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WEST AFRICAN ECONOMIC AND MONETARY UNION

April 2024

STAFF REPORT ON COMMON POLICIES FOR MEMBER COUNTRIES—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR THE WEST AFRICAN ECONOMIC AND MONETARY UNION

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 March 15, 2024, consideration of the staff report.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 15, 2024, following discussions that ended on January 31, 2024. Based on information available at the time of these discussions, the staff report was completed on March 1, 2024.
- 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

PR 24/90

IMF Executive Board Concludes 2024 Discussions on Common Policies of Member Countries of the West African Economic and Monetary Union

FOR IMMEDIATE RELEASE

Washington, DC – March 15, 2024: The Executive Board of the International Monetary Fund (IMF) concluded the annual discussions on common policies of member countries of the West African Economic and Monetary Union (WAEMU)[1].

The WAEMU has proved resilient amid significant adverse shocks, maintaining strong growth estimated at 5.1 percent in 2023. Inflation has fallen rapidly from its 2022 peaks and is now back within the 1-3 percent target range. External reserves continued to fall significantly in 2023, by about US$2.6 billion, or to about 3.3 months of imports, although they rebounded by US$1.8 billion in January. Against the background, the central bank raised interest rates by a cumulative 150 basis points over 2022-2023, and limited the amount of bank refinancing.

Growth is projected to rise to about 6.8 percent in 2024-2025, due to the start of new hydrocarbon production, and hover near 6 percent in the longer term. Fiscal consolidation would proceed in 2024 and bring the deficit back to 3 percent of GDP in most member countries in 2025.The completion of these hydrocarbon projects, together with fiscal consolidation, would lead to a quick narrowing of the current account deficit, and contribute to a gradual rebuilding of external reserves The region remains subject to downside risks, including to the regional security situation and political uncertainty.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed that the WAEMU has been resilient to multiple shocks, with continued strong growth and inflation reverting to its target range. Noting the persistent fiscal and external imbalances, which have contributed to a significant decline in reserves, Directors highlighted that the region also faces considerable risks, including from further deterioration in regional security and political stability. In that context, they stressed the importance of a prudent policy mix to ensure macroeconomic stability and to rebuild external buffers, coupled with further efforts to promote financial stability and advance structural reforms to foster inclusive growth.

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[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.

[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 recognized the authorities' commitment to fiscal consolidation, noting that reducing the deficit to 3 percent in 2025 is central to domestic and external stability. They underscored the need for a credible fiscal framework that addresses unidentified sources of debt creation and ensures debt sustainability. Directors recommended reintroducing the WAEMU Convergence Pact with the previous fiscal deficit and debt ceilings with enhancements to include a debt correction and enforcement mechanisms and escape clauses. Fiscal adjustment should be driven by revenue mobilization to protect priority spending.

Directors commended the regional central bank for its effective policy response to address inflation and reserve losses. They recommended further tightening monetary policy to rebuild external buffers and contain financial risks. Enhanced monetary-fiscal policy coordination would avoid strains on regional financing, while ensuring that medium-term reserves objectives are met.

Directors welcomed the resilience of the financial system and recommended adopting a medium-term plan to address risks emanating from the sovereign-bank nexus. They encouraged the introduction of targeted Pillar 2 capital surcharges to contain bank concentration risks from sovereign lending. Directors also welcomed progress in operationalizing the bank resolution framework and stressed the importance of addressing outstanding FSAP recommendations. They highlighted that implementing the new AML/CFT law would help facilitate the removal of WAEMU members currently on the FATF grey list.

Directors agreed that prosperity in the WAEMU will depend on progress on political cohesion, economic integration, institutional frameworks, and infrastructure. They stressed the importance of continued efforts to increase common productive capacity in energy, infrastructure, and food resilience. Noting recent developments, Directors emphasized the importance of enhancing regional integration. Such efforts could include reducing non-tariff barriers and promoting physical and digital connectivity. Addressing gender disparities, climate-related vulnerabilities, and governance challenges would also be important.

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 discussions with the WAEMU authorities will be held on the standard 12-month cycle.

Table 1. WAEMU: Selected Economic and Social Indicators, 2020–28

Social Indicators

GDP		**Poverty (2019 or latest available)**	
Nominal GDP (2022, millions of US Dollars)	178,348	Headcount ratio at $1.90 a day (2011 PPP)	24.1
GDP per capita (2022, US Dollars)	1,243	Undernourishment (percent of population)	10.1
Population characteristics		**Inequality (2018 or latest available)**	
Total (2020, millions)	133.4	Income share held by highest 10 percent of population	30.8
Urban Population (2020, percent of total)	40.4	Income share held by lowest 20 percent of population	7.0
Life expectancy at birth (2020, years)	60.9	Gini index	38.5

Economic Indicators

	2020	2021	2022	2023		2024	2025	2026	2027	2028
			Act.	SM/23/23 [1]	Est.	Projected				
				(Annual Percentage Change)						
National income and prices										
GDP at constant prices [2]	1.5	6.3	6.1	6.2	5.1	6.8	6.8	5.8	5.7	5.7
GDP per capita at constant prices	-1.3	3.3	3.1	3.3	2.1	3.8	3.8	2.8	2.7	2.8
Consumer prices (average)	2.0	3.6	7.5	3.3	3.7	3.2	2.6	2.2	2.0	2.0
Terms of trade	29.8	-8.2	-14.4	-0.5	11.3	4.2	-0.4	0.6	0.3	-0.7
Nominal effective exchange rate	3.2	1.2	-2.3	…	…	…	…	…	…	…
Real effective exchange rate	3.4	1.5	-3.6	…	…	…	…	…	…	…
				(Percent of GDP)						
National accounts										
Gross national savings	19.9	19.8	18.7	22.0	19.4	22.4	22.9	23.2	23.7	24.0
Gross domestic investment	23.8	25.5	28.4	29.0	27.2	27.5	26.7	26.7	27.1	27.3
Of which: public investment	7.7	8.0	8.6	7.7	8.3	8.8	8.0	8.4	8.8	9.1
				(Annual changes in percent of beginning-of-period broad money)						
Money and credit										
Net foreign assets	0.7	1.7	-7.9	0.1	-7.1	0.5	1.5	2.7	4.2	4.0
Net domestic assets	16.8	15.3	20.7	8.7	10.1	12.6	10.0	8.9	7.5	7.9
Broad money	16.5	16.4	11.4	8.8	3.5	12.4	11.5	11.6	11.7	11.9
Credit to the economy	4.1	8.0	9.0	1.4	6.7	6.7	6.8	6.8	6.7	6.6
				(Percent of GDP, unless otherwise indicated)						
Government financial operations										
Government total revenue, excl. grants	15.2	16.1	16.0	16.1	16.5	17.3	17.9	18.4	18.7	19.0
Government expenditure	22.6	23.2	24.1	22.6	23.0	22.6	22.2	22.6	22.9	23.1
Overall fiscal balance, excl. grants	-7.4	-7.1	-8.1	-6.5	-6.5	-5.3	-4.3	-4.2	-4.1	-4.2
Overall fiscal balance, incl. grants	-5.5	-5.6	-6.9	-5.0	-5.2	-4.2	-3.2	-3.1	-3.0	-3.0
External sector										
Exports of goods and services [3]	19.1	20.1	20.6	18.3	19.4	21.4	22.3	22.2	22.0	21.9
Imports of goods and services [3]	23.8	26.0	29.1	25.4	27.9	26.5	25.7	25.6	25.4	25.2
Current account, excl. grants	-5.4	-6.7	-9.2	-7.1	-8.6	-5.4	-4.1	-4.1	-4.0	-3.9
Current account, incl. grants	-4.3	-5.9	-8.3	-6.4	-7.9	-4.8	-3.6	-3.6	-3.5	-3.4
External public debt	33.2	36.0	36.0	32.9	35.8	36.1	34.9	34.0	33.4	32.3
Total public debt	51.1	56.8	59.4	56.6	61.0	59.6	57.9	57.0	56.3	55.5
Broad money	38.1	40.9	41.3	…	39.5	40.6	41.6	43.0	44.5	46.1
Memorandum items:										
Nominal GDP (billions of CFA francs)	92,746	100,625	111,008	118,459	120,168	131,429	143,143	154,408	166,431	179,744
Nominal GDP per capita (US dollars)	1,194	1,304	1,243	1,298	1,342	1,436	1,518	1,585	1,654	1,731
CFA franc per US dollars, average	574.8	554.2	622.4	…	606.5	…	…	…	…	…
Gross international reserves										
In months of next year's imports (of goods and	5.4	5.2	4.1	4.4	3.3	3.5	3.8	4.0	4.4	4.7
In percent of current GDP	12.6	13.9	10.3	9.7	7.9	8.2	8.7	9.2	10.0	10.6
In percent of the BCEAO's sight liabilities	77.9	79.7	63.8	66.9	56.9	58.1	60.1	61.9	65.0	67.2
In millions of US dollars	21,727	24,172	18,398	17,398	15,764	17,872	20,623	23,500	27,340	31,489

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

All projections presented were prepared in February 2024 and do not incorporate any further developments.

[1] Shows data from the IMF Country Report 203/102 issued on January 19, 2023 (Board document SM/23/2/3).

[2] The acceleration in GDP growth in 2024 is due to the start of production of large hydrocarbon projects in Niger and Senegal.

[3] Excluding intraregional trade.

WEST AFRICAN ECONOMIC AND MONETARY UNION

STAFF REPORT ON COMMON POLICIES FOR MEMBER COUNTRIES

March 1, 2024

KEY ISSUES

Context. The WAEMU has proved resilient amid significant adverse shocks, maintaining strong growth and with inflation recently reverting to its target range. However, persistent fiscal and external pressures in recent years—owing to increased financing needs during limited access to international capital markets—have put pressures on liquidity and significantly drained reserves. Monetary tightening by the BCEAO and increased external financing in recent weeks have helped reserve prospects improve, although reserves currently remain below adequate levels.

Key Policy Recommendations

Fiscal Policy. Fiscal policy needs to ensure a credible medium-term commitment to debt sustainability, while keeping deficits consistent with available financing. WAEMU governments' commitment to bring fiscal deficits back to 3 percent of GDP by 2025 (unless otherwise defined in an IMF-supported program) is extremely important in this respect, as is addressing unidentified sources of debt creation (stock-flow adjustments, SFAs) and/or budget underperformance, given that further fiscal deviations could undermine external viability and financial stability. Given the regional financial market's limited capacity to absorb new sovereign debt, fiscal deficits must be consistent also with available financing, which will require coordination among national authorities. The WAEMU Convergence Pact should be urgently reintroduced with the previous fiscal deficit and debt ceilings (3 and 70 percent of GDP, respectively) and enhanced to encompass a debt correction mechanism and escape clauses. Revenue mobilization should drive fiscal adjustment, to help protect development, social, and security spending aimed at promoting inclusion and addressing drivers of instability. If reserve adequacy pressures were to continue in 2024, spending or revenue might need to be further adjusted.

Monetary Policy. While inflation is now back within its target band, the BCEAO should further tighten monetary policy to rebuild external buffers and contain financial risks. The need to tighten liquidity to contain reserve losses, while marginal rates are at the ceiling of the policy corridor, also calls for higher policy rates—to ensure the consistency with liquidity management towards monetary policy goals. Enhanced monetary-fiscal policy coordination is critical to mitigate the short-term risk of straining the regional debt market, while allowing the BCEAO to meet its medium-term reserves objectives.

Financial Markets. The financial sector has been resilient so far, but the banking sector's exposures to governments require a medium-term plan to address the sovereign-bank nexus, while avoiding disruptions in the regional debt market. In this regard, the BCEAO should consider measures to contain bank concentration risk from sovereign lending—for example by introducing targeted Pillar 2 capital surcharges. Regional and national authorities should also pursue reforms to help broaden governments' non-bank domestic sources of financing. The authorities should build on significant progress achieved in 2023 to implement other FSAP recommendations.

Structural Reforms. WAEMU's prosperity will also depend on maintaining political cohesion, deepening economic integration, and strengthening the institutional framework, and infrastructure. Regional growth prospects would be enhanced by continued efforts to increase common productive capacity in energy, infrastructure, and food resilience, as called for in the WAEMU Commission's Regional Development Strategy. Consistent with past Fund advice, WAEMU institutions should continue to reduce non-tariff barriers by adopting regional trade regulations and labor market laws. It is essential to expand road connectivity and access to electricity, adopt measures to promote supply chains, enhance governance, strengthen regional institutions, and leverage digital finance. In this respect, the BCEAO's fast payments plan holds promise to promote regional integration and reduce costs, by offering interoperable services across the region's many payment platforms. The authorities should also pursue policies to mitigate gender disparities and address climate-related and corruption vulnerabilities to promote inclusive and sustainable economic growth.

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

The regional discussions were held in a hybrid format comprising virtual video conferences as well as physical meetings over January 16-31, 2024. The staff comprised Mr. Ricci (head), Mr. Feler, Mr. Norton, Ms. Dordevic, and Ms. Ibrahim (all AFR), Ms. Ayvazyan (MCM), and Mr. Roldan (SPR). The concluding meeting was held on January 31, 2024 in Dakar, where Ms. Fedelino and Mr. Ricci (AFR) and Mr. Tall (OED) met with BCEAO Governor Brou. They also met virtually with the President of the Council of Ministers and the President of the WAEMU Commission. Ms. Hesse-Triballi provided excellent research support and Ms. Derrouis provided excellent assistance in the preparation of the report. The West African Economic and Monetary Union (WAEMU) comprise eight countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

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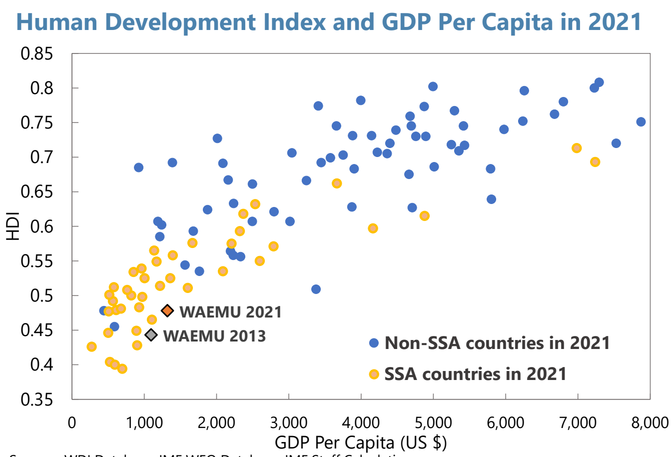
ANNEXES

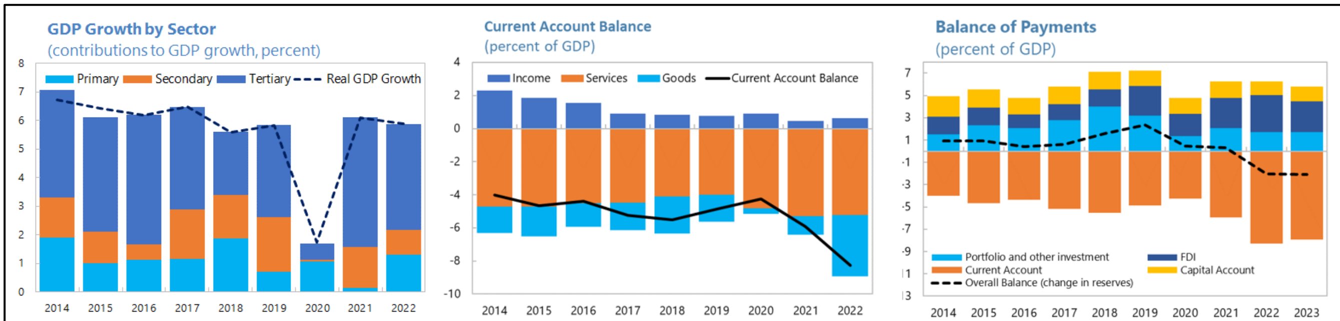
CONTEXT—RESILIENT GROWTH AMID ADVERSE SHOCKS AND VULNERABILITIES

1. **The WAEMU has seen strong growth and rising living standards over the past decade.** Economic growth averaged 5.4 percent in 2013-2019 and 5.8 percent in 2021-2023. Policy efforts from regional and national authorities have cushioned the impact of several external and internal shocks, prompting a solid economic recovery since the COVID-19 pandemic, despite increasing security issues. Meanwhile, the Human Development Index has increased from 0.44 in 2013 to 0.48 in 2021.



Sources: WDI Database, IMF WEO Database, IMF Staff Calculations
For WAEMU: GDP and HDI are calculated using a weighted average by population as aggregation method

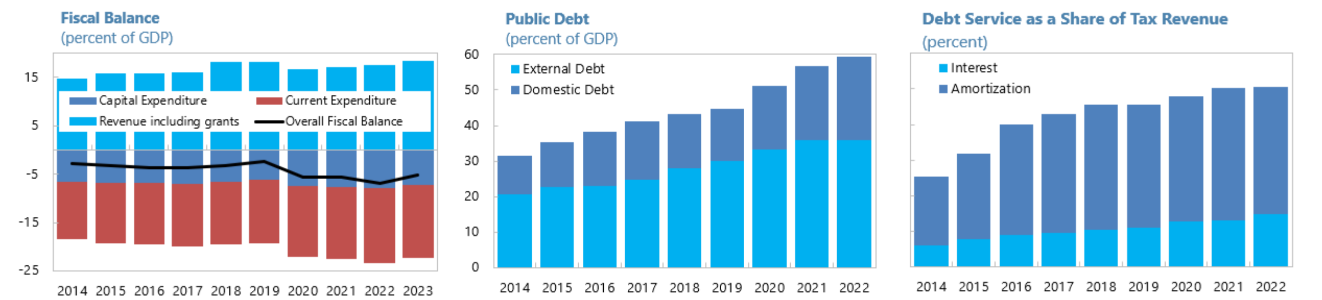
2. **But external imbalances have increased post-pandemic, given repeated global and regional shocks.** Shocks (associated with the pandemic, food and energy price increases, and regional insecurity) and the resulting fiscal response jointly contributed—with limited external financing—to rising macroeconomic imbalances. The average current account deficit rose from 4.8 percent of GDP in 2013-2019 to about 7.4 percent in 2021-2023, while net capital and financial account inflows were little changed at near 6 percent of GDP—prompting a significant decline in external reserves (more below).



Sources: BCEAO, IMF Staff Calculations

3. **Fiscal discipline has weakened since 2020 by shocks, stock-flow adjustments (SFAs), and the lack of a fiscal framework—resulting in higher public debt.** After falling to 2.3 percent of GDP in 2019, the average fiscal deficit jumped to 5.5 percent of GDP in 2020, when the WAEMU Convergence Pact—limiting deficits and debt to 3 and 70 percent of GDP, respectively—expired after being suspended. Partly reflecting the continued impact of COVID-19 and other shocks including those related to rising commodity prices and regional insecurity, the fiscal deficit averaged 5.9 percent in 2021-2023, driven by average increases in current spending (mostly interest payments and wage bill) and capital spending, of 2 and 1.5 percent of GDP respectively, relative to the 2015-2019 average. As a result, public debt increased rapidly, from about 45 percent of GDP in 2019 to 61

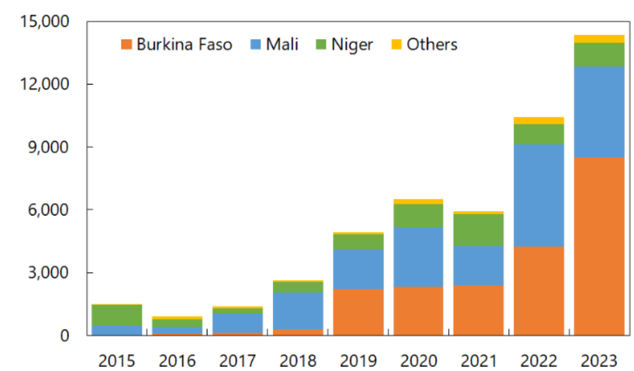
percent of GDP in 2023. SFAs, which averaged almost 1.5 percent of GDP over the past decade, have also constituted an important driver of indebtedness.



Source: BCEAO, WAEMU country authorities, IMF staff calculations.

4. **The region has experienced escalating security threats, irregular changes of government, and political tensions.** The security situation deteriorated in the Sahel over the past decade, reaching record fatalities in 2023, particularly in Burkina Faso, Mali, and Niger (see Annex VI). All three countries have seen irregular changes of government, most recently in Niger in July 2023. The sanctions imposed on Niger (now mostly removed) induced a revision of the 2023 estimated GDP growth for the country from about 7 to 1.3 percent, widespread public sector payment arrears, and difficulties for the banking system. Conflict and internal displacement have continued to spread in these countries and are impacting the northern parts of Benin, Côte d'Ivoire, and Togo.

Fatalities Linked to Security Incidents in WAEMU
(unit)



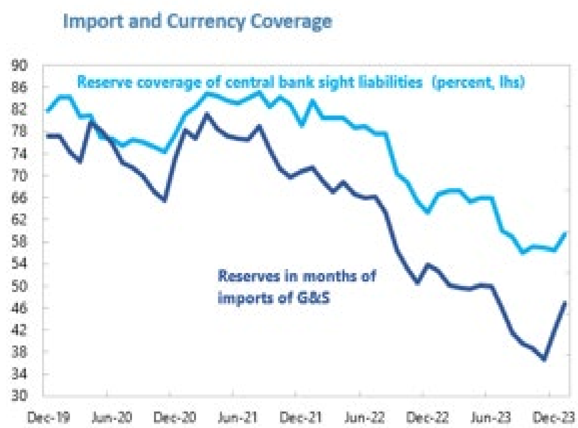
Sources: ACLED; IMF Staff Calculation.
Others include Benin, Cote d'Ivoire, Guinea-Bissau, Senegal, Togo
Security incidents include battles, explosions, protests, riots, strategic developments and violence against civilians

RECENT DEVELOPMENTS—A FALL IN RESERVES WEAKENS THE EXTERNAL POSITION

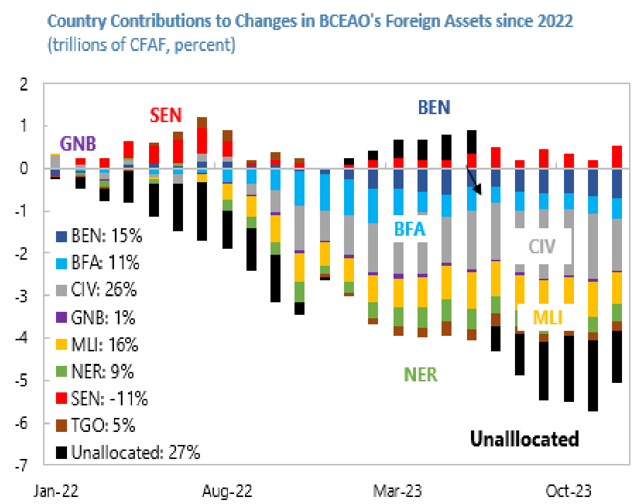
5. **Growth remains strong, and the current account deficit is narrowing but remains large.** Staff estimates that growth slowed from 6.1 percent in 2022 to 5.1 percent in 2023, compared to the authorities' estimate of 5.7 percent.[1] Services continued to drive the economic expansion, with positive contributions from the primary and secondary sectors. Staff estimates that the current account deficit narrowed from 8.3 percent of GDP in 2022 to 7.9 percent of GDP in 2023, while the authorities estimate this deficit in 2023 at 7 percent of GDP (owing to lower imports). Financial inflows remained soft in 2023, contributing to pressures on reserves from the large current account deficit.

[1] 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.

6. Reserves have rebounded from recent lows but remain below adequate levels. After falling from US$24.2 billion to US$18.4 billion in 2022, reserves fell in 2023 to US$15.8 billion, or about 3.3 months of prospective imports, notwithstanding a US$1.8 billion increase in December 2023 on IMF disbursements and seasonal factors. As the IMF made net disbursements of about US$1.5 billion in 2023, the fall in the BCEAO's net foreign assets (NFA) has been steeper, from US$9.4 billion at end-2022 to about US$5.2 billion at end-2023. Most WAEMU member-states appear to be contributing to reserve loss, due to fiscal deficits and low external financing. Reserves recovered further in January 2024 to US$17.5 billion (3.6 months of imports), supported by a Eurobond issuance by Côte d'Ivoire. A successful placement by Benin in early February should likewise help support reserves, as should capital raises by the regional development bank (BOAD).[2] However, the impact of recent sovereign debt placements on reserves will be limited given that part of the proceeds are intended to repay existing external debt under liquidity management operations.



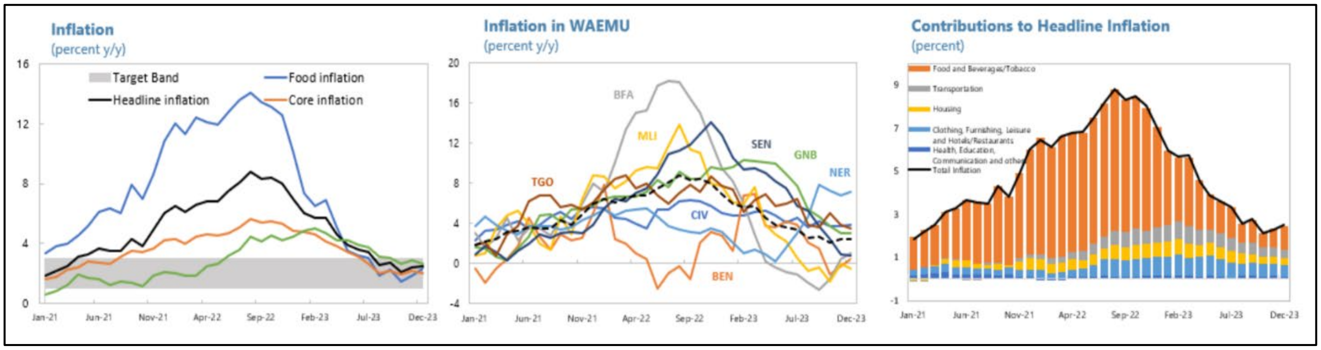
Sources: BCEAO, IMF Staff Calculations.



