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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 consultations 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 1, 2023, consideration of the staff report.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 1, 2023, following discussions that ended on November 16, 2022. Based on information available at the time of these discussions, the staff report was completed on January 17, 2023.
- 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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PRESS RELEASE

PR23/39

IMF Executive Board Concludes the 2022 Discussions on Common Policies of Member Countries of the West African Economic and Monetary Union

FOR IMMEDIATE RELEASE

- The WAEMU's post-Covid-19 recovery has withstood the new global and regional shocks, partly due to supportive macroeconomic policies and favorable initial macroeconomic conditions. Growth prospects remain favorable and the financial system appears resilient.
- However, the WAEMU faces important risks and challenges associated with rising inflation, more limited access to international capital markets, eroding external reserve buffers, and regional security issues, in the presence of elevated global risks.
- It is urgent to design a credible fiscal strategy anchoring debt sustainability, based on clear and adequate deficit and debt regional ceilings. Further monetary tightening seems warranted unless large risks that second-round effects may derail inflation dissipate.

Washington, DC – **February 9, 2023:** On February 1, 2023, the Executive Board of the International Monetary Fund (IMF) concluded the 2022 discussions on common policies of member-countries of the West African Economic and Monetary Union (WAEMU).[1]

The WAEMU's post-Covid-19 recovery has been moderately affected by the new global and regional shocks partly due to a further delay in fiscal adjustment. In 2022, growth is estimated to have reached 5½ percent, inflation averaged 7.5 percent mainly due to higher local and global food prices, and external reserves declined by about 20 percent to reach the equivalent of 4.5 months of imports. Against this background, monetary policy changed course through three consecutive rate hikes of 25 basis points in 2022.

Growth is expected to rebound to about 6 percent over the medium term, including due to the coming on stream of new hydrocarbon production and inflation is projected to return to the BCEAO's target band by the end-2024. A gradual fiscal consolidation should start in 2023 and bring the aggregate fiscal deficit to 3 percent of GDP by 2025 at the latest. There are however significant downside risks to the outlook, particularly given the volatile global economic and financial outlook, as well as regional security risks and political uncertainty.

[1]Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. Staff hold separate annual discussions with the regional institutions responsible for common policies for the countries in four currency unions – the Euro-Area, the Eastern Caribbean Currency Union, the Central African Economic and Monetary Union, and the West African Economic and Monetary Union. For each of the currency unions, staff teams visit the regional institutions responsible for common policies in the currency union, collect economic and financial information, and discuss with officials the currency union's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis of discussion by the IMF Executive Board. Both staff's discussions with the regional institutions and the Board discussion of the annual staff report subsequently are considered an integral part of the Article IV consultation with each member.

Executive Board Assessment[2]

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 that will be held on the 12-month cycle in accordance with the Executive Board decision on the modalities for surveillance over WAEMU policies.

Executive Directors agreed with the thrust of the staff appraisal. They noted the WAEMU's economy has shown resilience to global shocks, with supportive policies and a favorable initial macroeconomic environment helping the recovery. However, fiscal and external positions weakened, and inflationary pressures intensified. Directors cautioned that, while economic prospects remain favorable in the medium term, risks are tilted to the downside, particularly from volatile global economic and financial conditions, regional security issues and political uncertainty. They stressed the importance of a prudent fiscal and monetary policy mix and structural reforms to maintain macroeconomic and financial stability and foster inclusive growth.

Directors urged the authorities to reintroduce the regional fiscal rules and adopt a credible medium-term fiscal framework to ensure fiscal sustainability and preserve external viability. They considered that any justifiable delay of the envisaged convergence of fiscal deficits to 3 percent of GDP in 2024 should be limited to one year and supported by reasonable financing expectations. Directors emphasized that it will be critical to enhance domestic revenue mobilization and public financial management and control stock-flow adjustment operations to preserve debt sustainability while protecting priority spending.

Directors called on the authorities to stand ready to further tighten monetary policy as needed to contain inflationary pressures and, together with tighter fiscal policies, help strengthen external reserve adequacy.

Directors noted the financial system remains broadly sound but is subject to risks from the increased exposure of some banks to sovereigns and refinancing from the BCEAO. They emphasized the importance of efforts to finalize the operationalization of the bank resolution framework, introduce "targeted" Pillar 2 capital surcharges and liquidity requirements, enhance supervisory independence, and implement an emergency liquidity assistance scheme. Directors concurred that enhancing the depth and liquidity of the sovereign security market remained a priority. They encouraged the authorities to enhance AML/CFT supervision and assess climate-related risks in the financial sector in line with the 2022 FSAP recommendations.

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[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.

Directors agreed that WAEMU member-countries' growth prospects would benefit from more robust structural reforms, regional trade integration, and greater coordination and pooled resources to implement regional development projects, particularly in the areas of energy, digital and physical infrastructure, and food resilience.

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. It is expected that the next regional consultation with the WAEMU will be held on the standard 12-month cycle.

Table 1. WAEMU: Selected Economic and Social Indicators, 2019–27

Social Indicators

GDP		**Poverty (2019 or latest available)**	
Nominal GDP (2021, millions of US Dollars)	178,720	Headcount ratio at $1.90 a day (2011 PPP)	22.0
GDP per capita (2021, US Dollars)	1,322	Undernourishment (percent of population)	12.3
Population characteristics		**Inequality (2018 or latest available)**	
Total (2020, millions)	130.9	Income share held by highest 10 percent of population	31.1
Urban Population (2020, percent of total)	40.4	Income share held by lowest 20 percent of population	6.9
Life expectancy at birth (2020, years)	61.7	Gini index	39.1

Economic Indicators

	2019	2020	2021		2022		2023	2024	2025	2026	2027
			SM/22/9 [1]	Est.	SM/22/9 [1]	Proj.	Projected				
					(Annual percentage changes)						
National income and prices											
GDP at constant prices [2]	5.7	1.8	5.7	5.9	6.1	5.1	6.2	7.3	5.9	5.7	5.7
GDP per capita at constant prices	2.8	-1.0	2.8	3.0	3.1	2.2	3.3	4.4	3.0	2.8	2.8
Consumer prices (average)	-0.7	2.1	3.3	3.6	2.5	7.5	3.3	2.0	1.9	1.9	2.0
Terms of trade	-3.0	23.5	-3.1	-6.5	-1.7	-8.7	-0.5	1.2	0.1	-0.5	-0.2
Nominal effective exchange rate	-0.5	3.7	…	1.3	…	…	…	…	…	…	…
Real effective exchange rate	-3.7	3.7	…	1.1	…	…	…	…	…	…	…
					(Percent of GDP)						
National accounts											
Gross national savings	19.3	20.9	19.5	21.3	20.1	20.9	22.0	23.7	22.7	22.9	23.4
Gross domestic investment	24.3	24.9	25.4	27.4	25.9	29.0	29.0	28.7	27.4	27.4	27.8
Of which: public investment	6.1	7.0	7.5	7.3	7.8	7.6	7.7	7.7	6.9	7.0	7.0
					(Annual changes in percent of beginning-of-period broad money)						
Money and credit											
Net foreign assets	6.6	0.7	2.5	6.0	-0.1	-8.0	0.1	0.9	2.0	2.3	1.7
Net domestic assets	3.7	15.9	5.5	2.2	8.0	17.8	8.7	8.6	6.0	5.4	5.9
Broad money	10.3	16.5	8.0	8.1	8.0	9.9	8.8	9.5	8.0	7.7	7.7
Credit to the economy	4.2	4.1	2.6	0.6	2.5	12.2	1.4	4.1	3.7	3.2	3.9
					(Percent of GDP, unless otherwise indicated)						
Government financial operations											
Government total revenue, excl. grants	15.6	15.2	15.3	16.2	15.9	15.7	16.1	17.0	17.2	17.3	17.5
Government expenditure	19.7	22.8	22.9	23.3	22.4	23.4	22.6	22.3	21.5	21.6	21.8
Overall fiscal balance, excl. grants	-4.1	-7.6	-7.6	-7.1	-6.5	-7.6	-6.5	-5.3	-4.3	-4.3	-4.3
Overall fiscal balance, incl. grants	-2.3	-5.6	-5.9	-5.6	-4.7	-6.0	-5.0	-4.0	-3.0	-3.0	-3.0
External sector											
Exports of goods and services [3]	19.7	19.1	18.9	19.1	19.9	19.3	18.3	19.3	18.8	18.7	18.7
Imports of goods and services [3]	25.4	24.1	25.8	26.2	26.6	27.6	25.4	24.4	23.5	23.2	23.2
Current account, excl. grants	-6.0	-5.3	-6.8	-7.0	-6.8	-8.5	-7.1	-5.1	-4.8	-4.6	-4.6
Current account, incl. grants	-4.9	-4.0	-5.9	-6.2	-5.9	-7.7	-6.4	-4.4	-4.1	-4.0	-4.0
External public debt	30.4	33.7	36.4	36.5	35.1	34.6	32.9	30.8	29.2	27.8	26.9
Total public debt	45.2	51.9	55.6	57.1	55.5	56.8	56.6	54.9	53.1	51.5	50.4
Broad money	34.2	38.6	38.6	38.6	…	…	…	…	…	…	…
Memorandum items:											
Nominal GDP (billions of CFA francs)	88,607	91,608	98,891	99,054	106,762	108,834	118,459	129,680	140,050	150,824	162,363
Nominal GDP per capita (US dollars)	1,186	1,214	1,332	1,322	1,394	1,263	1,298	1,383	1,454	1,525	1,599
CFA franc per US dollars, average	585.9	574.8	…	554.2	…	…	…	…	…	…	…
Gross international reserves [4]											
In months of next year's imports (of goods and services)	5.6	5.4	5.8	5.6	5.5	4.5	4.4	4.3	4.4	4.5	4.6
In percent of current GDP	11.7	12.8	…	14.2	…	10.4	9.7	9.2	9.2	9.4	9.4
In percent of the BCEAO's sight liabilities	81.4	77.3	…	79.3	…	63.2	66.9	63.5	63.8	65.0	64.7
In millions of US dollars	17,547	21,764	24,228	24,194	24,898	18,490	17,938	18,668	20,373	22,531	24,130

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

All projections presented in this staff report were prepared in mid-December 2022 and do not incorporate any further developments.

[1] Shows data from the IMF Country Report No. 2022/067, issued in January 2022 (Board document number SM/22/9).

[2] The acceleration in GDP growth in 2023/24 is due to the start of production of large hydrocarbon projects in Niger and Senegal.

[3] Excluding intraregional trade.

[4] Data for 2021 includes 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 AFRICAN ECONOMIC AND MONETARY UNION

STAFF REPORT ON COMMON POLICIES OF MEMBER COUNTRIES

January 19, 2023

KEY ISSUES

Context. The WAEMU's post-Covid-19 recovery has so far withstood the new global and regional shocks, partly owing to supportive fiscal and monetary policies as well as relatively strong macroeconomic fundamentals over the previous decade. Growth prospects remain favorable, reserves—albeit declining—remain adequate, and the financial system appears to be resilient. However, the region faces important challenges associated with rising inflation, limited access to international capital markets, eroding external buffers, and regional security issues, in the presence of elevated global risks.

Key Policy Recommendations

Fiscal Policy. Continued delay in fiscal consolidation and the recent surge in public debt are affecting fiscal credibility, debt sustainability, and external viability. It is therefore urgent to design a credible fiscal strategy anchoring debt sustainability, based on clear and adequate deficit and debt ceilings. Regional fiscal rules should be reintroduced and revamped, with enhanced supporting elements—a credible fiscal correction mechanism as well as well-designed escape clauses and enforcement mechanisms—complemented by efforts to control all debt-increasing flows (such as below-the-line and extra-budgetary operations). Possible delays in the convergence period beyond 2024 (more specifically, further postponing a return to the 3 percent of GDP deficit rule) should be limited to one year, strongly justified, and financeable. Finally, the composition of the fiscal adjustment should be conducive to inclusive and sustainable economic growth. While there is no doubt the region faces significant spending pressures over the medium term, these should be funded via enhanced domestic revenues efforts rather than debt.

Monetary Policy. Further monetary tightening is warranted given the large one-sided risks (unless these dissipate) that second-round effects may derail inflation and lead it to exceed the BCEAO's target range over a 24-month period. This would also help contain the risk that reserves fall below adequacy thresholds.

Financial Markets. The financial sector has been resilient so far, but the banking sector's growing exposures to the sovereign is a source of vulnerability, and would require capital surcharges targeting concentrated exposures. Traditional (concentration and credit) risks are being managed by recent capital increases, though additional risks from inflation, delayed fiscal consolidation, and declining reserves need careful supervision. Continued policy actions to improve banking supervision and deepen financial markets are essential to foster financial sector development and inclusion. Assessing climate-related risks in the financial sector also remains important.

Structural Reforms. Progress in regional reforms and development projects should be accelerated. Structural reforms to foster productivity growth and private investment are crucial to counteract possible scarring effects of the Covid-shock and facilitate intra-regional transactions, particularly in the areas of energy, digital and physical infrastructure, and food resilience. More coordination and pooled resources to implement regional development projects are essential.

Approved By
Annalisa Fedelino (AFR)
Loko Boileau (SPR)

The regional discussions for 2022 were held in a hybrid format comprising virtual video conferences as well as physical meetings during November 1–16, 2022. The staff team comprised Mr. Ricci (Head), Messrs. Feler and Sever (all AFR), Ms. Melo Fernandes (MCM), Ms. Laws (SPR) and Mr. Gudmundsson (RES). The concluding meeting was held on November 16, with BCEAO Governor Brou. Ms. Bentum provided research support and Ms. Jaghori provided assistance in the preparation of the 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.

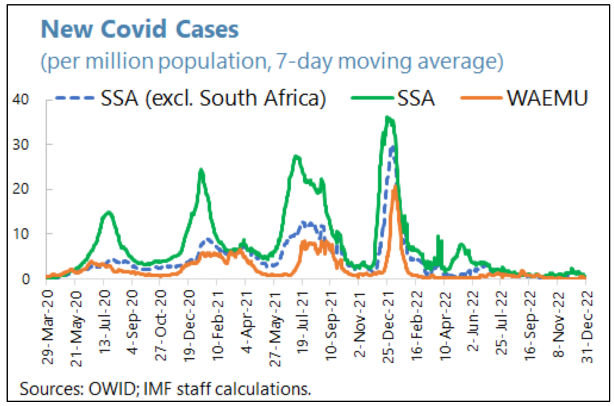
CONTENTS

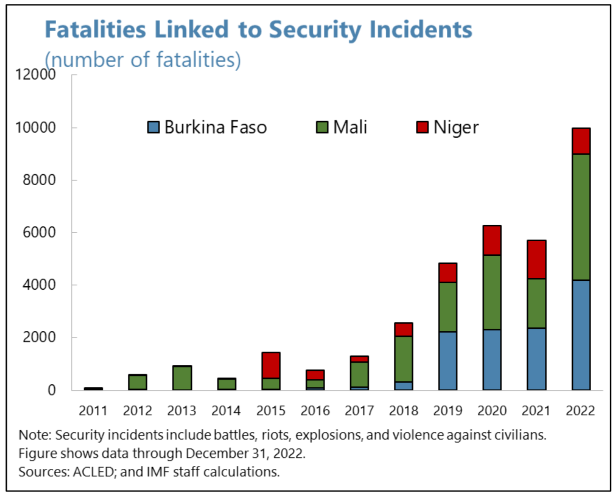
ANNEXES

Glossary

AML	Anti-money laundering
bps	Basis points
CAR	Capital adequacy ratio
CFT	Countering the financing of terrorism
CBDC	Central bank digital currency
CFAF	CFA Franc
EA	Euro-Area
FAIR	Regional Integration Assistance Fund
FATF	Financial Action Task Force
FDI	Foreign direct investment
FRDA	Regional Agricultural Development Fund
FRFA	Fixed-rate full allotment
NEER	Nominal effective exchange rate
MFI	Microfinance institution
NIIP	Net international investment position
NPL	Non-performing loans
PFM	Public financial management
PRP	Preventive restructuring plan
REER	Real Effective Exchange Rate
SFAs	Stock-flow adjustments
SIP	Selected Issues Papers
SSA	Sub-Saharan Africa
USD	U.S. dollar
VAT	Value-added tax
yoy	Year on year

RECENT DEVELOPMENTS





1. The health impact of the pandemic has been less severe than in the rest of SSA. Covid vaccination rollout (at about 23 percent) remains slow due to the perception of an abating pandemic together with vaccine hesitancy.

2. The WAEMU continues to face major security issues. The security situation has deteriorated in the Sahel since 2012, with Burkina Faso, Mali, and Niger particularly impacted. These vulnerabilities contributed to irregular changes in government in Mali in August 2020 and May 2021, and in Burkina Faso in January and September 2022—with deepening insecurity during 2022 (spilling over to the northern regions of coastal WAEMU countries). International pressure succeeded in obtaining commitments to restore democratic rule by 2024, though challenges remain.

3. The WAEMU's economy has shown resilience to the Covid crisis. Growth rebounded to 5.9 percent in 2021 from 1.8 percent in 2020, notwithstanding a decline in food production by 8.1 percent due to adverse weather conditions. The latter, together with higher import prices due to supply chain disruptions, pushed up inflation above the BCEAO's target band (1-3 percent), to reach 3.5 percent on average in 2021. Buoyant domestic demand, investment imports, and rising import prices contributed to a widening of the external current account deficit to 6.2 percent of GDP in 2021 from 4.0 percent of GDP in 2020. Nonetheless, external reserves increased in 2021 to cover 5.6 months of prospective imports at end-2021 (from 5.4 months at end-2020), thanks to a rebound in export proceeds repatriation, the SDR allocation, and Eurobond issuances by Benin, Côte d'Ivoire, Senegal, and the regional development bank (BOAD). Overall, the external position in 2021 is assessed as broadly in line with economic fundamentals (see Annex III).

4. The global shock ensuing from Russia's war in Ukraine has moderately affected the WAEMU's post-Covid recovery. Economic activity remained robust during the first half of 2022, supported by accommodative monetary and fiscal policies (with quarterly GDP estimated to have grown at about 5½ percent (yoy) on average, compared to about 6 percent in H1-2021).

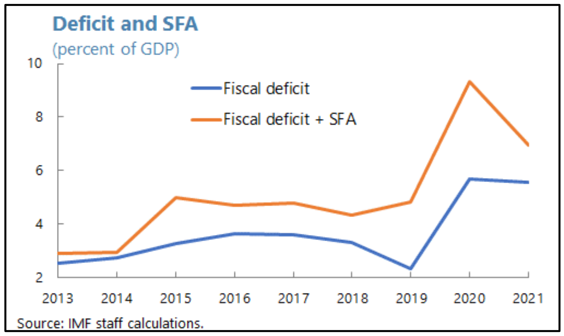
5. However, the WAEMU's external position has been weakened by the global shock. The terms-of-trade worsening caused by global food and energy price increases, together with the recent depreciation of the Euro relative to the US dollar, contributed to a widening of the regional current account deficit by 0.9 percentage points of GDP in H1-2022 relative to H1-2021. Along with capital inflows constrained by the tightening of global financial conditions, this resulted in a depletion of external reserves by about 20 percent in 2022, and preliminary data for December show an import coverage of 4.5 months, still within the adequate range (Annex III). The softer external position weakened banks' structural liquidity deficit, contributing—together with higher government financing needs—to some tightening of yields on securities issued on the regional market. Such a tightening was however more limited than the recent surge in EMBIG spreads on Eurobonds, issued by both WAEMU (Figure 2) and other frontier market sovereigns, resulting from the monetary policy normalization in advanced economies.

6. The global shock has also exacerbated domestic inflation stemming mainly from food prices. Inflation accelerated in 2022, with headline inflation reaching 8.0 percent in November. Inflation was originally driven in 2021 by a shortfall in regional food supply due to inclement weather as well as security issues in some countries, coupled with the effect of higher transportation costs from global supply chain disruptions. In 2022, those effects were compounded by the pass-through from global food and energy prices, including the recent NEER depreciation. These effects have been in part contained by subsidies and price controls.

7. The WAEMU's financial system proved resilient to the Covid crisis. Private sector credit growth has remained robust at 14.5 percent on average in the first 8 months of 2022. Banks have continued to strengthen their balance sheets as the average CAR rose from 11.5 prior to the Covid crisis to 12.6 at end-June 2022. For the system as a whole, the quality of banks' loan portfolio kept improving, with the NPL ratio falling to 10.0 percent at end-June 2022 from 11.4 percent at end-2019. At end-2021, close to 95 percent of loans that had benefitted from the repayment deferral scheme in 2020 were repaid or performing. The financial inclusion gains made during the pandemic are being consolidated: as of end-2021, the share of individuals using financial services (in the forms of banking, MFIs, or e-money) reached 67 percent of the WAEMU population, from 60 percent at end-2019 (Annex V).

