regionally integrated (the limited presence of regional supply-chains constrains trade integration). Second, various non-tariff barriers also constrain the development of intraregional exchanges. These include the lack of common

[7] The 2018 LPI edition is the most recent vintage currently available on the World Bank's website.

[8] Data on regional exports is obtained from the BCEAO.

documentation for customs procedures and ad hoc levies charged for road transit (WTO 2018).[9]

14. Several measures can contribute to alleviate existing structural constraints on competitiveness. Desirable policies at the *national level* include enhancing the provision of infrastructure, particularly electricity provision, as well as improving the business climate through measures aimed at improving governance (for example, with stronger anti-corruption agencies) and facilitating access to finance. In addition, given the concentration of the regional export sector on non-transformed commodities, policies to foster industrialization (for example, through carefully targeted fiscal incentives) could contribute to improving the trade performance of the region. At the *regional level*, useful policies would include targeted incentives and financing to promote cross-border infrastructure projects in the energy and transport sectors; efforts to harmonize customs' procedures; and measures aimed at removing non-tariff trade barriers to trade.

[9] See World Trade Organization: "Trade Policy Review: Member Countries of the West African Economic and Monetary Union" (2018).

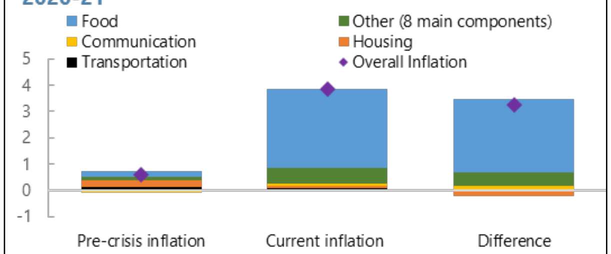
Annex IV. Inflation Dynamics During the Pandemic[1]

This annex analyzes the recent increase in inflation in the region to identify its causes and assess its persistence. The three approaches presented below do not provide a clear and consistent message about the risk of second-round effects. Given the high uncertainty around the diagnostic, it will be essential to closely monitor developments in the coming months to determine whether inflation will return within the BCEAO's target band without the need for policy tightening.

1. **Headline inflation started increasing at the beginning of 2020 after recording negative rates throughout 2019**. Inflation has exceeded the BCEAO central target of 2 percent since mid-2020, breached the ceiling of the 1-3 range in April 2021, and has remained above 3 percent in subsequent months. A fundamental question for monetary policy is whether the recent inflation spike is likely to continue in the future. This Annex relies on three approaches to throw light on this issue.

2. **First approach: decomposition of headline inflation**. Inflation is more likely to persist if price pressures broaden and are not limited to a few items of the consumption basket. In this regard, the rise in headline inflation during the crisis has been essentially driven by higher food prices, reflecting domestic supply problems and higher import costs. The contribution of food to inflation has increased from 0.20 percent before the crisis (December 2019-February 2020) to 3.0 percent on average over August-October 2021. Other components of the basket have had marginal effects on inflation dynamics.

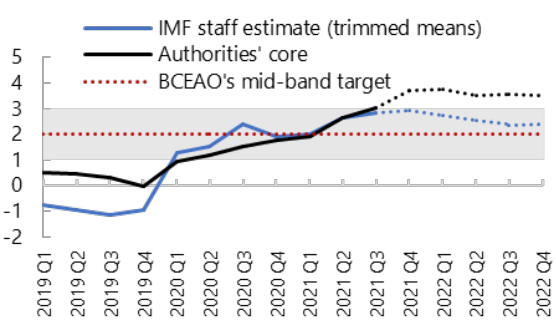
WAEMU: Decomposition of Inflation Increase during 2020-21



Note: : "Pre-crisis" refers to the average Dec 2019-Feb 2020. "Current" refers to the average Aug-Oct 2021.
Sources: BCEAO; IMF staff estimates.

3. **Second approach: analysis of core inflation**. Another way to approach the question is to examine the evolution of inflation when volatile and transitory shocks are filtered out. The argument is that the inflation is bound to remain elevated, and the central bank is more likely to respond if the increase in volatile components is transmitted to more stable ones. Two measures of core inflation are used: (1) the authorities' "core" indicator, published on the BCEAO website, which excludes food and energy prices from headline inflation; and (2) an alternative measure produced by IMF staff using a "trimmed mean" approach that filters out disturbances (the components at the high and low ends of the distribution are excluded from headline inflation in each period, and the remaining ones are

WAEMU: Measures of Core Inflation

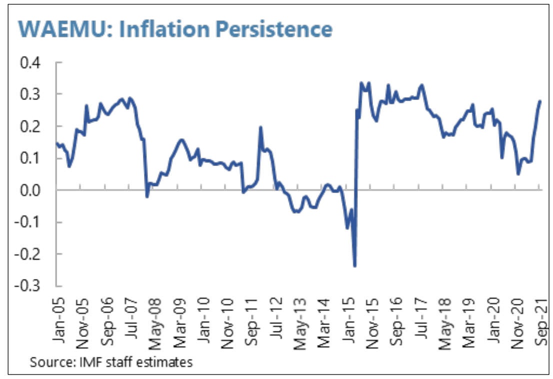


Sources: BCEAO; IMF staff estimates.

[1] Prepared by Cecilia Melo Fernandes (MCM). This annex was prepared in early December 2021.

aggregated). Both measures display an upward trend. Forecasts using ARIMA models indicate that the underlying indicator using the trimmed mean is likely to revert to the target by the end of 2022, while core inflation would decline at a slower pace, remaining above the target.

