INTERNATIONAL MONETARY FUND

Securing Fiscal Discipline and Credibility in WAEMU

Ljubica Dordevic and Olivia Ibrahim

SIP/2024/012

IMF Selected Issues Papers are prepared by IMF staff as background documentation for periodic consultations with member countries. It is based on the information available at the time it was completed on March 1, 2024. This paper is also published separately as IMF Country Report No 24/091.

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Securing Fiscal Discipline and Credibility in WAEMU

Prepared by Ljubica Dordevic and Olivia Ibrahim

Authorized for distribution by Luca Antonio Ricci
May 2024

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ABSTRACT: *Fiscal consolidation and the reintroduction of the WAEMU fiscal framework is crucial for maintaining debt sustainability, external viability, and financial stability. The 3 and 70 percent of GDP deficit and debt ceilings envisaged by the expired rule remain appropriate, while addressing the stock-flow adjustments will help rebuild fiscal buffers. Convergence to a fiscal deficit of 3 percent of GDP should be ensured by 2025—barring exceptional circumstances—with focus on domestic revenue mobilization, while controlling expenditure. To secure fiscal discipline and credibility, it is essential to revamp the fiscal rule with a credible debt correction mechanism and exogenous escape clauses.*

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SELECTED ISSUES PAPERS

Securing Fiscal Discipline and Credibility in WAEMU

WAEMU

Prepared by Ljubica Dordevic and Olivia Ibrahim[1]

[1] We thank Annalisa Fedelino and Luca Antonio Ricci for their guidance, and Alain Feler, Lawrence Norton and Francisco Roldan for helpful comments and suggestions.

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WEST AFRICAN ECONOMIC AND MONETARY UNION

SELECTED ISSUES

March 1, 2024

Approved By
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SECURING FISCAL DISCIPLINE AND CREDIBILITY IN WAEMU[1]

Fiscal consolidation and the reintroduction of the WAEMU fiscal framework—ideally revamping the fiscal rule under a new Convergence Pact—is crucial for maintaining debt sustainability, external viability, and financial stability, while promoting access to lower-cost financing and rebuilding fiscal buffers. The 3 percent GDP deficit ceiling and the 70 percent of GDP debt ceiling envisaged by the expired rule remain appropriate, while better understanding and addressing the stock-flow adjustments (SFAs) will help avoid the swelling of public debt and rebuild fiscal buffers. Increasing the deficit and debt ceilings (for example, to 4 percent GDP and 80 percent GDP, respectively) would significantly raise debt servicing costs, thus fully offsetting the fiscal space they are meant to create. Convergence to a fiscal deficit of 3 percent of GDP should be ensured by 2025—barring exceptional circumstances—as envisaged by the authorities in the context of several IMF programs. Members' adjustment plans should emphasize domestic revenue mobilization, while controlling expenditure, notably the wage bill. It is also essential to implement a consistent definition of fiscal indicators across the region, avoiding carve-outs for particular spending items. To secure fiscal discipline and credibility, it is critical to establish effective mechanisms for assessment, accountability, and enforcement, including by defining a credible debt correction mechanism (for cases where debt is close to or exceeds the ceiling) and exogenous escape clauses, as well as building an effective communication strategy.

A. Overview

1. The WAEMU's economy exhibited strong resilience in the face of consecutive shocks associated with the Covid-19 pandemic, the war in Ukraine, and escalating security threats. Regional economic growth averaged 5.9 percent in 2021-2023, largely owing to the service sector. This growth was supported by the resilience of the strong economic performance prior to the pandemic, but also by swift national and regional policies implemented in response to the shocks.

2. However, the fiscal policy response led to a surge in fiscal deficits, which—along with persistent stock flow-adjustments (SFAs)—resulted in large increase in public debt (Panel 1). The WAEMU fiscal deficit rose from 2.3 percent of GDP in 2019 to 5.5 percent in 2020, peaking at 6.9 percent of GDP in 2022. SFAs continued to be significant, averaging 1.5 percent of GDP over the past decade (WAEMU Selected Issues 2023). As a result, public debt increased rapidly from about 45 percent of GDP in 2019 to about 59 percent of GDP in 2022 and further to about 61 percent in 2023.

3. External imbalances have also built up, given the successive external and regional shocks. As discussed in the main report, the current account deficit rose significantly in recent years,

[1] Prepared by Ljubica Dordevic and Olivia Ibrahim, with helpful comments and inputs from Annalisa Fedelino, Luca Antonio Ricci, Alain Feler, Lawrence Norton, Francisco Roldan (SPR) and the staff of the BCEAO and the WAEMU Commission.

due to higher food and energy prices and to large fiscal deficits. Jointly with a more difficult access to international capital markets, this led to a continued decline in reserves, which reached $15.8 billion by end 2023 (3.3 months of prospective imports), below the IMF estimated reserve adequacy.