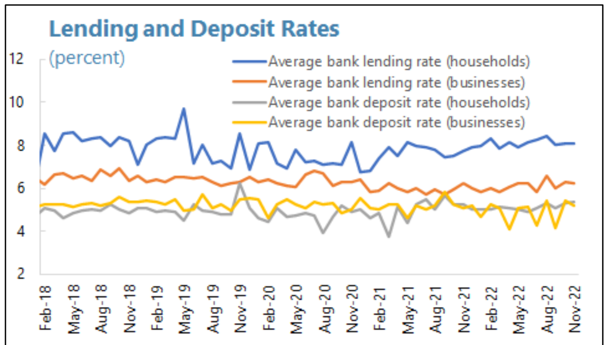
8. National fiscal policies were substantially relaxed in 2020 and stayed supportive in 2021. The WAEMU Convergence Pact expired at end-2020 following its suspension in April in response to the Covid-19 crisis. The average overall fiscal deficit in percent of GDP increased from 2.3 in 2019 to 5.6 in 2020, due to revenue and expenditure measures introduced in response to the pandemic. Notwithstanding the withdrawal of many of these measures and a rebound of government revenues by 1 percentage point of GDP in 2021, the overall fiscal deficit stood almost unchanged at 5.6 percent of GDP in 2021, due to higher capital expenditure, a grant shortfall, and—in some countries—larger security spending, and was partly financed by the 2021 SDR allocation.

9. **The total change in debt was substantially higher than implied by the large fiscal deficits.** Significant extra-budgetary and below-the-line operations (SFAs[1] of about 3.6 and 1.4 percent of regional GDP in 2020 and 2021, respectively) implied that public debt to GDP rose by close to 12 percentage points of GDP over these two years, to 57.1 percent of GDP at end-2021.



Source: IMF staff calculations.

10. **Regional monetary policy was also eased in 2020 and remained accommodative in 2021**. In March 2020, the BCEAO shifted from auctioning set amounts of bank refinancing subject to a minimum bid-rate to a FRFA procedure—fully meeting banks' demand for central bank liquidity at a set interest rate (the minimum bid-rate). In June 2020 that policy rate was lowered by 50bps to 2 percent, and in 2021 the BCEAO extended the maturity of its refinancing to 6 and 12 months. These policies contributed to the easing of regional financing conditions, as reflected in a decline in the interbank rate to a level close to the minimum bid-rate and in lower yields on sovereign securities issued at a higher average maturity on the regional market, while preventing bank lending and deposit rates from increasing.[2]



Source: BCEAO.

11. **Monetary policy changed course in 2022, in response to rising inflation and declining reserves.** The BCEAO raised its benchmark rates by 25bps three times in June, September, and December 2022, to prevent a de-anchoring of inflation expectations. As a result, the interbank market rate increased while financing conditions on the sovereign securities market tightened somewhat, through a reduction of participation rates and an increase in yields.

OUTLOOK AND RISKS

12. **The WAEMU's post-Covid economic rebound is expected to decelerate in 2022 before converging to about 6 percent over the medium term.** The adverse terms of trade shock caused by the conflict in Ukraine should weigh somewhat on real GDP growth, projected to decrease to 5.1 percent in 2022, from 5.9 percent in 2021. Over the medium term, growth should stabilize at

[1] The increase of the debt ratio in a given year over the previous year's debt ratio results from the fiscal deficit, a nominal growth effect, an exchange rate effect, a guarantees effect, and a residual (so called SFAs). See the SIP for more details on SFAs.

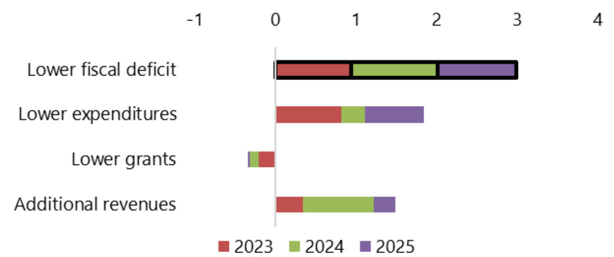
[2] The authorities also took measures to mitigate the crisis' impact on financial institutions, including a loan payment deferral scheme for solvent borrowers and partial guarantees on credit to some companies.

around 6 percent, after a rebound in 2023-24, also due to the coming on stream of hydrocarbon projects in Niger and Senegal.

13. Fiscal consolidation is expected to be further delayed. The regional fiscal deficit is projected to increase to about 6 percent of GDP in 2022, due to measures aiming at limiting the economic and social impact of surging food and energy prices,[3] and addressing security concerns. In light of these challenges and pressures on the public wage bill in some countries (Côte d'Ivoire, Senegal, and Togo), most country authorities consider necessary to delay until 2025 the convergence of their fiscal deficit to 3 percent of GDP (envisaged for 2024 before the war in Ukraine, in line with the fiscal commitments within ECOWAS). Current staff projections indicate that the regional fiscal adjustment of about 3 percentage points of GDP over 2022-25 is expected to result from both lower expenditures (1.9 percent of GDP, both capital and current) and higher revenues (1.5 percent of GDP). The debt to GDP ratio is expected to decline over the medium term, to 50.4 percent in 2027.[4]

Fiscal Adjustment Between 2022–25

(Percent of GDP)



Source: IMF staff estimates, projections.
Note: Figure reports the contributions of the three components (expenditures, grants, and revenues) to the change in fiscal deficit. The top bar is the sum of the other three bars.

14. Average annual inflation is projected to peak at 7.5 percent in 2022 and to converge back to the BCEAO's target range by 2024. Inflation is likely to keep rising at a slower pace in coming months, as food inflation normalizes from the lagged effect of declining global food and energy prices as well as moderately stronger regional food production, while non-food inflation remains driven upwards by persistence for some time. Risks are however one-sided and the uncertainty around key developments is substantial.

15. External reserves should remain adequate over the medium term—under a baseline scenario of gradual fiscal consolidation and higher hydrocarbon production. The current account deficit is forecast to peak at 7.7 percent of GDP in 2022. The import coverage of reserves is estimated to have remained at about 4.5 months of imports at end-2022 and projected at about 4.6 months of imports in the medium term. The current account deficit would converge toward 4 percent of GDP in the medium term, on the back of rising export ratios, declining import ratios, a gradual fiscal consolidation, and the completion of import-intensive hydrocarbon projects in Niger and Senegal. Risks to external stability arising from the negative NIIP (-44.9 percent of GDP at end-

[3] The fiscal cost of subsidies on food and energy and food products is estimated at around 2 percent of regional GDP in 2022.

[4] Based on the assumption that SFAs would remain around zero.

2020) appear contained with 43 percent of liabilities constituted by FDI and only 12 percent by more volatile portfolio investment flows.

16. Uncertainty surrounding the baseline outlook is high, with risks tilted to the downside (Annex II). The impact of the recent terms of trade deterioration could be more severe, including in the event of a protracted war in Ukraine and further disruptions to international supply chains. An accelerated tightening of global financial conditions could deepen and prolong the difficulty to borrow and refinance externally, further contributing to the depletion of official reserves, and putting pressure on the WAEMU regional financial market, which could generate system-wide liquidity stress and negative macro-financial feedbacks in the banking system. A worsening of regional security and political uncertainty, high perceptions of corruption and weak governance, delays in the completion of hydrocarbon projects in Niger and Senegal, and climate related risks could also cloud the WAEMU medium-term outlook. In addition, new Covid outbreaks remain a downside risk given low vaccination rates. On the upside, European efforts to reduce reliance on Russian energy imports could increase hydrocarbon-related investments in some WAEMU countries, while additional investment related to substantial recent oil and gas discoveries may raise growth.

Authorities' Views

17. The regional authorities[5] broadly agreed with IMF staff on the economic outlook and risks. They project medium-term growth similar to staff, while noting risks. Regarding fiscal deficit, the authorities expect that member states will converge to the 3 percent of GDP deficit target by 2025—one year later than discussed in 2021—mainly driven by the large fiscal cost of the current global and local shocks, and ongoing development and security spending. The BCEAO projects inflation at 2.9 percent in 2024. It is also more optimistic on FX reserve coverage (4.5 months of imports by end-2023 versus 4.4 in staff projections; and 5.9 months by end-2027 versus 4.6 in staff projections).

POLICY DISCUSSIONS

The short-term macroeconomic policy environment is particularly challenging and policy space is limited, posing difficult trade-offs. While fiscal policy has remained expansionary in response to multiple shocks, adopting an adequate medium-term fiscal consolidation strategy will be critical to ensure fiscal sustainability and preserve external viability. Monetary policy, faced with a large supply shock, needs to balance emerging second-round effects from a sharp rise in food inflation (and the risk of a de-anchoring of inflation expectations) versus adverse economic impacts of higher interest rates, while also containing reserve declines. Financial supervision needs to remain vigilant in light of possible adverse effects from higher interest rates and other risks. Over the medium term,

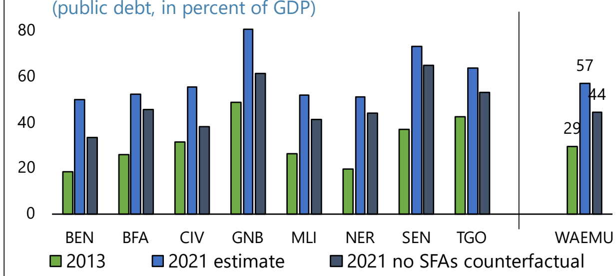
[5] The term 'authorities' refers to regional institutions responsible for common policies in the currency union and not to the respective member states' authorities, unless specifically identified as national authorities or by the country's name.

strengthening the resilience of the regional banking system, developing regional financial markets, and promoting regional integration will also need to play a crucial role.

A. Fiscal Policy: Ensuring Debt Sustainability and Preserving External Viability

18. A credible fiscal anchor needs to be urgently re-established. The credibility of the fiscal framework is rapidly eroding on account of: (i) delayed fiscal consolidation and increasing debt ratios (also reflecting large SFAs, which have added an estimated 13 ppt of debt/GDP over 2013-21—text figure and the SIP); (ii) the absence of a new Convergence Pact after its expiration in 2020; and (iii) consideration of higher medium-term fiscal deficit targets and debt ceilings—as well as the possible exclusion of security spending from deficit targets. These factors, coupled with limited advances in domestic revenue mobilization, are weighing on debt sustainability and posing risks to external financing, reserves, and financial stability. These concerns are particularly pressing for some member states, due to relatively higher debt levels and limited capacity to repay (i.e., higher debt service to government revenue ratio), with possible regional spillovers.

Public Debt: Impact of Stock Flow Adjustments between 2013 and 2021
(public debt, in percent of GDP)



Source: IMF staff calculations.

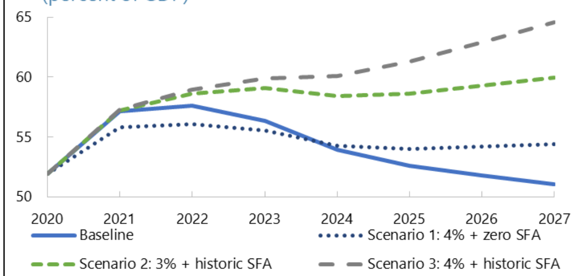
19. Staff advised the authorities to place the fiscal consolidation plans and the possible review of fiscal targets within the context of a credible fiscal strategy anchored in a revamped fiscal framework, aimed at ensuring adequate debt dynamics and fiscal sustainability, strengthening commitment to fiscal discipline, and preserving external viability.

20. In this context, staff strongly advised against loosening the deficit and debt ceilings.

- **New targets for deficit and debt-to-GDP ratios in a renewed Convergence Pact need to consider the crucial importance of addressing SFAs as well as ensuring debt sustainability** at levels compatible with market access, adequate reserves, and regional financial stability. Staff advised against raising the deficit ceiling in the absence of actions to reduce SFAs.

- **Even keeping a deficit ceiling of 3 percent of GDP without tackling SFAs would already be equivalent to a de-facto deficit ceiling of about 4½ percent of GDP, not stabilizing debt** (text figure and the SIP). Increasing the deficit ceiling further to, say, 4 percent of GDP in the presence of SFAs at historical levels would set debt on an explosive path.

WAEMU Debt Dynamics Scenarios
(percent of GDP)



Source: IMF staff calculations and projections.
Note: Baseline consists of teams' projections which have zero SFA – converging to 3 percent deficit in 2025. (1) has a deficit target of 4 percent of GDP converged in 2025 with zero SFA. (2) and (3) have 3and 4 percent deficit targets converged in 2025 with historical SFA (of 1.5 percent of GDP annually).

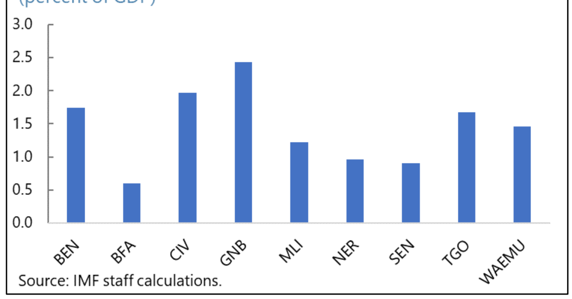
- **Similarly, increasing the debt ceiling beyond 70 percent of GDP would not be advisable,** given the need to allow for sufficient fiscal buffers to cope with rising global uncertainty and the ongoing rising global borrowing costs.[6]

21. Staff emphasized the urgency of adopting a revised set of fiscal rules to ensure the credibility of, and consistency with, medium-term public debt sustainability.

- First, to be effective, revised fiscal rules would need to include a **credible and well-defined fiscal correction mechanism** following breaches of the fiscal deficit and/or debt ceilings. Such a mechanism would ensure that potential breaches would be compensated by appropriate fiscal adjustments in the following years, except under exceptional circumstances.

- Second, controlling debt surges will require a global approach encompassing all factors affecting debt dynamics, **including extra-budgetary and below-the-line operations** (SFAs). The mission also strongly opposed excluding security spending from the fiscal deficit target, since such a revision of the measurement of the fiscal deficit would damage transparency and accountability, and exacerbate the discrepancy between the fiscal deficit and public debt.

Stock Flow Adjustments, 2013-2021 Average
(percent of GDP)



Source: IMF staff calculations.

- Third, the mission also stressed the need for a **credible enforcement mechanism as well as well-designed escape clauses with open communication** specifying the circumstances under which the fiscal deficit could temporarily exceed the ceiling, without an open-ended suspension or expiration of the framework.

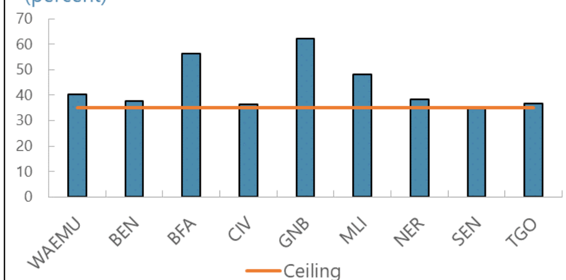
- In addition, **operational frameworks based on intermediate and complementary targets** (e.g., in terms of revenues or wage bill) would be helpful for planning, budgeting, and communication purposes.

[6] The mechanism could consider special and appropriate provisions, such as a transition period, for countries whose debt-to-GDP ratio is already above the ceiling.

22. Delays in fiscal consolidation from the convergence to 3 percent deficit in 2024 should be adequately justified and accompanied by reasonable financing plans.

- **In the short term, the widening of the deficit in 2022 and 2023—while external capital market access is impaired—risks placing undue stress** on the absorption capacity of the regional financial markets and crowding out private investment, while weakening the reserve position. Unlocking financing from donors would be critically important, given also eroding external buffers and delayed fiscal consolidation.
- **Any extension of the convergence of fiscal deficits to 3 percent of GDP from 2024 to 2025 should be limited to one year and based on strong justifications** (such as exceptional needs for expenditure related to additional adverse shocks, binding security and social challenges, or excessive strains on the economy from a large and fast consolidation), **as well as reasonable expectations that financing would be available** at terms preserving debt sustainability and external stability, while considering also the possible impact on spreads and ratings. Going forward, national authorities should avoid repeated and unanchored delays in fiscal consolidation.
- **Promoting a composition of fiscal adjustment conducive to sustainable and inclusive economic growth is crucial.** Priority social expenditure and essential infrastructure investment should be protected, while some member states should take actions towards observing the 35 percent regional ceiling on the wage bill to tax revenue ratio. In this context, staff advised against a relaxation of this ceiling, e.g. through broadening the denominator to overall government revenue (instead of tax revenue).

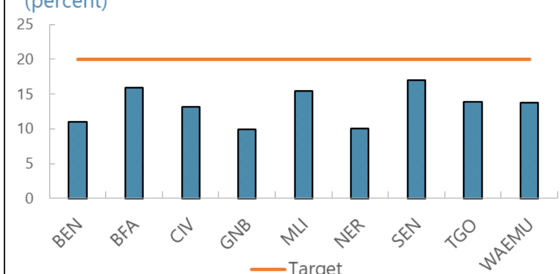
Wage Bill to Tax Revenue, 2021 Data
(percent)



Source: IMF staff estimations and calculations.

23. The fiscal strategy needs to envisage a significant improvement in domestic revenue mobilization—an increasingly critical tool to finance development and social needs. Continuing to rely largely on increasing debt financing, as in the past decade, is unsustainable. The mission stated that mobilizing domestic revenues will be imperative to create fiscal space for spending needs associated with development, social, and security issues, strengthen countries' debt service capacity, and eventually rebuild buffers. Efforts should be placed in broadening the tax base and rationalizing widespread tax preferences, including for the VAT and the various regimes offering tax incentives.

Tax Revenue to GDP, 2021 Data
(percent)



Source: IMF staff estimations and calculations.

24. Staff also encouraged the authorities to accelerate the implementation of regional PFM directives (including to reduce the scope for extra-budgetary and below-the-line operations) and enhance fiscal transparency. Efforts should continue to address bottlenecks in implementing PFM regional directives, such as limitations of national budgetary and accounting systems, challenges in implementing accrual accounting, and relatively limited access to budgetary information by the general public. The broader fiscal strategy would also benefit from enhancing efforts to broaden the perimeter of the deficit and debt definitions.[7]

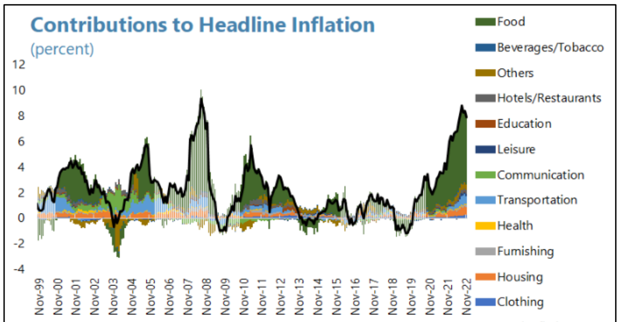
Authorities' Views

25. The regional authorities indicated the ongoing shocks have led to a suspension of fiscal convergence and prompted consideration of a relaxation of the fiscal ceilings. They argued that the higher spending needs associated with the policy response to various shocks (the pandemic, the war in Ukraine, and security issues) justify a delay in fiscal convergence and may call for raising the fiscal deficit and debt ceilings. They nonetheless affirmed that the main priority will remain to preserve debt and external sustainability. They acknowledged staff's analysis on the adverse impact of SFAs on WAEMU debt dynamics and agreed that containing extra-budgetary and below-the-line operations is crucial for debt sustainability. In this respect, they mentioned ongoing work with member states to harmonize the coverage for the fiscal deficit and debt, which would contribute to reducing SFAs going forward. They also agreed that reinstating the fiscal rules complemented with various supporting arrangements would be helpful to enhance fiscal credibility and predictability and mentioned ongoing work on defining proposals for introducing more explicitly an escape clause and a macroeconomic stabilization fund.