4. **Third approach: direct estimation of inflation persistence**. A coefficient of persistence of headline inflation is also computed through a rolling autoregressive model. This estimation shows that inflation typically displays low and positive persistence, but the coefficient has increased markedly since the beginning of 2021.



5. **Overall assessment**. The three approaches do not deliver a clear and uniform message about the risk of second-round effects. Although persistence seems to have increased in recent months, inflation remains mostly driven by food with few spillovers to other components, and core inflation is projected to decline slowly in 2022. Given the high uncertainty, it will be essential to closely monitor future monthly developments to assert whether the recent increase of inflation is temporary or reflects a more permanent trend.

Annex V. Assessing the Monetary Policy Stance[1]

This annex analyzes the monetary policy stance in the WEAMU. The assessment helps to assert whether monetary policy and its orientation are consistent with the objectives of inflation and output stabilization pursued by the central bank. In the context of the WAEMU, the analysis needs also to take into account the fixed exchange rate setting and the need to maintain an adequate buffer of foreign exchange reserves. The results suggest that the monetary policy stance is broadly appropriate at the moment, with consideration of some tightening being warranted as conditions evolve.

Taylor and Orphanides Rules

1. **The monetary policy stance is assessed through two rules applied to historical and projected data: (i) the augmented Taylor rule and (ii) a variant of the Orphanides rule.** The *augmented Taylor rule* estimates a reaction function for the BCEAO using time series data. The *Orphanides rule* calibrates a reaction function in first differences with imposed parameters for output gap and inflation deviation. Exploring these two models permits evaluating the stance from different perspectives.

2. **These two types of rules capture the monetary policy response in different ways.** In both cases, past and projected values of macroeconomic variables are employed at a quarterly frequency. The dependent variable is the marginal policy rate, which is the effective driver of market rates and presents more volatility than the minimum bid rate.[2] Nonetheless, there are three main differences: (1) the parameters of the augmented Taylor rule are estimated using OLS, while the values of the parameters of the Orphanides rule are imposed based on assumptions about central bank preferences; (2) the Taylor rule relies on the current value of the variables (since estimating a forward-looking rule was not possible due to data limitations), while the calibrated Orphanides rule uses forward-looking information (one year-ahead); and (3) the Taylor rule is specified in levels, while the Orphanides rule is formulated in first differences, which has the advantage of using estimates of potential growth instead of output gap.

3. **The Taylor rule estimates how the BCEAO policy rate has responded in the past to domestic inflation rates, output gap, and net foreign assets (NFA) gap.**[3] Extending Taylor rules with additional terms is common practice in the literature, including in the WAEMU (see, for instance, Tenou (2002), BCEAO (2013), Shortland et al (2014), Diabate (2016)). First, we add a smoothing component for the interest rate in the form of the lagged interest rate.[4] Second, the NFA

[1] Prepared by Cecilia Melo Fernandes (MCM).

[2] The Taylor rule regressions also display a better fit when using the marginal bid rate (the rate of the last bid in a variable-rate auction) than with the minimum bid rate.

[3] The output gap and NFA gap estimations are done with the HP filter. The use of alternatives methods to estimate economic gaps, which address the undesirable properties of the HP filter, such as the filter proposed by Hamilton (2018), further restricts the time series data sample.

[4] Including the lagged interest rate is also important from the statistical point of view, as it removes the serial correlation from the residuals.

gap is also included in the specification and estimated using the HP-filter (with NFA being measured as the average stock over the quarter). The level and evolution of FX reserves are indeed important variables considered by the BCEAO. Article 76 of the BCEAO statutes specifies a minimum threshold for its level of FX reserves, below which the monetary policy stance would need to be reassessed and remedial actions would have to be taken.[5] Given these elements, it is assumed that the BCEAO is more likely to increase short-term interest rates when NFA deviate from long-term trend[6] (BCEAO 2013).[7] Therefore, the following equation is estimated using OLS with Newey-West standard errors on quarterly data where *t* denotes the quarter:

$$rate_t = \beta_0 + \beta_1 rate_{t-1} + \beta_2 output\_gap_t + \beta_3 inflation\_deviation_t + \beta_4 NFA\_gap_t + u_t$$

4. Following Orphanides and Wieland (2013), we also calibrate a simple policy rule in first difference assuming two alternative sets of weights for the inflation gap and the business cycle. This rule assumes that the BCEAO changes the policy rate in response to deviations of (i) the forecast of inflation from the BCEAO's inflation target, and (ii) the economic growth forecast from potential output growth one year ahead. The equation further assumes an inflation target of 2 percent (the mid-point of the range), and a potential output growth of 6 percent. Two assumptions are made for calibrating the weights. In the first case, we assume equal weights on inflation and growth, which is standard in the literature. In the second case, knowing that the BCEAO prioritizes inflation considerations in its legal framework, we place a weight of 0.75 on inflation and 0.25 on growth. The resulting formula is:

$$\mathrm{R}_t = \mathrm{R}_{t-1} + \theta_1\left(E\pi_{t+4/t-1} - \overline{\pi}\right) + \theta_2\left(E\Delta y_{t+4/t-1} - \Delta\overline{y}\right)$$

where *t* represents the quarter, R_t is the interest rate in quarter *t*, θ represents the respective weights, $E\pi_{t+4/t-1}$ denotes the year-on-year inflation rate projected during quarter *t-1* for quarter *t+4* (relative to the same quarter one year before), $\overline{\pi}$ is the central inflation target of 2 percent, $E\Delta y_{t+4}$ is the year-on-year GDP growth projected during quarter *t-1* for quarter *t+4* (relative to the same quarter one year earlier), and $\Delta\overline{y}$ is potential growth in real terms. As the rule is applied in a forward-looking way for every quarter of 2022, we use the most recent Fall projections from the World Economic Outlook (WEO) for 2023 for all the estimations. Therefore, in our case, *t-1* always refers to the projections produced in 2021Q3.