7. The Fund has continued its support to WAEMU countries, with several ongoing and new arrangements geared towards fiscal consolidation. A series of shocks, large financing needs, and limited access to international capital markets prompted several member-countries to seek IMF financial support in 2023. New arrangements were approved for Côte d'Ivoire, Senegal, Burkina Faso and Guinea-Bissau in 2023, a new arrangement was approved for Togo on March 1, 2024, and reviews under arrangements for Benin, Niger, and Guinea-Bissau were completed. Benin, Senegal, and Niger also initiated arrangements under the Resilience and Sustainability Facility (RSF), and Côte d'Ivoire reached staff-level agreement on an RSF on February 16. These arrangements would also support country efforts to bring the fiscal deficit to 3 percent of GDP by 2025 (unless otherwise defined in an IMF-supported program).

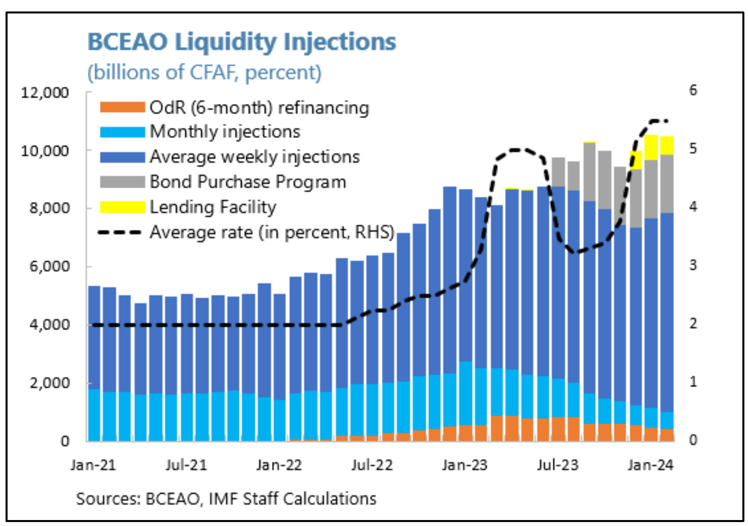
[2] In January 2024, Côte d'Ivoire placed a US$1.1 billion 9-year sustainable bond, at 7.875 percent and a US$1.5 billion 13-year conventional bond at 8.50 percent. In February 2024, Benin issued a US$750 million 14-year bond at 8.375 percent.

8. Inflation has fallen back to its target range. The BCEAO has helped deliver a rapid fall in inflation, which fell from a peak of 8.8 percent (y/y) in August 2022 to 2.6 percent in August 2023—within the 1-3 percent target band—and remained contained thereafter (2.5 percent in December 2023). This represented success in lowering inflation, which had been above the target since March 2021. The disinflation was driven by a moderation in food prices, which rose by 1.1 percent in December 2023, compared to 12.6 percent in November 2022, due to a good harvest and moderation in international commodity prices.



9. The BCEAO has responded to the reserve loss through monetary policy tightening in a broadly appropriate manner. Policy rates have been raised by a cumulative 150 bps since mid-2022. The BCEAO also effectively limited available bank refinancing, after ending the fixed-rate full allotment (FRFA) framework in February 2023. This caused the effective rate for weekly refinancing to jump from under 3 percent in January 2023 to 5.5 percent (the current ceiling of the policy corridor) by end-December, amidst some volatility. The interbank rate also rose steeply along with the three-month Treasury bills, from 2.2 and 2.3 percent respectively at end-January 2023 to 5.8 and 6.7 percent as of end-January 2024. The BCEAO has also strictly enforced existing foreign exchange regulations, including with regards to documentation and export proceed repatriation requirements, but did not impose new foreign exchange restrictions.

10. Faced with difficult trade-offs, the BCEAO temporarily augmented liquidity provision to banks on three occasions to preserve financial sector stability while creating room for budget financing. Following an increase in bank sovereign financing of CFAF 3.1 and 4.1 trillion in 2021 and 2022, respectively, bank net credit to governments was virtually flat in 2023. With banks not willing to increase their large sovereign exposures, in order to prevent disruption in the regional financial market, the BCEAO purchased CFAF 1,933 billion in sovereign securities from banks in July and September 2023, with an understanding that banks would purchase new government debt. As the



BCEAO gradually reduced refinancing volumes to maintain the tighter monetary stance necessary to preserve external reserves, refinancing and interbank rates started rising sharply in November. Amid recurring market pressures, including difficulties in sovereign domestic debt rollover, the BCEAO increased refinancing through the marginal lending facility in the second half of December. Access to this facility reached CFAF 975 billion at the end of 2023, facilitating banks' access to liquidity. Overall, in 2023 the BCEAO increased the total amount of system liquidity only by about 800 billion CFAF (compared with CFAF 3 trillion in 2022), and at substantially higher rates. Some banks report periodic difficulties in accessing FX at the BCEAO, but this appears to be driven by liquidity shortages.

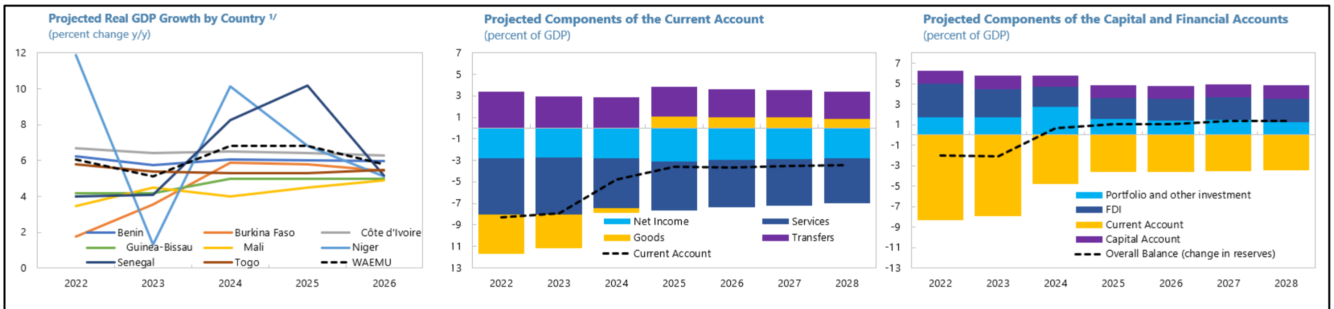
11. Financial stability has been maintained, though continued large sovereign exposure of the banking sector may pose risks. (see accompanying Selected Issues Paper[3]). The aggregate CAR improved from 12.4 to 13.2 percent between end-2021 and June 2023—above the 11.5 percent regulatory threshold. The share of NPLs to total loans declined from 10.3 percent at end-2021 to 8.7 percent at end-June 2023. The y/y growth of bank credit to the private sector slowed from 14.2 percent in 2022 to 10.3 percent in 2023, on tightening liquidity conditions. Banks' sovereign exposures were unchanged in 2023 at about 38 percent of domestic assets, up from 30 percent at end-2019. The system also faces credit and concentration risks (the median concentration of the largest exposure represents about 50 percent of capital as of 2022, suggesting that some banks are not complying with the regulatory largest exposure limit of 35 percent of capital). The authorities' recent stress tests confirm banks' vulnerabilities to credit, liquidity, and sovereign shocks (including missed payments on Nigerien government securities). In January 2024, the BCEAO introduced temporary regulatory forbearance on securities not serviced by Niger's government, to mitigate the impact on bank balance sheets and solvency ratios (see accompanying SIP and Annex II). Some banks remain non-compliant with solvency regulations and decisive action is yet to be taken to address this issue.

12. The decision by three WAEMU members to leave ECOWAS underscores political fragmentation risk, though the recent removal of sanctions on Niger may mitigate tensions. Burkina Faso, Mali, and Niger announced the formation of an Alliance of Sahelian States (AES) in September 2023, in opposition to ECOWAS sanctions against Niger, and notified ECOWAS in January 2024 of their intention to leave the regional grouping. Their departure would imply the imposition of the ECOWAS Common External Tariff on AES members. Based on preliminary analysis, the direct trade channel appears small and thus the overall impact could be contained unless there are broader spillovers, including with respect to WAEMU. The decision by ECOWAS to lift most sanctions against Niger on February 24 may lead to reduced tensions between AES and ECOWAS members—a positive development for the region, which might reduce risks of additional regional fragmentation going forward.

[3] "Key Banking Sector Risks in the WAEMU" The paper finds that the improvements in prudential regulations, banking supervision, and macroprudential surveillance have contributed to the WAEMU's banking system's resilience to recent global and regional shocks. However, bank credit portfolios remain highly concentrated, and their exposure to sovereign and liquidity risks have grown substantially in recent years. The paper discusses further reforms in line with recommendations from the 2022 Financial Sector Assessment Program (FSAP), to help address these vulnerabilities.

A PROMISING OUTLOOK—THOUGH WITH DOMINATING SHORT-TERM RISKS

13. Growth is projected to remain robust, and the current account and reserve coverage are expected to improve in the medium term. WAEMU growth is projected to increase from 5.1 percent in 2023 to about 6.8 percent in 2024-2025, due to the start of hydrocarbon production in Niger and Senegal, and hover near 6 percent in the longer term. Large import needs, also from the hydrocarbon projects, contributed to larger current account deficits in 2022 and 2023, leading to an assessment of the 2023 WAEMU's external position as moderately weaker than economic fundamentals and desirable policies. The completion of these projects will significantly reduce import demand and generate exports from 2024. This, coupled with a moderation in import prices and fiscal consolidation, will lead to a quick narrowing of the current account deficit towards the 2023 estimate of the current account norm. Meanwhile, the improving current account, coupled with enhanced prospects for financial inflows (including in light of the recent Eurobond placements by Côte d'Ivoire and Benin) are expected to contribute to a gradual rebuilding of external reserves.



Source: IMF staff calculations.
1/ The spikes in growth for Niger and Senegal reflect the projected commencement of hydrocarbon exports in these countries.

14. Fiscal consolidation would stabilize debt at high levels. Staff project that most WAEMU members will gradually reduce their fiscal deficit to 3 percent of GDP by 2025. Fiscal consolidation in 2023 was centered in expenditures and subsidies, but revenue measures are envisaged to drive the adjustment from 2024 onwards, including in relation to VAT collection and corporate income taxation. Hydrocarbon revenues in Senegal and Niger will also contribute in the medium term. All WAEMU member-countries are currently assessed at moderate risk of external and public debt distress except Guinea-Bissau and Togo (Togo is assessed at high risk of public debt distress only) and debt levels range from just over 50 percent of GDP in Niger, Mali, and Benin to 80 percent of GDP in Senegal.[4] In the baseline scenario, debt peaks at almost 61 percent of GDP in 2023 and declines gradually thereafter in the absence of SFAs, with debt service remaining high throughout the projection period.

15. These projections are subject to significant downside risks, with some upward potential. Recent Eurobond issuances by Côte d'Ivoire and Benin open positive prospects for

[4] WAEMU countries have different debt carrying capacity ratings, with different thresholds being applied to assess the risk of debt distress.

improved international market access, though such access remains uncertain in a global volatile environment. Fiscal slippages, including through new SFA accumulation (see below), would threaten financial stability and the projected decline in debt-to-GDP ratio, which in turn would aggravate the sovereign-bank nexus. Delays in successful exploitation of the region's new hydrocarbon resources could set back medium-term growth and weaken prospects for a narrowing current account deficit. The region is also vulnerable to additional external and internal adverse shocks, including worse terms-of-trade, climate disasters, or a further deterioration in security and socio-political stability. The January decision by three WAEMU members to leave ECOWAS underscores the risk of rising uncertainty and continued fragmentation, though the direct economic impact would likely be limited in the short term. Such a risk is likely to be significantly reduced now that ECOWAS removed most sanctions against Niger. The BCEAO recent stress tests identify credit, liquidity, and macro risks as sources of vulnerabilities.

Authorities' Views

16. The authorities shared staff views on prospects and risks, though not on the external assessment. They also project that growth will increase this year, while inflation would remain contained. In the authorities' projections, the current account deficit would narrow faster than projected by IMF staff, which would swiftly return reserves to adequate levels. The authorities disagreed with staff's assessment that the external position in 2023 was moderately weaker than economic fundamentals and desirable policies, with BCEAO calculations indicating that the external position was consistent with economic fundamentals and desirable policies.

POLICIES—SUPPORTING GROWTH, MAINTAINING SUSTAINABILITY, AND STRENGTHENING INCLUSION

The overall policy priority remains to ensure domestic, external, and financial stability while supporting robust and inclusive growth in a challenging environment. While medium-term growth and inflation prospects are strong, the region's buffers have been significantly eroded by external and fiscal imbalances of the past few years—in contrast to pre-pandemic levels. Higher debt, lower reserves, and higher borrowing costs leave limited room for policy missteps or accommodation of unforeseen shocks.

A. Fiscal Policy—Ensuring Debt Sustainability, Supporting Financial Stability, and Promoting Inclusive Growth

17. Fiscal policy needs to ensure a credible medium-term commitment to debt sustainability, while keeping deficits consistent with available financing to contain pressures on reserve adequacy. WAEMU governments will need to maintain a clear commitment to fiscal consolidation, notably to bring fiscal deficits back to 3 percent of GDP by 2025 (unless otherwise decided in an IMF-supported program; Burkina Faso is projected to converge in 2027 and Mali—not in an active IMF-supported program—by 2026), as further delays could erode reserves, undermining external viability and financial stability. Public expenditure has risen over the past few years, owing in part to increased regional insecurity (including costs of hosting refugees and internally displaced persons), while the interest bill rose by almost 1 percent of GDP in 2023 and the wage bill by 0.6 percent of GDP, with respect to their five-year average prior to 2020. Each member-state bears responsibility for the fiscal consolidation necessary to preserve the viability of the union, which includes not placing undue pressure on the regional financial market, and contingency planning for shocks or fiscal underperformance.

WAEMU Fiscal Expenditures
(percent of GDP)

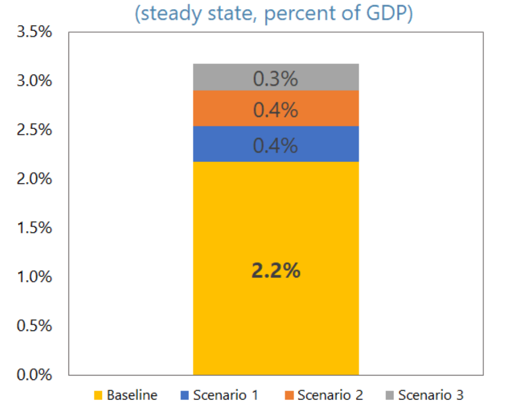
	2015-2019 Avg.	2023	change
Total Expenditure	19.8	23.0	3.2
Current Expenditure	12.9	15.1	2.2
o/w wages	5.2	5.7	0.6
o/w interest	1.2	2.2	0.9
o/w goods and services	2.8	2.8	0.1
Capital Expenditure	6.7	7.2	0.6

18. It is crucial, for both domestic and external stability, to ensure that spending or revenue are further adjusted if financing availability is lower than expected. Further fiscal adjustment would become essential in case banks—the major players in the regional market—become more reluctant to absorb sovereign debt issuances, or other shortfalls in financing materialize. This would require coordination of member-states on their financing needs, to manage the aggregate Impact on the regional market and avoid sudden stops or other disruptions. Spending rationalization should also contribute to fiscal adjustment, especially if planned revenue measures fall short of projections.

19. To enhance the credibility of fiscal commitments, it is urgent to reintroduce an enhanced Convergence Pact with the previous ceilings, while continuing to address unidentified sources of debt creation (SFAs) and/or budget underperformance.

- The national and regional authorities should urgently reinstate the previous Pact via member state agreement, whose ceilings (on debt and fiscal deficit at 70 and 3 percent of GDP, respectively) remain appropriate. Relaxing the ceilings would result in higher indebtedness, which in turn would imply higher interest spending, absorbing all the fiscal space meant to be generated via the higher deficit ceiling (see text chart).[5] Such an

Interest Payments Scenarios
(steady state, percent of GDP)



A static comparison based on 2023 fiscal data.
Baseline: current indebtedness and interest rate
Scenario 1: 10 percent of GDP more debt, no change in interest rate
Scenario 2: 10 percent of GDP more debt, 120bps higher interest rate on non-concessional external debt
Scenario 3: 10 percent of GDP more debt, 120bps higher interest rate on non-concessional external debt and domestic debt

Note: Scenarios 1, 2, and 3 assume 10pp GDP higher debt; the composition of debt is fixed (the additional debt maintains the same proportions of domestic, external concessional, and external non-concessional, as current debt); and baseline interest rate is proxied by current average interest rate on total debt.

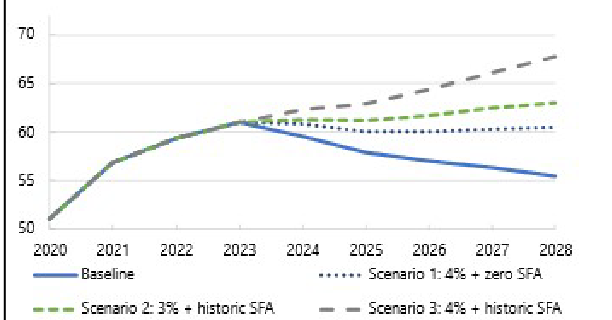
[5] The text chart shows a simulation of what would happen when raising the WAEMU debt limit from 70 to 80 percent of GDP, if actual debt increased by 10 percentage points of GDP in the new steady state. Interest payments would

(continued)

increase in interest expenditure would reduce fiscal space by more than 1 percent of GDP, which would more than fully offset the increase in fiscal space sought with a change in the deficit ceiling from 3 to 4 percent of GDP: the effective fiscal space available for non-interest expenditure would effectively reduce from the situation associated with the original 3 and 70 percent of GDP ceilings. Moreover, the tightening of global financing conditions over the past few years, which have led to a surge in interest rates and regional funding costs, is likely to exacerbate these pressures on borrowing costs.

- Even modest slippages from the projected consolidation path could cause debt to continue to rise, increasing risks of financial stability and crowding out private sector credit. Staff simulations show that the only scenario consistent with both debt stabilization and the recovery of critical fiscal buffers to cope with future shocks is a deficit target of 3 percent of GDP in the absence of SFAs (see text chart and accompanying Selected Issues Paper[6]).

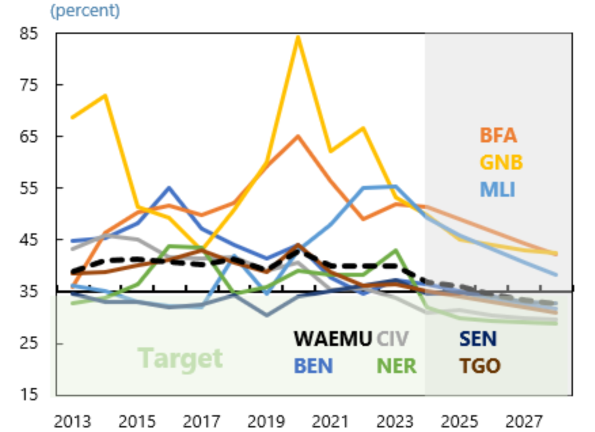
Debt Dynamics Scenarios
(percent of GDP)



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

- Countries should thus strengthen efforts to ensure that sources of budget underperformance and SFAs are contained, building on the WAEMU Commission's useful ongoing discussions with member countries. Regional and national authorities should strengthen their capacity and coordination in monitoring public debt, to ensure that increases in debt are in line with approved budget laws and subsequent revisions.

Wages and Salaries to Tax Revenue
(percent)



Source: IMF Staff Calculations

- The Pact should be enhanced via the introduction of supporting arrangements, including well-designed escape clauses based on exogenous indicators (to accommodate future shocks without the need for an

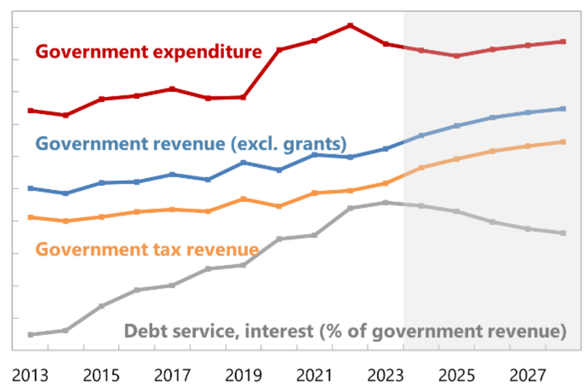
increase, not just automatically from the higher debt, but also as interest rates can be expected to increase by about 1.2 percentage points on non-concessional debt (as estimated in Hadzi-Vaskov and Ricci, 2022). Based on the current composition of debt, this would add more than 1 percent of GDP in higher interest payments, as shown in the chart.

[6] "Securing Fiscal Discipline and Credibility in WAEMU". This paper discusses how fiscal consolidation and the reintroduction of the WAEMU fiscal framework is crucial for maintaining debt sustainability, external viability, and financial stability, while promoting access to lower-cost financing and rebuilding fiscal buffers. The paper also emphasizes the importance of better understanding and addressing stock-flow adjustments (SFAs).

indefinite suspension of fiscal rules), a debt correction mechanism (that can prevent excessive debt increases via adjustments following breaches of deficit or debt ceilings), and a credible enforcement mechanism.

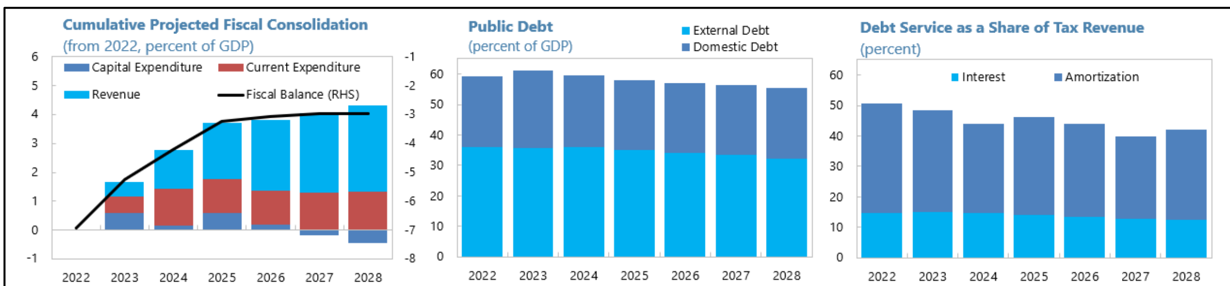
20. Revenue mobilization should drive the fiscal adjustment, to help protect development, social, and security spending aimed at promoting inclusion and addressing drivers of instability, while controlling wage bill growth. Domestic revenue mobilization is projected to account for most of the fiscal consolidation over the medium term, which will require additional measures to achieve the regional target of 20 percent of GDP. Increased revenue will be particularly important, also because higher projected interest costs could crowd out other spending. Efforts to increase revenue have mainly relied on strengthening tax administration and digitalization in recent years, and tax revenues remain reliant on customs revenues, with many value-added tax (VAT) exemptions. Efforts need to continue towards broadening the tax base (including by reaching medium-sized firms), reducing VAT exemptions, and business tax exemptions, streamlining the personal income tax regime, strengthening controls on fiscal evasion, and rationalizing excise taxes. The WAEMU Commission should leverage its multilateral surveillance role and resources to support these efforts. Some members should take actions towards observing the 35 percent regional ceiling on the wage bill to tax revenue ratio, a ratio that should not be relaxed to encompass total revenue.

Government Revenue and Expenditure
(percent of GDP, unless otherwise indicated)



Source: IMF Staff Calculations

21. The IMF stands ready to support regional authorities' reforms efforts through technical assistance (TA). The Fund is delivering TA to strengthen VAT administration within the WEAMU region, to better mobilize VAT revenue closer to its potential, and to improve regional budget execution and control.



Source: BCEAO, WAEMU country authorities, IMF staff calculations.

Authorities' Views

22. The regional authorities agreed with IMF staff on the importance of fiscal consolidation. They argued that the high fiscal deficits seen in WAEMU member-states since 2020 reflect the impact of several shocks, and that fiscal consolidation is now on track, supported by active IMF arrangements. They argued that financing prospects are much improved in 2024, after a difficult 2023, and that some policy discretion will remain essential in responding to shocks. The authorities agreed with the importance of reintroducing the Convergence Pact and confirmed their intention to keep the original deficit and debt ceilings unchanged. They highlighted ongoing efforts to harmonize the definitions of public sector deficit and debt (public debt statistics would need to cover the entire public sector, as well as contingent liabilities), and broaden the scope of the public financial reporting table TOFE, arguing that these efforts would help lower SFAs. Ongoing missions by the WAEMU Commission (missions completed in five member countries in late 2023, with three remaining in 2024) will provide a more comprehensive picture of the scope of SFAs, their sources, as well as remedies.

B. Monetary Policy—Rebuilding External Buffers

23. The BCEAO should raise policy rates to rebuild external buffers, while ensuring alignment between liquidity management and policy rates. Monetary policy faces the key challenge of preserving external viability and financial stability, while ensuring inflation remains under control. Inflation is now back within its target band, but further monetary tightening is necessary to bring external reserves back to adequate levels and contain financial stability risks. The BCEAO projects reserves to recover to 4 months of imports in 2024, while the increase in reserves projected by IMF staff will not be sufficient to restore reserve adequacy this year (the difference in projections mainly relates to imports[7]).

24. Repeated convergence of the refinancing rate to the ceiling of the policy rate corridor highlights the challenge of operating two related policy instruments (rates and liquidity) towards two objectives (financial stability and external viability). The need to tighten liquidity to contain reserve losses while marginal rates are at the ceiling of the policy corridor suggests a need to raise policy rates, which would better align policy rates and liquidity levels towards monetary policy goals, and allow the central bank to avoid rationing of refinancing (which has adverse impact on the stability of the regional financial market). In the context of the BCEAO's system of providing fixed quantities of bank refinancing, liquidity management will be crucial. To further ensure consistency in its monetary policy operations, the BCEAO should also refrain from asset purchases similar to those completed in 2023, and only conduct unconditional open market operations that are offset by a reduction of other liquidity injections within a reasonable timeframe. Efforts should also continue to foster the interbank market with a view to improving monetary policy transmission.