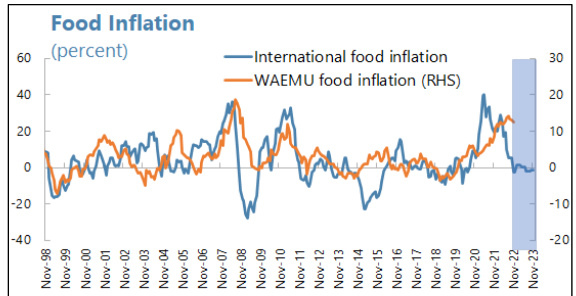
B. Monetary Policy: Anchoring Inflation Expectations and Preserving External Viability

26. Risks of second-round inflationary effects are rising while reserves are declining. Food inflation has historically been the main driver of inflationary bouts, generally short-lived and without broader impact on non-food inflation (text chart and SIP). This is potentially the case again, as global food prices are expected to decline and regional food production should improve somewhat. However, given the confluence of many inflationary factors, it is not clear that inflation would decline quickly as in the past, as risks of second-round effects are rising rapidly: non-food inflation has been increasing, market expectations of inflation have continued to worsen (see SIP), and staff estimates of inflation persistence and inflation diffusion have been rising steeply in recent months. At the same time, reserves declined in 2022, while the ECB raised policy rates (which may put some pressure on WAEMU, despite capital controls). Analytical work implemented by staff tends to show the need for some tightening to contain second round effects.

[7] FAD, in coordination with Afritac West, provided Technical Assistance to the WAEMU Commission in 2020 and 2021 aimed at advancing public financial management.



Sources: BCEAO; IMF staff calculations.



Sources: BCEAO; IMF World Economic Outlook Database.
Note: International food inflation starting from October 2022 is projected from the October 2022 World Economic Outlook.

27. Staff recommended further monetary tightening via higher policy rates, as the balance of risks is heavily tilted to the downside. This will ensure that inflation returns within the BCEAO's target range over a 24-month period and help prevent external buffers from falling below adequacy thresholds. The BCEAO should further tighten monetary policy rates unless downside risks to current baseline inflation and external buffer forecasts improve (Annex IV). As always, monetary policy would need to be data-dependent based on economic developments, relying on the factors discussed above, with particular attention to: regional food production in coming months, international food and energy price developments and prospects, non-food inflation in the WAEMU and its likelihood of becoming entrenched into second round effects, adverse reserves developments relative to baseline, market inflation expectations, and monetary policy in the EA. Other considerations should rely on monetary policy's signaling effect on domestic and international market players, the difficulty of maintaining price controls and subsidies (and more broadly possible delays in fiscal consolidation), and potential social unrest implications, as well as the need to contain the adverse effect of monetary policy tightening on the economic recovery.

28. Staff emphasized the importance of the right fiscal and monetary policy mix in maintaining external and domestic balance. The authorities should act timely to prevent a reserve decline to below adequate levels though additional fiscal consolidation, to help curb aggregate demand. At the same time, the potential inflationary impact of delayed fiscal consolidation would heighten the need for monetary tightening with adverse feedback effects on domestic spending and fiscal accounts, while fostering fiscal dominance. Continued divergence in economic performance, debt levels, and fiscal policies across the region is a potential cause for decreased efficiency of common policies, including monetary action, and for increased macroeconomic stability risks.

29. The BCEAO should preserve the FRFA procedure and make its collateral framework more risk sensitive. By guaranteeing adequate supply of liquidity, the FRFA implementation has enhanced monetary policy transmission by reducing the uncertainty around banks' access to refinancing and volatility of rates, mitigating the risk of overbidding and the liquidity premium. The BCEAO applies a uniform 10 percent haircut to all assets used as collateral for its refinancing operations, regardless of the underlying risk: staff highlighted that a greater differentiation based on credit and liquidity risks would help protect the BCEAO's balance sheet and promote fiscal discipline.

30. Recent SDR sales have brought the net SDR position of the region close to zero. In August and September 2022, the BCEAO sold SDR2,228 million of its SDR holdings on behalf of its members, against apportioned amounts of the hard currencies composing the SDR basket. Proceeds have been invested in the form of remunerated deposits in the original currency at major international institutions, thereby avoiding exchange rate risk from these transactions so far. As of end-November 2022, the net SDR regional position of the BCEAO recorded a small surplus close to 0 percent of regional GDP, suggesting that further SDR sales may expose the BCEAO's balance sheet to interest rate risks.

31. Safeguards assessment. The BCEAO has implemented all recommendations provided in the 2018 safeguards assessment. The assessment found that the BCEAO had broadly appropriate governance arrangements and a robust control environment. An update assessment of the BCEAO is planned for 2023.

Net SDR Holdings as of November 30, 2022

(millions of SDR, unless otherwise stated)

	July 31, 2022						Sales (Aug-Sep 2022)	November 30, 2022			
	Cummul. allocations		Holdings	Net Holdings				Holdings	Net Holdings		
	Total	o/w 2021 allocation		SDR Million	Percent of Quota	Percent of GDP			SDR Million	Percent of Quota	Percent of GDP
Benin	178	119	510	332	268.1	2.6	218	288	110	89.1	0.9
Burkina Faso	173	115	257	84	70.2	0.6	70	188	15	12.5	0.1
Côte d'Ivoire	934	623	1,572	637	98.0	1.3	600	963	28	4.4	0.1
Guinea-Bissau	41	27	58	18	62.1	1.5	-	58	17	61.4	1.5
Mali	268	179	543	275	147.2	2.0	260	283	15	8.0	0.1
Niger	189	126	403	214	162.8	2.0	200	201	12	9.1	0.1
Senegal	465	310	1,044	579	179.0	2.9	750	290	-175	-54.1	-0.9
Togo	211	141	351	140	95.0	2.3	130	219	8	5.3	0.1
WAEMU	2,459	1,641	4,738	2,279	133.1	1.8	2,228	2,490	31	1.8	0.0

Sources: IMF staff calculations.

Authorities' Views

32. The central bank agreed with IMF staff on the importance of containing second-round effects in the inflationary process and reserve losses, if necessary, by tightening monetary policy. The BCEAO agreed on the importance of maintaining a data dependent approach and stated its readiness to tighten if necessary. The central bank does not share the recommendation from IMF staff to preserve the FRFA procedure and considers that the authorities should feel free to use all available tools, including a flexible-rate fixed-quantity system to quickly adjust the amount of liquidity in the economy.

C. Fostering Financial Stability and Inclusion

33. An FSAP for the WAEMU, conducted in 2021 and completed in April 2022, found that while the banking sector appears resilient to shocks some banks remain insufficiently capitalized. Overall, the banking system appears resilient to economic growth and inflation shocks. However, some banks' capital buffers are not commensurate with factors amplifying credit risk, including exposure concentration and interbank linkages. Sovereign exposures have increased markedly in recent years and some banks are now also highly dependent on BCEAO refinancing. Bank regulation has been largely aligned with the Basel framework, supervision has become more risk oriented, and a new resolution framework is in the process of being operationalized. However, some banks' persistent non-compliance with solvency regulations is yet to be addressed decisively.

34. Staff advised the authorities to continue monitoring closely the evolution of bank soundness indicators. Banks' capital positions are weaker than appears from their increasing CAR—in the context of the transition to Basel II/III—as full provisioning of NPLs would mostly absorb existing Tier 1 capital buffers. This would curb banks' capacity to cope with risk amplifiers (e.g., concentration and contagion) and emerging risks (e.g., interest rate risk), particularly in light of the sovereign exposure of banks leveraged on BCEAO refinancing.

35. Liquidity risks are exacerbated by deposit concentration and possibly a limited interbank market. Banks' funding has been stable, but it is heavily skewed toward large depositors—with the five largest depositors on average holding 25 percent of deposits. This, together with the underdevelopment of the interbank market, elevates liquidity risks.

36. The mission stressed the importance of making the banking resolution framework fully operational. PRPs have been produced by all 34 banks of systemic importance (EBIS). Based on approved PRPs, the Banking Commission is expected to adopt resolution plans for all EBIS in 2023, a crucial step in operationalizing the banking resolution framework. Legislative measures required for the full operationalization of the resolution framework are considered in the new draft Banking law expected to be finalized in 2023.

37. Staff also encouraged the Banking Commission to take necessary actions for weak banks. The frequency and intensity of onsite supervision, particularly with respect to the inspection of banks' governance and risk management, should be strengthened. The Commission's toolkit includes various types of sanctions. Yet, it has not been sufficiently strict toward entities that violate prudential regulations over extended time periods, particularly in enforcing minimum capital requirements. The Commission started publishing sanctions on its new website in 2022 which should enhance their effectiveness.

38. Staff encouraged the introduction of "targeted" Pillar 2 capital surcharges and liquidity requirements for banks most exposed to concentration and liquidity risks. These risks, including those linked to sovereign exposures, should be covered by capital surcharges under Basel Pillar 2 to account for heterogeneity in banks' risk profiles. The timely introduction of the Basel III liquidity ratios will help banks internalize liquidity risks.

39. Supervisory independence should be enhanced. The principle of independence, which prohibits members of the Banking Commission from receiving instructions from external entities, including member states, should be explicitly enunciated in the Commission's Statute. In addition, maintaining the WAEMU's Council of Minister's appellate jurisdiction over the Banking Commission's decisions raises governance concerns. As per good practices, such decisions should only be appealed before the WAEMU's Court of Justice, which also has jurisdiction on these matters.

40. Staff emphasized the importance of introducing an emergency liquidity assistance scheme. This should be supported by appropriate risk-mitigation mechanism and usage conditions and would strengthen the BCEAO's ability to support solvent banks facing temporary liquidity issues.

41. The mission discussed new measures to mitigate the excessive reliance of some banks on BCEAO refinancing. Higher holdings of sovereign securities with rising maturities refinanced by the BCEAO are associated with increased maturity and interest rate mismatches and may reduce incentives for banks to implement adequate liquidity risk management and control. Staff encouraged the introduction of a requirement that banks very dependent on BCEAO refinancing should implement funding plans with a view to gradually reducing recourse to such refinancing.

42. Staff encouraged the authorities to strengthen the AML/CFT risk-based supervisory program further in line with the FSAP recommendations. The Banking Commission took and published sanctions against some financial institutions for failure to comply with AML/CFT obligations. A cartography of ML/TF risks is being finalized and a draft regional AML/CFT law aimed at ensuring greater compliance with the FATF recommendations is expected to be finalized in 2023.

43. Efforts to promote financial inclusion are welcome. Staff stressed the need for continued restructuring of the MFI sector, building on the BCEAO's missions to identify structural vulnerabilities (e.g. weak governance and data management). The mission also emphasized the importance of financial literacy to help alleviate issues such as over-indebtedness and fraud. Staff supported the BCEAO's plans to investigate the need for a CBDC—which could potentially promote financial inclusion, fintech, and digitalization—and to assess related risks (e.g., cybercrimes, money laundering, and terrorism financing).

44. Some progress is being made to increase the depth and liquidity of the secondary market for sovereign securities, but more efforts are needed to reduce the market's persistent fragmentation. The regional agency organizing sovereign security auctions (UMOA-Titres) has developed a draft plan to increase incentives for security dealers and made some progress toward developing an electronic trading platform. However, the issuance of benchmark securities has declined in 2022, with no significant progress towards greater fungibility between syndicated and auctioned securities.

45. Staff advised the authorities to adopt a comprehensive strategy to assess climate-related risks in the financial system. In the short term, the strategy should include raising supervisors' and financial institutions' awareness of the implications of climate-related shocks. Going forward, prudential expectations should be set by regulators to integrate climate-related risks into financial institutions' risk management systems and disclosure frameworks.

Authorities' Views

46. The authorities reiterated their appreciation for the 2021 FSAP and their commitment to follow up on its many helpful recommendations. They indicated that banks would continue to be encouraged to strengthen their capital buffers, including through dividend retention, beyond the CAR regulatory minimum of 11.5 percent to be enforced from 2023 onwards. The authorities also noted that the draft Banking Law under preparation enshrines the principle of independence of the Banking Commission, whose staffing has recently been strengthened. They indicated that a recent decision to autonomize the governance of the agency (DC/BR) acting as central depository for syndicated securities from that of the regional stock exchange (BRVM) could potentially offer some new institutional perspective towards reducing the segmentation of the sovereign security market. They are also exploring options to evaluate climate-related risks in the banking system, but limited availability of data poses a challenge.

D. Structural Policies: Supporting Medium- and Long-Term Growth

47. Regional structural reforms, including in the areas of energy, infrastructure, and food resilience, could boost the region's productive capacity, help counter potential scarring from the pandemic, and foster inclusive growth.

- The authorities have introduced plans to quadruple energy production to 25,000 MW by 2033. The plans are ambitious and could be expected to support growth over the long term, but details regarding financing and implementation are yet to be finalized.
- Given extensive needs in the region, infrastructure investments would boost the economy's supply side potential. To this end, the WAEMU Commission adopted a Regional Development Strategy in 2020 that runs through 2040. The authorities should ensure coordination of investments and pooling of resources, given the potential synergies from regional transportation, digital, and energy networks that would in turn promote trade and deepen regional integration.
- Russia's invasion in Ukraine has showcased the importance of increasing the resilience of food supply and reducing external food dependence, particularly given the comparative advantage of the region in agricultural products. The authorities should promote a broader diversification of agricultural products, as well as measures to increase agricultural productivity, to foster food security, strengthen the region's export base, and increase macroeconomic resilience.

48. Progress on improving regional integration remains limited despite ongoing efforts. While trade between WAEMU member states is free of customs duties, intra-regional trade remains limited due to a number of factors, including a lack of both harmonized customs documentation and regional supply chains. Free movement of labor across the region also faces obstacles, including due to misalignments in national labor market laws and governance. Efforts, including on reducing non-tariff barriers should be intensified. Implementation and improvements in the area of traceability of products, including with regard to forest degradation and child labor, would prevent risks of losing access to important markets for exports. Enhancing the regional competition framework could also support productivity growth.

Authorities' Views

49. The authorities reaffirmed their commitment to continue pushing the reform agenda further. This includes plans to raise funds from donors in 2023 for the regional development strategy, moving forward with the development of the legal and institutional framework for public-private partnerships in the WAEMU, and strengthening the governance of both the FAIR and the FRDA.

STAFF APPRAISAL

50. The WAEMU's economy has shown resilience, with recent global shocks moderately affecting the recovery, owing to supportive policies and a favorable initial macroeconomic environment. Economic prospects remain favorable in the medium term, with growth stabilizing around 6 percent.

51. However, global and regional risks are tilted to the downside. Economic prospects could be adversely impacted by a prolonged war in Ukraine, tightening global financial conditions, as well as a deterioration of the security and political situation in the region. Moreover, the recent increase in public debt—partly driven by higher spending to cope with global and domestic shocks—could impair debt sustainability in the absence of fiscal adjustment.

52. There is an urgent need to reintroduce the regional fiscal rules and adopt a credible medium-term fiscal framework to ensure fiscal sustainability and preserve external viability. The credibility of the fiscal strategy is being eroded, as fiscal consolidation is being repeatedly delayed, while a new Convergence Pact is yet to be re-instated. Public debt has increased by 12 percentage points of GDP since the pandemic, also on account of large extra-budgetary and below-the-line operations. These factors, along with limited progress in domestic revenue mobilization, are impairing debt sustainability and increasing risks for external and financial stability.

53. Any delay in the convergence of fiscal deficits to 3 percent of GDP should be limited to one year, justified, and supported by reasonable expected financing. Such justification could be based on exceptional spending needs. Additional financial needs arising from delayed consolidation should also be identified and adequately communicated. The composition of fiscal adjustment needs to remain conducive to inclusive and sustainable economic growth.

54. The Convergence Pact should be reintroduced and revamped with several supporting elements. The revised rules should include a credible fiscal correction mechanism in case of breaches of the fiscal deficit and/or debt ceiling. Preserving debt sustainability will also require controlling all debt-increasing factors, including extra-budgetary and below-the-line operations. There is also need for a credible enforcement mechanism as well as well-designed escape clauses.

55. Continued efforts to mobilize domestic revenues remain critical to finance social, development, and security spending. They would help member states create much-needed fiscal space, strengthen debt service capacity, and eventually establish buffers for unanticipated future needs, thereby paving the way to a more sustainable growth path.

56. Staff recommends further monetary tightening to ensure inflation returns within the BCEAO's target range over a 24-month period and to maintain external buffers above adequacy thresholds. Inflation is rising mainly driven by food inflation, affected by weather shocks and global pass-through from high prices. Reserves declined due to a wider current account deficit and more difficult access to international capital markets, in light of tightening global financial conditions. Amidst these developments, monetary policy should remain data dependent, and in staff's view, the BCEAO should further tighten unless downside risks to inflation and external buffers dissipate.

57. The right mix of fiscal and monetary policy remains important in maintaining external and domestic balance. WAEMU's external position in 2021 was assessed as broadly in line with the level implied by fundamentals and desirable policy setting, and monetary and fiscal policy normalization in the near term will support external sector stability. Erosion of external reserves below adequate levels would make monetary tightening more urgent, but also fiscal consolidation more important, to mitigate aggregate demand pressures. Moreover, the potential effect of delays in fiscal consolidation on inflation would call for monetary tightening.

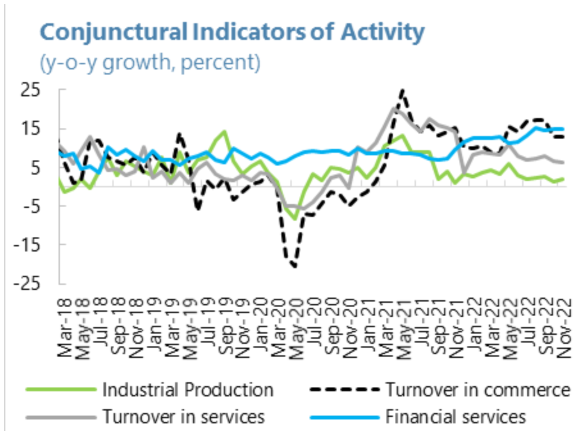
58. Although the WAEMU's financial sector has remained resilient to the pandemic shock and high inflation, it encompasses risks. Increased exposure of banks to sovereigns and refinancing from the BCEAO remains as an issue. Staff emphasizes the importance of efforts to finalize the bank resolution framework, introduce "targeted" Pillar 2 capital surcharges and liquidity requirements, enhance supervisory independence, and implement an emergency liquidity assistance scheme. Further efforts to increase the depth and liquidity of the secondary market for sovereign securities as well as addressing the market fragmentation are also needed. The staff also encourages the authorities to assess climate-related risks in the financial sector, as well as to enhance AML/CFT supervisory capacity and implement a fully risk-based approach to AML/CFT supervision in line with the FSAP recommendations.

59. Accelerating regional reforms and development projects is important. Structural reforms to boost productivity and private investment would help member states in their recovery, promote intra-regional transactions, and foster inclusive growth. Particularly important are the areas of energy, digital and physical infrastructure, and food resilience, with a call for increased coordination and pooled resources to implement regional development projects.

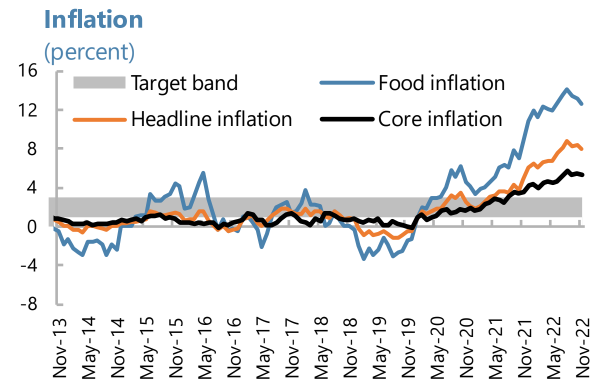
60. The discussions with the WAEMU authorities will be on the 12-month cycle in accordance with Decision No. 13656-(06/1), as amended.

Figure 1. WAEMU: Recent Economic Developments

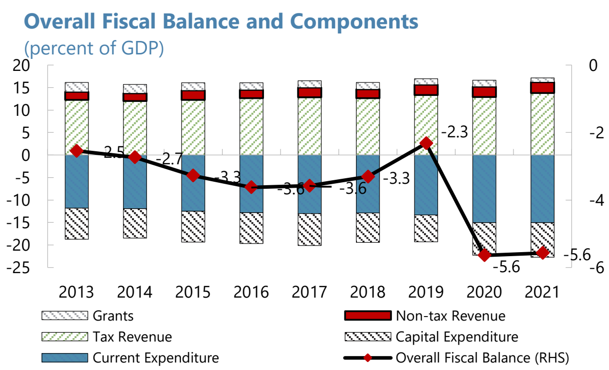
Activity indicators point to a continued recovery during 2022.