[5] Specifically, the BCEAO should not let the monthly average of foreign exchange reserves fall below 20 percent of its sight liabilities (banknotes in circulation and deposits at the central bank) for three consecutive months. However, exchange rate stability is not a de jure objective of monetary policy.

[6] Given the short time series and small number of observations, a state-dependent analysis cannot be conducted over sub-periods, for example by considering different policy responses based on potential thresholds on the level of NFAs. Therefore, we assume a linear response of the BCEAO to the level of NFAs.

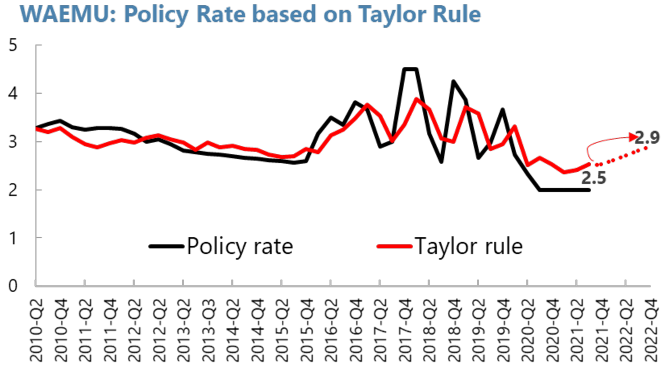
[7] Alternative specifications using gross reserves instead of net reserves and alternative measures of the gap had lower explanatory power.

Results

5. **When applied to past data, the Taylor rule suggests that the monetary policy stance has been slightly accommodative during the pandemic.** Despite the negative output gap and the relatively high level of reserves, the policy rate estimated by the Taylor rule is still above the observed marginal rate since the outbreak of the pandemics in 2020Q1. Considering the severity of the Covid shock, maintaining an accommodative stance was appropriate given that pressures on inflation were initially contained and reserve levels were comfortable. This said, the size of monetary policy accommodation may be overestimated by the Taylor rule, which does not capture the structural break associated with the shift to the FRFA tender procedure.[8]

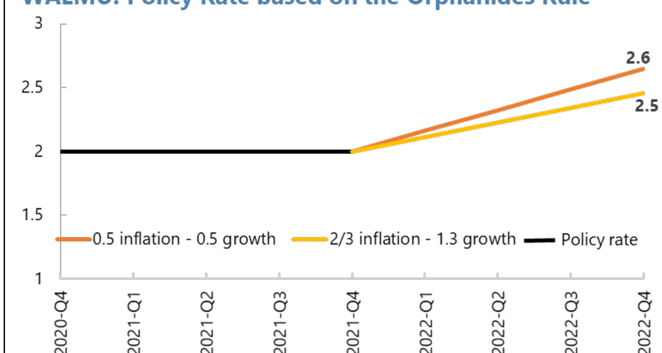
6. **Going forward, the three rules suggest the need for a moderate rate hike in the short term.** The results from the Taylor rule and both versions of the Orphanides rule indicate that a moderate increase in the policy rate might be appropriate by the end of 2022.[9] This reflects current and prospective developments for inflation and economic activity. Nonetheless, a prudent approach is desirable, and staff assesses the monetary stance as being appropriate at the moment. A timely reassessment should be conducted once more information on macroeconomic developments, in particular inflation, becomes available.

WAEMU: Policy Rate based on Taylor Rule



Source: IMF staff estimates.

WAEMU: Policy Rate based on the Orphanides Rule



Source: IMF staff estimates

[8] In March 2020 the BCEAO changed the tender procedure from variable rate fixed quantity to fixed rate full allotment, which implies that the marginal rate became anchored to the policy rate, free of any volatility. This exogenous change, which brought mechanically down the marginal rate, is not captured by the Taylor rule. Furthermore, given the strong lag dependency in the equation, the rule adjusts relatively slowly to abrupt changes. Therefore, the persistent gap between the estimated and actual rates does not solely reflect that monetary policy has been accommodative. It is also a reflection of the structural break.

[9] Given that the shift to FRFA creates a structural break and a persistent gap between actual and estimated data, the Taylor rule results should be interpreted by comparing the estimated policy rate in Q3 2021 to the estimated policy rate in Q4 2022, rather than by comparing estimated and observed rates. This means that the estimated Taylor rule recommends a 50-basis point increase by end-2022—an order of magnitude similar to the result of the Orphanides rule.

Annex VI. Status Update on the Monetary Cooperation and Currency Reform[1]

1. Previous arrangements. As amended in 1973 and following the replacement of the French Franc by the Euro in 1999, the monetary cooperation Treaty between WAEMU member countries and France entailed:

- A French Treasury's convertibility guarantee of the WAEMU's CFAF into Euro at a pegged rate of EUR 1 = 655.957 CFAF, through an unlimited overdraft facility.
- The appointment by France of representatives acting as full members of the BCEAO's Board, the Monetary Policy Committee and the WAEMU Banking Commission.
- The obligation for the BCEAO to hold 50 percent of its international reserves into an "operation account" at the French Treasury. The BCEAO's reserves deposited at the French Treasury were available on sight and renumerated at the marginal lending facility rate of the European Central Bank (ECB), subject to a floor of 0.75 percent. At end-2019, 62 percent of the BCEAO's reserves were deposited at the French Treasury. International reserves not deposited at the French Treasury and managed by the BCEAO were invested in sovereign T-bills and bonds as well as in asset management structures at the BIS and the World Bank.