[7] The BCEAO projects a current account deficit of around 3.5 percent of GDP in 2024, below IMF staff projections, based on lower imports, particularly related to large infrastructure projects. This difference in import projections also impacts the denominator of the reserve coverage ratio.

25. Enhanced monetary-fiscal policy coordination would help both the WAEMU address short-term risks and the BCEAO meet its medium-term reserves objectives. In the short term, WAEMU members and the BCEAO may need to coordinate towards a tighter stance if risks to reserve recovery were to materialize. This contingency could not be addressed solely through monetary policy, given the liquidity impact of monetary tightening, the limited capacity of the regional market to meet governments' domestic financing needs, and the associated financial stability risks. A joint effort to adjust fiscal consolidation (thus reducing pressure on the regional financial market) while tightening monetary policy (thus containing reserve loss) would be essential. It is also important to intensify the coordination of national and regional authorities to ensure external stability: this will require careful consideration of the extent to which individual countries' domestic financing needs (currently projected at over CFAF 2 trillion for 2024, overall) are compatible with the regional banking system's aggregate absorptive capacity and with changing interest rates and NDA compatible with NFA objectives that maintain reserve adequacy (see accompanying Selected Issues Paper[8]). Continuing efforts to enhance monetary policy communication would reinforce its effectiveness.

26. Safeguards assessment. The last assessment of the BCEAO, completed in August 2023, found that the central bank continues to have well-established audit arrangements and a strong control environment. The BCEAO is in the process of addressing the safeguards assessment's recommendation to align its Statute with changes in the 2019 cooperation agreement with France.

Authorities' Views

27. The BCEAO shared staff's view on the importance of forestalling further reserve losses but argued that a return to reserve adequacy is already imminent. They noted that BCEAO projected a return to minimum reserve adequacy in 2024 even before the recent Eurobond issuances by Côte d'Ivoire and Benin. Their different view is based on imports falling faster than projected by IMF staff (based on the conclusion of hydrocarbon-related infrastructure projects). They noted that they present an integrated WAEMU macroeconomic framework to ministers to guide domestic policymaking, including on financing assumptions, but agreed that regional policy coordination could be improved. They also agreed that the central bank would tighten policy further if necessary to maintain reserves and stressed that they have no intention to conduct further bond purchases similar to those carried out in 2023.

C. Financial Sector—Ensuring Stability and Supporting Growth

28. Following up on the efforts of the BCEAO and the Banking Commission (CBU), significant progress was made at the regulatory level in 2023 through the adoption by the WAEMU Council of Ministers of new statutes for the banking and microfinance sectors. The

[8] "Recent Challenges to the Conduct of Monetary Policy in the WAEMU". This paper discusses recent challenges in BCEAO monetary policy, related to the inflation spike, the persistent erosion of external reserves, and strains in the regional financial market. In response to these shocks, the BCEAO operated via both policy rates and liquidity management, including by shifting from fixed to variable rate auctions. The paper finds that the conduct of monetary policy became progressively more constrained by financial stability and external viability challenges, arguing for enhanced monetary-fiscal policy coordination to help the BCEAO meet its reserves objectives.

WAEMU Council of Ministers approved in 2023 an amended Convention governing the CBU (March 2023), a new AML/CFT law (March 2023), a new banking law (June 2023), and a legal framework for microfinance institutions (December 2023), also in response to risks identified in the FSAP. The new banking law extended the scope of an overall framework for the practice and supervision of banking activities, including payment institutions and e-money institutions, bank holding companies and financial companies. The law also strengthened approval procedures and conditions for carrying out banking activity, among other areas, and designated the BCEAO as the macroprudential authority. To enhance financial inclusion and strengthen the resilience of microfinance institutions, a new legal framework has been established for authorized activities and supervision of these institutions. The strengthened AML/CFT regulatory framework aims at ensuring further compliance with the FATF Standards with regard *inter alia* to the AML/CFT framework for risk-based supervision. The Convention governing the CBU and its annex have been amended to enshrine its independence and require that each commissioner representing a member-state have relevant qualifications and be appointed by the WAEMU Council of Ministers rather than by the member-state.

29. Addressing the sovereign-bank nexus requires a medium-term plan to mitigate risks to financial stability. The recent decision to double the minimum share capital of banks to CFAF 20 billion is welcome and will help promote the resilience of the banking system. Nonetheless, the rise in banks' sovereign exposures may pose risks of disruptions in the regional financial market. Introducing "targeted" Pillar 2 capital surcharges would help manage both concentration and interest rate risks. Indeed, the share of credit to the largest borrowers continues to rise, while banks rely on short-term funding to hold large volumes of long-dated sovereign debt-much of which was issued at significantly lower rates than currently prevailing in the market, although the great majority of such debt is held to maturity. Regional and national authorities should also pursue reforms to help broaden governments' domestic sources of financing beyond banks.

30. Staff highlighted the importance of introducing Basel III liquidity ratios and Pillar 2 higher liquidity requirements for banks most exposed to liquidity risks, as well as an emergency liquidity assistance (ELA) scheme. Liquidity regulations have not yet incorporated recent advancements concerning the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR). The introduction of the Basel III liquidity ratios will help banks internalize liquidity risks which should over time be differentiated by bank's liquidity profile (under Pillar 2). An ELA would strengthen the BCEAO's ability to provide emergency liquidity to viable banks that are facing temporary liquidity shortages and that have exhausted collateral eligible for monetary policy operations. It should be supported by appropriate risk-mitigation mechanisms and usage conditions.

31. Progress in operationalizing the banking resolution framework is welcome. All systemically important banks have produced preventative restructuring plans. Based on these approved plans, resolution plans were adopted for 20 systemic banks in 2023, and the CBU is expected to adopt resolution plans for the remaining 12 by mid-2025. Legislative measures required for the full operationalization of the resolution framework are considered in the new 2023 banking law.

32. The regulatory framework for risk-based supervision in AML/CFT was strengthened by the adoption of the new AML/CFT law and some actions were taken towards addressing FSAP recommendations. National authorities are strongly encouraged to transpose and implement the new law aimed at improving the AML/CFT framework with a view to facilitating the removal of WAEMU members currently on the FATF grey list (Burkina Faso, Mali, and Senegal). The CBU took some initial steps to adjust its risk-based supervision methodology and published sanctions against some financial institutions for failure to comply with AML/CFT obligations.

33. The authorities should continue paying close attention to the implications of the non-servicing of Nigerien sovereign securities, though the lifting of sanctions should alleviate the situation. The removal of most ECOWAS sanctions against Niger—accompanied by the January regulatory forbearance—should allow a normalization of payments over time. Nonetheless, the authorities should continue to pay close attention to the financial implications and promptly take remedial actions as needed.

34. Progress is being made to support the development of the regional financial market, but more efforts are needed to increase the depth and liquidity of the secondary market for sovereign securities. A working group has been established at the BCEAO to formulate proposals and guidelines for security dealers in the public debt market and to enhance the activities of market makers, known as Treasury Securities Dealers (TSDs). The primary strategies would involve setting a market share target for third-party transactions, diversifying the investor base beyond credit institutions, and promoting the regional public debt market through targeted events and the establishment of a TSD association.

35. There are ongoing efforts to promote financial inclusion. Financial inclusion has improved significantly, with the WAEMU financial inclusion rate reaching 71 percent in 2022, up by 24 percentage points since 2016, primarily due to increased ownership of financial and mobile money accounts, as well as digital payments and transaction volumes. The regional financial inclusion strategy has been revised to address the new challenges arising in the WAEMU socioeconomic and financial environment. The microfinance sector, which represents about 7 percent of the banking sector in terms of deposits and loans, has seen several institutions fail in the past. While several fragile entities have recently undergone restructuring or termination, the sector needs to be further strengthened. Hence, to enhance financial inclusion and strengthen the resilience of microfinance institutions, a new legal framework has been established for authorized activities, governance, and supervision of these institutions. The authorities' exploration with fast payments and investigation of CBDC (Annex VII) may also contribute to financial inclusion.

36. Staff appreciated authorities' efforts to assess and manage climate-related risks in the financial system, however limited data availability poses a challenge. The BCEAO assessed climate risk by simulating the impact of a drought, revealing a deterioration in banks' commitments to the "agriculture, forestry, and fishing" sector, yet the banking system remained resilient. A draft climate policy strategy is currently under preparation, aiming to enhance supervisors' and financial institutions' awareness of climate-related issues. Work aiming to define prudential expectations for integrating climate and environmental risks in financial institutions' risk management systems and disclosures is ongoing.

Authorities' Views

37. The authorities concurred that the financial sector was resilient, noting that the banking system is vulnerable to credit, liquidity, and sovereign risks. The BCEAO's recent stress tests show that climate risks are contained. They noted that credit growth is slowing, largely due to tight monetary policy. The authorities indicated that the doubling of the minimum share capital for banks will enhance the resilience of the banking system and contribute to financing economic development. They also highlighted that they would intensify supervisory actions on the banks that are most exposed to missed payments on Nigerien government securities. The BCEAO noted that the amended banking law, AML/CFT law, and the new regulatory framework for microfinance institutions are positioned to address the key risks identified in the recent FSAP. The authorities reiterated their commitment to address the FSAP recommendations that have not yet been completed or remain outstanding with active efforts toward implementation (Annex V).

D. Regional and Structural Policies—Growth Through a Stronger WAEMU

38. The viability and prosperity of the economic and monetary union will also depend on deepening economic integration and enhancing infrastructure. Regional growth prospects would be enhanced by continued efforts to increase common productive capacity in energy, infrastructure, and food resilience, as called for in the WAEMU Commission's Regional Development Strategy. Policies to improve infrastructure at the regional level could expand road connectivity and access to electricity. Leveraging digital finance would contribute to enhance efficiency of the financial system, financial development, and inclusion. The BCEAO's well-advanced fast payments plan holds promise both to promote regional integration and reduce costs, by offering interoperable services across the region's platforms. Staff also welcomes the BCEAO's efforts to examine the feasibility of a CBDC potentially fostering financial inclusion, cross-border transactions, fintech, and digitalization while also evaluating associated risks including cybercrimes, money laundering, and terrorism financing.

39. Regional structural reforms aiming at strengthening common institutions and regulations are needed to promote intra-regional trade. Consistent with past Fund advice, WAEMU institutions should continue to reduce non-tariff barriers by adopting common trade regulations and common labor market laws. Stronger governance is also needed to improve the business climate, by reinforcing anti-corruption agencies, and simplifying tax payments. The WAEMU Commission's Vision 2040 growth diagnostic could help identify further priorities and help the region leverage regional integration to capture more value-added in global supply chains. Measures the industrialization of the regional sector of non-transformed commodities would improve export returns, food independence, and macroeconomic resilience.

40. The authorities should pursue policies to mitigate gender disparities and address climate-related and corruption vulnerabilities to promote inclusive and sustainable economic growth. Addressing gender inequalities in outcomes and opportunities as well as containing potentially acute effects of climate change would contribute to unleashing the strong economic potential of the WAEMU region (see accompanying Selected Issues Papers[9]).

Authorities' Views

41. The authorities reaffirmed their commitment to the reform agenda despite serious political challenges. They noted that decision-making at the regional level is still operational despite the current political challenges, that a broad consensus remains on economic development priorities, and that the Vision 2040 would help spur regional growth and improve competitiveness. They stressed that the recent capital raising by BOAD and its subsequent engagement in new projects across member states is concrete evidence of the role of regional institutions in promoting regional economic convergence.

STAFF APPRAISAL

42. The WAEMU economy has been resilient, with strong economic growth performance and prospects, while inflation has fallen within its target range. Economic growth since the pandemic has averaged about 6 percent and the region continues to make progress on development outcomes, despite multiple shocks, while medium-term growth is expected to remain strong. The region has also seen success in lowering inflation. The banking system remains resilient, although it maintains large exposures to regional sovereigns.

43. At the same time, the region has seen widening external and fiscal imbalances. The current account deficit widened substantially since the COVID-19 pandemic and remains large, contributing to a significant decline in external reserves. The external position of WAEMU in 2023 is assessed to have been moderately weaker than the level implied by medium-term fundamentals and desirable policy settings. Fiscal deficits also significantly increased, driving public debt to 61 percent of GDP in 2023. The BCEAO response to these pressures has been broadly appropriate, by tightening monetary policy via raising rates and by containing the quantities of liquidity injected into the regional banking system.

44. These imbalances are projected to narrow significantly in the medium term, boosting reserves and stabilizing debt at high levels, but these projections are subject to downside risks. WAEMU growth is projected to rise to almost 7 percent in 2024-2025, due to the start of hydrocarbon production in Niger and Senegal, and hover near 6 percent in the longer term. The

[9] "Climate Change in the WAEMU: Trends, Macro-Criticality, and Options Going Forward" and "Gender Inequality in the WAEMU: Current Situation and Opportunities". The first paper focuses on the trends in climate change in the WAEMU, assesses the criticality of climate change for the region, and reviews the related policy and financing options going forward. The second paper documents the current state of gender inequalities in the WAEMU, finding that despite significant progress toward gender equality over the last three decades, there are still prevalent gender-based disparities.

completion of hydrocarbon infrastructure projects and the commencement of exports would also significantly improve the current account, while successful consolidation (supported by Fund arrangements) would reduce deficits in most member states to 3 percent of GDP by 2025. These projections are associated with an improved reserve outlook. However, they are subject to downside risks, including debt accumulation due to SFAs, delays in hydrocarbon production, further deterioration in socio-political stability, or other external shocks.

45. The envisaged regional consolidation is crucial for both domestic and external stability, and further fiscal adjustment is essential if financing availability is lower than expected. The envisaged fiscal consolidation towards a 3 percent deficit in 2025 (unless otherwise defined in an IMF-supported program) is crucial for domestic and external stability. Even modest slippages in the projected consolidation path could cause debt to continue to rise, increase risks to financial stability, and crowd out private sector credit. Further fiscal adjustment would also become essential if the regional market is unable to absorb further debt issuances, or other shortfalls in financing materialize. Such efforts would require coordination of member states on their financing needs and the related aggregate impact on the regional market.

46. Fiscal discipline should be supported via the reintroduction of an enhanced Convergence Pact with the previous ceilings of debt and deficits at 70 and 3 percent of GDP, respectively Higher ceilings would imply higher interest spending, absorbing most or all additional fiscal space. The Pact should be supported by well-designed escape clauses, a debt correction mechanism, and a credible enforcement mechanism. Countries should strengthen efforts to ensure that sources of budget underperformance and SFAs are contained.

47. Revenue mobilization should drive the fiscal adjustment. This would help member states protect development, social, and security spending aimed at promoting inclusion and addressing the drivers of instability. Efforts need to continue towards broadening the tax base (including by reaching medium-sized firms), reducing VAT exemptions, accelerating the removal of business tax exemptions, streamlining the personal income tax regime, strengthening controls on fiscal evasion, and rationalizing excise taxes.

48. The BCEAO should raise policy rates to rebuild external buffers while ensuring alignment between liquidity management and policy rates. Monetary policy faces the key challenge of preserving external viability and financial stability, while ensuring inflation remains under control. Inflation is now back within its target band, but further monetary tightening might be necessary to bring reserves back to adequate levels and contain financial stability risks. Repeated convergence of the refinancing rate to the ceiling of the policy rate corridor highlights the challenge of operating two related policy instruments (rates and liquidity) towards two objectives (financial stability and external viability).

49. Enhanced monetary-fiscal policy coordination would help the WAEMU address both short-term risks and help the BCEAO meet its medium-term reserves objectives. In the short term, WAEMU members and the BCEAO may need to coordinate towards a tighter stance if risks to reserve recovery were to materialize. A joint effort to adjust the fiscal consolidation (reducing pressure on the regional financial market) while tightening monetary policy (containing reserve loss) is the only appropriate response to address both risks. It is also essential to intensify the coordination of national and regional authorities to ensure medium-term external stability. This will require careful consideration of the extent to which individual countries financing needs are compatible with the aggregate absorptive capacity of the regional banking system and with an evolution of interest rates and NDA compatible with NFA objectives that bring reserves back to adequate levels.

50. Adopting a medium-term plan to address the sovereign-bank nexus will mitigate risks to financial stability. In this regard, the BCEAO should consider measures to contain bank concentration risk from sovereign lending, for example by introducing targeted Pillar 2 capital surcharges. Regional and national authorities should also pursue reforms to help broaden governments' domestic sources of financing beyond banks.

51. The authorities should continue their efforts to implement other FSAP recommendations. Progress was made in supporting supervisor independence and resources which should continue. A timely introduction of Basel III liquidity requirements would help banks internalize liquidity risks, which should over time be differentiated by bank's liquidity profile (under Pillar 2). Pillar 2 capital surcharges would help manage concentration and interest rate risk. The authorities should fully implement the resolution framework by mid-2025 as planned. National authorities are strongly encouraged to transpose and implement the new AML/CFT law with a view to facilitating the removal of WAEMU members currently on the FATF grey list.

52. WAEMU prosperity will also depend on maintaining political cohesion, deepening economic integration, strengthening the institutional framework, and infrastructure. Regional growth prospects would be enhanced by continued efforts to increase common productive capacity in energy, infrastructure, and food resilience, as called for in the WAEMU Commission's Regional Development Strategy. Consistent with past Fund advice, WAEMU institutions should continue to reduce non-tariff barriers by adopting common trade regulations and labor market laws. It is essential to expand road connectivity and access to electricity, adopt measures to promote supply chains, enhance governance, strengthen regional institutions, and leverage digital finance. In this respect, the BCEAO's fast payments plan could both promote regional integration and reduce costs, by offering interoperable services across the region's many payment platforms.

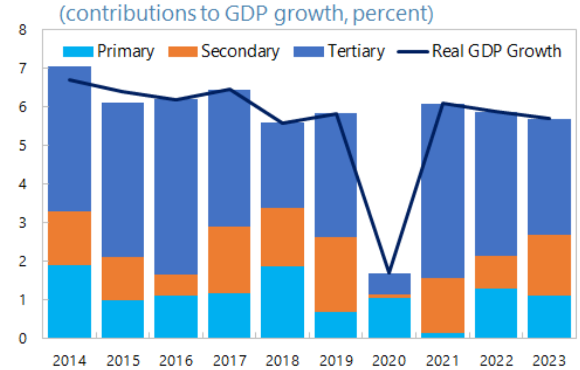
53. The authorities should pursue policies to mitigate gender disparities and address climate-related and corruption vulnerabilities to promote inclusive and sustainable economic growth. Addressing gender inequalities in outcomes and opportunities as well as containing potentially acute effects of climate change would contribute to unleashing the economic potential of the WAEMU.

54. 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: Selected Macroeconomic Indicators

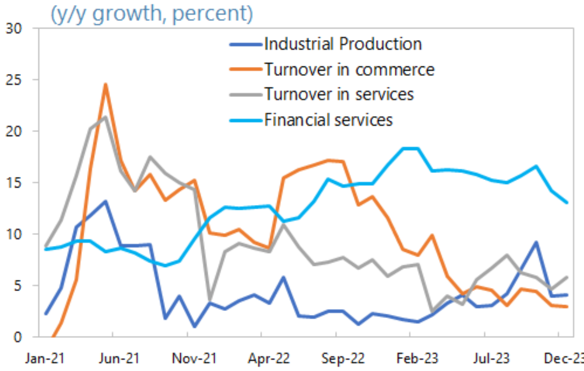
Services have long driven the regional economy.

GDP Growth by Sector
(contributions to GDP growth, percent)



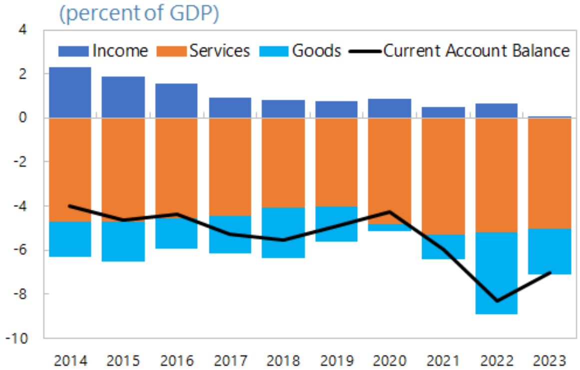
Latest indicators suggest that growth continued to be strong in 2023, led by services.

Cojunctural Indicators of Activity
(y/y growth, percent)



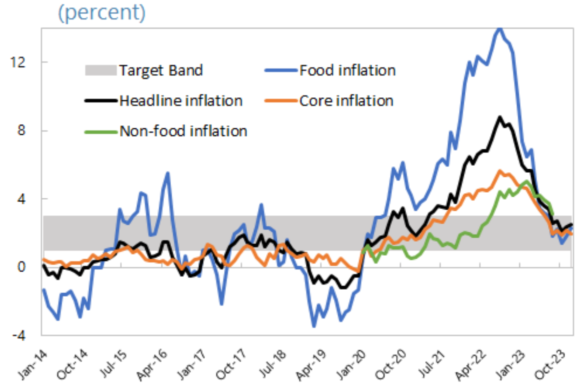
The current account deficit narrowed in 2023.

Balance of Payments
(percent of GDP)



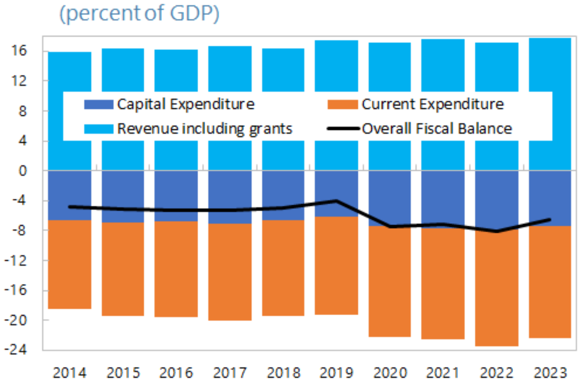
Inflation has fallen back within the target band, driven by a moderation in food prices.

Inflation
(percent)



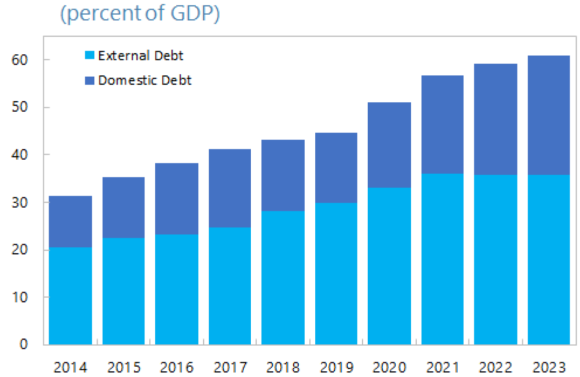
The fiscal deficit is estimated to have narrowed in 2023.

Fiscal Balance
(percent of GDP)



Public debt is stabilizing at about 60 percent of GDP.

Public Debt
(percent of GDP)

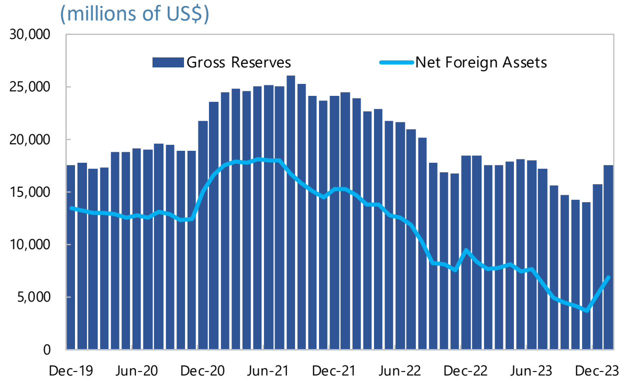


Sources: BCEAO, national authorities, IMF Staff Calculations.

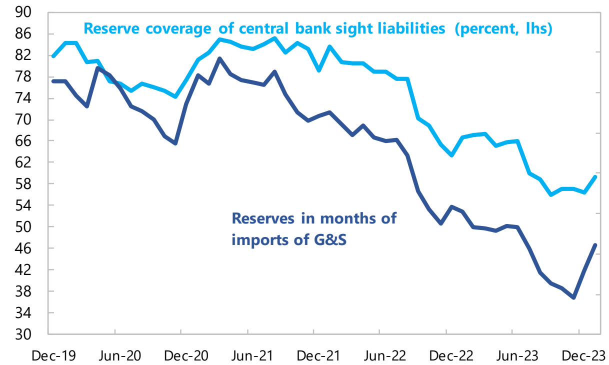
Figure 2. WAEMU: Monetary and Financial Indicators, 2019–January 2024

Reserves fell by US$ 2.8 billion in 2023 but rose by US$1.8 billion in January 2024, reaching 3.6 months of imports.

Reserves
(millions of US$)



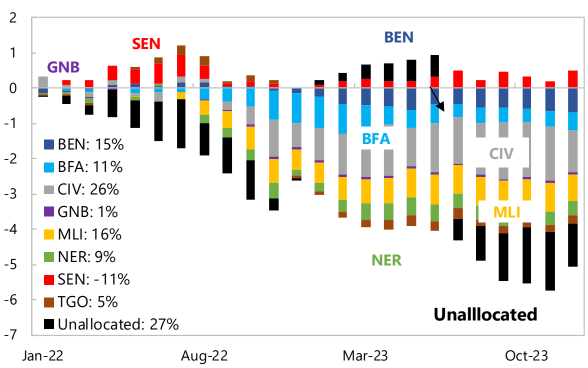
Import and Currency Coverage



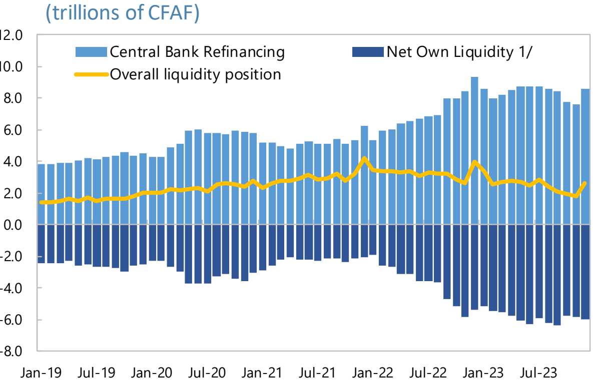
Most WAEMU members have contributed to changes in BCEAO's foreign assets roughly in line with their share of regional GDP.