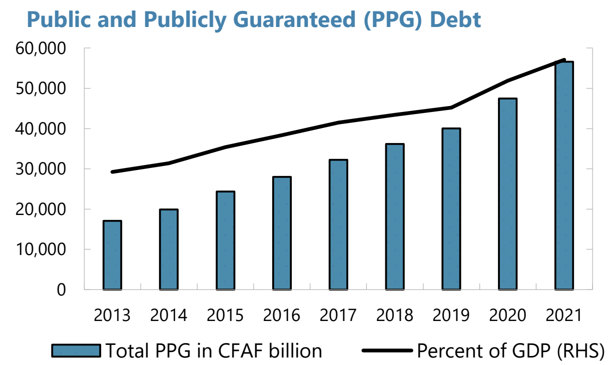
Inflation has been above the upper limit of the target band since April 2021, mainly driven by food prices.



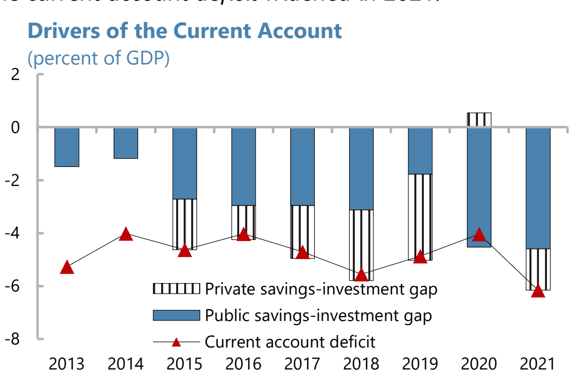
The fiscal deficit remained elevated in 2021…



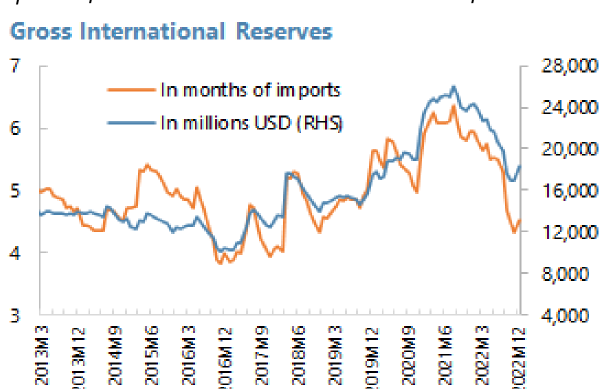
… and debt levels increased rapidly, despite the resilient growth during the pandemic..



The current account deficit widened in 2021.



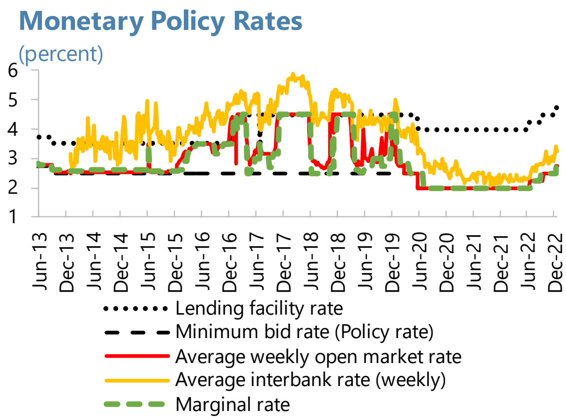
Reserves have declined since end-2021 on the back of weaker capital inflows and a wider current account deficit.



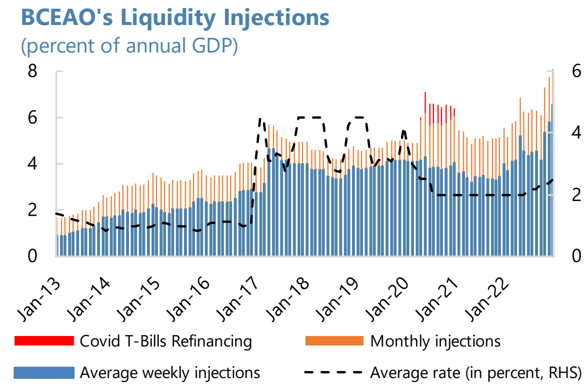
Sources: BCEAO, World Economic Outlook and IMF staff calculations.

Figure 2. WAEMU: Recent Monetary and Financial Sector Developments

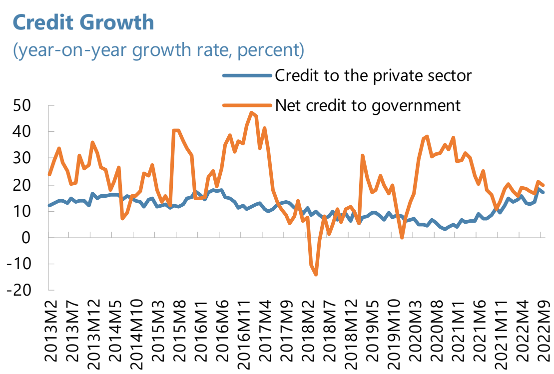
In response to a sustained rise in inflation BCEAO raised the policy rate three times by 0.25 bps since June 2022.



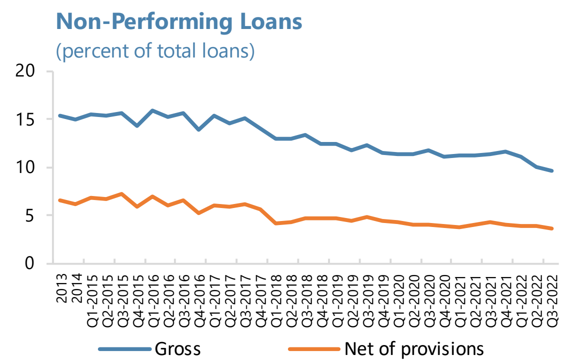
Banks' demand for BCEAO's liquidity is high.



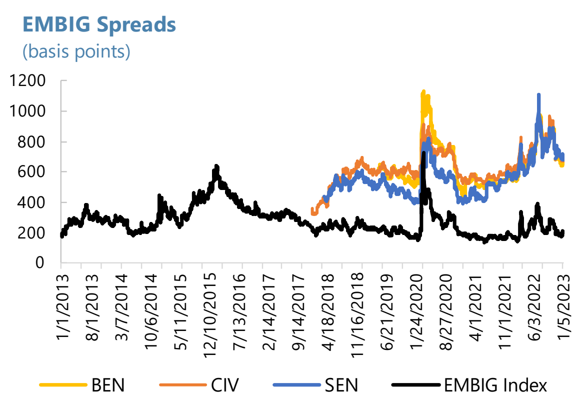
Bank credit to the private sector is robust in 2022…



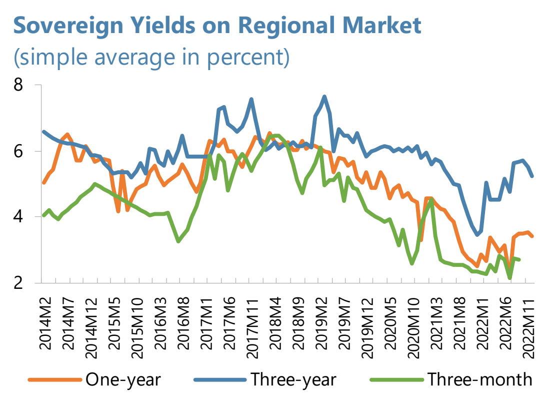
… and NPLs declined somewhat from pre-Covid levels.



EMBIG spreads on Euro-denominated Eurobonds issued by WAEMU sovereigns rose substantially in 2022.



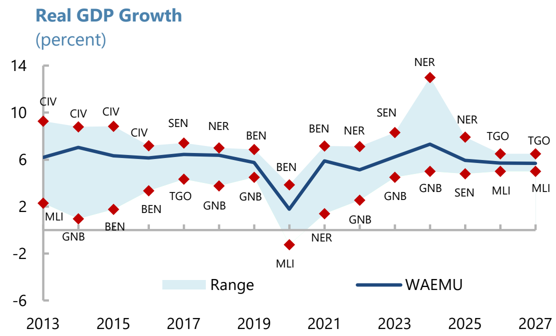
Domestic financial conditions have tightened somewhat in 2022 as global headwinds intensified.



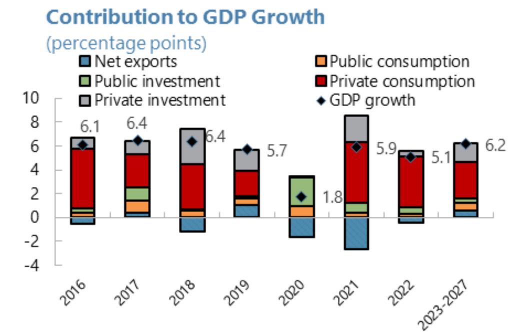
Sources: BCEAO; Agence UMOA-Titres; J.P. Morgan; and IMF staff calculations.

Figure 3. WAEMU: Medium-Term Prospects

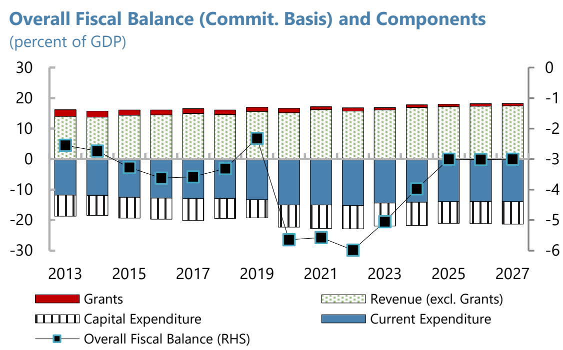
GDP growth is projected to converge back to around 6 percent in the medium-term…



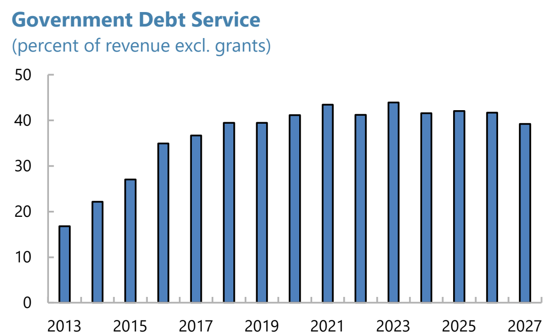
…, sustained by strong private consumption and investment.



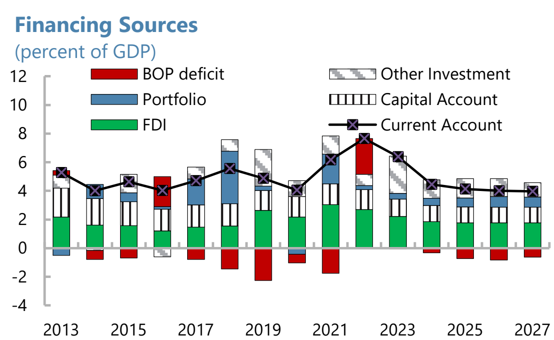
Consolidation towards the regional deficit ceiling is slated to start in 2023…



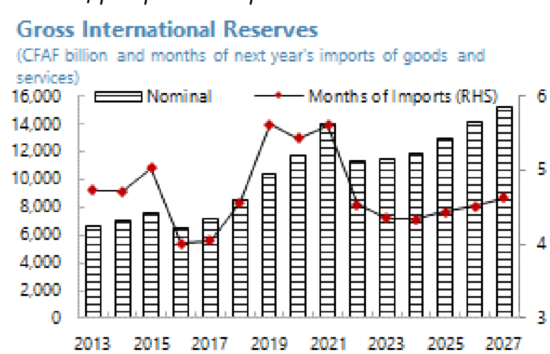
… gradually moderating the high debt service levels.



The current account deficit is expected to widen in 2022 before converging to around 4.0 percent of GDP…



…and reserves would eventually stabilize at about 4.6 months of prospective imports.

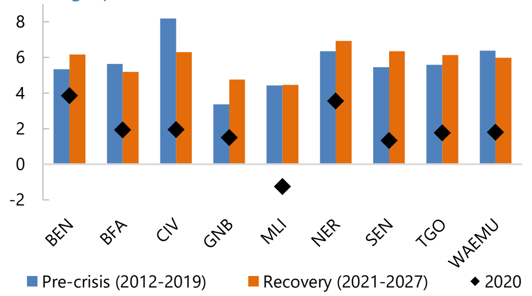


Sources: BCEAO; World Economic Outlook; and IMF staff calculations.

Figure 4. WAEMU: Regional Macroeconomic Heterogeneity

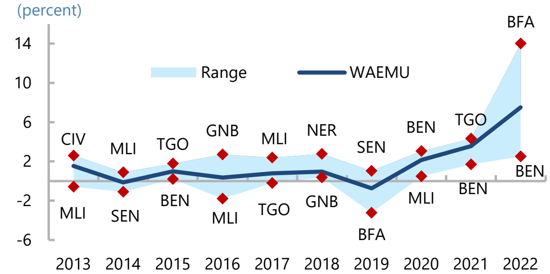
Most countries are expected to return to pre-pandemic growth rates.

Real GDP Growth
(average, percent)



Inflation dispersion has recently increased, along with rising average inflation rates.

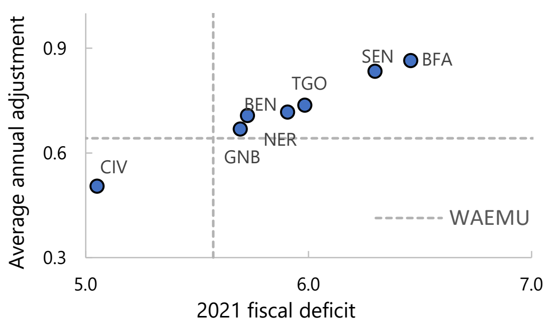
CPI Inflation
(percent)



Note: Forecast data shown for 2022.

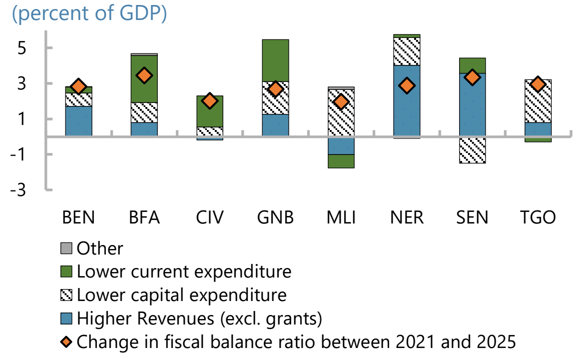
Fiscal adjustment is expected to be stronger in countries with initially higher fiscal deficits…

Average Annual Fiscal Deficit Adjustment between 2021 and 2025
(percent of GDP)



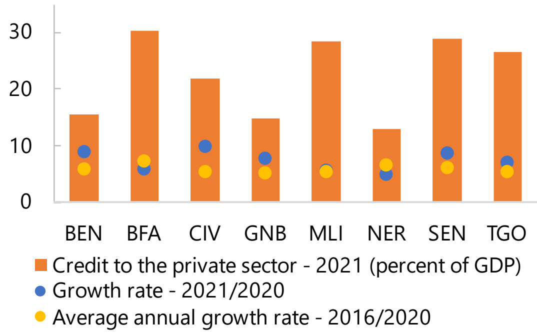
… and rely on a country-specific mix of expenditure rationalization and higher revenue mobilization (domestic and hydrocarbon-related).

Composition of Cumulative Fiscal Adjustment between 2021 and 2025
(percent of GDP)



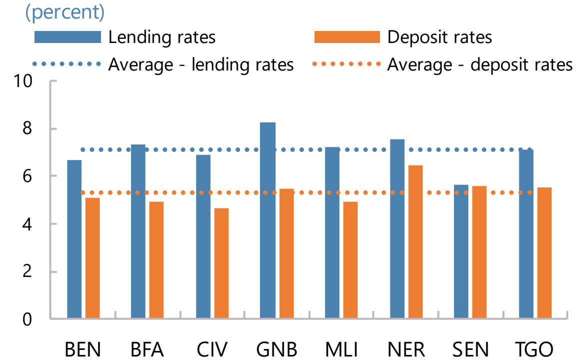
Significant heterogeneity in financial depth across countries points to no evident sign of convergence.

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 November 2022
(percent)



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

Table 1. WAEMU: Selected Economic and Social Indicators, 2019–27

Social Indicators

GDP		**Poverty (2019 or latest available)**	
Nominal GDP (2021, millions of US Dollars)	178,720	Headcount ratio at $1.90 a day (2011 PPP)	22.0
GDP per capita (2021, US Dollars)	1,322	Undernourishment (percent of population)	12.3
Population characteristics		**Inequality (2018 or latest available)**	
Total (2020, millions)	130.9	Income share held by highest 10 percent of population	31.1
Urban Population (2020, percent of total)	40.4	Income share held by lowest 20 percent of population	6.9
Life expectancy at birth (2020, years)	61.7	Gini index	39.1

Economic Indicators

	2019	2020	2021		2022		2023	2024	2025	2026	2027
			SM/22/9 [1]	Est.	SM/22/9 [1]	Proj.	Projected				
	(Annual percentage changes)										
National income and prices											
GDP at constant prices [2]	5.7	1.8	5.7	5.9	6.1	5.1	6.2	7.3	5.9	5.7	5.7
GDP per capita at constant prices	2.8	-1.0	2.8	3.0	3.1	2.2	3.3	4.4	3.0	2.8	2.8
Consumer prices (average)	-0.7	2.1	3.3	3.6	2.5	7.5	3.3	2.0	1.9	1.9	2.0
Terms of trade	-3.0	23.5	-3.1	-6.5	-1.7	-8.7	-0.5	1.2	0.1	-0.5	-0.2
Nominal effective exchange rate	-0.5	3.7	...	1.3	...	...	...	...	...	...	...
Real effective exchange rate	-3.7	3.7	...	1.1	...	...	...	...	...	...	...
	(Percent of GDP)										
National accounts											
Gross national savings	19.3	20.9	19.5	21.3	20.1	20.9	22.0	23.7	22.7	22.9	23.4
Gross domestic investment	24.3	24.9	25.4	27.4	25.9	29.0	29.0	28.7	27.4	27.4	27.8
Of which: public investment	6.1	7.0	7.5	7.3	7.8	7.6	7.7	7.7	6.9	7.0	7.0
	(Annual changes in percent of beginning-of-period broad money)										
Money and credit											
Net foreign assets	6.6	0.7	2.5	6.0	-0.1	-8.0	0.1	0.9	2.0	2.3	1.7
Net domestic assets	3.7	15.9	5.5	2.2	8.0	17.8	8.7	8.6	6.0	5.4	5.9
Broad money	10.3	16.5	8.0	8.1	8.0	9.9	8.8	9.5	8.0	7.7	7.7
Credit to the economy	4.2	4.1	2.6	0.6	2.5	12.2	1.4	4.1	3.7	3.2	3.9
	(Percent of GDP, unless otherwise indicated)										
Government financial operations											
Government total revenue, excl. grants	15.6	15.2	15.3	16.2	15.9	15.7	16.1	17.0	17.2	17.3	17.5
Government expenditure	19.7	22.8	22.9	23.3	22.4	23.4	22.6	22.3	21.5	21.6	21.8
Overall fiscal balance, excl. grants	-4.1	-7.6	-7.6	-7.1	-6.5	-7.6	-6.5	-5.3	-4.3	-4.3	-4.3
Overall fiscal balance, incl. grants	-2.3	-5.6	-5.9	-5.6	-4.7	-6.0	-5.0	-4.0	-3.0	-3.0	-3.0
External sector											
Exports of goods and services [3]	19.7	19.1	18.9	19.1	19.9	19.3	18.3	19.3	18.8	18.7	18.7
Imports of goods and services [3]	25.4	24.1	25.8	26.2	26.6	27.6	25.4	24.4	23.5	23.2	23.2
Current account, excl. grants	-6.0	-5.3	-6.8	-7.0	-6.8	-8.5	-7.1	-5.1	-4.8	-4.6	-4.6
Current account, incl. grants	-4.9	-4.0	-5.9	-6.2	-5.9	-7.7	-6.4	-4.4	-4.1	-4.0	-4.0
External public debt	30.4	33.7	36.4	36.5	35.1	34.6	32.9	30.8	29.2	27.8	26.9
Total public debt	45.2	51.9	55.6	57.1	55.5	56.8	56.6	54.9	53.1	51.5	50.4
Broad money	34.2	38.6	38.6	38.6	...	...	...	...	...	...	...
Memorandum items:											
Nominal GDP (billions of CFA francs)	88,607	91,608	98,891	99,054	106,762	108,834	118,459	129,680	140,050	150,824	162,363
Nominal GDP per capita (US dollars)	1,186	1,214	1,332	1,322	1,394	1,263	1,298	1,383	1,454	1,525	1,599
CFA franc per US dollars, average	585.9	574.8	...	554.2	...	...	...	...	...	...	...
Gross international reserves [4]											
In months of next year's imports (of goods and	5.6	5.4	5.8	5.6	5.5	4.5	4.4	4.3	4.4	4.5	4.6
In percent of current GDP	11.7	12.8	...	14.2	...	10.4	9.7	9.2	9.2	9.4	9.4
In percent of the BCEAO's sight liabilities	81.4	77.3	...	79.3	...	63.2	66.9	63.5	63.8	65.0	64.7
In millions of US dollars	17,547	21,764	24,228	24,194	24,898	18,490	17,938	18,668	20,373	22,531	24,130

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

All projections presented in this staff report were prepared in mid-December 2022 and do not incorporate any further developments.