2. Reform of the monetary cooperation with France. In December 2019, WAEMU member countries and France signed a new Treaty of monetary cooperation, which was ratified by France in February 2021. While maintaining the unlimited convertibility guarantee and the peg of the CFAF to the Euro at its current parity, the new Treaty has made the following changes:

- France is no longer represented in any of the WAEMU's decision making bodies. However, to help prevent or manage a foreign exchange crisis, France may request to be temporarily represented by an observer on the Board of the BCEAO and the WAEMU Banking Commission.
- As guarantor of the CFAF's convertibility, France now monitors economic and financial developments in the WAEMU through regular data sharing by the BCEAO with the French Treasury as well as through periodic technical meetings between these parties.
- In the event the BCEAO's reserves are about to be exhausted, the BCEAO must inform the guarantor of its intention to call the convertibility guarantee with a five-day advance notice. The use of the overdraft facility implies an interest charge equal to the daily rate of the ECB's marginal loans and at least 80 percent of foreign exchange inflows into the WAEMU must be used toward paying back this overdraft.
- The BCEAO no longer has to deposit part of its reserves at the French Treasury and the "operation account" was therefore closed.

[1] Prepared by Alain Feler (AFR).

- The BCEAO now manages all its reserves, through a portfolio allocation system aimed at satisfying liquidity requirements while minimizing the opportunity cost of holding these reserves.

3. Currency reform. In December 2019, the WAEMU authorities had also announced their intention to replace the WAEMU CFAF with a new currency called "ECO" as soon as possible. However, the ECO launch has been postponed because of the Covid crisis and the need to articulate this change in currency with the roadmap for the introduction by the ECOWAS of a currency with the same name issued by a common central bank under a flexible exchange rate regime. In June 2021, the ECOWAS authorities stated their intention to launch the ECO by 2027 for countries which will have met, from 2024 onwards, regional macroeconomic convergence criteria, including a fiscal deficit ceiling of 3 percent of GDP.

Annex VII. Capacity Development[1]

1. This annex takes stock of the Fund technical assistance (TA) recently provided at the regional level and updates the near-term capacity development (CD) strategy for regional institutions. Building on the broader evaluation of TA provision for the period 2017-20 contained in the Staff Report for the 2020 consultation on common policies of WAEMU member countries,[2] this annex focuses on the TA provided since the beginning of 2020, mainly in the context of the Covid crisis. The annex then presents an updated CD strategy which incorporates the outcome of discussions with regional institutions in the context of the 2021 regional consultation.

2. This annex focuses on CD provided to five regional institutions. These institutions are the Central Bank (BCEAO), the WAEMU Commission, the General Secretariat of the Banking Commission (SGBCU), the Financial Market Regulator (CREPMF), and the regional agency in charge of managing the auction segment of the WAEMU market for governments' securities (UMOA-Titres or UT). CD delivery to individual country authorities is covered in country Article IV reports.

A. Technical Assistance to WAEMU Institutions during the Pandemic

3. TA provided by the IMF to WAEMU institutions has generally focused on strengthening their core competencies. AFRITAC West (AFW), as well as the Fiscal Affairs Department (FAD) and the Monetary and Capital Markets Department (MCM), are the main Fund TA providers to WAEMU regional institutions. Over recent years, TA has aimed at strengthening banking and macroprudential supervision in support of the transition to Basel II/III prudential norms, reinforcing regional macroeconomic surveillance anchored on the WAEMU's Convergence pact, promoting the adoption and implementation of regional directives in the areas of domestic resource mobilization and public financial management (PFM), and fostering the development of the regional government security market. Some TA was also provided in recent years by the IMF Statistics Department in collaboration with AFW to WAEMU regional institutions with a view to improving government, national accounts, the consumer price index, external and banking sector data.

4. The Covid pandemic shock has altered the focus, delivery mode and intensity of Fund TA to WAEMU institutions. Covid-related travel and health restrictions initially led to the postponement of all TA missions until a shift to virtual missions could be effectively implemented in the Fall of 2020. This contributed to a decline in the number of missions that took place in fiscal year 2021.[3] Overall, WAEMU regional institutions have adapted relatively well to this new mode of TA delivery, despite some occasional connectivity issues. The pandemic also stretched the absorptive capacity of recipient institutions and shifted their interest to more immediate policy challenges raised by the crisis. Against this background, efforts were made by traditional TA providers as well as

[1] Prepared by Can Sever and Alain Feler (both AFR).

[2] See Annex VII of IMF Country Report Nº 21/49.

[3] During most of 2020, the provision of TA in the area of banking supervision was also hampered by an extended vacancy for the long-term AFW expert, in part due to the Covid pandemic.

the IMF African Department to share and discuss with WAEMU regional institutions relevant analyses and guidance notes prepared by Fund Staff on PFM and on monetary and financial stability policies in response to the Covid crisis. For instance, webinars were organized by FAD and AFW for WAEMU government and regional institutions' officials on all PFM aspects linked to Covid operations. Similarly, AFW provided TA aimed at helping the BCEAO better anticipate and manage the potential deterioration of banks' asset quality following the unwinding of prudential forbearance measures introduced in response to the pandemic. Notwithstanding Covid-related constraints, some CD projects initiated prior to the pandemic were successfully pursued, particularly in the PFM area, with the completion of three regional guidance manuals on employment ceiling budgeting, government's opening balance sheet, and budget and accounting internal control respectively.

5. **Furthermore, the virtual interactions with regional institutions since the beginning of the pandemic have allowed a better integration of CD and surveillance activities of the IMF.** Experts from AFW and relevant Fund TA departments were able to contribute directly to the regular dialogue of the WAEMU team (from the African department) with regional institutions, in the context of ad-hoc virtual meetings, staff visits and annual consultation missions. Similarly, members of the WAEMU team have been able to participate into many virtual meetings between MCM and regional institutions in the context of the ongoing FSAP. Finally, in the context of the 2021 WAEMU regional consultation, a member of the WAEMU team and an expert from the MCM department collaborated closely with relevant reginal institutions to undertake a pilot in-depth assessment of the development of the WAEMU's local currency sovereign security market.