Banks remain reliant on central bank refinancing for liquidity.

Country Contributions to Changes in BCEAO's Foreign Assets since 2022
(trillions of CFAF, percent)

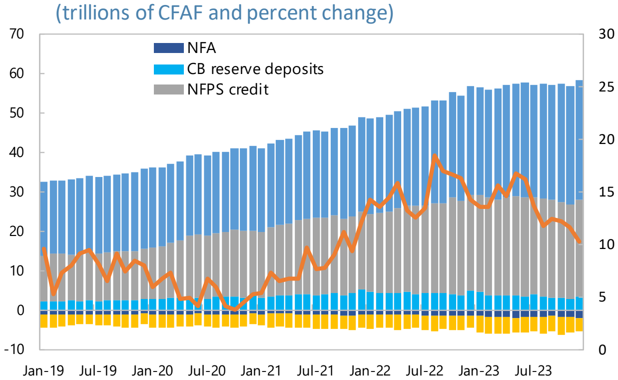


Commercial Bank Liquidity Position
(trillions of CFAF)

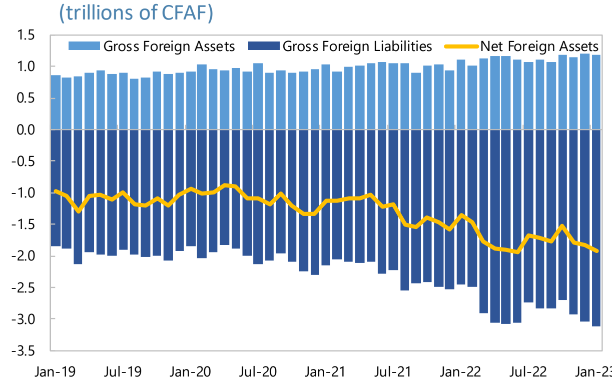


Bank credit growth to the private sector stood at 10.3% y/y in December 2023. Credit growth has been financed in part by an increase in foreign liabilities, leading to a decline in bank NFA.

Commerical Bank Assets
(trillions of CFAF and percent change)



Commercial Bank Net Foreign Assets
(trillions of CFAF)

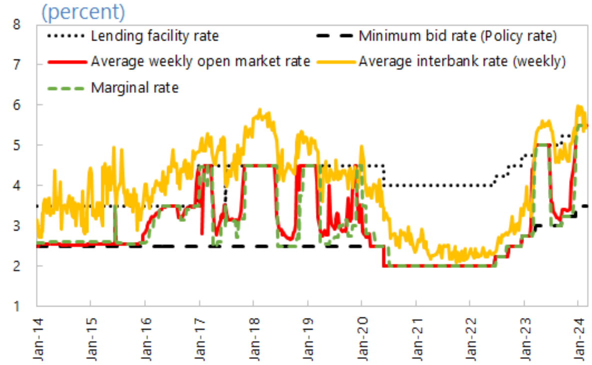


1/ Net own liquidity refers to banks' own financing sources (deposits, reserves) minus its uses (domestic credit). Sources: BCEAO, IMF Staff Calculations.

Figure 3. WAEMU: Interest Rates and Central Bank Operations, 2014-24

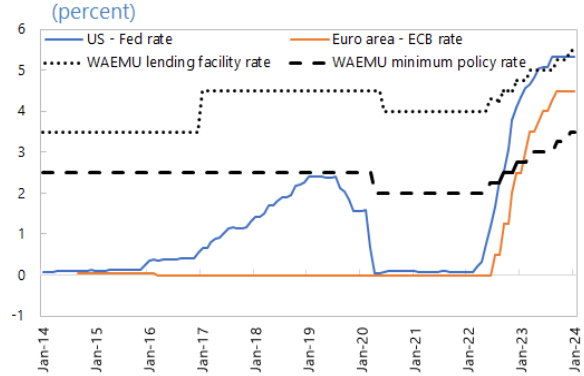
Refinancing rates have surged to the 5.5% ceiling of the policy corridor. The interbank rate is now also at the corridor ceiling.

Monetary Policy Rates
(percent)



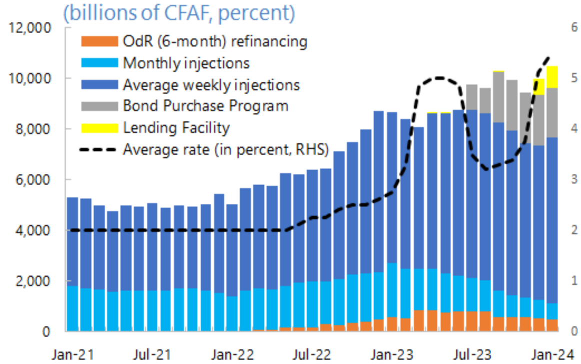
The BCEAO policy rate is below that of the ECB or Federal Reserve, although the effective rate (at the policy ceiling) is currently higher.

Policy Rates
(percent)



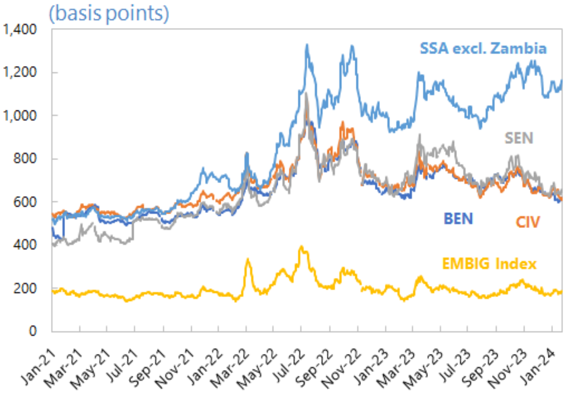
The BCEAO gradually withdrew about CFAF 1.5 trillion in liquidity since July, but has reversed course in December by offering almost 1 trillion in emergency financing.

BCEAO Liquidity Injections
(billions of CFAF, percent)



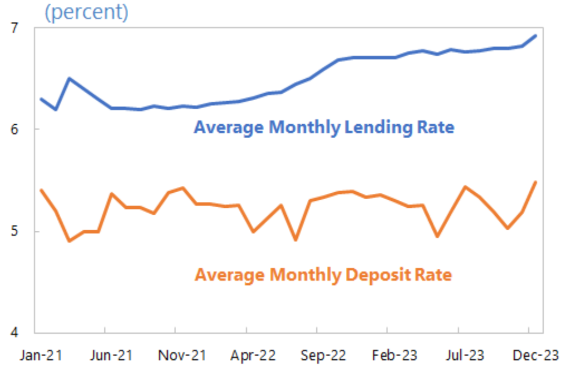
Sovereign Spreads fell at the end of 2023, and remain well below recent peaks.

EMBIG Spreads
(basis points)



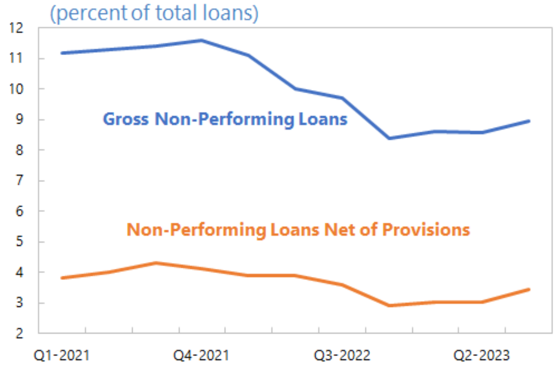
Lending and deposit rates have remained little changed.

Lending and Deposit Rates
(percent)



NPLs rates have begun to gradually rise after having fallen since 2021.

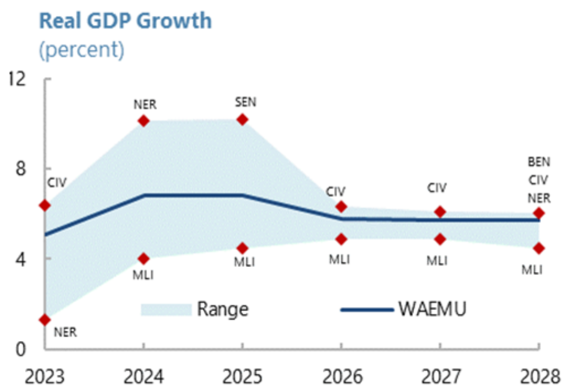
Non-Performing Loans
(percent of total loans)



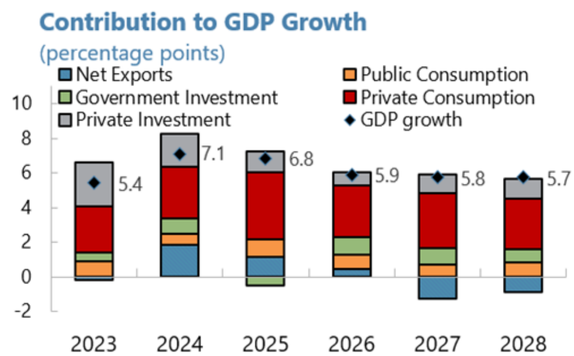
Sources: BCEAO, Bloomberg, US Federal Reserve, IMF Staff Calculations.

Figure 4. WAEMU: Medium-Term Prospects

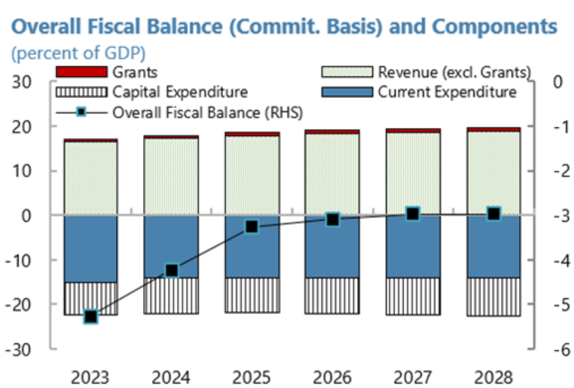
GDP growth is projected to converge to around 6 percent with a range of about 1.5 point between countries…



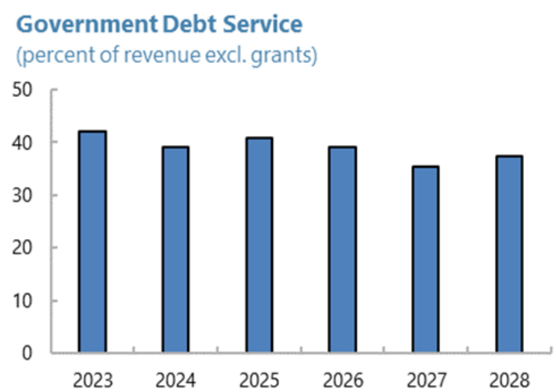
…, mostly sustained by private consumption.



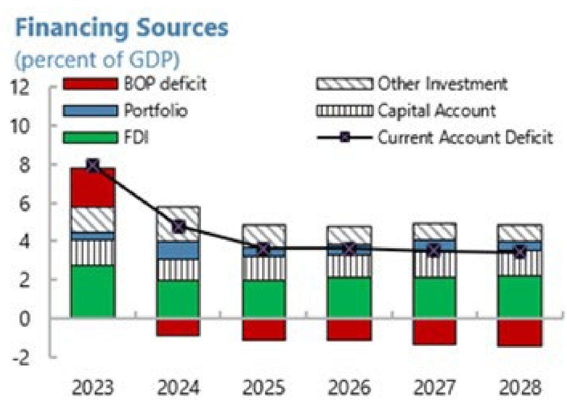
Consolidation towards a regional deficit of 3 percent started in 2023…



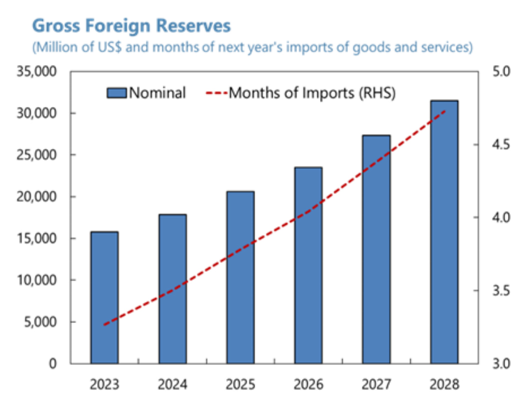
… and high debt service levels should persist through 2025 before gradually decreasing.



The current account deficit is expected to decrease from around 8 percent to 3.5 percent of GDP …



…and reserves are estimated to gradually increase to 4.7 months of imports in 2028.



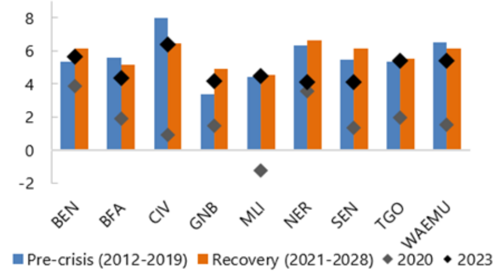
Sources: BCEAO; World Economic Outlook; and IMF Staff Calculations.

Figure 5. WAEMU: Regional Macroeconomic Heterogeneity

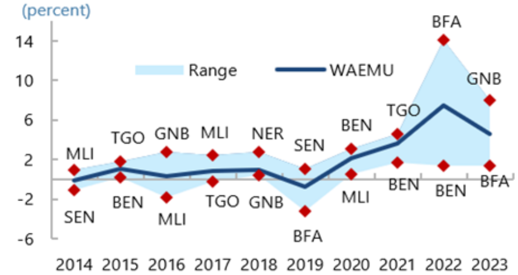
All countries are expected to have a growth rate in 2023 higher than during the peak of the pandemic in 2020.

Inflation levels and inflation dispersion decreased in 2023.

Real GDP Growth
(average, percent)



CPI Inflation
(percent)

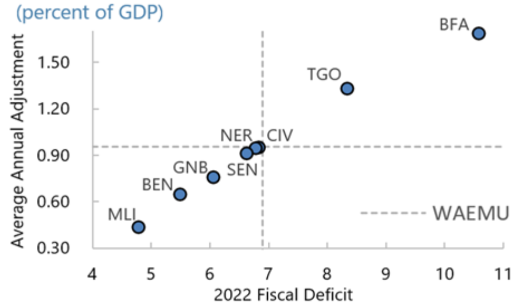


Note: Forecast data shown for 2023.

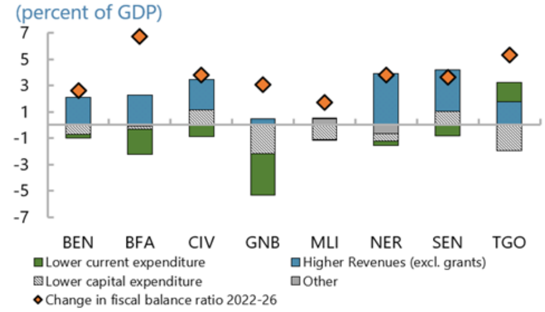
Fiscal adjustment is expected to be higher for countries with higher initial fiscal deficit…

…and rely on a country-specific mix of higher revenue mobilization and expenditure rationalization.

Average Annual Fiscal Deficit Adjustment between 2022 and 2026
(percent of GDP)



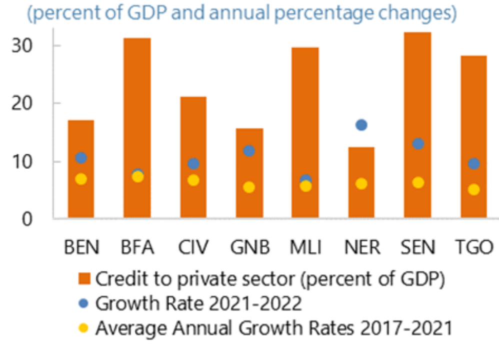
Composition of Cumulative Fiscal Adjustment between 2022 and 2026
(percent of GDP)



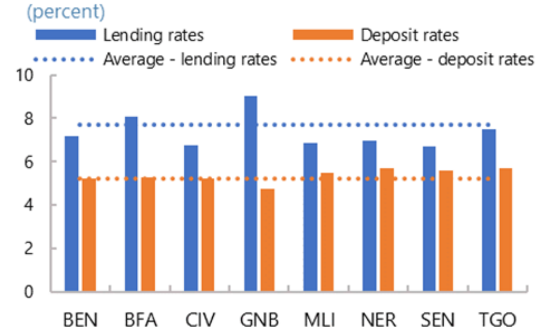
Levels of credit to the private sector vary significantly across the region.

Bank lending rates vary across the region from around 6 to 10 percent while deposit rates are more homogeneous.

Credit to the Private Sector in 2022
(percent of GDP and annual percentage changes)

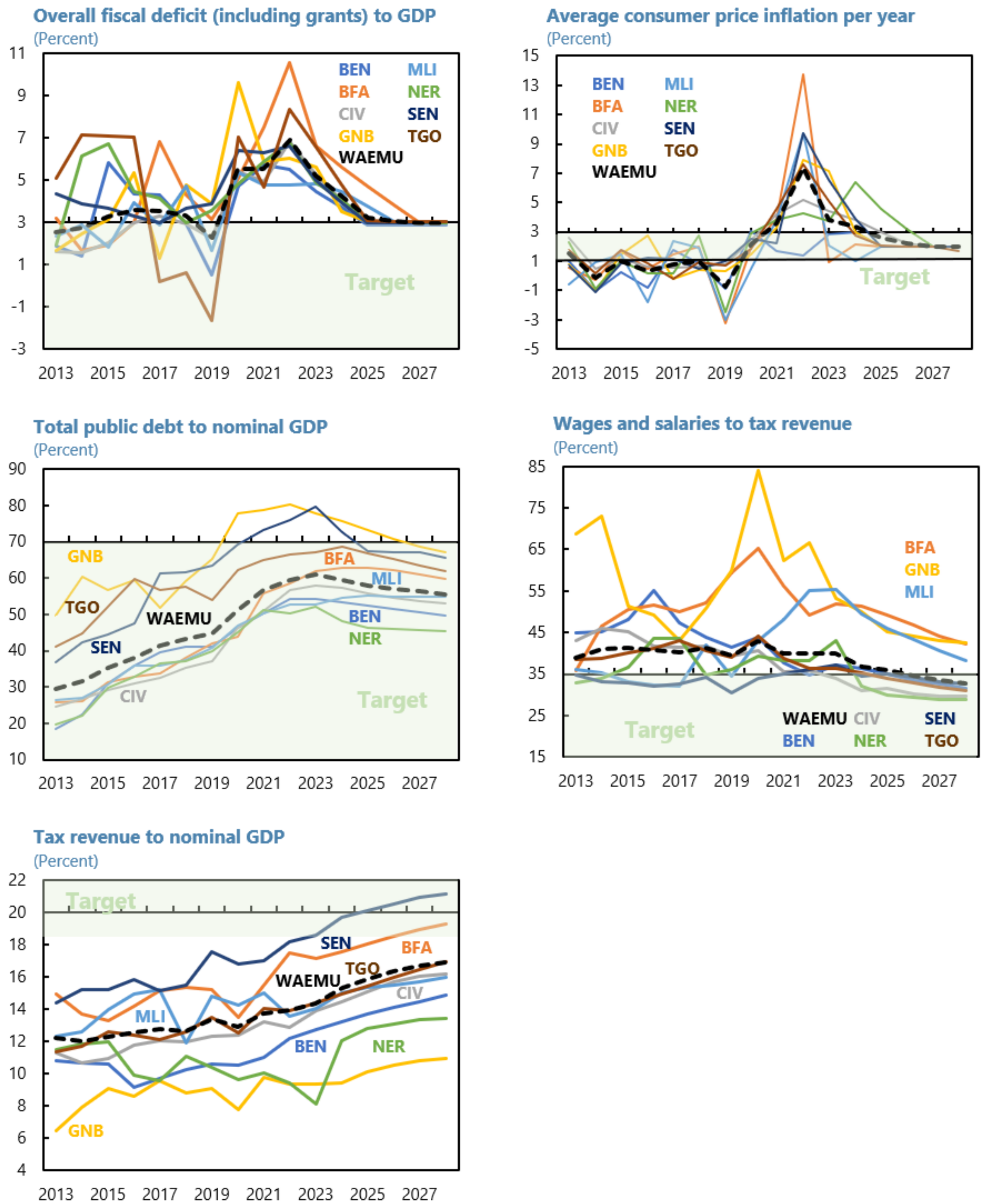


Lending and Deposit Rates as of December 2023
(percent)



Sources: BCEAO; World Economic Outlook; and IMF Staff Calculations.

Figure 6. WAEMU: Expired Convergence Criteria[1], 2013–27



Source: IMF Staff Calculations.

[1] From the WAEMU Pact for Convergence, Stability, Growth and Solidarity, as revised in 2015, suspended in April 2020 following a decision by the WAEMU Heads of States, and then expired.

Table 1. WAEMU: Selected Economic and Social Indicators, 2020–28

Social Indicators

GDP		**Poverty (2019 or latest available)**	
Nominal GDP (2022, millions of US Dollars)	178,348	Headcount ratio at $1.90 a day (2011 PPP)	24.1
GDP per capita (2022, US Dollars)	1,243	Undernourishment (percent of population)	10.1
Population characteristics		**Inequality (2018 or latest available)**	
Total (2020, millions)	133.4	Income share held by highest 10 percent of population	30.8
Urban Population (2020, percent of total)	40.4	Income share held by lowest 20 percent of population	7.0
Life expectancy at birth (2020, years)	60.9	Gini index	38.5

Economic Indicators

	2020	2021	2022	2023		2024	2025	2026	2027	2028
			Act.	SM/23/23 [1]	Est.			Projected		
				(Annual Percentage Change)						
National income and prices										
GDP at constant prices [2]	1.5	6.3	6.1	6.2	5.1	6.8	6.8	5.8	5.7	5.7
GDP per capita at constant prices	-1.3	3.3	3.1	3.3	2.1	3.8	3.8	2.8	2.7	2.8
Consumer prices (average)	2.0	3.6	7.5	3.3	3.7	3.2	2.6	2.2	2.0	2.0
Terms of trade	29.8	-8.2	-14.4	-0.5	11.3	4.2	-0.4	0.6	0.3	-0.7
Nominal effective exchange rate	3.2	1.2	-2.3	...	...	...	...	...	...	...
Real effective exchange rate	3.4	1.5	-3.6	...	...	...	...	...	...	...
				(Percent of GDP)						
National accounts										
Gross national savings	19.9	19.8	18.7	22.0	19.4	22.4	22.9	23.2	23.7	24.0
Gross domestic investment	23.8	25.5	28.4	29.0	27.2	27.5	26.7	26.7	27.1	27.3
Of which: public investment	7.7	8.0	8.6	7.7	8.3	8.8	8.0	8.4	8.8	9.1
				(Annual changes in percent of beginning-of-period broad money)						
Money and credit										
Net foreign assets	0.7	1.7	-7.9	0.1	-7.1	0.5	1.5	2.7	4.2	4.0
Net domestic assets	16.8	15.3	20.7	8.7	10.1	12.6	10.0	8.9	7.5	7.9
Broad money	16.5	16.4	11.4	8.8	3.5	12.4	11.5	11.6	11.7	11.9
Credit to the economy	4.1	8.0	9.0	1.4	6.7	6.7	6.8	6.8	6.7	6.6
				(Percent of GDP, unless otherwise indicated)						
Government financial operations										
Government total revenue, excl. grants	15.2	16.1	16.0	16.1	16.5	17.3	17.9	18.4	18.7	19.0
Government expenditure	22.6	23.2	24.1	22.6	23.0	22.6	22.2	22.6	22.9	23.1
Overall fiscal balance, excl. grants	-7.4	-7.1	-8.1	-6.5	-6.5	-5.3	-4.3	-4.2	-4.1	-4.2
Overall fiscal balance, incl. grants	-5.5	-5.6	-6.9	-5.0	-5.2	-4.2	-3.2	-3.1	-3.0	-3.0
External sector										
Exports of goods and services [3]	19.1	20.1	20.6	18.3	19.4	21.4	22.3	22.2	22.0	21.9
Imports of goods and services [3]	23.8	26.0	29.1	25.4	27.9	26.5	25.7	25.6	25.4	25.2
Current account, excl. grants	-5.4	-6.7	-9.2	-7.1	-8.6	-5.4	-4.1	-4.1	-4.0	-3.9
Current account, incl. grants	-4.3	-5.9	-8.3	-6.4	-7.9	-4.8	-3.6	-3.6	-3.5	-3.4
External public debt	33.2	36.0	36.0	32.9	35.8	36.1	34.9	34.0	33.4	32.3
Total public debt	51.1	56.8	59.4	56.6	61.0	59.6	57.9	57.0	56.3	55.5
Broad money	38.1	40.9	41.3	...	39.5	40.6	41.6	43.0	44.5	46.1
Memorandum items:										
Nominal GDP (billions of CFA francs)	92,746	100,625	111,008	118,459	120,168	131,429	143,143	154,408	166,431	179,744
Nominal GDP per capita (US dollars)	1,194	1,304	1,243	1,298	1,342	1,436	1,518	1,585	1,654	1,731
CFA franc per US dollars, average	574.8	554.2	622.4	...	606.5	...	...	...	...	...
Gross international reserves										
In months of next year's imports (of goods and	5.4	5.2	4.1	4.4	3.3	3.5	3.8	4.0	4.4	4.7
In percent of current GDP	12.6	13.9	10.3	9.7	7.9	8.2	8.7	9.2	10.0	10.6
In percent of the BCEAO's sight liabilities	77.9	79.7	63.8	66.9	56.9	58.1	60.1	61.9	65.0	67.2
In millions of US dollars	21,727	24,172	18,398	17,398	15,764	17,872	20,623	23,500	27,340	31,489

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

All projections presented were prepared in February 2024 and do not incorporate any further developments.

[1] Shows data from the IMF Country Report 203/102 issued on January 19, 2023 (Board document SM/23/2/3).

[2] The acceleration in GDP growth in 2024 is due to the start of production of large hydrocarbon projects in Niger and Senegal.

[3] Excluding intraregional trade.