[1] Shows data from the IMF Country Report No. 2022/067, issued in January 2022 (Board document number SM/22/9).

[2] The acceleration in GDP growth in 2023/24 is due to the start of production of large hydrocarbon projects in Niger and Senegal.

[3] Excluding intraregional trade.

[4] Data for 2021 includes 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, 2019–27

	2019	2020	2021	2022		2023	2024	2025	2026	2027
			Est.	SM/22/9 [1]	Proj.	Proj.				
	(Annual percentage changes)									
Real GDP										
Benin	6.9	3.8	7.2	6.0	5.7	6.2	6.0	6.0	6.0	6.0
Burkina Faso	5.7	1.9	6.9	5.6	3.6	4.8	5.2	5.2	5.3	5.3
Côte d'Ivoire	6.2	2.0	7.0	6.5	6.0	6.0	6.6	6.4	6.1	6.0
Guinea-Bissau	4.5	1.5	5.0	4.0	3.8	4.5	5.0	5.0	5.0	5.0
Mali	4.8	-1.2	3.1	5.3	2.5	5.3	5.3	5.0	5.0	5.0
Niger [2]	6.1	3.5	1.4	6.5	7.1	7.0	13.0	7.9	6.1	6.0
Senegal [2]	4.6	1.3	6.1	5.5	4.7	8.3	10.4	4.8	5.0	5.1
Togo	5.5	1.8	5.3	5.6	5.4	6.2	6.5	6.5	6.5	6.5
WAEMU	5.7	1.8	5.9	6.1	5.1	6.2	7.3	5.9	5.7	5.7
Real GDP per capita										
Benin	3.9	1.0	4.2	3.1	2.8	3.3	3.1	3.1	3.1	3.1
Burkina Faso	2.7	-1.0	3.9	2.6	0.7	1.9	2.2	2.2	2.3	2.3
Côte d'Ivoire	3.5	-0.6	4.3	3.8	3.3	3.3	3.9	3.7	3.4	3.3
Guinea-Bissau	2.3	-0.7	2.7	1.7	1.5	2.3	2.8	2.9	2.9	2.9
Mali	1.7	-4.1	0.0	2.2	-0.5	2.2	2.2	1.9	1.9	1.9
Niger	2.2	-0.3	-2.3	2.6	3.2	3.1	8.9	4.0	2.3	2.2
Senegal	1.8	-1.4	3.2	2.6	1.9	5.4	7.4	2.0	2.2	2.3
Togo	2.9	-0.7	2.7	3.0	2.9	3.6	3.9	3.9	3.9	3.9
WAEMU	2.8	-1.0	3.0	3.1	2.2	3.3	4.4	3.0	2.8	2.8
Inflation										
Benin	-0.9	3.0	1.7	1.8	2.5	3.0	2.0	2.0	2.0	2.0
Burkina Faso	-3.2	1.9	3.9	2.6	14.0	0.9	1.0	2.0	2.0	2.0
Côte d'Ivoire	0.8	2.4	4.2	2.2	5.5	4.1	1.8	1.7	1.7	2.0
Guinea-Bissau	0.3	1.5	3.3	2.0	7.8	5.0	3.0	2.0	2.0	2.0
Mali	-3.0	0.5	3.8	3.6	10.1	3.0	2.5	2.0	2.0	2.0
Niger	-2.5	2.9	3.8	2.5	4.5	3.0	2.5	2.0	2.0	2.0
Senegal	1.0	2.5	2.2	2.5	8.5	3.5	2.0	2.0	2.0	2.0
Togo	0.7	1.8	4.3	3.1	7.6	4.6	3.0	2.0	2.0	2.0
WAEMU	-0.7	2.1	3.6	2.5	7.5	3.3	2.0	1.9	1.9	2.0
	(Percent of GDP)									
Gross national savings										
Benin	21.6	23.9	24.5	24.2	22.6	23.1	22.8	22.8	23.0	22.5
Burkina Faso	23.4	28.0	25.8	20.2	23.8	23.4	28.2	25.7	26.5	26.7
Côte d'Ivoire	17.4	19.1	21.1	20.8	21.1	22.0	22.7	21.9	22.7	23.3
Guinea-Bissau	10.7	17.5	18.5	15.6	15.2	18.7	19.3	20.2	21.1	22.3
Mali	15.1	14.2	11.2	11.0	6.7	9.2	10.1	9.8	10.4	10.7
Niger [3]	17.9	18.0	17.7	17.5	19.9	20.3	27.2	24.7	23.7	24.0
Senegal	24.0	24.3	24.5	23.0	27.3	30.4	31.8	30.0	28.5	28.4
Togo	19.8	23.3	24.3	23.0	21.9	20.1	20.4	21.9	23.2	27.5
WAEMU	19.3	20.9	21.3	20.1	20.9	22.0	23.7	22.7	22.9	23.4
Gross domestic investment										
Benin	25.6	25.6	28.9	28.1	28.6	28.7	27.4	27.8	28.0	28.0
Burkina Faso	26.7	23.7	25.6	24.3	27.3	26.8	31.2	28.0	28.5	28.3
Côte d'Ivoire	20.1	22.1	24.5	24.6	27.0	27.5	27.7	26.2	26.7	27.2
Guinea-Bissau	19.2	20.2	21.6	19.8	21.7	23.4	23.9	24.4	25.2	26.3
Mali	22.5	16.5	21.2	14.5	14.6	16.3	16.5	16.0	16.2	16.5
Niger [3]	30.2	31.2	31.8	33.8	34.3	33.6	33.7	32.5	32.2	31.9
Senegal	32.0	35.2	37.8	32.4	43.0	41.4	36.6	34.5	33.3	33.6
Togo	20.5	23.6	26.2	26.6	26.7	25.8	24.5	25.1	25.4	29.0
WAEMU	24.3	24.9	27.4	25.9	29.0	29.0	28.7	27.4	27.4	27.8

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

[1] Shows data from the IMF Country Report No. 2022/067 issued in January 2022 (Board document number SM/22/9).

[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. WAEMU: Sub-Saharan Africa: Cross-Group Comparison, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Est.			Proj.			
	(Annual percentage changes)								
Real GDP									
WAEMU	5.7	1.8	5.9	5.1	6.2	7.3	5.9	5.7	5.7
CEMAC [1]	2.0	-1.5	1.5	3.8	3.4	3.0	3.6	3.4	3.9
Sub-Saharan Africa [2]	3.3	-1.6	4.7	3.6	3.7	4.1	4.2	4.3	4.4
Inflation (annual averages)									
WAEMU	-0.7	2.1	3.6	7.5	3.3	2.0	1.9	1.9	2.0
CEMAC [1]	1.6	2.7	1.5	4.5	3.3	2.9	2.5	2.5	2.4
Sub-Saharan Africa [2]	7.1	8.7	10.5	13.3	11.0	8.4	7.2	6.9	6.9
Terms of trade									
WAEMU	-3.0	23.5	-6.5	-8.7	-0.5	1.2	0.1	-0.5	-0.2
CEMAC [1]	9.8	-16.1	13.5	20.1	-8.6	-6.3	-3.4	-4.3	-2.4
Sub-Saharan Africa [2]	-2.1	3.4	6.9	0.5	-4.9	-2.2	-1.5	-1.1	-1.1
	(Percent of GDP, unless otherwise indicated)								
Gross national investment									
WAEMU	24.3	24.9	27.4	29.0	29.0	28.7	27.4	27.4	27.8
CEMAC [1]	20.8	19.4	19.5	20.0	22.2	23.4	24.6	25.4	25.9
Sub-Saharan Africa [2]	23.3	23.0	24.7	20.8	20.7	20.6	20.5	20.6	20.3
Overall fiscal balance, incl. grants									
WAEMU	-2.3	-5.6	-5.6	-6.0	-5.0	-4.0	-3.0	-3.0	-3.0
CEMAC [1]	-0.1	-2.0	-1.2	1.7	2.8	2.0	1.4	0.9	0.7
Sub-Saharan Africa [2]	-4.0	-6.5	-5.2	-4.6	-4.3	-4.3	-4.4	-4.5	-4.6
External current account, incl. grants									
WAEMU	-4.9	-4.0	-6.2	-7.7	-6.4	-4.4	-4.1	-4.0	-4.0
CEMAC [1]	-3.4	-4.5	-2.5	0.8	-1.0	-2.3	-3.2	-3.4	-3.4
Sub-Saharan Africa [2]	-3.4	-3.0	-1.1	-1.7	-2.6	-2.6	-2.5	-2.3	-2.1
Total public debt									
WAEMU	45.2	51.9	57.1	56.8	56.6	54.9	53.1	51.5	50.4
CEMAC [1]	54.3	62.7	57.6	48.7	47.5	45.7	43.9	42.0	39.1
Sub-Saharan Africa [2]	50.0	57.3	56.6	54.6	54.2	53.7	53.3	52.9	52.5

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, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Est.	Proj.					
	(Percent of GDP)								
Primary fiscal balance									
Benin	1.1	-2.7	-3.5	-3.6	-2.8	-1.3	-1.3	-1.3	-1.4
Burkina Faso	-1.9	-4.2	-4.6	-4.2	-3.4	-2.9	-1.6	-1.5	-1.6
Côte d'Ivoire	-0.8	-3.7	-3.0	-3.9	-3.2	-2.0	-0.8	-0.8	-0.8
Guinea-Bissau	-3.6	-7.4	-5.9	-4.5	-2.1	-1.5	-1.1	-1.1	-1.0
Mali	-0.7	-4.2	-3.6	-3.5	-2.9	-2.1	-1.1	-1.1	-1.1
Niger	-2.6	-3.8	-4.8	-5.7	-4.2	-2.9	-1.7	-1.7	-1.7
Senegal	-1.9	-4.4	-4.3	-3.9	-2.7	-1.8	-0.7	-0.7	-0.6
Togo	3.6	-4.6	-3.8	-3.7	-2.2	-1.0	-0.7	-0.7	-0.8
WAEMU	-0.8	-3.9	-3.7	-4.0	-3.1	-2.0	-1.0	-1.0	-1.0
Overall fiscal balance (including grants), commitment basis									
Benin	-0.5	-4.7	-5.7	-5.5	-4.3	-2.9	-2.9	-2.9	-2.9
Burkina Faso	-3.2	-5.7	-6.5	-6.0	-5.3	-4.3	-3.0	-3.0	-3.0
Côte d'Ivoire	-2.3	-5.6	-5.1	-6.2	-5.3	-4.2	-3.0	-3.0	-3.0
Guinea-Bissau	-3.9	-9.6	-5.7	-4.4	-4.0	-3.5	-3.0	-3.0	-3.0
Mali	-1.7	-5.4	-5.0	-5.0	-4.7	-4.0	-3.0	-3.0	-3.0
Niger	-3.6	-4.8	-5.9	-6.8	-5.3	-4.1	-3.0	-3.0	-3.0
Senegal	-3.9	-6.4	-6.3	-6.2	-4.9	-4.0	-3.0	-3.0	-3.0
Togo	1.6	-6.9	-6.0	-6.1	-4.6	-3.4	-3.0	-3.0	-3.1
WAEMU	-2.3	-5.6	-5.6	-6.0	-5.0	-4.0	-3.0	-3.0	-3.0
Government revenue (excluding grants)									
Benin	12.9	12.7	13.2	13.4	13.9	14.4	14.9	15.3	15.7
Burkina Faso	18.7	16.6	18.4	18.4	18.7	18.9	19.2	19.4	19.8
Côte d'Ivoire	14.2	14.4	15.3	14.3	14.4	15.2	15.1	15.1	15.1
Guinea-Bissau	12.1	11.4	13.0	12.7	13.8	14.1	14.2	14.1	14.3
Mali	19.6	19.5	21.5	19.1	20.0	20.3	20.5	20.7	21.0
Niger	11.2	10.8	10.8	11.7	12.8	14.8	14.9	15.0	15.2
Senegal	18.7	17.9	18.6	19.6	19.6	21.0	22.2	22.3	22.5
Togo	14.8	13.8	15.1	14.2	14.8	15.3	15.9	16.3	16.6
WAEMU	15.6	15.2	16.2	15.7	16.1	17.0	17.2	17.3	17.5
Government expenditure[1]									
Benin	14.6	19.1	19.9	19.8	19.3	18.4	18.8	19.1	19.5
Burkina Faso	23.2	25.4	27.5	27.0	25.9	24.8	23.6	23.7	24.2
Côte d'Ivoire	17.3	20.5	20.9	21.1	20.2	19.9	18.6	18.6	18.5
Guinea-Bissau	18.8	25.0	25.0	21.2	22.0	21.2	20.8	20.7	20.9
Mali	23.1	26.1	27.1	24.4	25.2	25.6	25.1	25.3	25.6
Niger	21.6	22.4	24.3	24.8	23.1	23.6	22.6	22.7	22.9
Senegal	24.2	26.6	25.7	27.2	26.2	26.4	26.4	26.5	26.7
Togo	16.0	23.1	23.0	24.4	22.5	20.6	20.8	21.3	21.5
WAEMU	19.7	22.8	23.3	23.4	22.6	22.3	21.5	21.6	21.8
Government current expenditure									
Benin	10.7	12.2	11.7	11.5	11.1	11.3	11.3	11.4	11.8
Burkina Faso	17.6	17.7	18.2	18.5	17.4	16.1	15.5	15.1	14.6
Côte d'Ivoire	13.0	15.1	15.3	14.5	13.4	13.2	13.5	13.5	13.5
Guinea-Bissau	14.4	16.4	15.7	14.1	13.9	13.5	13.4	13.3	13.2
Mali	12.6	15.6	16.0	16.4	16.6	16.8	16.8	16.8	16.8
Niger	9.6	10.3	10.7	11.0	10.2	10.7	10.5	10.6	10.7
Senegal	15.7	17.2	16.6	19.2	18.2	16.9	15.7	15.8	15.9
Togo	13.0	14.1	13.7	13.9	13.9	13.8	14.0	14.1	14.2
WAEMU	13.3	15.0	15.1	15.2	14.4	14.1	13.9	13.9	13.9
Government capital expenditure									
Benin	3.9	6.9	8.2	8.3	8.3	7.1	7.4	7.7	7.6
Burkina Faso	5.9	7.8	9.2	8.7	8.5	8.6	8.0	8.6	9.6
Côte d'Ivoire	4.4	5.4	5.6	6.7	6.8	6.7	5.0	5.1	5.0
Guinea-Bissau	4.4	8.6	9.3	7.2	8.1	7.7	7.5	7.5	7.7
Mali	6.5	6.1	6.1	3.1	3.6	3.9	3.4	3.6	3.9
Niger	12.0	12.1	13.1	13.2	11.6	13.0	12.2	12.2	12.3
Senegal	8.5	9.3	9.2	8.0	8.0	9.5	10.7	10.7	10.8
Togo	3.1	9.0	9.3	10.5	8.6	6.8	6.9	7.2	7.3
WAEMU	6.0	7.3	7.7	7.6	7.5	7.7	7.1	7.2	7.4

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, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Est.			Proj.			
				(Percent of GDP)					
Balance on current account	-4.9	-4.0	-6.2	-7.7	-6.4	-4.4	-4.1	-4.0	-4.0
Excluding official transfers	-6.0	-5.3	-7.0	-8.5	-7.1	-5.1	-4.8	-4.6	-4.6
Balance on goods and services	-5.7	-5.1	-7.0	-8.3	-7.1	-5.1	-4.7	-4.6	-4.5
Exports of goods and services [1]	23.4	23.0	23.9	23.9	22.6	23.4	22.9	22.7	22.5
Exports of goods	19.9	20.0	20.9	21.0	19.7	20.5	19.9	19.6	19.6
Exports of services	3.5	3.0	3.0	2.9	2.9	2.9	2.9	3.0	3.0
Imports of goods and services [1]	-29.2	-28.0	-30.9	-32.2	-29.7	-28.5	-27.5	-27.2	-27.0
Imports of goods	-21.6	-20.2	-22.6	-24.5	-22.4	-21.3	-20.5	-20.2	-20.1
Imports of services	-7.6	-7.8	-8.3	-7.8	-7.3	-7.2	-7.0	-7.0	-6.9
Income, net	-2.5	-2.5	-2.4	-2.2	-2.0	-2.0	-2.0	-1.9	-1.9
Income credits	1.2	1.2	1.2	1.1	1.0	1.0	1.0	1.0	0.9
Income debits	-3.6	-3.7	-3.6	-3.3	-3.0	-2.9	-2.9	-2.9	-2.9
Of which									
Investment income, debit: interest	-0.8	-0.7	-0.8	-0.7	-0.7	-0.6	-0.6	-0.6	-0.6
Current transfers, net	3.3	3.5	3.3	2.9	2.7	2.6	2.5	2.5	2.4
Private current transfers, net	2.2	2.3	2.4	2.0	2.0	1.9	1.9	1.9	1.9
Official current transfers, net	1.2	1.3	0.9	0.9	0.7	0.7	0.6	0.6	0.6
Balance on capital and financial account	7.0	4.1	7.1	5.2	6.4	4.8	4.8	4.8	4.6
Balance on capital account	1.4	1.4	1.4	1.4	1.2	1.1	1.1	1.1	1.1
Balance on financial account	5.6	2.6	5.6	3.8	5.2	3.7	3.7	3.8	3.5
Direct investment, net	2.6	2.2	3.0	2.7	2.2	1.9	1.8	1.8	1.8
Portfolio and other investments, net	2.9	0.4	2.6	1.1	3.0	1.8	2.0	2.0	1.7
Errors and omissions, net	0.1	-1.5	-1.4	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	2.0	1.5	2.3	-2.5	0.0	0.3	0.7	0.8	0.6
Change in official NFA ("-" increase)	-2.0	-1.5	-2.3	2.5	0.0	-0.3	-0.7	-0.8	-0.6
of which: Change in NIR [2]	-2.0	-1.5	-3.6	2.5	0.0	-0.3	-0.7	-0.8	-0.6

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, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Est.	Proj.					
	(Percent of GDP)								
External Debt									
Benin	25.3	28.4	36.5	40.7	41.2	40.5	41.3	39.1	37.1
Burkina Faso	25.1	25.2	28.0	31.1	29.9	29.4	28.3	27.3	26.6
Côte d'Ivoire	27.5	32.0	34.8	32.7	31.1	29.3	27.8	27.2	26.7
Guinea-Bissau	36.5	40.4	40.1	43.8	41.5	39.2	36.4	33.7	31.5
Mali	26.7	29.8	29.2	29.3	28.0	27.1	26.5	26.0	25.5
Niger	26.5	31.6	33.5	37.2	36.7	33.9	32.1	31.1	30.3
Senegal	52.6	54.4	57.1	58.2	54.4	49.8	46.4	43.4	40.8
Togo	17.8	26.5	26.5	28.0	26.7	25.2	23.8	22.4	21.5
WAEMU	30.4	33.7	36.5	34.6	32.9	30.8	29.2	27.8	26.9
Domestic Debt									
Benin	16.0	17.7	13.5	14.1	14.4	13.9	11.1	11.5	11.9
Burkina Faso	19.6	24.2	25.9	30.5	31.4	31.1	30.8	30.6	30.3
Côte d'Ivoire	12.9	17.1	20.5	21.4	23.4	24.4	24.5	23.8	23.1
Guinea-Bissau	27.5	36.1	38.4	38.3	38.8	38.5	38.4	38.3	38.3
Mali	14.1	17.5	22.7	26.6	27.8	28.2	27.8	27.4	27.1
Niger	13.3	13.4	17.8	19.4	20.9	20.2	19.9	19.9	19.9
Senegal	11.0	14.8	16.1	16.8	19.3	19.7	21.0	21.9	22.4
Togo	34.6	33.7	37.2	38.0	38.7	38.2	37.4	36.7	36.0
WAEMU	14.9	18.1	20.7	22.2	23.8	24.1	23.9	23.7	23.5
Total Debt									
Benin	41.2	46.1	49.9	54.8	55.6	54.3	52.4	50.6	49.0
Burkina Faso	44.7	49.4	53.9	61.6	61.3	60.5	59.1	57.8	56.9
Côte d'Ivoire	40.4	49.1	55.3	54.1	54.5	53.7	52.3	51.0	49.9
Guinea-Bissau	64.0	76.5	78.5	82.0	80.3	77.7	74.8	72.0	69.7
Mali	40.7	47.3	51.9	55.9	55.8	55.3	54.3	53.4	52.7
Niger	39.8	45.0	51.3	56.6	57.6	54.1	52.1	51.1	50.2
Senegal	63.6	69.2	73.2	75.1	73.7	69.5	67.4	65.3	63.2
Togo	52.4	60.3	63.7	66.1	65.4	63.4	61.2	59.2	57.5
WAEMU	45.2	51.9	57.1	56.8	56.6	54.9	53.1	51.5	50.4
	(Percent of government revenue excluding grants)								
Total debt service									
Benin	48.8	49.6	94.1	34.1	37.1	34.3	39.8	30.8	36.3
Burkina Faso	40.3	48.3	48.5	45.8	46.9	47.0	44.8	41.8	11.7
Côte d'Ivoire	38.0	35.6	34.8	38.5	36.8	36.1	37.3	35.9	34.2
Guinea-Bissau	68.8	78.6	101.4	69.2	58.7	51.0	59.8	82.6	91.5
Mali	26.1	32.5	26.2	35.2	45.9	47.7	50.1	52.7	49.0
Niger	72.8	75.1	65.9	65.0	72.6	71.3	75.1	74.5	74.7
Senegal	29.2	34.2	35.7	35.9	39.7	31.5	29.6	31.9	38.5
Togo	66.4	55.4	58.5	68.1	72.6	60.9	52.1	58.2	57.4
WAEMU	39.5	41.1	43.5	41.2	43.9	41.6	42.0	41.7	39.2
Debt service, interest									
Benin	13.9	13.0	16.9	10.0	10.8	11.2	10.5	10.2	9.6
Burkina Faso	5.5	6.7	10.4	6.0	6.3	7.1	7.3	7.4	7.1
Côte d'Ivoire	11.0	13.2	11.9	13.3	12.6	12.1	12.0	11.5	10.8
Guinea-Bissau	8.7	13.3	12.5	11.2	14.3	14.2	13.2	13.4	13.9
Mali	4.9	6.2	5.6	7.7	8.8	9.4	9.9	9.7	9.8
Niger	8.8	9.7	10.4	9.9	8.9	8.3	8.9	9.2	9.0
Senegal	10.2	11.5	10.7	11.4	11.3	10.4	10.1	10.3	10.6
Togo	13.8	17.4	15.2	17.9	16.2	15.5	14.4	13.5	13.0
WAEMU	9.5	11.1	11.1	11.0	10.9	10.6	10.6	10.4	10.1

Source: IMF, African Department database.