Table 1. WAEMU: Overview of TA Provided to Regional Institutions 2020–21

Provider	Description	Recipient	Objectives	Outputs/Outcomes
MCM / AFW	**Enhance Bank Prudential and Accounting Standards and Enhance Banking Supervision**	SGCBU (2020) Jan.	Enhance risk-based bank prudential supervision.	Inspectors developed capacity in various areas of on-site and document control, including AML-FT.
		SGCBU (2021) Apr.	Enhance supervision of regional affiliates of external banking groups.	Improved capacity for the preparation and conduct of colleges with supervisors from non-WAEMU jurisdictions.
		SGCBU (2021) Sep.	Enhance credit risk evaluation and control.	Acquisition of methods to identify analysis and control points, including with regard to general credit policy, governance, risk classification and management, monitoring procedures and rules for downgrading to default.

Table 1. WAEMU: Overview of TA Provided to Regional Institutions 2020–21 (concluded)				
Provider	**Description**	**Recipient**	**Objectives**	**Outputs/Outcomes**
MCM / AFW	**Enhance Bank Prudential and Accounting Standards and Enhance Banking Supervision**	SGCBU (2021) Nov	Improve supervision of banks' Islamic finance operations.	Supervisors developed capacity to identify Islamic finance risks and apply the prudential framework adapted to the particularities of Islamic finance.
		BCEAO (2020) Feb.	Improve accounting and prudential standards.	Review and analysis of the BCEAO's draft roadmap on the transition by WAEMU banks to IFRS standards.
		BCEAO (2021) May	Improve capacity to manage potential adverse impact of Covid crisis on bank asset quality.	Presentation of MCM technical note on policy options to face a deterioration of bank asset quality following the unwinding of prudential forbearance measures.
		CREPMF (2020) Mar.	Strengthen regulatory framework for security brokers.	Draft regulations were prepared for new capital requirements for security brokers
		CREPMF (2021) May	Promote the development of the government security market.	CREPMF staff received training on the construction and interpretation of yield curves for WAEMU sovereign securities.
FAD / AFW	**Advance Public Financial Management**	WAEMU Commission (2020) Sep.	Support implementation by member states of regional Directive on Organic Budget Laws.	Completion of guidance notes on (1) employment ceilings, (2) governments' opening balance sheets, and (3) internal accounting control.
		WAEMU Commission (2021) May-Aug.	Improve transparency and efficiency in the use of Covid related spending.	Dissemination of FAD/AFW Technical notes covering all PFM aspects linked to Covid emergency operations.
STA / AFW	**Enhance Real Sector Statistics**	WAEMU Commission (2021) Feb-Aug	Improve methodologies used to compile the CPI.	Methodological improvements were identified to enhance the quality of national CPIs.

B. Near-Term Capacity Development Strategy

6. **The CD Strategy developed for the 2020 consultation discussions with WAEMU regional institutions remains broadly appropriate.**[4] The CD strategy for regional institutions should continue to support the WAEMU authorities' goals of alleviating the impact of the Covid shock and fostering strong and inclusive growth, including by preserving macroeconomic and financial stability. Thus, in coordination with all forms of IMF engagement at the national level, the

[4] See Annex VIII of IMF Country Report Nº 21/49.

CD strategy should continue to focus on enhancing regional institutions' core competencies in five main areas:

- ***Banking regulation and supervision.*** Although the banking system has been resilient to the crisis, the authorities should remain vigilant and ensure that all tools are in place to further strengthen banks' balance sheets, restructure weak institutions, and mitigate risks, including through the full operationalization of banking resolution procedures. In addition, the authorities should plan to address the source of financial sector vulnerability stemming from the high reliance of some banks on central bank refinancing of government securities. The ongoing regional FSAP, whose findings will be discussed by the Fund's Executive Board in the Spring of 2022, should provide further guidance for CD needs to strengthen macroprudential policy and banking supervision and fully operationalize the resolution framework.
- ***Financial sector development***. Notwithstanding strong growth during the last decade the WAEMU's sovereign security market remains underdeveloped and exhibits important gaps in most building blocks needed for such markets to be sufficiently deep, liquid, and efficient. Addressing these gaps will be essential to reduce the dependence of some WAEMU governments on external financing, foster financial inclusion, and enhance monetary policy transmission. To this end, reform efforts should target improvements in the functioning of the money/interbank market and primary bond market as well as in the financial market infrastructure that most critically hamper the development of the secondary bond market. Incentives to broaden the investor base would also contribute to deepening the WAEMU fixed-income markets.
- ***Monetary policy.*** The BCEAO has implemented a wide range of reforms of its monetary policy and governance frameworks since 2010, which has helped it respond very effectively to the Covid shock. Going forward, with a view to improving the effectiveness of monetary policy transmission, further reforms that may warrant consideration could aim at (1) protecting the central bank's balance sheet from possible valuation losses of some of the assets eligible to its refinancing, (2) reviewing the transparency practices to ensure that they are up to date, and (3) establishing a proper framework for the provision of emergency assistance to banks experiencing temporary liquidity shortfalls. Further guidance in these areas could also stem from the ongoing regional FSAP exercise.
- ***PFM and fiscal institutions***. The ability of fiscal consolidation by all WAEMU member states over the medium term to preserve public debt sustainability will require significant progress on PFM reforms, including to contain below-the-line and off-budget operations and increase the efficiency of public spending. Such progress could be greatly facilitated by the preparation, by the WAEMU Commission, of guidance notes for a timelier and more effective implementation of regional PFM Directives by member states. In addition, the credibility of fiscal consolidation would be strengthened by re-establishing the WAEMU Convergence Pact with enhanced enforcement and monitoring mechanisms.
- ***Tax policy.*** Greater progress on domestic revenue mobilization is needed to generate space for development spending even in a context of fiscal consolidation. Going forward, CD priorities for regional institutions include revising some regional tax directives, especially those related to VAT

and achieving further improvements in harmonizing customs procedures and exchanging information among member states' tax and customs administrations. In addition, the harmonization across WAEMU countries of the taxation of income from financial assets would contribute to further developing the regional financial market.