Table 2. WAEMU: Selected National Accounts and Inflation Statistics, 2020-28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
			Act.	Est.			Proj.		
				(Annual percentage changes)					
Real GDP									
Benin	3.8	7.2	6.3	5.8	6.0	6.0	6.0	6.0	6.0
Burkina Faso	1.9	6.9	1.8	3.6	5.9	5.8	5.4	5.4	5.2
Côte d'Ivoire	0.9	7.4	6.7	6.4	6.5	6.4	6.3	6.1	6.0
Guinea-Bissau	1.5	6.4	4.2	4.2	5.0	5.0	5.0	5.0	4.5
Mali	-1.2	3.1	3.5	4.5	4.0	4.5	4.9	4.9	4.9
Niger [1]	3.5	1.4	11.9	1.3	10.2	6.8	5.1	5.5	6.0
Senegal [1]	1.3	6.5	4.0	4.1	8.3	10.2	5.2	5.1	5.3
Togo	2.0	6.0	5.8	5.4	5.3	5.3	5.5	5.5	5.5
WAEMU	1.5	6.3	6.1	5.1	6.8	6.8	5.8	5.7	5.7
Real GDP per capita									
Benin	1.0	4.2	3.3	2.8	3.1	3.1	3.1	3.2	3.1
Burkina Faso	-0.9	4.0	-1.0	0.7	3.0	2.9	2.6	2.5	2.3
Côte d'Ivoire	-1.9	4.4	3.7	3.4	3.5	3.4	3.3	3.2	3.1
Guinea-Bissau	-0.7	4.1	1.9	2.0	2.8	2.9	2.9	2.9	2.4
Mali	-4.3	-0.2	0.2	1.2	0.8	1.2	1.6	1.6	1.6
Niger	-0.3	-2.3	7.8	-2.4	6.2	3.0	1.4	1.8	2.3
Senegal	-1.4	3.7	1.2	1.3	5.4	7.2	2.3	2.3	2.5
Togo	-0.4	3.5	3.3	2.9	2.8	2.8	3.0	3.0	3.0
WAEMU	-1.3	3.3	3.1	2.1	3.8	3.8	2.8	2.7	2.8
Inflation									
Benin	3.0	1.7	1.4	2.8	3.0	2.0	2.0	2.0	2.0
Burkina Faso	1.9	3.9	13.8	0.9	2.1	2.0	2.0	2.0	2.0
Côte d'Ivoire	2.4	4.2	5.2	4.4	3.8	3.0	2.2	1.9	2.0
Guinea-Bissau	1.5	3.3	7.9	7.2	3.0	2.0	2.0	2.0	2.0
Mali	0.5	3.8	9.7	2.1	1.0	2.0	2.0	2.0	2.0
Niger	2.9	3.8	4.2	3.7	6.4	4.6	3.2	2.0	2.0
Senegal	2.5	2.2	9.7	6.5	3.9	2.0	2.0	2.0	2.0
Togo	1.8	4.5	7.6	5.1	2.7	2.0	2.0	2.0	1.7
WAEMU	2.0	3.6	7.5	3.7	3.2	2.6	2.2	2.0	2.0
Gross national savings									
Benin	23.9	24.7	30.5	26.6	28.4	27.6	28.3	28.4	29.1
Burkina Faso	27.2	25.3	11.6	15.5	22.2	22.2	21.2	20.5	20.0
Côte d'Ivoire	16.6	17.7	17.0	19.4	22.3	22.4	23.0	23.9	24.4
Guinea-Bissau	15.0	17.5	8.5	7.6	12.7	14.6	15.6	16.6	17.7
Mali	15.0	13.8	11.8	5.6	8.4	9.4	11.4	13.2	13.4
Niger [2]	18.0	17.8	15.7	11.6	18.7	20.1	20.3	19.9	20.5
Senegal	25.0	24.3	26.9	29.7	30.4	32.3	31.0	30.9	30.8
Togo	21.1	17.7	19.4	25.2	23.4	21.6	22.6	23.5	24.6
WAEMU	19.9	19.8	18.7	19.4	22.4	22.9	23.2	23.7	24.0
Gross domestic investment									
Benin	25.6	28.9	36.5	32.2	33.4	32.2	32.8	33.0	33.5
Burkina Faso	23.0	24.9	17.7	19.8	25.5	25.3	23.8	23.6	22.9
Côte d'Ivoire	19.9	21.7	24.7	25.2	26.1	25.1	25.6	26.4	26.8
Guinea-Bissau	17.5	18.3	18.1	17.0	18.3	19.3	19.9	20.8	21.7
Mali	17.2	21.3	18.9	13.9	13.9	14.1	14.8	15.9	16.6
Niger [2]	31.2	31.8	31.2	24.6	25.0	25.4	25.8	25.7	25.1
Senegal	35.2	35.4	46.6	44.2	39.3	37.1	35.6	35.3	35.1
Togo	21.4	19.9	23.5	28.6	26.9	25.2	26.0	26.6	27.7
WAEMU	23.8	25.5	28.4	27.2	27.5	26.7	26.7	27.1	27.3

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

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

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

Table 3. Sub-Saharan Africa: Cross-Group Comparison, 2020–28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.			Proj.		
	(Annual percentage changes)								
Real GDP									
WAEMU	1.5	6.3	6.1	5.1	6.8	6.8	5.8	5.7	5.7
CEMAC [1]	-1.5	1.9	3.3	2.7	2.9	3.1	3.2	3.5	3.6
Sub-Saharan Africa [2]	-1.5	4.7	4.0	3.3	3.8	4.1	4.1	4.3	4.3
Inflation (annual averages)									
WAEMU	2.1	3.6	7.4	3.8	3.3	2.6	2.2	2.0	2.0
CEMAC [1]	2.7	1.5	5.4	5.7	4.0	2.7	2.5	2.3	2.3
Sub-Saharan Africa [2]	8.6	10.5	13.6	14.4	12.1	9.0	7.7	7.6	7.3
Terms of trade									
WAEMU	29.8	-8.2	-14.4	11.3	4.2	-0.4	0.6	0.3	-0.7
CEMAC [1]	-17.1	20.0	-0.5	-8.9	0.2	-1.4	-3.4	-3.9	-3.7
Sub-Saharan Africa [2]	3.4	6.9	-1.6	-3.4	0.6	-0.4	-0.2	-0.3	0.5
	(Percent of GDP, unless otherwise indicated)								
Gross national investment									
WAEMU	23.8	25.5	28.4	27.2	27.5	26.7	26.7	27.1	27.3
CEMAC [1]	19.5	19.5	20.5	22.1	22.2	23.3	23.7	23.9	24.3
Sub-Saharan Africa [2]	22.9	22.9	21.6	21.4	22.4	23.1	23.7	24.0	24.0
Overall fiscal balance, incl. grants									
WAEMU	-5.5	-5.6	-6.9	-5.2	-4.2	-3.2	-3.1	-3.0	-3.0
CEMAC [1]	-2.0	-1.5	3.1	1.4	0.3	-0.1	-0.7	-0.9	-1.1
Sub-Saharan Africa [2]	-6.6	-4.9	-4.3	-4.1	-3.6	-3.6	-3.4	-3.3	-3.2
External current account, incl. grants									
WAEMU	-4.3	-5.9	-8.3	-7.9	-4.8	-3.6	-3.6	-3.5	-3.4
CEMAC [1]	-2.5	-0.8	3.6	-1.2	-2.0	-2.8	-3.5	-3.8	-4.1
Sub-Saharan Africa [2]	-2.8	-1.0	-2.0	-2.7	-2.8	-2.8	-2.9	-2.7	-2.5
Total public debt									
WAEMU	51.1	56.8	59.4	61.0	59.6	57.9	57.0	56.3	55.5
CEMAC [1]	62.4	59.6	55.1	56.1	52.9	50.9	49.4	48.0	46.4
Sub-Saharan Africa [2]	57.1	56.4	56.9	59.1	57.3	55.8	54.9	54.0	52.8

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: Summary Accounts of the Banking System, 2020–28
(in billions of CFAF, unless otherwise noted)

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Act.	Proj				
					I. Central Bank				
Net foreign assets	8,082	8,880	5,836	3,143	3,554	4,368	5,982	8,742	11,673
(In billions of US$)	*15.0*	*15.3*	*9.4*	*5.2*	*5.9*	*7.2*	*9.9*	*14.4*	*19.2*
Gross International Reserves	11,711	14,027	11,397	9,484	10,757	12,450	14,213	16,562	19,099
Gross Foreign Liabilities	3,634	5,152	5,566	6,346	7,203	8,081	8,231	7,820	7,426
Net domestic assets	4,658	6,350	10,115	12,027	13,278	14,440	14,874	14,384	14,110
Net credit to the nonfinancial public sector	1,131	2,362	3,158	6,497	7,167	7,841	7,776	7,126	6,432
Of which: Net credit to the central government	1,135	2,367	3,159	6,501	7,171	7,845	7,781	7,132	6,438
Net Credit to the Financial Sector	6,230	6,772	9,868	9,206	10,013	10,852	11,659	12,521	13,475
Other net assets and capital account	-2,703	-2,784	-2,911	-3,676	-3,902	-4,253	-4,562	-5,263	-5,797
Base Money	12,725	15,213	15,934	15,120	16,774	18,751	20,798	23,068	25,725
Currency in circulation	9,216	10,407	11,428	11,669	12,920	14,445	16,019	17,765	19,773
Commercial reserves and other deposits	3,509	4,806	4,506	3,450	3,854	4,306	4,779	5,303	5,952
					II. Consolidated Banking System				
Net foreign assets	7,147	7,748	4,480	1,212	1,463	2,278	3,891	6,651	9,582
(In billions of US$)	*13.2*	*13.3*	*7.2*	*2.0*	*2.4*	*3.8*	*6.4*	*11.0*	*15.8*
Net domestic assets	29,682	35,088	43,622	48,261	54,329	60,218	65,964	71,368	77,637
Net Credit to the nonfinancial public sector	14,069	17,430	22,574	25,951	29,088	32,127	34,620	36,396	38,740
Of which: Net credit to the central government	12,376	15,682	20,410	23,780	26,714	29,543	31,832	33,391	35,494
Net credit to the private sector	21,561	24,142	27,572	30,403	33,382	36,775	40,623	44,875	49,485
Other net assets and capital account	-5,948	-6,485	-6,525	-8,093	-8,142	-8,684	-9,278	-9,903	-10,588
Broad money	35,346	41,130	45,823	47,439	53,338	59,496	66,386	74,125	82,934
Currency in circulation	8,359	9,455	10,369	10,704	11,864	13,295	14,779	16,428	18,329
Deposits	26,987	31,675	35,454	36,735	41,474	46,202	51,607	57,697	64,605
					(12-month percentage change)				
Currency in circulation	18.9	12.9	9.8	2.1	10.7	11.8	10.9	10.9	11.3
Base money	20.4	19.6	4.7	-5.1	10.9	11.8	10.9	10.9	11.5
Narrow Money	20.9	17.5	14.5	2.7	12.2	11.6	11.5	11.6	11.8
Broad money	16.5	16.4	11.4	3.5	12.4	11.5	11.6	11.7	11.9
Deposits	15.5	17.4	11.9	3.6	12.9	11.4	11.7	11.8	12.0
Credit to the private sector	5.2	12.0	14.2	10.3	9.8	10.2	10.5	10.5	10.3
Memorandum items:									
Central Bank Foreign Exchange Reserves (months of imports)	5.4	5.2	4.1	3.3	3.5	3.8	4.0	4.4	4.7
Commercial Bank Credit to Private Sector (percent of GDP)	23.1	23.9	24.7	25.2	25.3	25.6	26.2	26.9	27.5
Change in Central Bank Refinancing y/y	1,085	504	3,065	-752	807	839	807	862	954
Change in Commercial Bank Holdings of Government Debt y/y	3,745	3,107	4,101	137	2,263	2,154	2,354	2,208	2,798

Sources: BCEAO; and Fund staff estimates and projections.
Small residuals between assets and liabilities are explained by non-liquid liabilities, small and not reproduced here.

Table 5. WAEMU: Selected Fiscal Indicators, 2020-28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
		Act.		Est.			Proj.		
				(Percent of GDP)					
Primary fiscal balance									
Benin	-2.7	-3.5	-3.8	-2.8	-2.1	-1.3	-1.4	-1.4	-1.4
Burkina Faso	-3.8	-5.8	-8.7	-4.4	-2.9	-1.8	-0.9	-0.3	-0.4
Côte d'Ivoire	-3.6	-3.0	-4.6	-2.8	-1.8	-0.6	-0.8	-0.7	-0.8
Guinea-Bissau	-8.1	-4.3	-4.7	-5.0	-1.2	-0.6	-0.6	-0.5	-0.5
Mali	-4.2	-3.5	-3.4	-3.3	-2.5	-1.9	-1.3	-1.3	-1.3
Niger	-3.8	-4.8	-5.5	-3.5	-2.8	-1.7	-1.7	-1.7	-1.7
Senegal	-4.4	-4.3	-4.4	-2.3	-1.2	-0.7	-0.7	-0.7	-0.6
Togo	-4.7	-2.5	-5.9	-4.0	-2.3	-0.4	-0.6	-0.7	-0.8
WAEMU	-3.8	-3.7	-4.9	-3.1	-2.0	-1.0	-0.9	-0.9	-0.9
Overall fiscal balance (including grants), commitment basis									
Benin	-4.7	-5.7	-5.5	-4.5	-3.7	-2.9	-2.9	-2.9	-2.9
Burkina Faso	-5.1	-7.5	-10.6	-6.6	-5.6	-4.7	-3.8	-3.0	-3.0
Côte d'Ivoire	-5.4	-4.9	-6.8	-5.2	-4.0	-3.0	-3.0	-3.0	-3.0
Guinea-Bissau	-9.6	-5.9	-6.1	-5.6	-3.5	-3.0	-3.0	-3.0	-3.0
Mali	-5.4	-4.8	-4.8	-4.8	-4.4	-3.7	-3.0	-3.0	-3.0
Niger	-4.8	-5.9	-6.8	-4.9	-4.1	-3.0	-3.0	-3.0	-3.0
Senegal	-6.4	-6.3	-6.6	-5.0	-3.9	-3.0	-3.0	-3.0	-3.0
Togo	-7.0	-4.7	-8.3	-6.6	-4.8	-3.1	-3.0	-3.0	-3.0
WAEMU	-5.5	-5.6	-6.9	-5.2	-4.2	-3.2	-3.1	-3.0	-3.0
Government revenue (excluding grants)									
Benin	12.7	13.2	13.8	14.0	14.5	15.0	15.4	15.9	16.3
Burkina Faso	16.1	17.8	19.4	19.0	19.1	19.6	20.0	20.5	20.9
Côte d'Ivoire	14.4	15.3	14.8	15.8	16.2	16.8	17.5	17.8	17.9
Guinea-Bissau	11.4	12.8	11.8	11.9	12.3	12.8	13.2	13.5	13.6
Mali	19.3	20.8	19.8	20.6	21.2	21.5	21.8	22.0	22.2
Niger	10.8	10.8	10.1	8.9	12.9	13.9	14.3	14.6	14.7
Senegal	17.9	18.6	19.1	19.7	20.7	21.3	21.9	22.1	22.2
Togo	14.1	15.3	15.1	15.5	16.3	16.9	17.4	17.8	18.3
WAEMU	15.2	16.1	16.0	16.5	17.3	17.9	18.4	18.7	19.0
Government expenditure[1]									
Benin	19.1	19.9	19.8	19.3	18.9	18.6	18.9	19.4	19.8
Burkina Faso	24.5	28.0	32.4	27.9	26.7	26.7	26.3	25.9	26.2
Côte d'Ivoire	20.4	20.7	22.1	21.7	20.7	20.2	20.8	21.0	21.2
Guinea-Bissau	25.0	25.0	21.3	21.5	20.3	19.2	19.3	19.6	19.7
Mali	25.9	26.3	25.0	26.2	25.7	25.4	25.5	26.3	26.9
Niger	22.4	24.3	21.6	16.3	20.3	21.2	21.8	22.2	22.2
Senegal	26.6	25.8	26.6	26.1	26.0	25.5	26.1	26.3	26.4
Togo	23.7	21.8	26.0	24.9	23.3	21.4	21.8	22.1	22.6
WAEMU	22.6	23.2	24.1	23.0	22.6	22.2	22.6	22.9	23.1
Government current expenditure									
Benin	12.2	11.7	11.0	11.3	11.3	11.3	11.4	11.5	11.5
Burkina Faso	16.7	18.6	21.6	17.4	17.3	17.2	16.7	16.4	16.2
Côte d'Ivoire	14.7	14.9	14.9	14.4	13.0	13.9	14.0	13.9	13.9
Guinea-Bissau	16.4	15.5	15.0	16.3	14.1	12.6	12.7	12.8	12.7
Mali	15.5	15.5	15.5	16.8	16.3	15.7	15.4	15.1	14.8
Niger	10.3	10.7	10.0	9.6	10.6	10.9	11.0	11.0	11.1
Senegal	17.2	16.6	19.2	18.7	16.5	15.2	15.7	15.7	15.6
Togo	14.4	13.6	16.2	15.2	15.0	14.8	14.8	14.8	14.6
WAEMU	14.8	14.9	15.6	15.1	14.4	14.5	14.5	14.4	14.3
Government capital expenditure									
Benin	6.9	8.2	8.8	8.0	7.6	7.2	7.5	7.9	8.2
Burkina Faso	7.6	9.1	10.8	9.1	8.8	8.8	8.9	8.8	9.4
Côte d'Ivoire	5.7	5.8	7.2	7.3	7.7	6.3	6.8	7.1	7.3
Guinea-Bissau	8.6	9.4	6.3	5.3	6.2	6.6	6.6	6.8	7.0
Mali	6.1	5.9	3.9	3.6	3.6	3.8	4.4	5.5	6.3
Niger	12.1	13.1	10.8	8.0	12.4	12.1	12.5	12.4	12.4
Senegal	9.3	9.2	7.4	7.2	8.6	9.0	9.2	9.6	9.7
Togo	9.3	8.2	9.7	8.8	7.0	5.3	6.3	6.8	7.3
WAEMU	7.3	7.7	7.8	7.2	7.7	7.3	7.6	8.0	8.3

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 6a. WAEMU: Balance of Payments, 2020-28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.			Proj.		
	(Millions of USD)								
Balance on current account	-6,903	-10,778	-14,817	-15,738	-10,495	-8,622	-9,307	-9,671	-10,216
Excluding official transfers	-8,694	-12,115	-16,482	-16,992	-11,860	-9,836	-10,561	-11,058	-11,575
Balance on goods and services	-8,341	-11,637	-15,964	-16,742	-11,092	-8,112	-8,646	-9,132	-9,826
Exports of goods and services [1]	35,781	42,598	43,706	47,528	56,322	63,160	67,548	72,024	77,214
Exports of goods	31,995	37,821	38,920	41,235	49,066	55,218	58,711	62,497	66,740
Exports of services	3,786	4,777	4,785	6,293	7,256	7,942	8,837	9,527	10,474
Imports of goods and services [1]	44,122	54,235	59,669	64,270	67,414	71,273	76,194	81,156	87,040
Imports of goods	32,576	39,826	45,564	47,471	50,033	52,578	56,034	59,793	64,099
Imports of services	11,546	14,409	14,105	16,798	17,381	18,695	20,160	21,363	22,941
Income, net	-4,000	-5,184	-4,950	-5,394	-6,187	-7,413	-7,585	-8,010	-8,362
Income credits	1,964	2,307	1,958	2,592	2,829	3,069	3,415	3,665	3,972
Income debits	5,964	7,491	6,908	7,986	9,016	10,482	11,001	11,675	12,334
Current transfers, net	5,438	6,043	6,097	5,889	6,257	6,506	6,578	7,056	7,429
Private current transfers, net	3,647	4,706	4,432	4,634	4,892	5,291	5,323	5,668	6,069
Official current transfers, net	1,791	1,338	1,665	1,255	1,364	1,215	1,255	1,388	1,360
Balance on capital and financial account	7,669	11,336	11,192	11,605	11,853	11,159	11,994	13,333	14,238
Balance on capital account	2,275	2,637	2,215	2,579	2,432	2,913	3,170	3,504	3,900
Balance on financial account	5,394	8,699	8,976	9,026	9,421	8,245	8,824	9,829	10,339
Direct investment, net	3,212	4,960	5,947	5,453	4,361	4,801	5,388	5,993	6,669
Portfolio and other investments, net	2,182	3,740	3,031	3,443	5,922	3,753	3,676	4,007	3,782
Errors and omissions, net	-36	-159	0	0	0	0	0	0	0
Overall balance	766	558	-3,625	-4,133	1,358	2,537	2,687	3,662	4,023

Source: IMF, African Department database.

[1] Including intraregional trade.

Table 6b. WAEMU: Balance of Payments, 2020-28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
				Est.			Proj.		
				(Percent of GDP)					
Balance on current account	-4.3	-5.9	-8.3	-7.9	-4.8	-3.6	-3.6	-3.5	-3.4
Excluding official transfers	-5.4	-6.7	-9.2	-8.6	-5.4	-4.1	-4.1	-4.0	-3.9
Balance on goods and services	-5.2	-6.4	-9.0	-8.4	-5.1	-3.4	-3.4	-3.3	-3.3
Exports of goods and services [1]	22.2	23.5	24.5	24.0	25.7	26.5	26.4	26.2	26.0
Exports of goods	19.8	20.8	21.8	20.8	22.4	23.2	22.9	22.7	22.5
Exports of services	2.3	2.6	2.7	3.2	3.3	3.3	3.4	3.5	3.5
Imports of goods and services [1]	27.3	29.9	33.5	32.4	30.8	29.9	29.7	29.5	29.3
Imports of goods	20.2	21.9	25.5	23.9	22.9	22.1	21.9	21.7	21.6
Imports of services	7.2	7.9	7.9	8.5	7.9	7.9	7.9	7.8	7.7
Income, net	-2.5	-2.9	-2.8	-2.7	-2.8	-3.1	-3.0	-2.9	-2.8
Income credits	1.2	1.3	1.1	1.3	1.3	1.3	1.3	1.3	1.3
Income debits	3.7	4.1	3.9	4.0	4.1	4.4	4.3	4.2	4.2
Current transfers, net	3.4	3.3	3.4	3.0	2.9	2.7	2.6	2.6	2.5
Private current transfers, net	2.3	2.6	2.5	2.3	2.2	2.2	2.1	2.1	2.0
Official current transfers, net	1.1	0.7	0.9	0.6	0.6	0.5	0.5	0.5	0.5
Balance on capital and financial account	4.8	6.2	6.3	5.9	5.4	4.7	4.7	4.8	4.8
Balance on capital account	1.4	1.5	1.2	1.3	1.1	1.2	1.2	1.3	1.3
		4.8							
Balance on financial account	3.3	4.8	5.0	4.6	4.3	3.5	3.4	3.6	3.5
Direct investment, net	2.0	2.7	3.3	2.7	2.0	2.0	2.1	2.2	2.2
Portfolio and other investments, net	1.4	2.1	1.7	1.7	2.7	1.6	1.4	1.5	1.3
Errors and omissions, net	0.0	-0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.5	0.3	-2.0	-2.1	0.6	1.1	1.0	1.3	1.4

Source: IMF, African Department database.

[1] Including intraregional trade.

Table 7. WAEMU: Government Debt and Debt Service, 2020-28

	2020	2021	2022	2023	2024	2025	2026	2027	2028
		Act.		Est.			Proj.		
					(Percent of GDP)				
External Debt									
Benin	28.4	36.8	37.6	40.7	44.7	45.8	44.6	44.8	43.9
Burkina Faso	21.6	25.7	26.0	25.3	25.0	24.7	24.5	24.0	23.4
Côte d'Ivoire	29.7	30.9	34.5	35.1	34.3	32.9	31.9	31.1	30.1
Guinea-Bissau	41.1	40.3	39.2	35.2	33.0	31.3	29.0	26.9	25.2
Mali	29.5	28.3	26.9	24.3	23.7	23.8	23.8	24.3	24.5
Niger	31.6	33.5	32.7	32.0	29.5	27.5	26.7	26.2	25.5
Senegal	54.4	57.2	56.4	58.7	55.7	52.7	51.4	49.8	47.1
Togo	27.6	27.3	26.2	25.4	26.8	27.1	27.5	27.4	26.7
WAEMU	33.2	36.0	36.0	35.8	36.1	34.9	34.0	33.4	32.3
Domestic Debt									
Benin	17.7	13.5	16.6	13.6	8.7	6.6	6.9	5.8	5.8
Burkina Faso	22.2	29.9	32.5	36.7	37.8	38.2	37.8	37.0	36.3
Côte d'Ivoire	16.7	20.0	22.2	23.0	23.0	22.8	22.7	22.6	22.9
Guinea-Bissau	36.6	38.5	41.2	42.6	42.6	41.9	41.8	41.8	41.9
Mali	17.4	22.0	25.7	28.4	30.8	31.4	31.1	30.6	30.3
Niger	13.4	17.8	17.7	20.0	18.6	19.0	19.3	19.6	19.9
Senegal	14.8	16.1	19.6	20.8	16.8	14.7	15.8	17.2	18.3
Togo	34.6	37.6	40.3	41.8	41.9	39.8	37.6	36.0	35.3
WAEMU	17.9	20.9	23.4	25.1	23.4	22.9	23.0	22.9	23.1
Total Debt									
Benin	46.1	50.3	54.2	54.2	53.4	52.4	51.4	50.5	49.7
Burkina Faso	43.8	55.6	58.6	62.0	62.8	62.9	62.3	61.0	59.6
Côte d'Ivoire	46.3	50.9	56.8	58.1	57.3	55.7	54.5	53.7	53.0
Guinea-Bissau	77.7	78.8	80.4	77.8	75.6	73.2	70.9	68.7	67.1
Mali	46.9	50.4	52.6	52.7	54.5	55.1	54.9	54.9	54.9
Niger	45.0	51.3	50.3	52.1	48.1	46.4	46.0	45.8	45.5
Senegal	69.2	73.3	76.0	79.6	72.5	67.4	67.2	67.0	65.5
Togo	62.2	64.9	66.5	67.2	68.7	66.9	65.1	63.5	62.0
WAEMU	51.1	56.8	59.4	61.0	59.6	57.9	57.0	56.3	55.5
					(Percent of government revenue excluding grants)				
Total debt service									
Benin	49.6	94.1	62.5	42.2	34.9	38.5	25.8	25.2	22.6
Burkina Faso	48.3	45.8	45.6	50.0	50.9	48.5	45.8	17.6	16.3
Côte d'Ivoire	33.9	34.7	44.5	51.6	56.5	58.6	60.1	55.5	56.5
Guinea-Bissau	78.6	102.0	64.1	92.2	101.3	66.1	82.7	82.7	86.1
Mali	32.5	26.2	33.4	46.3	41.5	49.9	54.7	55.0	56.2
Niger	66.2	65.9	73.8	41.6	55.8	66.5	74.9	80.5	86.6
Senegal	34.2	35.7	41.2	44.0	34.2	33.2	29.9	29.6	39.3
Togo	72.7	59.9	62.1	65.2	46.3	62.5	61.1	61.0	56.7
WAEMU	40.9	42.8	44.0	42.2	39.0	40.9	39.0	35.4	37.5
Debt service, interest									
Benin	13.0	16.9	18.0	11.7	11.4	10.8	10.0	9.5	9.0
Burkina Faso	6.7	7.6	9.1	11.4	13.4	14.0	13.9	12.7	12.1
Côte d'Ivoire	12.7	12.8	15.0	15.4	14.2	14.2	12.9	12.5	12.2
Guinea-Bissau	13.3	12.5	11.5	22.1	21.3	19.1	18.8	18.9	18.6
Mali	6.2	5.6	7.2	7.1	9.5	10.9	11.2	11.4	11.4
Niger	9.7	10.4	12.3	11.1	10.0	9.1	8.9	8.6	8.7
Senegal	11.5	10.8	11.6	13.5	13.2	11.0	10.6	10.3	10.5
Togo	17.5	15.3	17.6	17.7	15.9	15.1	13.7	12.4	11.5
WAEMU	10.9	11.1	12.8	13.1	12.9	12.6	12.0	11.5	11.3

Source: IMF, African Department database.