Note: Coverage of public debt differs across the WAEMU member states.

Table 7. WAEMU: Monetary Survey, 2019–27

	2019	2020	2021	2022	2023	2024	2025	2026	2027
			Est.			Proj.			
					(Billions of CFA francs)				
Net foreign assets	6,945	7,147	9,259	6,133	6,177	6,597	7,604	8,862	9,869
of which:									
BCEAO	7,927	8,082	10,390	7,673	7,717	8,137	9,144	10,402	11,409
Commercial Banks	-981	-934	-1,132	-1,540	-1,540	-1,540	-1,540	-1,540	-1,540
Net domestic assets	23,387	28,198	28,960	35,859	39,528	43,437	46,432	49,331	52,776
Domestic credit	30,586	36,061	36,972	43,972	47,541	51,450	54,445	57,344	60,788
Net credit to government	8,147	12,376	13,087	15,324	18,307	20,327	21,477	22,632	23,789
Credit to the economy	22,439	23,684	23,885	28,648	29,233	31,123	32,967	34,712	36,999
Of which private sector	20,492	21,561	21,260	25,499	26,020	27,702	29,344	30,896	32,932
Other items, net	-7,198	-7,863	-8,013	-8,113	-8,013	-8,013	-8,013	-8,013	-8,013
Broad Money	30,333	35,346	38,218	41,992	45,705	50,035	54,036	58,193	62,645
Money	19,902	24,057	...	...	...	...	...	...	...
of which: Currency in circulation	6,971	8,359	...	...	...	...	...	...	...
Quasi-money	10,431	11,289	...	...	...	...	...	...	...
					(Annual changes in beginning of period broad money)				
Net foreign assets	6.6	0.7	6.0	-8.2	0.1	0.9	2.0	2.3	1.7
Net domestic assets	3.7	15.9	2.2	18.1	8.7	8.6	6.0	5.4	5.9
Domestic credit	4.2	18.0	2.6	18.3	8.5	8.6	6.0	5.4	5.9
Net credit to government	0.0	13.9	2.0	5.9	7.1	4.4	2.3	2.1	2.0
Net credit to the economy	4.2	4.1	0.6	12.5	1.4	4.1	3.7	3.2	3.9
Of which private sector	5.6	3.5	-0.9	11.1	1.2	3.7	3.3	2.9	3.5
Other items, net	-0.4	-2.2	-0.4	-0.3	0.2	0.0	0.0	0.0	0.0
Broad Money	10.3	16.5	8.1	9.9	8.8	9.5	8.0	7.7	7.7
					(Year on year percent changes)				
Net foreign assets	35.3	2.9	29.5	-33.8	0.7	6.8	15.3	16.5	11.4
Net domestic assets	4.6	20.6	2.7	23.8	10.2	9.9	6.9	6.2	7.0
Domestic credit	3.9	17.9	2.5	18.9	8.1	8.2	5.8	5.3	6.0
Net credit to government	0.1	51.9	5.7	17.1	19.5	11.0	5.7	5.4	5.1
Net credit to the economy	5.4	5.6	0.8	19.9	2.0	6.5	5.9	5.3	6.6
Of which private sector	8.2	5.2	-1.4	19.9	2.0	6.5	5.9	5.3	6.6
Other items, net	1.7	9.2	1.9	1.2	-1.2	0.0	0.0	0.0	0.0
Broad Money	10.3	16.5	8.1	9.9	8.8	9.5	8.0	7.7	7.7
Memorandum items:									
Change in net credit to government									
In CFAF billion	4	4,229	711	2,237	2,983	2,020	1,150	1,154	1,157
In percent of current GDP	0.0	4.6	0.7	2.1	2.5	1.6	0.8	0.8	0.7

Sources: BCEAO; and IMF staff calculations.

Table 8. WAEMU: Financial Soundness Indicators, 2016–22

	2016	2017	2018 [1]	2019	2020	2021	2022
	December						June
	(Percent, unless otherwise indicated)						
Solvency ratios							
Regulatory capital to risk weighted assets	11.3	11.7	10.5	11.5	12.4	12.6	12.5
Tier I capital to risk-weighted assets	10.3	10.8	9.7	10.6	11.4	11.8	11.9
Provisions to risk-weighted assets	10.1	9.8	7.5	7.6	7.4	6.7	6.3
Capital to total assets	5.8	6.3	6.8	6.6	7.0	6.8	6.7
Composition and quality of assets							
Total loans to total assets	52.2	54.1	55.7	56.2	52.3	50.0	50.3
Concentration: loans to 5 largest borrowers to capital	101.9	89.8	82.6	86.1	72.0	80.5	79.4
Sectoral distribution of loans							
Agriculture	3.2	3.9	4.6	3.0	3.0	3.1	3.4
Extractive industries	1.6	1.5	1.7	1.7	1.8	1.8	2.0
Manufacturing	15.5	16.2	15.1	14.3	13.0	12.0	12.1
Electricity, water and gas	4.9	5.6	5.6	4.6	4.7	5.5	5.1
Construction	10.8	9.8	10.6	11.2	10.2	10.7	10.0
Retail and wholesale trade, restaurants and hotels	26.7	26.8	27.7	25.9	26.5	26.7	26.6
Transportation and communication	9.9	11.6	10.5	11.3	10.8	9.5	9.2
Insurance, real estate and services	7.2	7.2	6.8	7.2	8.4	8.4	8.3
Other services	20.1	17.4	17.5	20.8	21.7	22.4	23.2
Gross NPLs to total loans	13.8	13.9	12.4	11.4	11.0	10.3	9.9
Provisioning rate	65.5	63.6	65.3	63.3	67.2	65.1	64.0
Net NPLs to total loans	5.2	5.5	4.7	4.5	3.9	3.9	3.8
Net NPLs to capital	47.2	48.0	38.2	38.3	29.0	28.4	28.5
Earnings and profitability							
Average cost of borrowed funds	2.9	2.5	2.4	0.7	0.9	2.0	…
Average interest rate on loans	9.8	8.4	7.6	7.1	7.6	6.9	…
Average interest margin	6.9	5.9	5.2	6.4	6.7	4.9	…
After-tax return on average assets (ROA)	1.3	1.3	1.2	1.3	1.2	1.5	…
After-tax return on average equity (ROE)	20.2	17.6	14.6	15.3	13.9	17.4	…
Noninterest expenses to net banking income	58.5	58.3	60.5	58.9	58.1	55.2	…
Salaries and wages to net banking income	25.6	25.0	25.9	24.8	25.1	23.9	…
Liquidity							
Liquid assets to total assets	27.1	27.3	27.8	26.0	24.4	23.1	23.2
Liquid assets to total deposits	42.3	42.3	42.4	38.7	35.5	32.8	33.0
Total loans to total deposits	89.5	92.0	92.2	90.2	82.2	76.3	76.5
Total deposits to total liabilities	64.1	64.5	65.7	67.1	68.7	70.3	70.3
Sight deposits to total liabilities	34.4	34.7	35.1	35.8	37.1	39.2	39.0
Term deposits to total liabilities	29.7	29.8	30.6	31.4	31.5	31.1	31.2

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. Authorities Responses to the 2021 Policy Recommendations

	2021 Regional Discussions Recommendations	Authorities' Responses
Fiscal policy coordination	– Converge towards a regional fiscal deficit anchor of 3 percent of GDP by 2024 to preserve domestic and external stability. – Reintroduce the WAEMU's Convergence Pact would strengthen the credibility of the medium-term adjustment path. – Implement PFM reforms to contain extra-budgetary and below-the-line operations (stock flow adjustments, SFAs).	**Partially consistent** – Bringing the fiscal deficit to 3 percent of GDP by 2024 looks challenging for some WAEMU countries. Deficits remained elevated in 2022, due to efforts to limit food and energy price increases and their economic and social impact in response to new global shocks, as well as the need to address security concerns. – The WAEMU Commission is working on submitting a proposal for a renewed Convergence Pact to the WAEMU Council of Ministers in coming months. – The pace of PFM reform has differed among WAEMU countries, and SFAs averaged 2.5 percent of GDP a year in 2020-2021.
Monetary policy	– The BCEAO should stand ready to tighten if the external position weakens or inflation forecasts durably exceed the ceiling of the target band.	**Broadly consistent** – The BCEAO increased its policy rate three times by 25bps in June, September and December 2022 to anchor inflation expectations against the background of rising inflation and declining external reserves.
Financial regulation and supervision	– The bank resolution framework should be fully made operational and effective to ensure that nonviable banks can be promptly intervened and resolved. – Structural weaknesses in the MFIs should be better understood and addressed.	**Partially consistent** – All national and regional systemic banks submitted preventive restructuring plans and the Resolution College of the Banking Commission has started to adopt Resolution Plans for some of these banks. – The BCEAO has conducted diagnostic missions that helped identify sources of vulnerabilities in the weakest MFIs and proposed specific solutions.
Financial sector	– Improve depth and liquidity of the secondary sovereign security market with a view to mitigating market segmentation between syndication and auction modes of issuance.	**Partially consistent** – The market remains segmented by mode of issuance, but the volume of secondary market transactions increased (albeit from a very low base) by 71 and 50 percent in 2020 and 2021 respectively.
Structural reforms	– Promote regional integration through fostering trade, enhancing competition, and developing cross-border infrastructure.	**Partially consistent** – The WAEMU Commission has continued to develop its Regional Development Strategy that runs through 2040. The Commission has also intensified monitoring and is ramping up digitalization of trade processes to reduce the effect of non-tariff barriers on trade.

Annex II. Risk Assessment Matrix[1]

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
		Global	
Intensifying spillovers from Russia's war in Ukraine. Further sanctions resulting from the war and related uncertainties exacerbate trade and financial disruptions and commodity price volatility, with Europe, LICs, and commodity-importing EMs among the worst hit.	**High**	**High** Food and fuel import price volatility weaken the external position of the union. Food security may worsen for vulnerable households, with implications for social unrest and security.	Strengthen automatic passthrough of global commodity price changes, notably in the energy sector, provide targeted support to the vulnerable, and ensure food supply resilience through forward-looking planning.
Commodity price shocks. A combination of continuing supply disruptions (e.g., due to conflicts and export restrictions) and negative demand shocks causes recurrent commodity price volatility and social and economic instability.	**High**	**High** 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.
Systemic social unrest. Rising inflation, declining incomes, and worsening inequality amplify social unrest and political instability, causing capital outflows from EMDEs, slowing economic growth, and giving rise to economically damaging populist policies (e.g., preserving fossil fuel subsidies).	**High**	**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.	Ensure transparency and effectiveness of fiscal measures and social spending. Improve spending efficiency, mitigate corruption, and reprioritize spending to enhance social safety nets.
De-anchoring of inflation expectations and stagflation. Supply shocks to food and energy prices sharply increase headline inflation and pass through to core inflation, de-anchoring inflation expectations and triggering a wage-price spiral in tight labor markets. Central banks tighten monetary policy more than envisaged leading to weaker global demand, currency depreciations in EMDEs, and sovereign defaults. Together, this could lead to the onset of stagflation.	**Medium**	**Medium** Tightening global financial conditions and spiking risk premia would raise borrowing costs and increase debt vulnerabilities, with knock-on effects on growth. These effects could result in financial difficulties for SMEs and state-owned enterprises, as well as disrupt progress on increasing financial access and deepening. Persistently high global inflation could affect food security, exacerbating poverty.	Tighten monetary policy, as needed, to anchor expectations and 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.
Abrupt global slowdown or recession. Global and idiosyncratic risk factors combine to cause a synchronized sharp growth slowdown, with outright recessions in some countries, spillovers through trade and financial channels, and downward pressures on some commodity prices.	**Medium**	**Medium** Slowdown in trading partners will impact exports and imports, including a reduction in demand for commodity exports. Recession in Europe will depreciate the Euro, and hence the CFA.	Continue using countercyclical fiscal policy (where fiscal space is adequate) in the short term, and strengthen fiscal and external resilience while promoting growth-oriented policies in the medium term.

[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.

Source of Risks	Likelihood	Expected Impact if Realized	Recommended Policy Response
Local Covid-19 outbreaks. Outbreaks in slow-to-vaccinate countries or emergence of more contagious vaccine-resistant variants force new lockdowns or inhibit commerce. This results in extended supply chain disruptions, slower growth, capital outflows, and debt distress in some EMDEs.	**Medium**	**Low** Limited access to, and longer-than-expected deployment of vaccines, combined with dwindling policy space, could trigger capital outflows, impact debt sustainability and lead to reassessment of growth prospects. Effects could be large given health system weaknesses in the WAEMU.	Prioritize spending and target support to vulnerable households. Mobilize greater donor support to accelerate vaccine rollout. Ramp up domestic campaigns to address vaccine hesitancy.
Deepening geo-economic fragmentation and geopolitical tensions. Broadening of conflicts and reduced international cooperation accelerate deglobalization, resulting in a reconfiguration of trade, supply disruptions, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial system, and lower potential growth.	**High**	**High** Trade restructuring and deglobalization may reduce imports and exports, increasing costs for imported goods and capital and affecting growth. Access to international capital markets may fragment, with stability and growth implications in the medium to long term.	Boost the resilience of the economy and key supply chains, including through diversification.
Natural disasters related to climate change. More frequent natural disasters deal severe damage to infrastructure (especially in smaller vulnerable economies) and amplify supply chain disruptions and inflationary pressures, causing water and food shortages and reducing medium-term growth.	**Medium**	**High** Climate shocks and adverse weather conditions could negatively affect agricultural output and exports, increase subsidy needs, and reduce living standards.	Invest in climate adaptation and improve shock response mechanisms to cope with floods and droughts. Enhance food security, including through irrigation and productivity in agriculture. Mitigate the impact on the poor through targeted fiscal transfers and other types of public spending.
Regional			
Intensified security risks, including due to regional spillovers.	**Medium**	**High** Intensification or contagion of security shocks could have large adverse effects on investment, 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, but consistent with fiscal stability. 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 and/or Senegal.	**Medium**	**Medium** Delays in hydrocarbon projects or revised reserve estimations relative to the baseline would weaken the current account as well as external and fiscal buffers in the medium term.	Adjust fiscal plans, improve spending quality and step-up structural reforms to improve competitiveness and foster private sector development in non-extractive sectors.

Annex III. External Sector Assessment[1]

***Overall Assessment**: WAEMU's external position in 2021 was broadly in line with the level implied by fundamentals and desirable policy settings, based on the results of the IMF's EBA-lite current account model.[2] The current account (CA) deficit, which is estimated to have widened in 2021, is projected to expand further in 2022 reflecting an increase in imports caused by higher food and commodity prices and a deteriorating fiscal position. The level of reserves is borderline within the range suggested by reserve adequacy metrics using end-2021 data and risks further deterioration in 2022-2023.*

***Potential Policy Responses:** In 2022-23, tailor monetary and fiscal policy normalizations to maintain external sector and macroeconomic stability. Over the medium term, a fiscal consolidation based on an updated set of fiscal rules for the WAEMU and the implementation of structural reforms—including at the regional level—will be key to supporting the external position.*

A. Net International Position

1. 2020-21 position. The WAEMU's NIIP deteriorated to -44.9 percent of GDP at end-December 2020 (latest data point), from -42.9 percent at end December 2019. This trend was largely driven by an increase in external debt, to 32.2 percent in 2020 from to 29.5 percent of GDP in 2019. Gross external assets stood at 38.1 percent of GDP and gross external liabilities at 83.0 percent of GDP at end-December 2020. The deterioration of the current account (CA) deficit in 2021 to -6.2 percent of GDP (from -4.0 percent of GDP in 2020) and the corresponding increase in inward capital flows to 5.6 percent of GDP (from 2.6 percent of GDP in 2020) are likely to have decreased the NIIP ratio further.

2. Outlook. The deterioration in the CA deficit projected for 2022 is expected to worsen the NIIP ratio, which will likely continue into 2023 as the weakness in the CA is expected to linger, though less than in 2022. Looking ahead, projected current account deficits over the medium term will further deteriorate the NIIP. Foreign direct investment (FDI) accounts for 43 percent of WAEMU's external liabilities while loans account for another 32 percent. More volatile portfolio investments constitute a relatively small proportion of external liabilities at 12 percent; in this regard, risks to external sustainability arising from the negative NIIP appear to be contained.

B. Current Account

3. Background. The WAEMU external CA deficit (including grants) is estimated to have widened to -6.2 percent of GDP in 2021 from -4.0 percent in 2020, as buoyant domestic demand, investment imports, and rising import prices fueled the trade deficit.[3] A significant Covid-19 era government deficit (at -5.6 percent of GDP for 2021) generated a large negative public investment-savings gap,

[1] Prepared by Athene Laws (SPR).

[2] The external sector assessment is based on staff's estimates.

[3] 2021 data for the current account are still preliminary. Final data will be available in the first quarter of 2023.

further fueling the CA deficit. Notably, Mali and Senegal experienced additional increases in CA deficits due to temporary and idiosyncratic reasons: i) Senegal is investing in hydrocarbon projects with large, temporary import requirements, and ii) Mali experienced a rebound in inward financial flows following a removal of sanctions after the irregular change in government in 2020. In 2022, CA deficit is projected to peak at -7.7 percent of GDP due to a deterioration in terms of trade, particularly international oil prices, and the depreciation of the CFAF relative to the USD. Over the medium term, CA deficit would progressively improve to reach about 4 percent of GDP in 2027 (a level broadly similar to the 2016-20 average), reflecting the expected export increase following the completion of planned hydrocarbon projects in Niger and Senegal.