7. Fund CD priorities and challenges for WAEMU regional institutions are summarized in the table below. Five main priority areas are highlighted, with their respective strategic goals, more tangible intermediate targets/deliverables, and outstanding challenges. Among these challenges, one can note the limited enforcement powers of some regional institutions to make regional commitments binding and credible, as well as capacity constraints by national implementing agencies.

Table 2. WAEMU: Near-Term Capacity Development Priorities

Priorities	Strategic goals	Intermediate Targets	Challenges
Bank supervision and regulation	• Strengthen banking supervision while completing the transition to Basel II/III prudential norms	• Address impact of the Covid pandemic on banks' asset quality and capital needs. • Strengthen macroprudential policy. • Complete the operationalization of bank resolution framework. • Reduce dependence of some banks on central bank refinancing.	• The ability of banks to meet liquidity requirements or restructure their balance sheet is hampered by the shallowness of the secondary market for government securities. • Some measures to fully operationalize the bank resolution framework will require approval of the new Banking Law. • The SGCBU has limited administrative resources.
Debt management	• Develop the regional government security market	• Enhance financial market prudential regulations and accounting standards. • Improve procedures for syndicated securities issuance. • Assess options for reducing segmentation of government security market between auction and syndication modes of issuance. • Develop yield curves for sovereign securities. • Develop the issuance of benchmark securities. • Enhance incentives for SVT to animate the primary and secondary markets for auctioned securities.	• The CREPMF and the two depository institutions (BCEAO for auctioned securities and the WAEMU Central Depository for syndicated securities) should develop a shared vision on actions needed to reduce market segmentation. • Limited secondary market trading hampers the construction of yield curves for securities issued on both segments of the WAEMU's sovereign security market. • Some WAEMU governments remain reluctant to re-open sovereign security issues. • Cash management practices of some member states are insufficiently developed. • The investor base is shallow and non-diversified.

Table 2. WAEMU: Near-Term Capacity Development Priorities (concluded)

Priorities	Strategic goals	Intermediate Targets	Challenges
Monetary Policy	• Further improve the efficiency of monetary policy transmission	• Enhance the BCEAO's governance and policy frameworks with a view to increasing transparency, protecting the balance sheet of the BCEAO from depreciation of assets used as collateral for bank refinancing, and establishing a proper framework for the provision of emergency assistance to banks experiencing temporary liquidity shortfalls	• The shallowness of the secondary market for government securities and the lack of credit ratings for some WAEMU sovereigns hampers an assessment of the market value of assets eligible for central bank refinancing. • Insufficient data on credit and liquidity risk constrains the introduction of haircuts for public and private assets used as collateral for central bank refinancing.
Public Financial Management	• Support the implementation of the WAEMU's regional PFM directives by member-countries and at regional level	• Ensure that all countries have transposed and implemented the eight PFM directives. • Improve transparency in budget execution of crisis-related spending. • Extend the coverage of the central government financial operations statistics (TOFE) to include all public sector entities. • Adapt the BCEAO's IT environment to facilitate the TSA management with a main account and corresponding sub-accounts attached to it. • Revise the regional fiscal rule framework (convergence criteria as well as monitoring and enforcing mechanisms).	• Currently all member countries have fully transposed 6 of the 8 PFM directives. However, implementation varies significantly across countries. • There is significant variation in administrative capacity among member-countries. • Guidance on some operational aspects of the reforms implied by the regional directives can be insufficient. • Limited availability of some data, for public entities other than central governments, presents challenges to expanding the coverage of TOFE.
Tax Policy	• Enhance tax policy coordination and design at the regional level	• Review regional tax policy directives to update their provisions and support greater revenue mobilization. • Strengthen the dialogue between WAEMU Commission and member countries in setting regional priorities. • Initiate discussions with member countries on options to promote conformity with regional tax commitments. • Harmonize cross-country taxation on income from financial assets.	• Implementation by national authorities of regional tax policy directives is sporadic and projects to revise them advance very slowly. • However, the need to increase domestic revenue has recently been increasingly echoed by national and regional authorities giving possible impetus for renewed collaboration.