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

Table 8. WAEMU: Financial Soundness Indicators, 2016-23

	2016	2017	2018 [1]	2019	2020	2021	2022	2023 June
Solvency ratios								
Regulatory capital to risk weighted assets	11.3	11.7	10.5	11.5	11.8	12.4	12.9	13.2
Tier I capital to risk-weighted assets	10.3	10.8	9.7	10.6	11.1	11.8	12.2	12.6
Provisions to risk-weighted assets	10.1	9.8	7.5	7.6	7.5	6.7	6.1	6.1
Capital to total assets	5.8	6.3	6.8	6.6	6.6	6.7	6.5	6.7
Composition and quality of assets								
Total loans to total assets	52.2	54.1	55.7	56.2	52.3	50.0	51.3	52.1
Concentration: loans to 5 largest borrowers to capital	101.9	89.8	82.6	86.1	76.9	81.7	99.1	104.8
Sectoral distribution of loans								
Agriculture	3.2	3.9	4.6	3.0	3.0	3.1	3.3	4.1
Extractive industries	1.6	1.5	1.7	1.7	1.8	1.8	2.1	2.0
Manufacturing	15.5	16.2	15.1	14.3	13.0	12.0	12.2	11.7
Electricity, water and gas	4.9	5.6	5.6	4.6	4.7	5.5	6.1	6.1
Construction	10.8	9.8	10.6	11.2	10.2	10.7	9.5	9.2
Retail and wholesale trade, restaurants and hotels	26.7	26.8	27.7	25.9	26.5	26.7	28.3	28.4
Transportation and communication	9.9	11.6	10.5	11.3	10.8	9.5	8.1	7.6
Insurance, real estate and services	7.2	7.2	6.8	7.2	8.4	8.4	7.4	8.5
Other services	20.1	17.4	17.5	20.8	21.7	22.4	23.1	22.4
Gross NPLs to total loans	13.8	13.9	12.4	11.4	11.0	10.3	8.4	8.7
Provisioning rate	65.5	63.6	65.3	63.3	67.2	65.1	68.0	64.5
Net NPLs to total loans	5.2	5.5	4.7	4.5	3.9	3.9	2.8	3.3
Net NPLs to capital	47.2	48.0	38.2	38.3	31.0	28.8	22.4	25.5
Earnings and profitability								
Average cost of borrowed funds	2.9	2.5	2.4	0.7	0.9	2.0	2.0	...
Average interest rate on loans	9.8	8.4	7.6	7.1	7.6	6.9	7.1	...
Average interest margin	6.9	5.9	5.2	6.4	6.7	4.9	5.1	...
After-tax return on average assets (ROA)	1.3	1.3	1.2	1.3	1.2	1.5	1.5	...
After-tax return on average equity (ROE)	20.2	17.6	14.6	15.3	13.9	17.4	17.4	...
Noninterest expenses to net banking income	58.5	58.3	60.5	58.9	58.1	55.2	53.0	...
Salaries and wages to net banking income	25.6	25.0	25.9	24.8	25.1	23.9	22.9	...
Liquidity								
Liquid assets to total assets	27.1	27.3	27.8	26.0	24.4	23.1	24.1	23.6
Liquid assets to total deposits	42.3	42.3	42.4	38.7	35.5	32.8	35.5	35.2
Total loans to total deposits	89.5	92.0	92.2	90.2	82.2	76.3	80.1	82.2
Total deposits to total liabilities	64.1	64.5	65.7	67.1	68.7	70.3	67.9	67.2
Sight deposits to total liabilities	34.4	34.7	35.1	35.8	37.1	39.2	38.7	37.7
Term deposits to total liabilities	29.7	29.8	30.6	31.4	31.5	31.1	29.2	29.5

Source: BCEAO.

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

Table 9. WAEMU: Other Key Indicators Across Countries in 2022 [1]

	Benin	Burkina Faso	Côte d'Ivoire	Guinea-Bissau	Mali	Niger	Senegal	Togo	WAEMU Total
Nominal GDP (billions of CFAF)	10,855	11,735	43,682	1,069	11,715	9,615	17,268	5,069	111,008
Nominal GDP (billions of US Dollars)	17	19	70	2	19	15	28	8	178
Nominal GDP per capita (thousands of CFAF)	812	515	1,445	564	518	369	977	572	774
SDR Quota (million)	124	120	650	28	187	132	324	147	1,712
Population (millions)	13.4	22.8	30.2	1.9	22.6	26.1	17.7	8.9	143.5
Land area (thousands of sq.km. in 2020)	113	274	318	28	1,220	1,267	193	54	3,466
Exports of goods and services (billions of CFAF)	2,585	3,468	10,803	169	3,413	1,141	4,654	1,085	27,318
Imports of goods and services (billions of CFAF)	3,260	3,978	12,492	360	4,670	2,847	9,109	1,573	38,289
Share of individual countries (in percent)									
In nominal GDP	9.8	10.6	39.3	1.0	10.6	8.7	15.6	4.6	100
In population	9.3	15.9	21.1	1.3	15.8	18.2	12.3	6.2	100
In land area	3.3	7.9	9.2	0.8	35.2	36.5	5.6	1.6	100
In exports	9.5	12.7	39.5	0.6	12.5	4.2	17.0	4.0	100
In imports	8.5	10.4	32.6	0.9	12.2	7.4	23.8	4.1	100

Sources: World Bank, *World Development Report*; IMF, *Direction of Trade Statistics*, World Development Indicators; and staff estimates.

[1] Unless otherwise indicated.

Annex I. External Sector Assessment[1]

Overall Assessment: *WAEMU's external position in 2023 was weaker than the level implied by fundamentals and desirable policy settings, based on the results of the IMF's EBA-lite current account model. The current account deficit is estimated to have widened in 2022 and 2023, reflecting high prices for imported food and energy and investments in hydrocarbon projects, which will start generating new exports this year, and a continued weak fiscal position. The level of reserves has dipped below the level suggested by reserve adequacy metrics in 2023, contributing to a weakened external position in 2023.*

Potential Policy Responses: *Over the medium term, continued growth-friendly fiscal consolidation as planned, as well as compliance with a reinstated fiscal rule in the context of the Convergence Pact, along with implementation of structural reforms, will be critical to supporting the external position.*

Foreign Assets and Liabilities: Position and Trajectory

Background. The WAEMU's net international position (NIIP) deteriorated to -47.3 percent of union GDP at end-2021 (the date of the most recent observation), from -45.8 percent at end-2020. This trend was largely driven by an increase in external public debt, to 35.9 percent of GDP at end-2021 from 33.2 percent in 2020. While external public debt has been stable since then, large current account deficits amid tightening global financing conditions are likely to have continued to erode the NIIP.

Assessment. The worsening in current accounts observed in 2022 and 2023 is expected to continue to worsen the NIIP. Looking ahead, the projected improvement in CA positions should contribute to stabilizing the NIIP ratio in the medium term. Over 40 percent of the WAEMU external liabilities is constituted by foreign direct investments (FDI), while portfolio investments (which are more volatile than FDI) constitute a relatively small proportion of external liabilities, resulting in risks from the negative NIIP which appear contained. External debt levels vary widely across the WAEMU (about 25 of GDP in Mali and Togo to almost 60 percent of GDP in Senegal), and the composition varies as well with the former countries owing most external debt to official creditors on concessional terms, and Senegal and Côte d'Ivoire being indebted mostly towards commercial creditors.

2021 (percent of GDP)	NIIP: -47.3%	Gross Assets: 38.7%	Debt Assets: N/A	Gross Liab.: 86.1%	Debt Liab.: N/A

Current Account

Background. Based on the Fall 2023 published WEO data, the WAEMU current account (CA) deficit (including grants) is estimated to have widened significantly to 7.6 percent of GDP in 2022 (from 5.6 percent in 2021) and 7.2 percent in 2023, driven by high prices for imported food and energy as well as large import needs for hydrocarbon projects in Niger and Senegal. Large fiscal deficits across the region also generated a significant negative public investment-savings gaps, while private investment-savings gaps have narrowed in 2023. The completion of these projects will significantly reduce imports and raise exports this year which, coupled with the expected moderation in import prices and fiscal consolidation, will lead to a quick narrowing of the current account deficit. Over the medium term, the CA deficit would then progressively improve towards 3.5 percent of GDP (a level broadly similar to the 2017-21 average).

Assessment. When applied to data and estimations for 2023, the EBA-Lite current account model estimates a CA norm of -5.4 percent of GDP against an adjusted CA balance of -6.9 percent of GDP. Niger and Senegal had very large imports due to the temporary reasons discussed above, which have affected the region in the past few years and are expected to revert as the projects come to fruition and produce exports. Correspondingly, 0.6 percent of union GDP adjustors are applied, to avoid such temporary factors disproportionately impacting the union-level assessment. Most countries are estimated to have had small negative CA gaps in 2023, although some saw positive gaps. The EBA-Lite CA model suggests the external position for WAEMU as a whole was moderately weaker than the level implied by fundamentals and desirable policies in 2023.

WAEMU: Model Estimates for 2023 (in percent of GDP)

	CA model	REER model
CA-Actual	**-7.2**	
Cyclical contributions (from model) (-)	0.4	
Additional temporary/statistical factors (+)	-0.6	
Natural disasters and conflicts (-)	0.0	
Adjusted CA	**-6.9**	
CA Norm (from model) 2/	**-5.4**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-5.4**	
CA Gap	**-1.5**	**1.7**
o/w Relative policy gap	**1.9**	
Elasticity	-0.2	
REER Gap (in percent)	**8.3**	**-9.3**

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

[1] Prepared by Francisco Roldán (SPR).

Real Exchange Rate
Background. The CFA Franc (CFAF), in real effective terms, depreciated by about 14.3 percent between the peak of 2008-09 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 and 2021, as the real effective exchange rate (REER) appreciated by 4.7 percent cumulatively over the 2019 level, largely because of the relative appreciation of the Euro against the USD. The REER depreciated substantially in 2022 (by about 3.1 percent). The REER (and NEER) depreciation in 2022 has been largely driven by the nominal depreciation of the Euro after Russia's invasion of Ukraine, international monetary policy tightening, amid growth and inflation concerns. **Assessment.** The EBA-Lite Real Effective Exchange Rate (REER) model finds a small misalignment of CFAF, estimating an undervaluation of approximately 9.3 percent with respect to values implied by economic fundamentals and equilibrium policies. This result contrasts with the estimates obtained using the EBA-Lite CA model, which suggest a moderate overvaluation of 8.3 percent for 2023 assuming an elasticity of the real exchange rate to the CA deficit of -0.2 (IMF staff assumption). When the models are in contradiction, best practice is to opt for the CA deficit model—so the REER is assessed as moderately weaker than fundamentals.
Capital and Financial Accounts: Flows and Policy Measures
Background. In 2022, net capital inflows decreased to 5.0 percent of GDP from 6.2 percent in 2021, largely driven by portfolio flows as fewer countries accessed the Eurobond market. FDI held broadly stable at 2.5 percent of GDP from 2.7 percent in 2021. Over the medium term, the financial account would remain in the 3.5-4.5 percent range as FDI weaken slightly after the current hydrocarbon projects come to fruition and portfolio flows stabilize around 1.5 percent of GDP, reflecting prudent assumptions on new net Eurobond issuances over the period. **Assessment.** Market perceptions of WAEMU countries have generally been broadly favorable in 2022. However, especially in 2023 governments have relied more on domestic and regional financing amid monetary policy tightening in advanced economies, global tightening in financial conditions, and rising spreads, contributing to reserve loss. 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 union economies and to boost capital inflows.
FX Intervention and Reserves Level
Background. The WAEMU maintains a fixed exchange rate regime (pegged to the euro), and large fiscal and external deficits have eroded reserves. Pooled reserves deteriorated from about 14 trillion CFAF (about €21 billion, or 5.3 months of prospective imports) at end-2021 to about 11.4 trillion in 2022 (about €17.4 billion, or 4.2 months of prospective imports) and further deteriorated to under 10 trillion CFAF (about €15 billion, or 3.2 months of prospective imports) in 2023, despite significant inflows including from IMF disbursements. These developments reflect a variety of factors including: (1) large imports from the hydrocarbon projects in Niger and Senegal, as well as increasing and still high food and fuel import prices, especially in the earlier period; (2) continued large fiscal deficits; and (3) tighter global financial conditions. Reserves are projected to recover over the medium term as the CA balance improves amid fiscal consolidation, reducing pressure on external savings. **Assessment.** The Assessment of Reserve Adequacy Credit Constrained (ARA-CC) approach based on 2022 data estimates a range for the minimum level of adequate reserves of 4.0 to 6.0 months of prospective import coverage for the WAEMU, with the lower end calibrated on fragile states and the higher end calibrated on non-resource rich countries. Based on this model, the level of reserves estimated for end-2023 (3.2 months of imports) is below the level assessed as adequate. The improving current account, coupled with enhanced prospects for financial inflows (including the recent Eurobond placements by Côte d'Ivoire and Benin) are expected to contribute to a gradual rebuilding of external reserves towards adequate levels. Over the last decade, there has been a fairly stable relation between prospective imports and sight liabilities of the BCEAO, a variable which authorities follow closely to assess the level of reserves. According to this relationship, 4 months of import coverage of reserves would translate to a ratio of reserves to sight liabilities of about 67 percent. At end-2023, this coverage measure is estimated to have reached 57 percent. Growth-friendly fiscal consolidation, tighter monetary policy, and implementation of structural reforms will be key to quickly returning reserves to the adequate range.

Annex II. Risk Assessment Matrix[1]

Risks	Likelihood	Economic Impact	Policy Responses
Country Specific			
Intensified conflict in the Sahel region with increasing spillovers into the coastal member states. Extended violence disrupts trade, prompts a new surge in refugees and internally displaced persons, and threatens social stability.	High	**High** Lower growth, rising inflation, weaker external balance. Rising pressure on the budget and reserves. Increased risks to debt sustainability. Risk of social tensions.	• Provide targeted fiscal support to the most vulnerable. • Accelerate revenue mobilization and promote transparency in scaling up security budget. • Seek concessional external financing. • Strengthen anti-corruption efforts.
Delays in hydrocarbon production and export in Senegal or Niger. Production increases are delayed past 2024 due to technical or political issues.	High	**High** Weaker external balance, lower reserves, lower growth. Increased risks to debt sustainability and vulnerability to external shocks. More difficult access to external financing.	• Adopt a medium-term fiscal adjustment plan covering the entire public sector including off-budget entities involved in the projects. • Seek additional concessional external financing to fill any financing gap.
A lack of liquidity leads to financing difficulties. Regional banks are unable to absorb sovereign financing needs, leading governments to accumulate arrears.	Medium	**High** Banks incur significant capital impairment because of their large exposures to regional sovereigns, requiring recapitalization. This would damage bank's ability to finance the regional economy.	• Accelerate fiscal consolidation. • Seek additional concessional external financing. • Take prudential measures to address the sovereign-bank nexus. • Deepen the local financial market.
Conjunctural shocks and scenarios (Global)			
Intensification of regional conflict(s). Escalation of Russia's war in Ukraine or other regional conflicts and resulting economic sanctions disrupt trade (e.g., energy, food, tourism, and/or critical supply chain components), remittances, FDI and financial flows, and payment systems, and lead to refugee flows.	High	**High** Lower economic growth, rising inflation, and weaker external balance. Rising pressure on the budget and reserves. Increased risks to debt sustainability. Risk of social tensions.	• Provide additional temporary and targeted fiscal support to the most vulnerable within the existing budget envelope. • Seek concessional external financing for additional budget support, as needed. • Pursue medium-term reforms to increase resilience.

[1] Based on the July 2023 Global Risk-Assessment Matrix.

Risks	Likelihood	Economic Impact	Policy Responses
Commodity price volatility. A succession of supply disruptions (e.g., due to conflicts, uncertainty, and export restrictions) and demand fluctuations causes recurrent commodity price volatility, external and fiscal pressures in EMDEs, contagion effects, and social and economic instability.	**High**	**Medium** Lower economic growth, rising inflation, and weaker external balance. Rising pressure on the budget and reserves. Increased risks to debt sustainability. Risk of social tensions.	• Maintain flexible energy prices to mitigate budget impact. • Provide targeted fiscal support to the most vulnerable within the existing budget envelope. • Seek additional concessional external financing to fill any financing gap.
Structural Risks (Global)			
Deepening geoeconomic fragmentation. Conflict(s) and weakened international cooperation result in a more rapid reconfiguration of trade and FDI, supply disruptions, protectionism, technological and payments systems fragmentation, rising input costs, financial instability, a fracturing of international monetary and financial systems, and lower potential growth.	**High**	**Medium** Regional tensions would further reduce the demand for WAEMU's trade services and increase pressures on security and social spending.	• Provide targeted fiscal support to the most vulnerable. • Expand the budget envelope by mobilizing reducing tax expenditures. • Adopt a medium-term fiscal adjustment plan covering the entire public sector.
Extreme climate events. Extreme climate events driven by rising temperatures cause loss of human lives, infrastructure damage, supply disruptions, lower growth, and financial instability.	**Medium**	**High** WAEMU is one of the most vulnerable regions to climate change, including drought and desertification.	• Provide targeted support to the vulnerable. • Pursue medium-term reforms to increase climate change adaptation.

Note: The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path. 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. The conjunctural shocks and scenario highlight risks that may materialize over a shorter horizon (between 12 to 18 months) given the current baseline. Structural risks are those that are likely to remain salient over a longer horizon.

Annex III. Status of Fund Relations

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. Program implementation has been robust. The Board approved on December 14, 2024, a new 24-month arrangement under the Resilience and Sustainability Facility (RSF) (about $US200 million, 120 percent of quota) and completed the Third Review under the EFF/ECF. The next Article IV consultation is planned for April 2024, combined with the Fourth EFF/ECF Reviews and the 1st RSF Review.

Burkina Faso: On September 21, 2023, the IMF Executive Board approved a 48-month arrangement under the ECF for Burkina Faso. The arrangement will provide financing of about US$302 million (190 percent of quota). Previously, on March 27, 2023, the IMF Executive Board approved a disbursement of about US$81 million (50 percent of quota) under the Food Shock Window of the Rapid Credit Facility. The first program review will be combined with the Article IV Consultation. The Board discussion is tentatively scheduled for May 13, 2024.

Côte d'Ivoire: On May 24, 2023, the IMF Executive Board approved 40-month arrangements under the EFF and ECF for Côte d'Ivoire (400 percent of quota, about US$3.5 billion). The performance under the current EFF/ECF has been strong with the completion of the first reviews by the Board on December 4, 2023. The Executive Board will consider the authorities' RSF Request in March, and the second reviews under the EFF and ECF is expected to be discussed by the Executive Board in June 2024.

Guinea-Bissau: In mid-2022, the third and last review of the Staff-Monitored Program was completed satisfactorily, along with the 2022 Article IV Consultation building track record of policy implementation towards a financial arrangement. On January 30, 2023, the IMF Executive Board approved a new 36-month ECF arrangement to support economic policies. Program performance has been monitored through quarterly reviews with three reviews concluded on May 10, September 14 and November 29, 2023. In the Third Review, the IMF Executive Board approved an augmentation of access under the ECF program from 100 to 140 percent of quota (equivalent to SDR 39.76 million). The combined Fourth and Fifth Reviews mission is scheduled for end-February 2024.

Mali: The 2019-22 ECF-supported program expired in August 2022 after completing just three out of six reviews. Its progress was disrupted by irregular changes of government in August 2020 and May 2021, with the latter prompting ECOWAS sanctions in the first half of 2022. The Malian authorities have since requested new financing, including an RCF. Following the stand-alone 2023 Article IV consultation, discussions on potential financing instruments have been ongoing.

Niger: On July 05, 2023, Niger successfully completed the third review under the ECF arrangement (SDR 19.74 million or 15 percent of quota) and obtained approval for an RSF arrangement (SDR 98.7

million or 75 percent of quota). The implementation of the program had been broadly on track until the third ECF review. Following the irregular change of government on July 26, 2023, dealings with Niger have not been paused and the two arrangements remain in place, in accordance with the IMF's approach to government recognition. The last Article IV consultation was concluded on December 21, 2022.

Senegal: On June 26, 2023, the IMF Board approved $1.83 billion in financial assistance to Senegal, including $1.51 billion under the EFF and ECF, and $324 million under the RSF. The first program reviews were completed on December 13, 2023, which unlocked disbursements of $214.86 million from the EFF/ECF and $64.45 million from the RSF.

Togo: On March 1, 2024, the IMF Board approved a new 42-month ECF arrangement for SDR 293.60 million (200 percent of quota). As the Article IV consultation is long overdue (the last one was concluded on June 26, 2019), a standalone mission will also be scheduled in early 2024.

Annex III. Table I. Current IMF Arrangement with WAEMU Members

Country	Type	Date Of Commitment	Expiration Date	Total Agreed (Million of SDR)	Total Agreed (Million US $ at the time of approval)
Benin	EFF ECF	8-Jul-22	7-Jan-26	484.1	638.0
Burkina Faso	ECF	21-Sep-23	20-Sep-27	228.8	302.5
Cote d'Ivoire	EFF ECF	24-May-23	23-Sep-26	2,601.6	3,500.0
Guinea-Bissau	ECF	30-Jan-23	29-Jan-26	28.4	37.9
Niger	ECF RSF	8-Dec-21 5-Jul-23	7-Dec-24 7-Jun-25	296.1	407.3
Senegal	EFF ECF RSF	26-Jun-23	25-Jun-26	1,375.3	1,834.0
Togo	ECF	1-Mar-24	31-Aug-27	293.6	389.5
TOTAL				5,307.8	7,109.2

Annex III Table II. WAEMU: Member Countries' Fund Credit Outstanding (As of December 31, 2023)

	SDR million				Percent of quota			
	EFF	ECF	RSF	Total	EFF	ECF	RSF	Total
Benin	328.5	344.8	-	673.3	265.4	278.5	-	543.9
Burkina Faso	-	298.3	-	298.3	-	247.8	-	247.8
Côte d'Ivoire	1279.5	769.3	-	2,048.8	196.7	118.3	-	315.0
Guinea Bissau	-	40.0	-	40.0	-	140.7	-	140.7
Mali	-	365.9	-	365.9	-	196.1	-	196.1
Niger	-	359.3	-	359.3	-	273.1	-	273.1
Senegal	765.8	409.9	48.5	1,224.2	236.7	126.7	15.0	378.3
Togo	-	232.5	-	232.5	-	158.4	-	158.4
Total	**2,373.9**	**2,820.0**	**48.5**	**5,242.4**	**138.7**	**164.8**	**2.8**	**306.3**

Source: IMF.

Annex III Table III. WAEMU: Member Country SDR Position (As of December 31, 2023)

(in millions of SDRs)		
	Net Cumulative Allocation	Holdings
Benin	177.82	164.38
Burkina Faso	172.98	167.95
Côte d'Ivoire	934.28	606.08
Guinea-Bissau	40.82	50.18
Mali	268.21	250.30
Niger	189.07	191.21
Senegal	464.96	312.19
Togo	211.03	206.97
WAEMU	**2459.18**	**1949.26**

Annex III Table IV. WAEMU: Capacity to Repay the IMF

	2024	2025	2026	2027	2028
Fund obligations based on existing credit					
(in millions of SDRs)					
Principal	559	693	662	645	640
Charges and Interest	116	93	76	63	52
Fund obligations based on existing and prospective credit					
(in millions of SDRs)					
Principal	593	695	662	645	673
Charges and Interest	131	202	262	270	258
Total obligations based on existing and prospective credit					
In millions of SDRs	725	897	924	915	931
In billions of CFA francs	583	726	751	746	762
In percent of government revenue	2	3	2	2	2
In percent of exports of goods and services	2	2	2	2	2
In percent of external debt	1.3	1.6	1.5	1.4	1.4
In percent of GDP	0.4	0.5	0.5	0.4	0.4
In percent of quota[1]	42	52	54	53	54
Outstanding Fund credit					
In millions of SDRs	6,217	7,325	7,092	6,507	5,833
In billions of CFA francs	5,005	5,927	5,764	5,306	4,776
In percent of government revenue	21	22	19	16	13
In percent of exports of goods and services	15	16	14	12	10
In percent of external debt	11	13	12	10	9
In percent of GDP	4	4	4	3	3
In percent of quota[2]	363	428	414	380	341
Net use of Fund credit					
Disbursements	1,753	1,890	496	82	0
Repayments and Repurchases	593	695	662	645	673
Memorandum Items					
Exports of Goods and Services (billions of CFA francs)	34,000	37,849	40,492	43,224	46,408
Government revenue and grants (billions of CFA francs)	24,266	27,404	30,340	33,248	36,245
External debt (billions of CFA francs)	44,025	46,803	49,665	52,827	55,533

Sources: IMF staff estimates and projections

[1] This table is for information only and presents the aggregate of the 8 WAEMU member countries' individiual financial data with the Fund.