Model Results, 2021 (in percent of GDP)

	CA model	REER model
	(in percent of GDP)	
CA-Actual	**-6.1**	
Cyclical contributions (from model) (-)	0.4	
COVID-19 adjustor (-)	0.0	
Additional temporary/statistical factors (-)	-0.9	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-5.6**	
CA Norm (from model)	**-5.1**	
Adjustments to the norm (-)	0.0	
Adjusted CA Norm	**-5.1**	
CA Gap	**-0.5**	**1.1**
o/w Relative policy gap	2.4	
	0.0	
Elasticity	**-0.2**	
REER Gap (in percent)	**2.8**	**-5.6**

4. **Assessment.** When applied to end-2021 data, the Fund's EBA-Lite CA model estimates a CA norm of -5.1 against an adjusted CA balance of -5.7 percent of GDP, resulting in a small negative gap of -0.5 percent of GDP (Text Table). This result includes minimal adjustors for the impact of the pandemic (0.02 percent on average in WAEMU countries) as well as natural disasters and conflicts (-0.01 percent on average).[4] Mali and Senegal have very large country level CA deficits due to the temporary and idiosyncratic reasons discussed above. Correspondingly, 0.9 percentage points of WAEMU GDP adjustors are applied, to avoid that these temporary factors disproportionately impact the union level assessment.[5] The remaining five countries have positive CA gaps as estimated at the country level, indicating external conditions in line with, or stronger, than fundamentals. The EBA CA model gap suggests the external position for WAEMU as a whole is broadly in line with the level implied by fundamentals and desirable policy (between -/+1 percent of GDP).

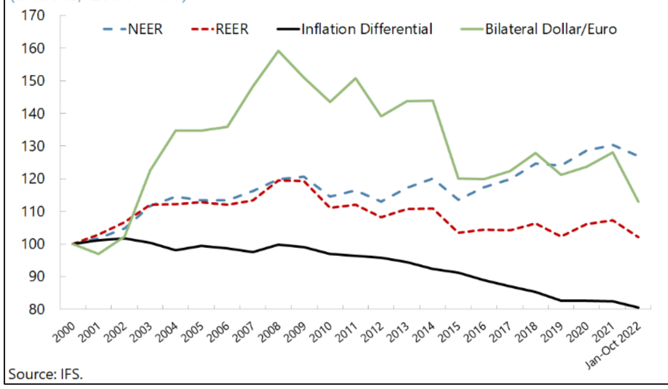
[4] Estimates for the region reflect the average of WAEMU member countries, weighted by the contributions to 2021 nominal GDP.

[5] The union level adjustors are based on the estimated imports associated with hydrocarbon construction projects in Senegal in 2021 and the removal of sanctions on Mali. Increased investment in the hydrocarbon sector in 2021 led to a substantial temporary increase in imports, which explain part the adjustor in the CA model (0.6 percentage points). The lifting of sanctions of Mali led to a large rebound in foreign direct investment flows and associated imports with 0.3 percentage points of WAEMU GDP applied as adjustors.

C. Real Exchange Rate

5. Background. The CFAF, in real effective terms, depreciated by about 14.3 percent between the peak of 2009 and trough of 2019, reflecting both the nominal depreciation of the Euro vis-à-vis the USD and relatively low inflation in WAEMU countries compared to trading partners. The depreciating trend was temporarily reversed in 2020, as the real effective exchange rate (REER) appreciated by about 3.9 percent over the 2019 level, largely because of the relative appreciation of the Euro against the USD. The REER was then broadly stable in 2021 before depreciating substantially in 2022 (about 4.8 percent from January to October 2022 compared to the average 2021 value). The 2022 REER depreciation, accompanied by a nominal effective exchange rate (NEER) depreciation, has been largely driven by the nominal depreciation of the Euro, reflecting global economic developments related to Russia's war in Ukraine, international monetary policy tightening, growth, and inflation concerns.

Effective Exchange Rate, 2000-2022
(Indices, 2000=100)



Source: IFS.

6. Assessment. When applied to end-2021 data, the EBA-Lite Index Real Effective Exchange Rate (IREER) model finds a marginal misalignment of the CFAF, estimating an undervaluation of approximately minus 5.6 percent with respect to values implied by economic fundamentals and equilibrium policies. This result is in contrast to the estimates obtained using the EBA-Lite CA model, which suggest a minor overvaluation of 2.9 percent for 2021 assuming an elasticity of the real exchange rate to the CA deficit of -0.2 (IMF staff assumption). When the models are in contradiction, it is quite common to rely on the CA deficit model – so the REER is assessed as broadly in line with fundamentals.

D. Capital Flows

7. Background. In 2021, net capital inflows are estimated to have increased to 5.6 percent of GDP, from 2.6 percent in 2020, largely driven by an increase in FDI and portfolio investment, reflecting a rebound from the losses at the start of the pandemic. The Portfolio inflows also reflect Eurobond issuances of Benin, Côte d'Ivoire, Senegal, and the BOAD, totaling 2.6 percent of 2021 GDP. In 2022, the financial account is projected to weaken to 3.8 percent of GDP, below the 2017-2019 average (5.2 percent), as FDI and portfolio flows moderate to 2.7 and 1.1 percent of GDP respectively. Over the medium term, the financial account would oscillate in the range of 3.5-5.2 percent of GDP, as FDI inflows weaken a little, and portfolio investments remain below their 2021 peak—the latter reflects prudent assumptions on new net Eurobond issuances over the period (given uncertain access of the Eurobond issuers to international markets).

8. Assessment. Market perceptions of WAEMU countries have generally been broadly favorable. Nonetheless, WAEMU countries have not been spared the market volatility and risk-off of the beginning of 2022 to date. This is illustrated by the fact that sovereign spreads for the Eurobond issuers increased, on average, by almost 170 basis points over January-November 2022 compared to the second half of 2021, and are currently above their average pre-pandemic levels. The outlook for capital inflows remains subject to considerable uncertainties. Continued gyrations in global risk appetite resulting from monetary policy tightening in advanced economies, the war in Ukraine's impact on commodity prices, trade and international growth outlooks, and concerns related to debt sustainability in some WAEMU member states might complicate access to international markets for the 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.

E. Reserve Adequacy

9. Background. The WAEMU pooled reserves remained broadly stable in 2020, increasing mildly from CFAF 11.7 billion at end-2020 to about CFAF 14.0 billion at end-2021—equivalent to 5.6 months of 2022 imports,[6] or 79.3 percent of the BCEAO's sight liabilities. In 2021, the reserve position was mostly supported by exceptional financial assistance received from the international community during the pandemic. Between January and December 2022 (preliminary data), foreign reserves fell to CFAF 11.4 billion. Preliminary data for end-2022 are roughly equivalent to 4.5 months of projected imports or 63.2 percent of the BCEAO's sight liabilities, as a result of several factors including (1) increasing food and fuel import prices driving up imports (2) continued large fiscal deficits, and (3) declining access to international capital market resulting also from international monetary policy tightening. In subsequent years, the reserve import coverage ratio would decrease before stabilizing back at around 4.6 months of prospective imports, despite the decline in the current account ratio, because of the projected reduction in net capital inflows (see above).

10. Assessment. The ARA CC approach based on 2021 data estimates an adequate range for the level of reserves of 4.5 to 6.4 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 preliminary data for end-2022 level of reserves (4.5 months of imports) as well as the medium-term projection (4.6 months at end-2027) are assessed as being adequate. Growth-friendly fiscal consolidation, appropriate monetary policy normalization, and implementation of structural reforms will be key to maintaining reserves within the estimated optimal range.

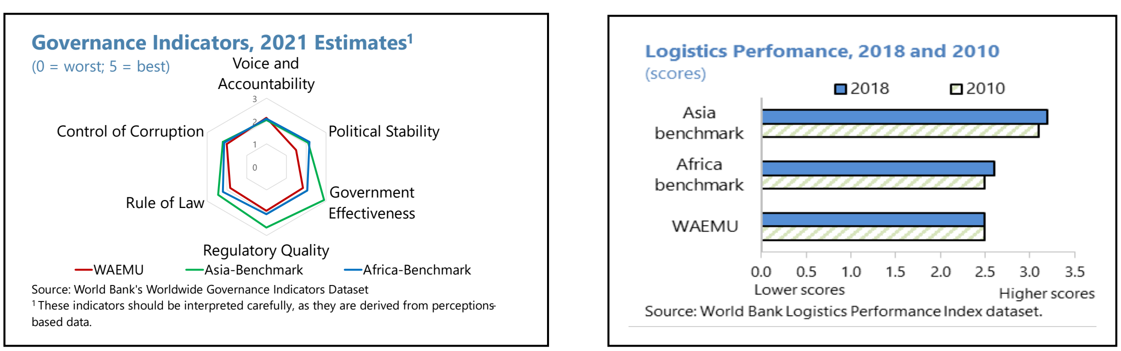
[6] Note the import cover ratio is based on prospective imports.

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 25.7 percent on average in 2012-15 to 23 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 17.8 percent of total merchandise exports. Improving the trade performance of the region requires enhancing the competitiveness and diversification 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 during this period. Furthermore, the EBA-Lite methodology suggests that the REER is minimally overvalued by 2.8 percent based on fundamentals (using the current account method). Thus, there is limited space for further improvements in price competitiveness in the near term. At the same time, the WAEMU's *non-price competitiveness* appears constrained by several structural factors. According to the 2021 World Bank governance indicators (WGI – the latest available), 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 dimensions including the ease to deal with customs procedures and the timeliness of shipments.

Non-Price Competitiveness Indicators



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

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 were broadly stable at about 15 percent of total exports, and this ratio has been roughly maintained during the Covid-19 pandemic. Therefore, 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, 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 documentation for customs procedures and ad hoc levies charged for road transit (WTO 2018).[8]

14. Several measures can alleviate existing structural constraints on competitiveness. Desirable policies at the *national level* include enhancing the provision of infrastructure, particularly road connectivity and electricity provision, as well as improving the business climate through measure aimed at improving governance (for example, with stronger anti-corruption agencies) and simplifying tax payments and insolvency procedures. In addition, given the concentration of 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 infrastructure projects with positive regional spillovers; efforts to harmonize customs' procedures; and measures aimed at removing non-tariff trade barriers to trade.

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

Annex IV. Important Factors for the Monetary Policy Decision-Making Process in the WAEMU[1]

The current high inflation rate in the WAEMU combined with several external and internal downside risks require sound data-dependent and rules-based monetary policy decisions. Appropriate monetary decisions are crucial to ensure that inflation returns within the BCEAO's target range as well as to prevent external buffers from falling below adequacy thresholds. However, the high uncertainty surrounding the medium-term projections demands several considerations to gauge the appropriate monetary policy response. This annex provides the main factors that should be contemplated in the current monetary policy decision-making process in the WAEMU.

1. **Currently, one of the main challenges of the BCEAO is to bring inflation back to the target without significant costs to output.** This is particularly challenging in an economy that has been exposed to several supply shocks, particularly those associated with a weak domestic food production as well as the effects of global supply chain disruption and the Russia's war in Ukraine on imported prices. At the same time, other global and domestic factors—such as monetary policy reactions of advanced economies, global capital markets' flight to quality, changes in the external position of the WAEMU—play a significant role. In this context, an adequate monetary policy response to high inflation would be instrumental in anchoring expectations and ensuring inflation returns to the target within 2 years.[2]

2. **The analytical rigor from data-driven quantitative models is imperative for solid conclusions on monetary policy.** The Monetary Policy Committee (MPC),[3] the main decision-making body of the BCEAO makes monetary policy decisions at least four times a year, in the last month of each quarter. The decision-making process is based on forward-looking macroeconomic analyses in which real, fiscal, monetary, and external factors are assessed. In its decision-making process, the MPC also considers an extended version of the Taylor rule.[4]

3. **In times of high uncertainty, it is important to consider a broad set of relevant economic factors, in order to inform the decision-making process.** Both the number of factors affecting inflation and the monetary policy decision as well as the uncertainty surrounding their expected developments are very large. The main text recommends further monetary tightening, given that the balance of external and domestic risks is heavily tilted to the downside. This annex offers a qualitative description of these risks and their role in the monetary policy decision-making

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

[2] See a broader discussion of the risks in: International Monetary Fund (2022). World Economic Outlook: Countering the Cost-of-Living Crisis. Washington, DC. October.

[3] The Monetary Policy Committee includes: the Governor and the Vice-Governors of the BCEAO, one member proposed by each of the Governments of the WAEMU Member States and appointed by the Council of Ministers, an independent expert appointed *intuitu personae* by the Council of Ministers in concertation with France, and four other members who are nationals of WAEMU Member States.

[4] See Tenou (2002), Diane (2011), BCEAO (2013), Shortland et al (2014), and Diabate (2016).

process, thus complementing both the policy message in the main text and the analysis presented in the Selected Issues Paper (SIP) on Inflation Dynamics in the WAEMU. A monetary policy tightening should be considered conditional on the materialization of some of the following factors:

- **Further impairments on regional food production and distribution:** Regional food production has been affected by weather conditions and—in some areas—also by security issues. While a more favorable season is expected for agriculture in 2022 and 2023, security issues remain a potential obstacle for both food production and distribution. Given the preponderance of food prices among contributors to inflation in the WAEMU (see main text and SIP), further impairments in food production and distribution can clearly prevent the cooling down of headline inflation.

- **Further increases in international food and energy prices:** International food and energy prices are expected to decrease according to the October 2022 WEO projections. However, if new shocks keep such prices elevated with respect to baseline projections, the impact on headline inflation in the WAEMU could be significant. This would be particularly the case if fiscal and administrative measures taken by national governments to limit the passthrough to local prices prove difficult to sustain. Although inflation in the WAEMU has been substantially driven by local food prices, there is a non-negligible share of food products that are imported. In addition, increases in energy prices could have a relatively high diffusion to other prices.

- **Worsening of inflation expectations:** Such expectations are crucial for assessing the potential for second-round effects on inflation, as they affect (among other things) pricing decisions and requests for wage increases. When inflation expectations rise, and ultimately become de-anchored, it becomes much more difficult to bring inflation back to the target, even when the central bank is highly credible. The BCEAO monitors expectations monthly[5] and considers them among the main variables in its decision-making process (see Chart in SIP). Further deterioration in inflation expectations might require further monetary policy tightening, also to send a strong signal to the market that the central bank is committed to pursuing its price stability objective.

- **Further increase in inflation persistence:** In general terms, the persistence index (see SIP) can be interpreted as a proxy for inertial inflation, as it indicates how much current inflation is explained by past inflation. Independently of what happens to supply and demand, the higher the persistence the more difficult it is for the BCEAO to control inflation given the self-fulfilling inertial force from the past. As shown in the SIP, persistence has been steadily increasing since mid-2021. If persistence remains in this trajectory, a tightening in monetary policy should be considered, in order to prevent further and stronger transmissions from past to current inflation.

- **Further increase in the diffusion index:** In the absence of data covering labor market aspects such as wage and unemployment, the diffusion index remains an important complementary indicator to assess the potential for second-round effects in the economy. It is an indicator of

[5] The BCEAO runs a monthly survey which indicates the share of companies' leaders that reports inflation expectations (at the one- or two-year horizons) above 3 percent, within the 1-3 percent range, or below 1 percent. The survey is conducted in the eight member states of the Union on an overall sample of about 1,600 companies, covering the sectors of industry, construction, trade, and market services, and including both large companies as well as small and medium enterprises.

the inflationary contagion process in the economy, in particular when the index is estimated for each sector. The higher the diffusion index, the more items are facing growing prices above a chosen threshold.[6] If the diffusion index keeps increasing, with more items in key sectors experiencing higher price increases, monetary policy should be tightened to prevent potential secondary effects and further contagion in the economy.

- **Adverse developments of reserves relative to the baseline.** Despite the expected deterioration in 2022 given the ongoing global shock, external reserves are expected to remain borderline adequate over the medium term. However, if the assumptions that support this outcome do not materialize, the BCEAO might need to act to prevent a loss in reserves beyond adequate levels. Specifically, challenges in sustaining exports, as well as delays in the completion of import-intensive hydrocarbon projects in Niger and Senegal might imply further deterioration in reserves. Given the BCEAO statute,[7] these developments might trigger a monetary policy response.
- **Challenges in ensuring a gradual fiscal consolidation or maintaining price controls and subsidies (if necessary).** Delays in fiscal consolidation would exert additional pressure on domestic inflation. Moreover, in countries where price controls or subsidies measures were implemented to mitigate inflation, it may eventually become hard to maintain those measures (because of their distortionary effects and/or their fiscal cost). If the discontinuation of these measures results in sharp increases in prices, monetary policy should react to prevent second round effects and a disorderly inflationary process.
- **A negative and widening differential of monetary policy rates with respect to advanced economies.** As monetary policy rates of advanced economies increase, the positive policy rate gap of the WAEMU rate versus the ones of advanced economies may eventually turn negative and widen. While regional capital controls have so far contributed to prevent capital outflows, and the link between domestic and foreign policy rates has been weak (see SIP) the opening and widening of a negative differential of financial sector rates of the regional market versus foreign ones may place undue financial pressures, which existing capital controls may not be able to cope with. Hence, monetary policy in the WAEMU may need to follow foreign interest rate increases.

[6] In the SIP on Inflation Dynamics in the WAEMU, two thresholds are applied: 2 percent and 3 percent, which are the center and the ceiling of the BCEAO's inflation target band.

[7] According to Article 76 of its statutes, the BCEAO should review the situation and take needed remedial actions if, for three consecutive months, the average of foreign exchange reserves falls below 20 percent of its sight liabilities. This 20 percent threshold was broadly equivalent to 1.3 months of imports in December 2022 (when instead reserves were about 63 percent of the BCEAO's sight liabilities). At end-2016, the BCEAO tightened monetary policy when this ratio dropped below 70 percent.

Annex V. Financial Inclusion in the WAEMU[1]

This annex provides a quick overview of financial inclusion in the WAEMU since the 2010s, focusing on three pillars, namely e-money, banking sector, and MFIs. Overall, WAEMU has been displaying persistent improvements in financial inclusion during the years preceding the pandemic, and the Covid shock has led to financial inclusion gains which were further consolidated in 2021. E-money has been a strong driver of financial inclusion in recent years (and during the pandemic) whereas there is room for improvement on the banking and MFIs fronts. Finally, a Central Bank Digital Currency (CBDC) may offer an untapped opportunity to boost financial inclusion in the WAEMU going forward.

A. Importance of Financial Inclusion

1. Promoting financial inclusion remains a policy priority in the WAEMU, to support economic growth and development while mitigating poverty and inequality. Increased availability of—and easier access to—financial services helps citizens finance investment and consumption decisions, unleashes business opportunities for firms and entrepreneurs, facilitates dealing with the consequences of negative economic shocks (such as the pandemic), and supports the accumulation of human capital by allowing citizens to invest in their education. A more inclusive financial system could also increase the role of small and young firms (which are generally more subject to financing constraints) in the economic development and job creation process. Through such channels, financial inclusion supports a more inclusive and private-sector-lead economic growth.[2]

2. This annex focuses on three major dimensions of financial inclusion targeted towards improving access of financial services: e-money, MFIs and banks' activities (Box 1). In the WAEMU, by the end of 2021, the MFI sector remained relatively small with its credit outstanding being about 2 percent of GDP, whereas bank credit to the private sector was at about 24 percent of GDP. The total value of e-money transactions including digital payments stood about 65 percent of GDP during 2021.[3]

[1] Prepared by Can Sever (AFR).

[2] The literature shows that the lack of access to finance can lead to poverty traps and inequality (for a comprehensive discussion and literature review, see 2014 World Bank Global Financial Development Report).

[3] Note that the measure for e-money (the amount of transactions) is not directly comparable with the size of credit in the other pillars of financial inclusion.

Box 1. Concepts[1]

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]This box is adopted from the IMF WAEMU Staff Report published on March 2022 (IMF Country Report No. 22/67).

B. Historical Developments: The Pre-Pandemic Period

3. The progress in financial inclusion in the WAEMU has been steady and robust during the years preceding the pandemic (Figure 1). The share of individuals using financial services (in the form of MFI credit, e-money, and banking services) in the WAEMU showed significant progress, and increased from 22 percent of adult population by end-2010 to 60 percent by end-2019.[4]

4. The progress in financial inclusion since the 2010s has been supported by both e-money, MFIs, and banking, but e-money has increasingly become the main driver in recent years (Figure 1). From December 2010 to December 2019, the number of e-money accounts reached 66 percent of adult population from about zero. During the same period, the number of accounts in MFIs rose to 21 percent of adult population from 14 percent, while the number of bank accounts increased to 15 percent of adult population from 9 percent.

C. The Impact of the Covid Shock and the Current Situation

5. The Covid shock has encompassed both challenges and opportunities for financial inclusion in the WAEMU. Lockdowns, mobility restrictions, and social distancing have affected economies and posed challenges for financial institutions (such as a deterioration of credit quality associated with difficulties to repay, and disruption in the provision of face-to-face financial services). However, the Covid shock has also brought new opportunities for financial inclusion, particularly in the area of e-money. The need for contactless transactions due to social distancing, the BCEAO's measures to boost the use of digital financial services (such as reducing fees in various e-money transactions and relaxing the conditions for opening e-money accounts during 2020), and mobile cash transfers by governments (such as the Novissi program in Togo) have contributed to a broadening of digital financial services and financial inclusion.