Annex VIII. Authorities' Responses to the 2020 Policy Recommendations

	2020 Regional Consultation Recommendations	Authorities' Response
Fiscal Policy Coordination	• Returning collectively to a regional fiscal deficit of 3 percent of GDP by 2023 is essential to preserve sufficient external reserves, mitigate the risk of pressures on the regional bond market, and prevent further deterioration of countries' debt.	**Broadly consistent** • The projected fiscal consolidation path is more gradual and extended by one year to 2024, including to accommodate Covid vaccination costs. This new path remains consistent with macroeconomic stability due to a stronger than expected external position (including because of the SDR allocation) and the resilience of the regional financial market in meeting governments' funding needs.
Monetary Policy stance	• The BCEAO should continue to satisfy banks' liquidity needs at a set rate and stand ready to tighten monetary policy if external buffers fall significantly. • Under an adverse scenario, monetary policy would have to play a central role	**Broadly consistent** • The BCEAO has maintained an accommodative monetary policy stance by satisfying all banks' liquidity needs at a 2 percent rate to support the recovery, against the background of stronger than expected external buffers.
Financial Regulation and Supervision	• The bank resolution framework should be made fully operational in 2021 to ensure that nonviable banks can be promptly intervened and resolved.	**Partially consistent** • Good progress has been made towards the approval of banks' preventive restructuring plans but the adoption of bank resolution plans, now planned for 2022, will have to complemented by other measures to make the bank resolution framework fully operational.
Financial Sector Development	• Reduce the fragmentation of the primary market for sovereign securities and foster the deepening of the secondary market by transforming the role of primary dealers into true market makers.	**Partially consistent** • The market remains segmented by syndication or auction modes of issuance but a reform to improve the balance of rights versus obligations for primary dealers is under preparation.
International reserve management	• The BCEAO should continue adapting its investment strategies and risk management following the end of the centralization of half of its reserves at the French Treasury	**Consistent** • The BCEAO now manages all of its FX reserves through a new portfolio allocation system with a view to satisfying liquidity requirements while reducing the opportunity cost of holding reserves.

Statement by Mr. Andrianarivelo, Mr. N'Sonde, and Mrs. Boukpessi on West African Economic and Monetary Union
February 11, 2022

1. The West African Economic and Monetary Union (WAEMU) authorities are thankful to the IMF for its strong and continued engagement with the regional institutions. They valued the candid and productive discussions held in the context of the 2021 consultations on common policies of members countries. The regional authorities generally agree with the main findings and recommendations in the Staff Report and appreciate the quality of the Selected Issues Paper (SIP) which provides valuable inputs for the design of their economic policies.

2. The COVID-19 pandemic has slowed down years of steady growth and development progress in the Union. The WAEMU region faces multiple challenges stemming from the difficult health and economic environment posed by the current crisis, as well as a daunting political and security situation in some member countries. Notwithstanding, strong institutional frameworks together with supportive accommodative fiscal, monetary, and financial policies have helped mitigate the economic fallout of the pandemic and prompted a dynamic recovery which is underway. Going forward, the WAEMU authorities are mindful of the need to sustain this recovery while preserving macroeconomic and external stability and returning to a regional convergence path. They are also determined to seize the opportunities offered in the post-pandemic period to lay the ground for more digitalized, sustainable, and resilient economies.

Recent Developments and Outlook

3. After years of strong growth, GDP growth in the WAEMU region dropped in 2020 to 2 percent as a result of the global pandemic and stringent containment measures. However, the economic recovery, which started at end-2020, continues to strengthen. For 2021, GDP growth is expected to rebound to 5.7 percent, driven by robust private domestic demand. At

the same time, inflation increased, with headline inflation above the ceiling of the central bank, the *Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO)'s* target band of 1-3%, on the back of high food prices.

4. While several Covid-related supportive measures were withdrawn in 2021, accommodative fiscal policies were pursued in WAEMU countries to mitigate the socio-economic fallout of the pandemic, accommodate higher security spending in some countries and support the recovery underway. Consequently, the overall regional fiscal deficit is projected to reach 5.9 percent of GDP in 2021 from 5.7 percent and 2.3 percent in 2020 and 2019 respectively. Debt level in the Union rose rapidly in a context of low growth, from 45.5 percent of GDP in 2019 to 52.1 percent of GDP in 2020 and is projected at 55.6 percent of GDP for 2021, due to the reliance on domestic and international markets issuances as well as use of parts of the general SDR allocation. Strong capital inflows have allowed the BCEAO's reserves to rise to comfortable levels, with reserves estimated to have reached close to 6 months of prospective imports in 2021.

5. The BCEAO has pursued its accommodative monetary stance in 2021 with the policy rate kept at 2 percent since June 2020. The banking system in the Union has shown great resilience to the crisis with the average bank capital adequacy ratio at 12.0 percent at end-June 2021 which is above the regulatory minimum threshold. It is also noteworthy that private credit growth remained strong during the crisis and the level of non-performing loans (NPLs) relatively stable, thanks mostly to the regulatory forbearance measures introduced in 2020.

6. Looking forward, the Union's prospects are positive, with growth projected to reach 6.1 percent of GDP in 2022 mainly driven by the uptick in net exports while domestic demand remains generally robust. For the medium-term, the WAEMU authorities are cautiously optimistic and foresee higher growth of an average of 7.1 percent for the period 2022-2025, on the back of a complete recovery across sectors and significant impact of large public infrastructure projects, including on FDIs on the economies of the region. This favorable outlook also rests on smooth implementation of member countries' fiscal consolidation plans with the objective to converge to the 3 percent of GDP deficit target by 2024 and a wide-range of structural reforms to preserve fiscal and debt sustainability and limit scaring effects of the pandemic, boost competitiveness, and foster private sector-led growth.

7. The WAEMU authorities are cognizant of the need to remain steadfast in implementing their policy and reform agendas as the balance of risks in the near-term remain tilted to the downside. Among adverse risks are the evolution of the pandemic and resurgent variants, a tightening of global financial conditions, higher oil prices, and upward inflation dynamics. On the latter, the authorities remain vigilant and would act if needed but they stress that price pressures are concentrated on food products and administered prices prevent

transmission to other goods. In addition, they see no indications of second-round effects of wage growth. On risks associated with the pandemic, it is worth noting that, thanks to the use of SDR allocation, Senegal is set to manufacture Covid-19 vaccines locally through the recently signed partnership of The Coalition for Epidemic Preparedness Innovations (CEPI) and the *Institut Pasteur de Dakar* (IPD), which will help relax vaccine supply constraints on the continent. Regarding the political stability and security challenges, while recent developments in Mali, Burkina Faso and Guinea Bissau, the security situation in the Sahel and their spillovers to all WAEMU countries also weigh on the region' socio-economic developments and prospects, there is hope that continued political and social dialogue within those three countries on the one hand and between the first two and the international community on the other hand will bear fruit and restore trade flows and economic ties.