[2] Note: WAEMU countries total quota is SDR 1,711.60 million.

Annex IV. Authorities Responses to the 2022 Policy Recommendations

	2022 Regional Discussions Recommendations	Authorities' Responses
Fiscal Policy Coordination	– Converge towards a regional fiscal deficit anchor of 3 percent of GDP by 2024, with possible delays limited to one year, strongly justified, and financeable. – Reintroduce and revamp regional fiscal rules with enhanced supporting elements with unchanged fiscal deficit and debt ceilings. – Implement PFM reforms to contain extra-budgetary and below-the-line operations (stock flow adjustments, SFAs).	**Partially Consistent** – WAEMU governments have committed to bring their fiscal deficit to 3 percent of GDP by 2025 in the context of Fund supported programs, except for Burkina Faso and Mali. The financing of fiscal deficits proved challenging in 2023, due to limited external financing, tighter bank liquidity conditions and tensions in the regional sovereign security market. – The WAEMU Commission is working on a proposal for a new Convergence Pact with unchanged fiscal deficit and debt ceilings of 3 and 70 percent of GDP respectively, enhanced with escape clauses and a stabilization fund, to be submitted to the WAEMU Council of Ministers in coming months. – The pace of PFM reform has differed among WAEMU countries, and SFAs are estimated to have averaged 1.2 percent of GDP a year in 2021-2023.
Monetary Policy Stance	– Further tighten monetary policy to ensure inflation falls back to its target range within a 24-month horizon and also contain risks that FX reserves fall below adequacy levels.	**Partially Consistent** – Inflation has returned to the target band since August 2023. To contain FX reserve erosion, the BCEAO has tightened monetary policy through additional rate hikes as well as by rationing refinancing volumes since February 2023, causing the effective refinancing rate to rise from under 3 percent in January 2023 to 5.5 percent (the ceiling of the policy corridor) in December 2023. However, this rationing has caused tensions in the money and sovereign security markets, leading the BCEAO to undertake public debt purchases and extend significant amounts of additional refinancing through its emergency lending window. Overall, FX reserves have fallen below adequacy thresholds.

	2022 Regional Discussions Recommendations	Authorities' Responses
Financial Regulation and Supervision	– The bank resolution framework should be made fully operational and effective to ensure that nonviable banks can be promptly intervened and resolved. – Introduce "targeted" Pillar 2 capital surcharges and liquidity requirements, enhance supervision independence, and implement an emergency liquidity assistance scheme.	**Partially Consistent** – Resolution plans have been adopted for 20 systemic banks and such plans are expected to be adopted by the Banking Commission for the remaining 12 systemic banks by mid-2025. Resolution plans shall also be adopted for non-systemic banks. – Pillar 2 capital surcharges are under consideration. – The Convention governing the Banking Commission has been amended to enshrine the principle of independence and require that each commissioner representing a member-state have relevant qualifications and be appointed by the WAEMU Council of Ministers rather than by the member-state.
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 and preparatory work is underway to promote the role of security dealers in the regional financial market.
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 and a regional program for the development of digital economy was adopted in 2022. The BCEAO is developing a fast payment scheme that holds promise both to promote regional integration and reduce costs, by offering interoperable services across the region's many payment platforms.

Annex V. Implementation Status—FSAP Update 2022 Recommendations[1]

Table 1. WAEMU: FSAP Update 2022: Key Recommendations		
Recommendations	**Time Frame**	**Status**
Banking Sector Supervision and Regulation		
Modify the WAEMU Banking Commission's (CBU) governing documents to institute independence of its Supervisory Board from member states and require state representatives to serve in a non-voting capacity or establish selection of commissioners based on professional qualifications.	ST	• The Annex to the Convention governing the WAEMU Banking Commission, amended by the WAEMU Council of Ministers on March 31, 2023, articulates the principle of independence in Article 9 as follows: "In the execution of its missions outlined in Article 2 of the governing Convention, the Banking Commission, its members, and those contributing to its functioning are prohibited from seeking or receiving directives or instructions from community institutions or bodies, the governments of WAEMU member states, any other organization, or any other individual." • The decision-making process within the Banking Commission, as outlined in the Annex, remains unchanged: each member has one vote, and decisions are reached by a majority of the votes cast. Nevertheless, there is a modification in the appointment process, as these members are now supposed to be appointed by the WAEMU Council of Ministers based on proposals from the member states.
Make the WAEMU Court of Justice the appellate jurisdiction for the CBU Supervisory and Resolution Boards' decisions.	MT	• The WAEMU Council of Ministers is maintained as the appeals body against decisions of the Banking Commission.
Continue strengthening the number and capacity of staff at the Secretariat General of the Banking Commission the WAEMU (SGCB) assigned to supervisory functions.	ST	• The supervisory staffing at SGCB increased by 12, 10, and 3 employees in 2021, 2022, and 2023, respectively, reaching a total of 25 agents.
Impose capital surcharges for concentration risk and interest rate risk (Pillar 2).	ST	• This recommendation is being considered by the CBU.

[1] Prepared by Knarik Ayvazyan (MCM).

Table 1. WAEMU: FSAP Update 2022: Key Recommendations (continued)		
Recommendations	**Time Frame**	**Status**
Make more consistent use of monetary sanctions, publish sanctions and censures, and avoid repeated stays of proceedings.	ST	• The Banking Commission of the WAEMU regularly imposes pecuniary sanctions and has improved the disclosure of both disciplinary and pecuniary sanctions imposed. Specifically: • In 2021, pecuniary sanctions were imposed on all financial institutions that underwent disciplinary procedures, amounting to a total of ten. Out of these, two sanctions were subjected to anonymous publications. • In 2022, out of thirteen cases presented to the Supervision Board, nine resulted in pecuniary sanctions. Twelve sanctions were published anonymously. • In 2023, pecuniary sanctions were imposed on twenty-eight establishments out of the thirty-four cases presented to the Supervision Board. Sanctions against fourteen financial institutions were published anonymously.
Publish a guidance note for banks on the preparation of stress tests.	ST	• A circular regarding the simulation of crises within financial institutions is currently under development and is expected to be published by 2025.
Strengthen AML/CFT supervision by fully adopting a risk-based approach and enhancing the capacity and methodology for onsite supervision.	ST	• The Regional AML/CFT law, adopted by the WAEMU Council of Ministers on March 31, 2023, was designed to align with FATF recommendations and consider the results of national risk assessments. It considers the risk profile of AML/CFT for supervised financial institutions, including branches, and incorporates the results of national assessments of AML/CFT risks in the member states of the Union. Moreover, in 2023, AML/CFT risk control shifted towards addressing specific vulnerabilities, achieved through a more targeted approach to checkpoints.
Macroprudential Framework and Tools		
Designate the BCEAO as the "macroprudential authority" and introduce a mechanism for national authorities to raise legitimate concerns.	ST	• The new banking law introduces the requirements applied to the macroprudential authority.

Table 1. WAEMU: FSAP Update 2022: Key Recommendations (continued)

Recommendations	Time Frame	Status
Fill residual data gaps, including on the financial conditions of nonfinancial corporations, households, and the real estate sector.	MT	• This recommendation is being considered by the BCEAO.
Strengthen the monitoring of WAEMU's Financial Stability Committee (CSF-UMOA) recommendations by introducing a "comply or explain" mechanism.	MT	• This recommendation is being considered by the CSF-UMOA.
Systemic Liquidity		
Introduce the Basel III liquidity ratios and: (i) institute a government securities haircut; (ii) count required reserves toward liquid assets; and (iii) require banks to regularly report residual maturities on assets and liabilities, and interest rates.	ST	• Liquidity regulations have not yet incorporated developments relating to the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR).
Impose a higher liquidity coverage ratio (LCR) for banks with riskier profiles (Pillar 2).	MT	• This recommendation is being considered by the CBU.
Support the development of the regional bond market by: (i) introducing a development objective in medium-term borrowing strategies; (ii) unifying the central depositories; and (iii) reforming the status of the primary dealers.	MT	• A working group has been established within BCEAO to: (i) formulate proposals and guidelines for security dealers in the public debt market, and (ii) enhance the activities of market makers, known as Treasury Securities Dealers (TSDs), by setting a market share target for third-party transactions, diversifying and expanding the investor base beyond credit institutions, and promoting the regional public debt market through targeted events and the establishment of a TSD association. • Moreover, supportive measures for TSDs could be suggested by implementing a liquidity support mechanism, the institution of a commissioning system based on a performance contract, and strengthening the approval, supervision, and sanctioning framework.
Introduce: (i) funding plans to manage certain banks' excessive dependence on BCEAO funding; (ii) haircuts and concentration limits for BCEAO eligible assets adapted to the underlying risks; and (iii) a framework for emergency liquidity assistance (ELA).	ST	• This recommendation is being considered by the BCEAO.

Table 1. WAEMU: FSAP Update 2022: Key Recommendations (concluded)		
Recommendations	**Time Frame**	**Status**
Resolution and Crisis Management		
Liquidate or resolve undercapitalized, nonviable credit institutions on a timely basis.	ST	• This recommendation is currently in progress by the CBU.
Finalize banks' resolution plans in accordance with best practices.	ST	• At end-2023, resolution plans were adopted for 20 systemic banks, and those for the remaining 12 systemic banks are expected to be adopted by mid-2025. • The Banking Commission also intends to adopt similar plans for non-systemic institutions.
Strengthen the independence of the: (i) Resolution Board from the Supervisory Board and member states; and (ii) Deposit Guarantee and Resolution Fund (FGDR), particularly from active banking industry members.	MT	• Article 177 of the new banking law stipulates the independence of the Resolution Board from the Supervision Board. • Article 10 of the Deposit Guarantee and Resolution Fund's Statutes establishes independence from active banking industry members.
Adopt a program for enhancing systemically important banks' loss-absorption capacity; speed the attainment of FGDR-UMOA's target insurance reserves coverage of eligible deposits; enable FGDR-UMOA recourse to member states in case of resource inadequacy.	MT	• The FGDR-UMOA has achieved the target of CFAF100 billion set for end-2023 (CFAF 103 billion) and a new goal of CFAF 200 billion has been set for end-2029.
Climate Risk		
Adopt a strategy for managing climate risks, including raising supervisors' and financial institutions' awareness of climate-related issues.	ST	• A draft climate policy is under development by the BCEAO.
Define the prudential expectations for financial institutions' integration of climate and environmental risks in risk management systems and disclosures.	MT	• An official memorandum is being developed to define the guidelines when issuing a circular of the Banking Commission, specifying instructions to financial institutions on how to integrate climate and environmental risks into their risk management framework.

Note: ST = Short Term (1 to 2 years); MT = Medium Term (3 to 5 years).

Annex VI. Security and Irregular Changes in Government in WAEMU[1]

1. **Sub-Saharan Africa (SSA) has experienced a recent uptick in irregular changes in government since 2020, following a gradual decline in the occurrence of such events in past decades**. Since 2020, there have been fifteen successful or attempted irregular changes in government in nine different SSA countries, according to Powell and Clayton (2011) database. This resurgence of irregular changes in government breaks the trend of a decline in SSA and globally. The Powell and Clayton database reports 491 irregular changes in government worldwide since 1950. More than 85 percent happened between 1950 and 1999, while around 10 percent happened in the period of 2000-2019 (Figure 1). Despite the overall decline since the 2000s however, SSA has seen a concentration of irregular changes in government relative to other regions, accounting for about 60 percent of all global cases in 2000-2019 (compared to a share of 32 percent in the 1950-1999 period). This is particularly the case since 2020, as in the past four years all irregular changes in government except one happened in SSA.[2]

2. **WAEMU countries account for almost half of the recent SSA irregular changes in government.** There have been seven successful or attempted irregular changes in government in the WAEMU since 2020.[3] These account for almost half of all the irregular changes in government in SSA (47 percent) and in the world (41 percent). Burkina Faso, Mali and Niger are now military-led. The leaders have promised the return to elections after a transition period, with the terms of this transition remaining uncertain in some cases. This fits the idea of "promissory coups" (Bermeo, 2016) where coup leaders promise to return to constitutional order rather than operating an open-ended coup, which tended to be the norm historically.

3. **Most recently, Niger was sanctioned after an irregular change in government on July 26, 2023, but most sanctions have been lifted on February 24, 2024.** The irregular change in government in Niger happened eighteen days after Mali was reintegrated in the governing bodies and institutions of WAEMU.[4] The change was condemned by the African Union, the European Union, ECOWAS and the United States, the latter officially recognizing it as a coup on October 10, 2023. ECOWAS members imposed sanctions on Niger on July 30, 2023 with immediate effect. They agreed to close their land and air borders with Niger, impacting trade flows to and from the country. ECOWAS member countries also agreed to suspend all financial and commercial transactions with Niger, freeze the assets of the state in ECOWAS Central Banks, including the BCEAO, Niger state enterprises and parastatals in commercial banks, and suspend financial assistance to Niger within ECOWAS.[5] On July

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[1] Prepared by Fiona Hesse-Triballi (AFR)

[2] The exception is Myanmar in 2021.

[3] Successful in Burkina Faso: January 24, and September 30, 2022; in Mali: August 18, 2020 and May 24, 2021; in Niger: July 26, 2023 and attempted in Niger: March 31, 2021; in Guinea-Bissau: February 1, 2022.

[4] On July 8, 2023, the Conference of WAEMU Heads of States decided to reintegrate Mali into WAEMU's governing bodies and institutions. The country had been suspended from the Union's governing bodies and institutions on January 9, 2022.

[5] Press Release, July 30, 2023, ECOWAS Imposes Sanctions on Niger Junta, Calls for Immediate Release, Reinstatement of President Bazoum.

30, 2023, the WAEMU Conference of Heads of State and Government imposed similar sanctions[6] which were ruled as legal by the WAEMU Court of Justice on November 16, 2023[7], implying that these sanctions would continue to be applied by WAEMU even if Niger ceased to be a member of ECOWAS. On December 14, 2023, ECOWAS recognized that the Government of President Bazoum had been overthrown and set up a task force to negotiate the restoration of constitutional order.[8] ECOWAS announced the lifting of most sanctions on February 24, 2024.

4. **A recent paper (Cebotari et al., 2024) found that political, economic and security destabilizations of a country act as the main stressors for coup.** When there are overlapping stressors, these would amplify each other both in increasing the probability of a coup when present and in reducing faster that probability when receding. The paper finds that the top 5 drivers are always either demographic/development indicators (Figure 2, in blue) or sociopolitical stability (in orange) for 2020-2022 for the WAEMU countries, except for Niger in 2022 where real GDP growth was the third driver. More precisely the paper identifies several key sources of fragility: demographic pressures (rapid population growth and younger population); weak structural fundamentals that drive poverty and low economic and political inclusion; and higher history of coups. The main stressors vary depending on the country, but for the region on average for 2020 to 2022, the three main drivers were the recent history of coups (years since the last coup), the share of elder population in the total population (a small share of elders to young people is a predictor of violence), and the number of coups before.

5. **Elevated and increasing violence is clearly visible in the three WAEMU countries where an irregular change in government unfolded.** Burkina Faso, Mali, and Niger showed the highest levels of fatalities among WAEMU countries for the past six years with a risk of spreading further to other WAEMU countries (Figure 3). An increase in violence may lead to a decrease in foreign capital inflows and a reorientation of public spending towards security, crowding out investment and development expenditures as well as driving population displacements. Heightened violence and sociopolitical instability therefore present a clear risk to economic development. In 2023, the number of fatalities linked to security incidents in WAEMU was the highest ever, with over 14,000 fatalities compared to around 10,500 in 2022 and 5,950 in 2021 (Table 1).

6. **Fatalities also recently increased in the nearby countries of Benin and Togo** (Figure 4). They both share their northern border with Burkina Faso, and Benin also has a common border with Niger. Fatalities increased by tenfold in 2023 in Benin and Togo compared to the average during 2015-2019.[9]

[6] Final Statement of the Extraordinary Session of the WAEMU Conference of Heads of State and Government, July 30, 2023.

[7] WAEMU Court of Justice Order N47/2023/CJ, November 16, 2023

[8] Press Release, December 14, 2023, "ECOWAS Communique on the Republic of Niger".

[9] The average of fatalities linked to security incidents between 2015 and 2019 was 21.6 in Benin and 14.4 in Togo; and for 2023 it was 219 in Benin and 103 in Togo, respectively 10.1 times and 7.2 times higher than the average.

7. The link between violence and irregular changes in government however is uneven in these recent events. This echoes the divide in the literature about violence as a predictor of coup (Singh, 2014): although violence had spread in Mali and Burkina Faso in the months leading up to the irregular changes in government, it had declined in Niger in 2022 and beginning of 2023, after President Bazoum made the fight against terrorism a priority when he took office in 2021.

8. Several studies find that the surge in violence has an important impact on growth. A study using the activity of night lights to estimate the impact of violence on economic growth (IMF WAEMU SIPs, 2021) concluded that a conflict causing 79 fatalities per million is estimated to have a negative impact of 0.7 percent of annual GDP. This result is tailored to WAEMU countries and is two times smaller compared to SSA on average. This could be explained by an intensity in conflict being relatively less important than in the literature and by the peripheral regions affected by the conflicts, more distant to important economic centers. The security situation has since worsened and the risk of security spillovers continue to be concerning. A recent study found that countries economically suffer from nearby conflicts: the spillover effect corresponds to a decrease of 0.8 percent to 1 percent GDP growth per additional intensity unit (on a scale from 0 to 10) in a conflict (de Groot et al., 2022).[10]

[10] The authors use an index from 0 to 10 to measure the intensity of a conflict developed by Marshall and Cole (2014) based on several factors: number of deaths, state capabilities, capital destruction, population displacement, episode duration.

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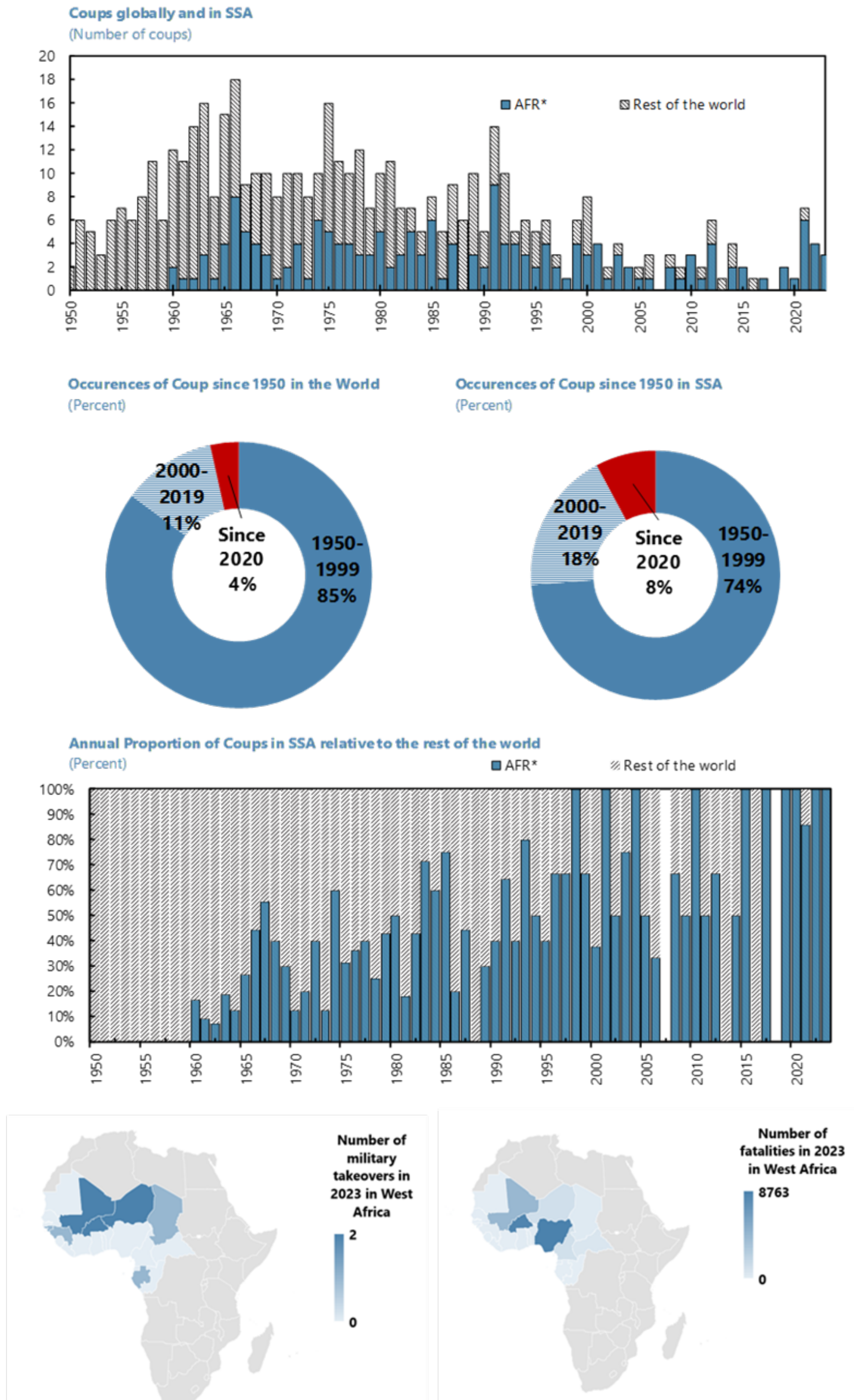
Figure 1. Coups and Irregular Changes in Government in the World and in Sub-Saharan Africa

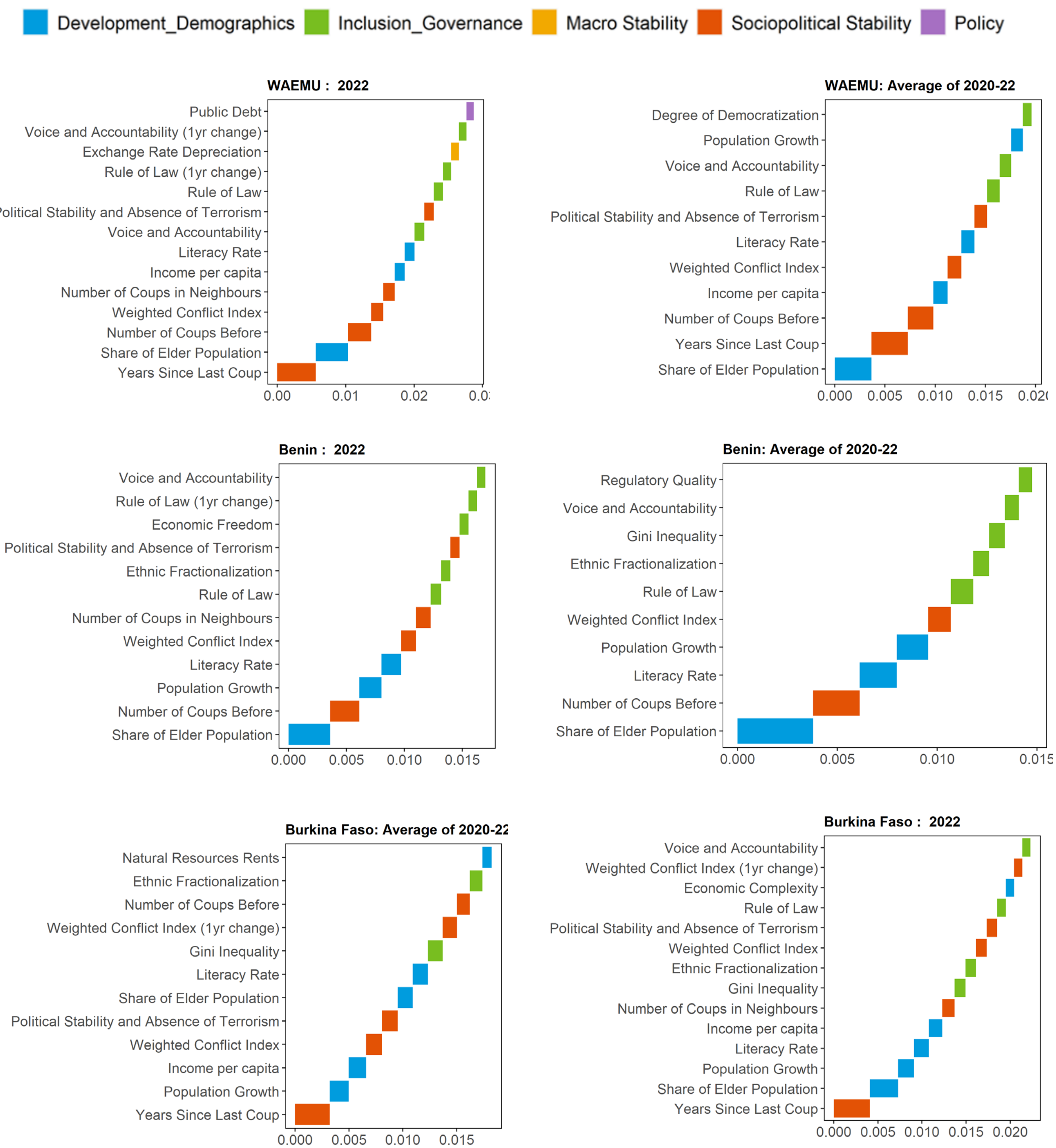


Source: Powell and Thyne, 2011; IMF staff calculations; ACLED.

*Sub-Saharan-Africa defined as the countries covered by the African Department at the IMF.

Figure 2. Main Stressors in WAEMU

Color coding of broad category drivers:



Sources: IMF Staff Calculations.