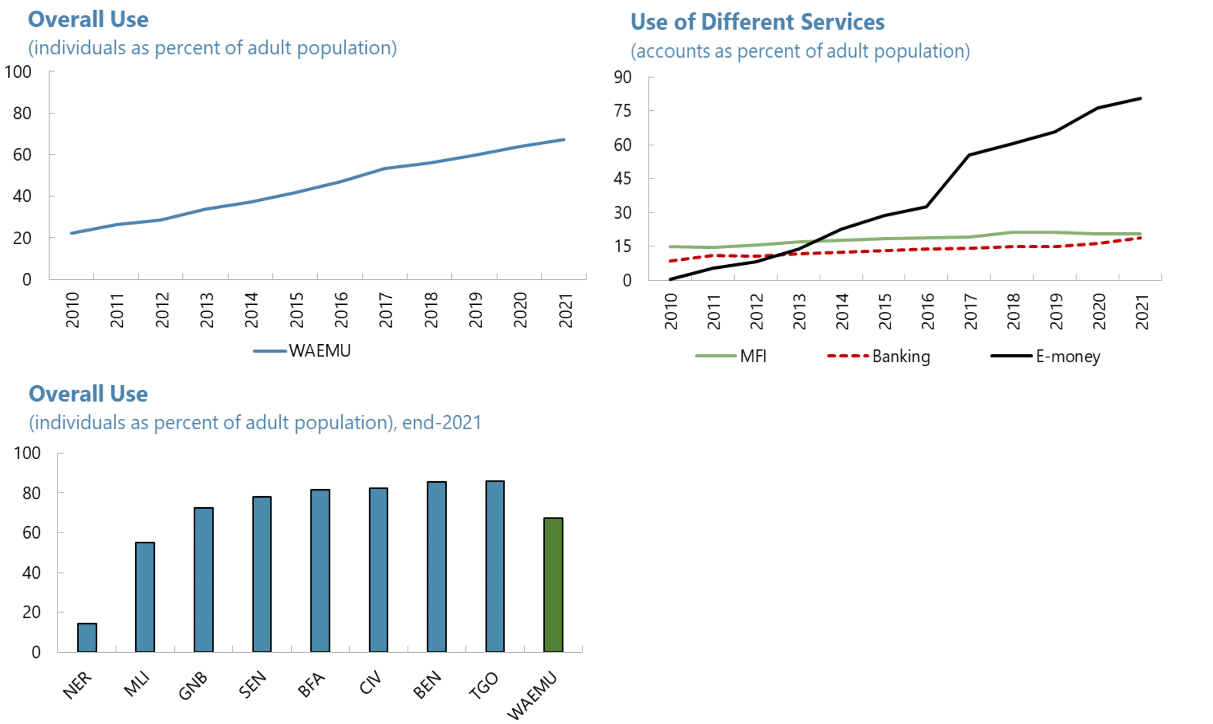
[4] The BCEAO's indicator on the overall use of financial services counts the number of individuals who use one or multiple financial services.

6. Overall, the Covid shock led to significant gains in financial inclusion in 2020, particularly in the form of e-money, and the region has built on those gains in 2021 with 67 percent of adult population using financial services by end-2021 (Figure 1). During the first year of the pandemic (from end-2019 to end-2020), the overall use of financial services (in the form of banking, MFIs, or e-money) increased, as the share of individuals who use financial services rose from 60 percent of adult population to 64 percent. Progress continued in 2021, as the same share of individuals reached 67 percent of adult population as of end-2021. This was mainly driven by the remarkable gains on the e-money front, as the number of e-money accounts as a share of adult population climbed from 66 percent to 76 percent during 2020, and to 80 percent by end-2021. The use of banking services also advanced, as the number of bank accounts as a share of adult population increased mildly from 15 percent at end-2019 to 16 percent by end-2020, and then sharply to 19 percent by end-2021. However, MFI sector was stagnant during the Covid crisis, due to various reasons, including the adverse effect of the pandemic on its portfolio quality and disruptions to its operations, [5] which added to the structural vulnerabilities in the sector (see the main text). From December 2019 to December 2020, the number of accounts related to MFI credit as a ratio to adult population decreased slightly (remaining close to about 21 percent), and it did not show a notable change by end-2021.

7. However, financial inclusion in the WAEMU shows significant heterogeneity across member states (Figure 1). Niger is far behind the rest of the member states with a low 14 percent (of adult population) financial inclusion rate among its citizens, whereas the closest WAEMU member state to Niger, which is Mali, has a rate of 55 percent of adult population as of end-2021. Benin and Togo are the leading countries in the WAEMU with about 86 percent of their adult populations using financial services by end-2021.

[5] Lockdowns, mobility restrictions and social distancing measures have affected the economy and the financial sector in general, but the MFI sector has been particularly hit, since it generally engages with lower income individuals and small firms (i.e., groups that have been disproportionately affected by the Covid shock). Moreover, operations of MFI have been adversely impacted by social distancing measures which disrupted collection of repayments, face-to-face meetings with clients, and flow of work. However, the measures by the BCEAO as a response to the pandemic also helped the MFI sector navigate the health shock. For instance, the BCEAO launched a framework in 2020 encouraging MFIs to postpone the debt repayments of customers that were affected by the pandemic (but assessed as solvent), without reclassifying those claims as non-performing. In addition, in order to facilitate MFI's access to bank financing, bank loans extended to eligible MFIs became eligible as collateral, for a special refinancing window of the BCEAO (thereby creating incentives for banks to lend to MFIs).

Figure 1. Financial Inclusion in the WAEMU

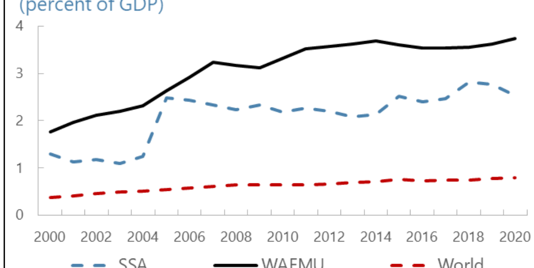


Source: BCEAO financial inclusion reports. The BCEAO's indicator on the overall use of financial services (as reported in the lefthand side charts on the first and the second rows) counts the number of individuals who use one or multiple financial services. The other indicators for the use of various financial services report the number of accounts (regarding e-money, MFIs, or banks) as percent of adult population.

D. CBDC as an Untapped Opportunity

8. A CBDC could offer an untapped opportunity for promoting the development of the financial sector as well as financial inclusion in the WAEMU. A CBDC may alleviate the barriers to financial inclusion through broadening the reach of financial instruments and services (particularly in remote and rural areas, or for those who don't meet banking requirements), as well as decreasing cost and increasing efficiency of financial transactions. At the same time, it may offer a strategically important alternative to cryptocurrencies, whose use is often dangerously spreading throughout the region. In addition, CBDC can facilitate the adaptation of digital payments and fintech in the WAEMU, complementing the efforts by the private sector, and thereby adding to the accelerated gains from the e-money in recent years. CBDC can also facilitate interoperability among different domestic payment systems and collaboration between local financial service providers and the BCEAO. To the extent it would facilitate cross-border transactions it would lower the cost of remittances, which is

Remittances Received
(percent of GDP)



Source: World Bank; IMF staff calculations.

significant in the WAEMU (and SSA at large). CBDCs may also facilitate the government delivery of targeted transfers and the collection of taxes.

9. However, CBDCs present also significant challenges. Absent a sound legal foundation for a CBDC issuance, the BCEAO could incur legal and reputational risks and the parties and entities that would be using this new instrument could also face significant legal and financial risks. Thus, the issuance of a CBDC would require a careful analysis of the new legal and institutional frameworks to evaluate whether such necessary legal foundation exists or whether legal adjustments are needed to back this issuance (under both public and private laws). The issuance could also pose new human capital and resource challenges for the central bank. Cyber-risks would need to be carefully assessed and tackled. Data privacy and AML/CFT strategies should be revised. In particular, the ML/TF risks related to a CBDC should be assessed before the finalization of the CBDC design and all necessary mitigating measures (including, where necessary, amendments to the AML/CFT institutional framework, laws and regulations) should be taken prior to the launch and ensure an effective implementation of the FATF Standards. The possible rapid obsolescence of existing technological platforms and the challenge of an unclear international interoperability across possible future CBDCs create significant uncertainty about the need to adapt over time to changing technological setups, and the related costs. Careful design would be essential to avoid bank disintermediation, as well as increased currency substitution and capital account volatility. Moreover, there are long-standing obstacles such as lack of access to internet and electricity or limited financial literacy (see IMF Country Report No. 22/67 for more details).

10. Hence, a CBDC should not necessarily be viewed as a silver bullet. In particular, it would be important to assess the extent to which private sector initiatives— particularly those related to e-money—could deliver similar results in terms of inclusion, efficiency, and safety, if adequately regulated.

Annex VI. Status of Fund Relations[1]

Benin: The IMF Executive Board approved on July 8, 2022, 42-month arrangements under the Extended Fund Facility (EFF) and the Extended Credit Facility (ECF) for Benin (391 percent of quota, about US$650 million), and concluded the 2022 Article IV consultation. Benin's performance under the previous ECF (2017–20) was deemed "very satisfactory". The ongoing EFF/ECF is off to a strong start; the first review was completed by the Board on December 14, 2022.

Burkina Faso: Following the year's second irregular change in government on September 30, 2022, the new government requested emergency financing under the RCF's Food Shock Window (FSW) to help the country address the current food crisis, to be followed by a resumption of discussions of a new ECF-supported program. Burkina Faso's last ECF-supported program (2018-2020) was completed satisfactorily on November 13, 2020. The last Article IV consultation took place in 2018, with the next Article IV consultation planned for late 2023.

Côte d'Ivoire: The board meeting for the 2022 Article IV consultation was concluded on June 17, 2022. The authorities have expressed interest in a successor arrangement to the ECF and EFF arrangement, which was successfully completed in December 2020 in addition to pandemic emergency assistance under the RCF/RFI in April 2020. During the 2022 annual meetings, the Prime Minister officially expressed interest in a new Fund arrangement starting in 2023.

Guinea-Bissau: The third and last review of the Staff-Monitored Program was considered satisfactory and concluded on May 25, and the IMF Executive Board concluded 2022 Article IV Consultation on June 17. On November 21, IMF staff and the Guinea-Bissau authorities reached a staff-level agreement to support economic policies with a 36-month ECF arrangement of SDR 28.4 million (US$ 36.3 million). The Board discussion is scheduled for January 30, 2023.

Mali: The 2019-22 ECF-supported program expired in August 2022, with only 3 reviews completed due to a volatile socio-political environment (two irregular changes in government in 2020-21, and economic and financial sanctions by ECOWAS in 2022). In the fall of 2022, the authorities requested emergency financing under the RCF's Food Shock Window (FSW) and a new ECF-supported program. The last Article IV consultation took place on May 23, 2018, and the next Article IV consultation discussions are planned for early 2023.

Niger: On December 8, 2021, the IMF Executive Board approved a new 3-year ECF arrangement. The Board's decision allowed for an immediate disbursement of SDR 39.5 million. Program implementation has been broadly on track according to the First Review under the ECF arrangement, which was concluded by the Board on June 29, 2022. The Board concluded the combined 2nd review and Article IV consultation on December 21, 2022.

Senegal: On January 9, 2023, the Board completed the sixth review under the Policy Coordination Instrument (PCI) and third reviews under the Stand-By Arrangement (SBA) and Stand-By Credit

[1] This annex provides an overview of Fund relations by the WAEMU member states as of the beginning of 2023.

Facility (SCF). Program performance was broadly satisfactory, with significant reforms implemented across the three pillars of the programs. The 3-year PCI and the 18-month SCF/SBA arrangements expired on January 10, 2023. The last Article IV consultation was concluded on January 11, 2022.

Togo: Discussions on a new ECF arrangement for TGO are expected to continue, building on discussions earlier in 2022. The last Article IV consultation was concluded on June 26, 2019. Togo's performance under the previous ECF-supported program has been broadly satisfactory, with significant progress during 2017-20 under the Fund-supported program in several areas, while reforms remain incomplete in a few sectors.

Table 1. WAEMU Member Countries' Fund Credit Outstanding

(As of November 30, 2022)

	SDR million			Percent of Quota		
	GRA	PRGT	Total	GRA	PRGT	Total
Benin	154.7	269.6	424.3	125.0	217.7	342.7
Burkina Faso	-	235.1	235.1	-	195.2	195.2
Côte d'Ivoire	968.5	642.1	1,610.6	148.9	98.7	247.6
Guinea Bissau	-	31.0	31.0	-	109.2	109.2
Mali	-	399.8	399.8	-	214.2	214.2
Niger	-	330.4	330.4	-	251.0	251.0
Senegal	496.2	248.0	744.2	153.3	76.7	230.0
Togo	-	245.1	245.1	-	167.0	167.0

Source: IMF.

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Statement by Mr. Sylla, Executive Director
Mr. Matungulu, Alternate Executive Director
and Mr. Tall, Advisor to the Executive Director on West African Economic and Monetary Union
February 1, 2023

The authorities of the West African Economic and Monetary Union (WAEMU) are grateful to Management and the Board for the continued Fund support to member states, including through financial and technical assistance. They would also like to express their appreciation to staff for the candid discussions and constructive policy advice during the recent mission.

The authorities are in broad agreement with the findings and recommendations in the insightful Staff Report and Selected Issues Papers, notably on the elevated risks ahead and the need for deeper structural reforms to sustain the recovery and preserve external viability.

Recent Economic Developments

The WAEMU economy has been resilient in the face of a challenging internal and external environment. Major headwinds included a deteriorating security situation in the Sahel which led to the internal displacement of a significant share of the population with its impact on food production, prices increase and political instability; covid-related shock to aggregate demand; and extreme climate-related events. Leveraging accumulated buffers and strong macroeconomic fundamentals, the authorities have implemented supportive fiscal and monetary policies. The various measures, together with significant catch-up effects, have enabled a rebound of real GDP growth to 5.9 percent in 2021 from 1.8 percent in 2020. Nevertheless, the current account deteriorated, and external reserves declined by 20 percent on account of large oil and gas-related imports in Senegal and Niger. Inflationary pressures persisted in the zone, with headline inflation peaking at 8 percent in 2022, driven essentially by basic food price increases and global supply chain disruptions. Responding to the inflation spike and with the view to preserving external viability, the regional central bank tightened policy with three successive rate increases in June, September, and December 2022.

Outlooks and Risks

After decelerating in 2022 due to adverse terms of trade shock, growth is expected to regain momentum in 2023 and stabilize around 6 percent over the medium term with a broad-based recovery, including in the services and manufacturing sectors. After peaking in 2022, inflation is projected to decelerate going forward as global food and commodities prices ease, tight monetary policy bears fruits, and thanks to a favorable 2022/2023 agricultural production campaign.

However, significant downside risks remain, including on account of a low global demand for the region's exports and shifting capital market sentiments, security and political uncertainties in the Sahel, and the economic repercussions of the conflict in Ukraine. Against this background, the authorities plan to intensify reforms to deepen regional integration, strengthen the resilience of the region to shocks and promote job creation, so as to achieve stronger inclusive growth.

Common Policies

Fiscal Policy

The Union's fiscal deficit deteriorated further from 5.1 percent of GDP in 2021 to 5.9 percent in 2022, mainly due to: i) urgent measures taken to mitigate the impact on the populations of high food staples and energy prices; ii) security-related expenditures; and iii) spending on infrastructure. Under these exceptional circumstances most countries in the Union are considering delaying convergence towards the 3 percent of GDP fiscal deficit target by a year to 2025.

The member states and regional authorities renewed their commitment to adhering to sound fiscal policies to advance their development agenda while ensuring fiscal sustainability. The debt-to-GDP ratio is expected to decline to 50.4 percent over the medium term. To achieve these objectives, measures are in train both at the regional and member-states level to improve revenue collection including through better customs cooperation, and the broadening of the tax base. On the spending side, common policies aim at improving growth prospects by steering spending towards priority areas identified in the regional development plan and by improving spending efficiency. Budget support to the vulnerable populations would be rigorously targeted, and efforts are being made to rationalize tax incentives. The region's public financial management agenda includes transcription into national laws of WAEMU's directives and assisting members to implement them. Work is also ongoing to harmonize the coverage for the fiscal deficit and debt, which will help contain extra-budgetary and below-the-line operations and increase their transparency.

Plans are under consideration to overhaul the recently expired Convergence Pact to anchor medium-term fiscal and debt sustainability. In this regard, the authorities are drawing on lessons learned from experience, and value Staff's views on the essential features for the regional fiscal rules to provide an effective and credible anchor. In the meantime, the WAEMU authorities reiterated their resolve to strengthen medium-term fiscal frameworks at member states level and to accelerate PFM reforms, with technical assistance from the IMF.

Monetary Policy

The authorities have been tightening monetary policy to achieve its twin price and external stability objectives. They welcome staff's independent assessment that reserves levels are adequate. Going forward, the regional central Bank is prepared to tighten policy further as may be needed, with a view to anchoring inflation expectations and preserving external viability in the context of the pegged exchange rate regime.

On the tools needed to implement their mandate, the authorities see merit in staff's recommendation to preserve the fixed-rate full allotment auctions but would prefer to keep all their toolkit options open to quickly adjust the amount of liquidity in the economy.

On safeguards, the authorities welcome the recognition that the BCEAO has a strong governance framework and a robust control environment. All the recommendations provided in the 2018 safeguards assessment were implemented, and the authorities look forward to the upcoming assessment.

Financial Markets

The financial system has shown resilience in the face of the multiple shocks in the region. Financial soundness indicators have improved with higher banks profitability, stronger balance sheets with increased capital adequacy ratios, and lower non-performing loan ratios. Prudential ratios were broadly met although risks remain, including interest rate risks and those related to concentration and exposure to the sovereigns.

The authorities welcome the finding of the recently concluded FSAP that the WAEMU's regulatory and supervisory frameworks are in line with international best standards. They broadly agreed with the recommendation to strengthen the framework further. Hence more resources are allocated toward enhancing the supervisory capacity, including through increased budget allocation towards hiring more banking supervisors and the building of stronger sector information technology infrastructure, in addition to training received from the IMF and regional centers.

The authorities remain committed to combating money laundering and the financing of terrorism in the Union. In this vein, they have been reviewing the AML-CFT laws with the view to ensuring compliance with the latest Financial Action Task Force's recommendations. The Council of Ministers of the Union recently adopted a series of decisions to that effect.

Financial access and inclusion

Progress is being made in financial inclusion, with credit to the private sector growing robustly at 14.5 percent, and the share of individuals using financial services increasing to 67 percent of the WAEMU population at end-2021, compared to 60 percent at end-2019.

The authorities will pursue efforts to further improve financial inclusion and modernize the Union's payment system. A strategy to improve financial literacy has been adopted, and actions are being undertaken to address the impaired balance sheets in the microfinance sector, as well as to monitor developments in the decentralized financial institutions and the nascent Fintech sectors.

Structural Reforms

The Union's authorities are committed to implementing an ambitious structural reforms agenda as part of their regional development strategy aimed at promoting an inclusive and sustainable growth in the region. To that effect, the authorities adopted a priority action plan for the WAEMU commission- *Cadre d'Actions Prioritaires* 2025 (*CAP 2025*)-, which includes setting up a macroeconomic stabilization Fund, common SME promotion policies, and regional training and research centers. To support the green transition, they adopted a regional energy strategy and plans are in train to support its implementation in member states.

The authorities are also determined to intensify trade integration and improve the region's competitiveness.

On statistics, our authorities remain committed to enhancing the quality and harmonization of national statistics to better inform policy decision making. To this end, they will continue to strengthen human resources through existing statistical training centers and seek support from development partners for further capacity development in this area.

Conclusion

Amidst significant challenges and downside risks, the WAEMU authorities continue to pursue their regional development plans. They are committed to implementing sound policies to address the scars from Covid and high food and fuel prices, and to support strong, inclusive and sustainable growth in the medium-to-long term. Alongside this effort, the authorities are determined to take steps to ensure fiscal and debt sustainability while protecting the most vulnerable. Enhancing resilience to shocks and making progress on the green transition remain key priorities.

In these challenging endeavors, my WAEMU authorities look forward to the continued support from the IMF and the international financial community.