Policy and Reform Priorities Going Forward

8. The WAEMU authorities share the priorities highlighted in the report namely the need to (i) recalibrate the medium-term fiscal strategy once the crisis is over; (ii) strike the right balance between supporting the recovery, ensuring price stability, and continuing building external buffers; (iii) promote financial stability and inclusion; and (iv) press ahead with key structural reforms to contain potential Covid-related scarring impact on the medium-term prospects.

Fiscal Policy and Reforms

9. The WAEMU regional authorities are mindful of the need to re-establish the Convergence Pact that has been suspended in 2020 due to the pandemic shock. They take positive note of the analysis on the recalibration of fiscal rules and consider that meeting the fiscal deficit target of 3 percent of GDP by 2024 would be critical to achieving medium-term macroeconomic objectives, including to preserve reserves buffers, debt sustainability and ease pressures in the regional security markets. While the larger Economic Community of West African States (ECOWAS) committed in June 2021 to converging towards the fiscal deficit anchor over the years 2024-26, with the 3 percent of GDP deficit ceiling being one of the primary convergence criteria, policymakers at the WAEMU level are still discussing the medium-term fiscal targets, and proposals by the WAEMU Commission to the Council of Ministers on this matter are expected by end-June 2022.

10. The regional authorities agree that with the strong economic recovery, it is critical to switch measures from broad fiscal support to more targeted measures. They are convinced that bringing the fiscal policy back to a stance consistent with significantly boosting domestic revenue mobilization while protecting priority social expenditure, is key to strengthen buffers and promote sustainable and inclusive growth. Increasing vaccination rollout and infrastructure investment are also at the cornerstone of both national and regional strategies

on the pandemic. Moreover, the authorities agree with the importance of accelerating the implementation of the outstanding PFM directives despite the technical challenges encountered, building on the progress achieved thus far notably on the implementation and transposition at the national level of the regional PFM directives. They intend to address those practical challenges, which are mostly due to limited capacity.

Monetary and Financial Sector Policies

11. The central bank BCEAO will pursue its accommodative stance to ease liquidity constraints, while preserving adequate level of reserves. However, it stands ready to use appropriate policy instruments to tighten its policy stance if reserves came under pressure or inflation forecasts remained above the ceiling of the target band within the 24-month horizon.

12. The central bank continues to modernize its policy and governance frameworks. Since 2010, the BCEAO has carried out a large set of reforms, including important changes in decision-making bodies, redefining monetary policy objectives, and expanding the range of its operational tools. In this context, the central bank takes good note of staff's recommendations on ways to further enhance the required frameworks in line with the operations and monetary arrangements described in Box 3 of the report. While they remain to be convinced on some of staff's recommendations, including the one on the collateral framework for its refinancing operations—with some reservations on differentiating haircut rates to assets used as collateral—they look forward to the upcoming Financial Sector Assessment Program (FSAP) mission and its findings to advance other reforms regarding notably the possible formalization of the Emergency Liquidity Assistance (ELA) framework.

13. Although the banking sector has weathered the crisis well, thanks in part to supportive measures taken by the Banking Commission—the regional banking supervisory authority—and BCEAO, the authorities share staff's views of the need to tackle the pockets of vulnerabilities including those stemming from the BCEAO refinancing's instrument and the microfinance sector, with the view to further strengthen the financial sector resilience. They plan to complete the systemic bank resolution plans this year and make it operational as swiftly as possible. Actions are also ongoing to further develop the Union's financial market to support growth forecasts and promote financial inclusion.

Structural Reforms

14. WAEMU institutions welcome staff's analysis in the SIP on mitigating the medium-term scarring of the COVID-19 crisis, with an emphasis in quantifying the effects. The authorities, both at the national and regional levels, are committed to continue making important headways in advancing convergence and enhancing trade and regional integration. Indeed, it is their belief that further liberalizing trade notably through the African Continental Free Trade Area (AfCFTA) as a whole and within the region (UEMOA/ECOWAS), would

promote productivity growth and provide a greater playing field for the private sector to thrive and reap the human and physical capital dividends. The financing provided by the regional development bank, *Banque Ouest Africaine de Développement* (BOAD), is critical to advancing large cross-country infrastructure projects. Indeed, efforts are being ramped up to support key intra-regional infrastructures projects, through the regional economic program —*Programme Economique Régional (PER)*—especially in the areas of industrial and digital development, transportation, energy sector and human capital development.

15. Actions to promote trade integration include measures to foster the reduction of non-tariff barriers to trade within the Union, with notably the implementation of a new framework —*Mécanisme d'Alerte sur les Obstacles au Commerce (MAOC*)—which will be instrumental in resolving issues identified in the context of cross-border trade activities.

Conclusion

16. The WAEMU authorities have provided an appropriate response to the two-fold crisis posed by the Covid-19 pandemic and the security situation in the Sahel. They will continue to support the recovery while carefully monitoring developments and standing ready to make the necessary policy adjustments to preserve macroeconomic and external stability. They remain committed to a return to a steady implementation of fiscal consolidation plans and structural reforms that are crucial to sustain medium-term growth, strengthen economic resilience and achieve development objectives. To this end, the authorities continue to value the Fund's advice and technical support and look forward to further engagement.