Figure 2. Main stressors in WAEMU (concluded)

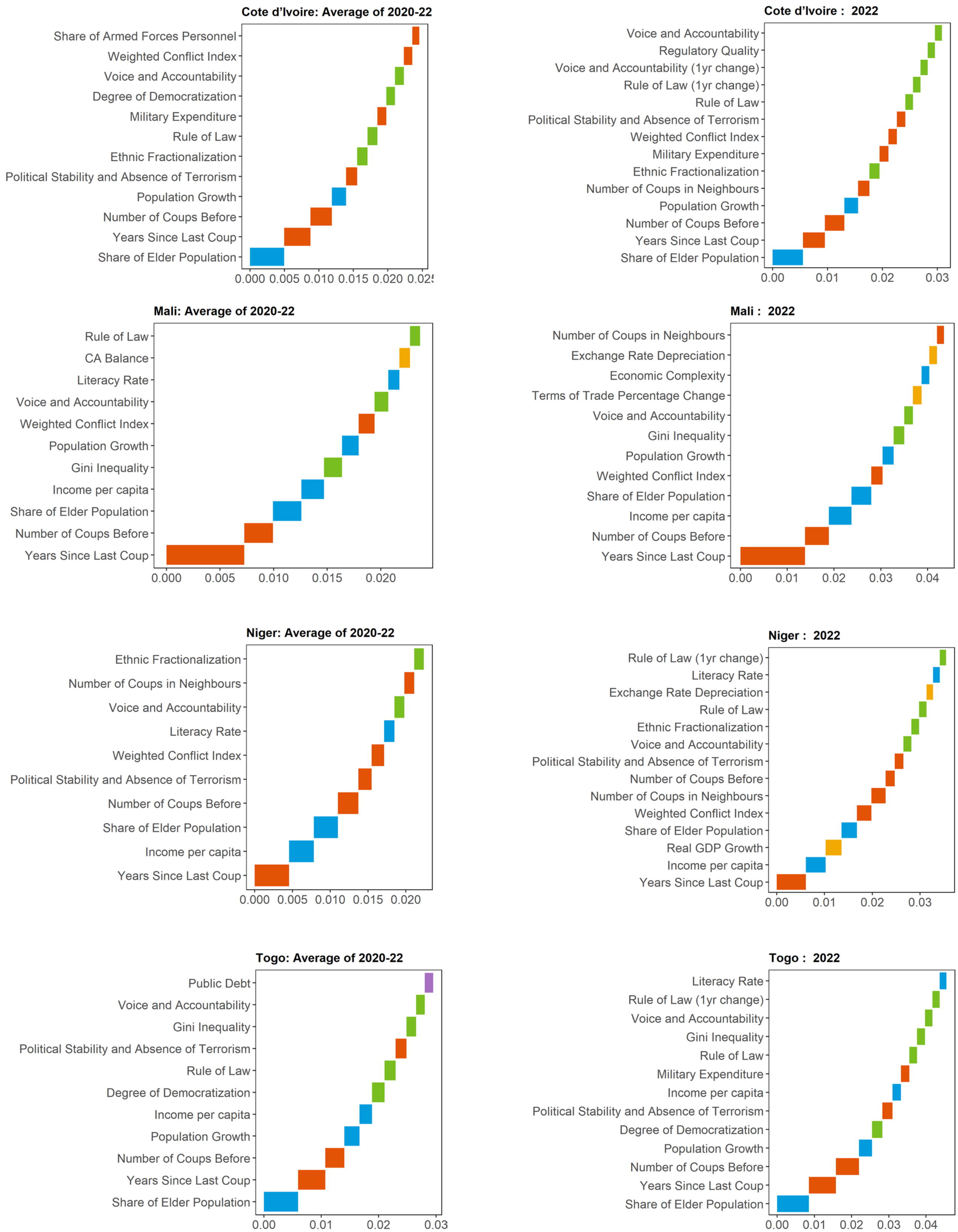


Figure 3a. Fatalities Linked to Security Incidents in WAEMU
(unit)

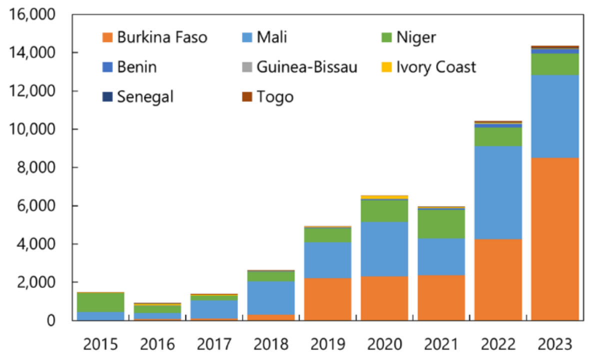


Figure 3b. Fatalities Linked to Security Incidents in WAEMU
(per million inhabitants)

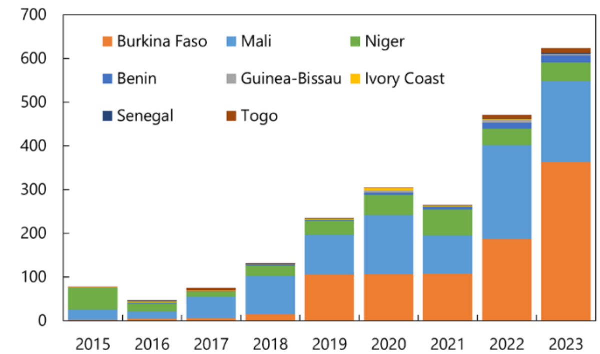


Figure 4a. Fatalities in Benin and Togo
(unit)

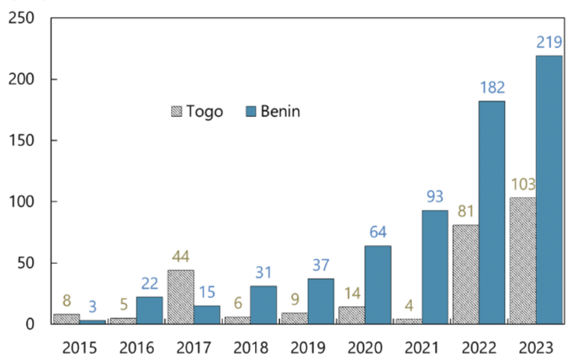
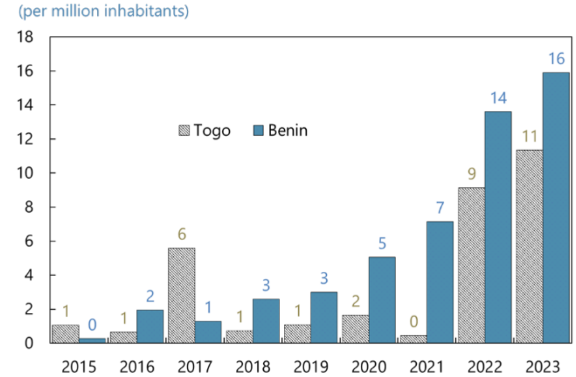


Figure 4b. Fatalities in Benin and Togo
(per million inhabitants)



Sources: ACLED, World Economic Outlook, IMF Staff calculations

Table 1a. Fatalities Linked to Security Incidents. Total 2015-2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Benin	3	22	15	31	37	64	93	182	219	**666**
Burkina Faso	23	81	117	303	2216	2304	2374	4244	8499	**20,161**
Guinea-Bissau	1	0	0	0	1	8	0	12	5	**27**
Ivory Coast	24	89	43	16	46	151	38	45	21	**473**
Mali	434	320	946	1747	1875	2856	1913	4863	4320	**19,274**
Niger	988	367	240	506	729	1126	1498	990	1149	**7,593**
Senegal	1	18	1	29	4	3	24	22	48	**150**
Togo	8	5	44	6	9	14	4	81	103	**274**
Total	**1,482**	**902**	**1,406**	**2,638**	**4,917**	**6,526**	**5,944**	**10,439**	**14,364**	**48,618**

Table 1b. Fatalities per Million Inhabitants. Total 2015-2023

	2015	2016	2017	2018	2019	2020	2021	2022	2023	Total
Benin	0.3	2.0	1.3	2.6	3.0	5.1	7.1	13.6	15.9	**51**
Burkina Faso	1.2	4.2	5.9	14.9	105.8	107.0	107.2	186.4	363.1	**896**
Guinea-Bissau	0.6	-	-	-	0.6	4.4	-	6.3	2.6	**14**
Ivory Coast	1.0	3.7	1.7	0.6	1.8	5.6	1.4	1.6	0.7	**18**
Mali	24.0	17.1	49.0	87.6	91.2	134.5	87.3	215.0	185.0	**891**
Niger	49.4	17.7	11.1	22.5	31.3	46.5	59.6	38.0	42.5	**319**
Senegal	0.1	1.2	0.1	1.8	0.2	0.2	1.4	1.2	2.6	**9**
Togo	1.1	0.7	5.6	0.7	1.1	1.7	0.5	9.1	11.4	**32**
Total	**77.6**	**46.4**	**74.7**	**130.8**	**234.9**	**304.9**	**264.5**	**471.3**	**623.8**	**2,229**

Sources: ACLED, World Economic Outlook, IMF Staff calculations

Annex VII. Recent Developments in the WAEMU Payments System[1]

Modernization efforts are integral to the regional payment strategy of the BCEAO. The WAEMU has a well-functioning and modern payment ecosystem and continuously strives to enhance efficiencies. Mobile transactions have been growing fast and several projects are in progress to strengthen the interconnectedness of electronic payment mechanisms, such as the digitalization of payment systems and the implementation of a digital financial services interoperability project. The introduction of a Central Bank Digital Currency (CBDC) is at an exploratory stage.

1. **Mobile transactions have experienced very strong growth in recent years.** BCEAO's efforts to boost the digitalization of payments have contributed to the broadening of digital financial services and a surge in mobile transactions, including for merchant, bill, and payroll payments, as well as in mobile credit purchases (Box 1). Some WAEMU Governments have also used mobile cash transfers (such as the Novissi program in Togo) to improve targeting of social spending.

2. **The BCEAO is promoting government payment digitalization by supporting the connection of national Treasuries to regional electronic payment platforms and their issuance of e-money**. Most national Treasuries are connected to the regional automated systems of interbank clearing (SICA-UEMOA) and transfers (STAR-UEMOA). A framework for e-money issuance by member countries' Treasuries, along with guidance to facilitate their application preparation, has been established. A framework has also been set up to oversee the e-money activities of national Treasuries.

3. **The BCEAO has issued guidance for the digitalization of financial operations in microfinance institutions.** The guidance is focusing on secure and accessible digital solutions, in particular by: (i) leveraging cell phones and various technological devices for transactions, (ii) establishing partnerships with IT, fintech, and e-money entities, and (iii) enabling microfinance institutions to issue e-money themselves.

4. **The BCEAO is advancing the implementation of an Instant Payment System (IPS).** The objective is to establish a digital financial services system capable of processing account-to-account transactions, regardless of the account type (bank and non-bank), institutions, instruments, or payment channels used. This infrastructure will be accessible to all financial institutions supervised by the WAEMU Banking Commission and operate continuously (24/7). The proposed IPS would have the following features:

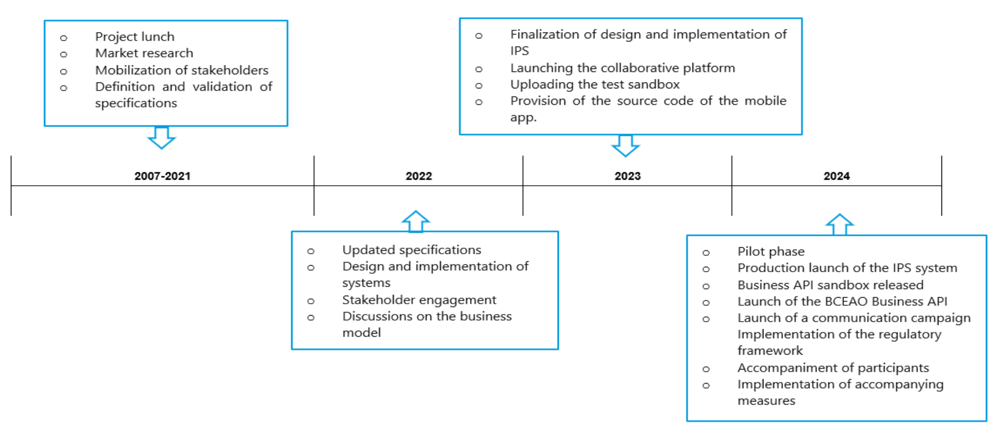
- Instant settlement finality for both the payee and the payer, with final funds availability to the payee or beneficiary occurring in real time.

[1] Prepared by Knarik Ayvazyan (MCM).

- Transactions could be made through new interface modes, such as mobile applications from third-party providers, with minimal user interface requirements.
- New access channels and transaction-initiation methods, such as QR codes, would be introduced.
- Membership in the IPS would be broad, allowing non-banks to participate both as direct and indirect participants.
- Channels innovation and newer payment transaction flows would be introduced through use cases such as request-to-pay, transfers, and salary payments.
- Payments would be made with minimal but essential need of information such as phone numbers, email addresses, or other unique identifiers.
- IPS accessibility via an Application Programming Interface (API) and the usage of international standards such as ISO 20022 would facilitate payment service providers in connecting to the system and structuring their offerings. The utilization of ISO 20022, open-source technology, and proprietary standards in payment systems can offer participants enhanced flexibility in platform integration and innovation for value-added services. This shall enable the delivery of more meaningful solutions to customers, allowing for the selection of payment channels and providing improved and affordable options to end-users.

5. **The BCEAO's IPS is in its final phase of development, with a pilot launched in 2024** (Figure 1). A collaborative platform has been established to support participants alongside a sandbox environment for thorough system functionality testing. Key activities within this project such as finalizing the development of the technical platform, engaging with stakeholders, and refining the regulatory framework are planned for 2024. The timeline for launching the IPS will depend on the diligence with which banks undertake necessary adaptations to their systems. This includes conducting integration tests with the instant payment system, ensuring compliance with security requirements, and meeting minimum requirements for customer experience.

Figure 1. BCEAO's IPS Timeline



6. Suitable safeguards and risk-management frameworks must accompany the rapid adoption of IPS. It is essential to ensure that advancements in payment technology do not compromise overall security and safety measures. Establishing a robust fraud-mitigation framework is important to uphold the system's integrity. Implementing transparent dispute-resolution mechanisms would allow for resolving instances such as accidental payments to incorrect recipients. Moreover, the heightened risk of social-engineering attacks, including phishing, associated with fast payments necessitates implementing vigilant monitoring systems, fraud-prevention mechanisms, and end-user trainings.

7. A working group was established in July 2023 to explore prospects for a central bank digital currency (CBDC). The group is conducting further analysis alongside formulating guidance proposals to advance CBDC developments within the WAEMU. Its objectives include (i) identifying the objectives, challenges, and risks associated with issuing CBDC in the WAEMU; (ii) conducting a feasibility study covering use case identification, prerequisites, key success factors, risk mitigation measures, and CBDC design choices; (iii) analyzing potential impacts of CBDC on various aspects of the BCEAO’s functions and responsibilities; and (iv) examining possible impacts on credit and microfinance institutions, other participants in the financial ecosystem, and financial inclusion. As part of this process, workshops were organized with the Banque de France on its CBDCs and financial innovations in France and the European Union.

Box 1. Recent Developments of Mobile Transactions in the WAEMU

Mobile transactions are a crucial part of the electronic payment system, and their surge has been a key driver of the substantial gains in the reach of the financial services sector in recent years (World Bank Findex, 2022).

Mobile transactions, including merchant, bill, payroll payments, and mobile credit purchases, have grown significantly over the past three years. The volume of mobile transactions doubled from 2020 to 3.3 billion in 2022, while the value of such transactions rose by a bit more than twofold to reach CFAF10.2 trillion. Merchant payments accounted for around two-thirds of the value of mobile transactions. Merchant payments were also the most dynamic type of mobile transactions, rising by 6.4 times in volume and by 145 percent in value between 2020 and 2022. Other types of mobile transactions nonetheless experienced substantial growth. In the case of bill payments, the number and value of transactions increased by 91 percent and 33 percent respectively during the same period. Due to the increased digitalization of public and corporate payments, the number of electronic payroll payment transactions increased by 7.2 percent, with transaction values rising by 157 percent. The mobile credit purchases, representing around four-fifths of total mobile transactions, rose by 81 percent, while transaction values increased by 61 percent (Table 1).

Table 1. WAEMU: Mobile Transactions, 2020-22

	Thousands of transactions			Value in CFAF billions		
	2020	2021	2022	2020	2021	2022
Merchant payments	54,017	113,059	347,532	2,916	4,025	7,140
Bill payments	128,275	178,405	244,894	975	979	1,301
Payroll payments	21,664	20,189	23,231	249	518	641
Mobile credit purchases	1,455,723	1,828,139	2,636,660	699	805	1,125
Total	1,659,678	2,139,792	3,252,317	4,839	6,327	10,207

Source: BCEAO, 2022.

Statement by Facinet Sylla, Executive Director for the West African Economic and Monetary Union, Regis N'Sonde, Alternate Executive Director and Abdoulaye Tall, Senior Advisor to the Executive Director
March 15, 2024

I. Introduction and Overview

Our West African Economic and Monetary Union (WAEMU) authorities are appreciative of the Fund's policy advice and constructive engagement with the regional institutions and each of the Union's member state. The recent meetings held with Fund management and the visit by AFR Deputy Director at the WAEMU Commission and BCEAO, the regional central bank, are testament to the strong interest of the IMF for the region.

For three decades since its creation, the WAEMU has realized sustained growth rates in a challenging context. Average economic growth was about 6 percent during the past decade. However, the policy accommodation in response to the series of acute shocks, notably the Covid-19 pandemic, the deterioration of security, and socio-political stability challenges in the Sahel, amid tight global and regional financial markets led to macro-economic imbalances. Fiscal deficits, debt ratios, and inflation rates increased beyond targets. The current account position and reserves coverage ratios also deteriorated.

The authorities are forcefully responding to the challenges, with the support of the international community, including the IMF. The member states undertake significant fiscal consolidation efforts, with Fund supported programs facilitating members' adjustment. The regional central bank, BCEAO gradually tightened policy to help rebuild reserves and control inflation. Owing to these efforts, the region's economy continued to grow although at a slower pace than anticipated. Inflation declined from the peak of 8.8 percent in August 2022 to 2.6 percent August 2023, and remain contained within the 1-3 percent target band since. The successful issuance of Eurobonds by two members of the Union, Côte d'Ivoire, and Benin, is an important milestone marking the first time African countries tap international capital markets since Covid-19 and reflecting the markets' confidence in the Union. These issuances will contribute towards reducing the demand pressure on the regional financial market, while helping strengthen the debt sustainability of members on account of the more favorable terms.

The region's medium-term prospects are promising even though projections are subject to downside risks. Average annual growth rate is projected to rebound to 6 percent over the medium term with notably the launch of large oil and gas production in Côte d'Ivoire, Niger, and Senegal. Inflation should decline further and remain within the BCEAO's target range.

On the announcement of three countries to exit from ECOWAS, namely Burkina Faso, Mali, and Niger, we note the renewed commitment by the members to remain with WAEMU, and to deepen regional integration. The robustness of the agreements on the free movement of people, goods, and services within the WAEMU will also help mitigate the potential impact of the three countries' announced decision to exit from ECOWAS. However, significant risks persist, including the prolonged tightening of global financing conditions, risks from political fragmentation and instability and security challenges in the Sahel region.

The authorities broadly agree with the thrust of staff's appraisal and recommendations to address the common challenges faced by members and regional institutions and realize the full potential of the Union. They agree on the importance of strengthening institutions and further deepening regional integration. They differ however on the external sector assessment which they view as broadly in line with economic fundamentals and desirable policies. The difference in the external sector assessment is mostly driven by import projections.

II. Common Policies

a. Fiscal Policies

The authorities are committed to maintaining fiscal sustainability in the region and strengthening their coordination of fiscal policies. The last Council of Ministers committed to achieve fiscal convergence towards the 3 percent-of-GDP deficit target by 2025 for all countries in the region expect as otherwise specified in an IMF program. For Mali which does not have an active IMF program, it is expected in 2026 and for Burkina Faso, convergence is expected in 2027. While fiscal consolidation entailed initially expenditure cuts, it is expected to be driven by revenue mobilization going forward, with the view to creating the fiscal space needed for priority development, social, and security spending.

Progress is also being made to renew the Convergence Pact aimed at anchoring medium-term fiscal sustainability. The WAEMU Commission has laid the groundwork for consideration by member states of a new Convergence Pact and welcomed IMF Staff's technical contribution in this regard. In drafting proposals, the Commission also draw on the experience of other Unions, including the European Union's recent pact, with the view to better providing for the fiscal space needed for productive investments, including on renewables, and on security. Staff's advice to urgently reintroduce a new pact that would be based on the previous fiscal deficit and debt ceilings (3 and 70 percent of GDP, respectively) and enhanced to encompass a debt correction mechanism and escape clauses is well taken by the authorities. However, careful consideration of the current socio-economic and security context would inform the definition of new convergence criteria and their thresholds. Moreover, the WAEMU's member states expressed their readiness to undertake additional revenue and expenditure measures, as needed, if pressures on reserves continued in 2024. They also took steps to address stock-flow adjustments and better control fiscal deficits.

b. Monetary Policy

The regional central bank remains committed to its core mandate of price and external stability. Responding to increased inflation in the Union, the BCEAO increased gradually policy rates. The contraction in aggregate demand, combined with favorable weather conditions, helped ease pressures and bring inflation within the target range of the central bank. With the price stability goal now within reach, the authorities expressed their readiness to tighten monetary policy further as needed, based on data. Given that the currency is pegged to the Euro, international economic developments, including on euro-area policy rates will inform the BCEAO's response, in addition to data on domestic economic conditions.

Consistent with its mandate, the BCEAO's monetary policy is also focused on rebuilding buffers and preserving financial stability. The authorities are taking steps to strengthen further the coordination between fiscal and monetary policies, including through the involvement of the WAEMU's Council of Ministers and the WAEMU's Commission. They also seek to better integrate in fiscal policy the constraints to deficit financing in regional markets. In this respect, the development of a regional sovereign yield curve across maturities, enhanced coordination of sovereign debt issuance, capacity building for primary dealers, and reforms to market microstructure are among the initiatives being contemplated.

Regarding the exchange rate, the authorities strongly believe that the external sector assessment is in line with the region's economic fundamentals. There are prospects for further improvements as imports related to investments in oil and gas projects mature and give way to exports.

A safeguard assessment of the BCEAO was conducted in 2023, which concluded that the central bank governance and policies were in line with international standards. The assessment also concluded that all recommendations from the previous assessment were implemented and suggested further improvements, notably on protection from cybersecurity risks, and on aligning the BCEAO's statutes with the reforms adopted in 2019.

c. Financial Sector Policy

The regional authorities, in coordination with national authorities, have made significant progress in strengthening the Union's financial sector. A new banking law was adopted, and the BCEAO was formally vested with macro-prudential regulation powers. Furthermore, the regulatory and supervisory framework governing microfinance institutions was comprehensively overhauled. These far-reaching reforms addressed the main recommendations of the latest FSAP, and the authorities expressed their resolve to address the remaining recommendations.

The financial soundness indicators show that the banking sector remains resilient in the face of the series of domestic and external shocks experienced by WAEMU. Capital adequacy and nonperforming loan ratios improved significantly. The authorities also took steps to strengthen banks further by doubling the tier one capital requirements.

The authorities acknowledge that the liquidity position of the banking system has remained strained, prompting the central bank to intervene to help preserve financial stability. The authorities also resolved to address the high concentration ratios to sovereign borrowers of some banks in the Union, and their reliance on refinancing from the central bank to continue extending credit. The high exposure to sovereign debt raises the prospect of a sovereign-bank nexus and introduces distortions in the operation of the regional debt market. The measures envisioned by the authorities to address this issue include capital surcharges targeted to banks with concentration risks, and reforms aimed at deepening and broadening governments' non-bank domestic sources of financing.

As recommended by the FSAP, the supervisory capacity of the Banking Commission of the West African Monetary Union was strengthened. Additional staffing dedicated to banking inspections was provided to the banking commission which is tasked to provide effective and more uniform banking supervision and promote the integration of banking activities. In addition, steps were taken to enhance the AML/CFT framework of the Union.

The authorities are also looking forward to deepening financial inclusion and leveraging digital finance. BCEAO launched a fast payments plan, an interoperable payment services across the region. The initiative holds the promise of fostering competition, lowering transaction costs, and facilitating secure digital payments across platforms.

d. ***Structural Reforms***

The WAEMU authorities share the view that deepening union-wide structural reforms are key to unlocking the full potential of the Union. Such reforms have to be implemented amidst difficult economic and political challenges and anchored by their Vision 2040 to enhance competitiveness and foster stronger regional growth. In this respect, the WAEMU commission has set forward a regional development plan aiming to leverage synergies and the comparative advantage of each country to address common challenges in the energy, transport, food, and security sectors, and to deepen integration. Under this umbrella, the authorities are seeking to build infrastructure, notably a regional roads network, and green energy projects. To support this ambitious agenda, a dedicated fund is being set up. The regional development bank BOAD which capital was increased recently will continue to support regional integration efforts through the financing of cross-country projects.

The authorities also agree on the importance of addressing climate and gender issues to increase growth potential and strengthen resilience. They welcomed staff's analyses and advice on these important matters well described in the Staff's Selected Issues paper (SIP). The authorities recognize the multifaceted factors of gender inequality and the criticality of enhancing gender equality, including to realize important economic gains. They have designed strategies and policies at both regional and national levels to address these disparities. On climate, the authorities take steps to follow through staff's advice, including by means of RSF-supported programs.

III. Conclusion

Our WAEMU authorities are committed to implement sound macroeconomic and structural policies both at the regional and member-state levels. In this endeavor, they appreciate the Fund's regional policy advice as well as the financial and technical assistance provided to members. They look forward to continued Fund support at this critical juncture marked by challenging global and regional financing and geopolitical conditions.

Based on the authorities' strong policy commitments, we would appreciate Executive Directors' support for the conclusion of the 2024 regional consultation on WAEMU's common policies.