4. While supporting the economy by avoiding excessive fiscal tightening, growing public borrowing increases risks to debt sustainability, external viability, and financial stability. Although extensive borrowing allowed the authorities to support economic activity, while financing development, social, and security needs, a significant increase in debt entails several risks. First, fiscal deficits tend to increase external imbalances and reserve loss, especially in the environment of diminishing foreign financing. Second, given the relatively shallow regional financial market and diminishing willingness of banks to absorb sovereign issuances, excessive public financing on the regional market weakens financial sector stability by increasing the sovereign bank nexus (sovereign exposures are at 38 percent of total banks' assets at end-2022) and constraining the central bank's ability to tighten liquidity to stem reserves loss, while also potentially crowding out credit available to the private sector. These effects have been exacerbated by the consequences of international monetary tightening, with governments confronting tighter financing constraints on the international market, and being forced to rely more intensively on financing on the regional market. Third, larger debt ratios tend to be associated with higher countries' risk premia and spreads on sovereign bonds, an effect that is also generally stronger in periods of global risk aversion.

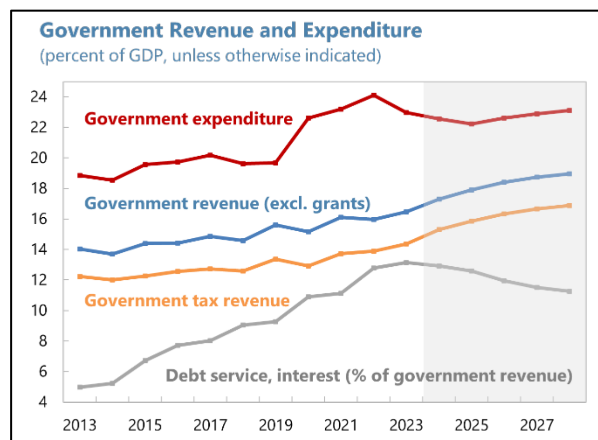
5. The next section will discuss fiscal policies that would help address these concerns. It will focus on strengthening fiscal discipline, including by ensuring a desired fiscal consolidation, establishing an appropriate and effective fiscal rule propped up by adequate supporting arrangements (including for debt correction and escape clauses), while also addressing stock-flow adjustments. The last section concludes.

B. Policy Recommendations on Strengthening Fiscal Discipline

Ensuring Desired Fiscal Consolidation

6. Fiscal convergence towards a deficit of 3 percent of GDP should be achieved by 2025—barring exceptional circumstances—as envisaged by the authorities in the context of several IMF programs. The favorable growth environment in most WAEMU countries, the large increase in debt, and tight financing conditions support the fiscal consolidation envisaged by the national authorities, with a return of the deficit to 3 percent of GDP (the ceiling envisaged by the expired fiscal rule) by 2025, in line with several IMF programs—with a few exceptions (Burkina Faso is projected to converge in 2027 and Mali—not in an active IMF-supported program—by 2026). In recent years, previous plans for fiscal consolidation have experienced several delays, following the fiscal response to repeated shocks. Going forward, delays to fiscal convergence should be based on strong justifications (such as new escape clauses, more below) and be contingent on financing being available at terms consistent with debt sustainability, while also considering the expected impact on spreads and ratings. Further delays in fiscal consolidation could pose significant debt sustainability risks and would further restrain the fiscal space available to cope with future adverse shocks.

7. Members' consolidation plans should be strongly based on domestic revenue mobilization (DRM), while controlling expenditure, notably the wage bill. Debt sustainability rests to a large extent on the ability to raise revenues. With an increase in debt, macroeconomic uncertainty and borrowing costs, DRM is crucial to ensure the expected reversal of the persistent increase of debt service to revenue ratio. DRM will also be essential to finance the persistent increase in government expenditure visible since the Covid pandemic (owing to interest spending, wage bill, and capital expenditure—see Text Table 1) and which is projected to remain high, in light also of the need to support security and enhance social and infrastructure spending in underserved regions.[2] However, revenue collection has traditionally constituted a challenge in the WAEMU region, with limited progress in recent years towards the regional goal of 20 percent of GDP. At the same time, wage bill growth needs to be contained, so as to ensure meeting the target of 35 percent of tax revenue, in line with the expired fiscal rule. In this context, it would be important not to water down the constraint offered by the suspended Pact, and to maintain the definition of wage bill ceiling as a ratio to tax revenue (as opposed to total revenue, which would relax the constraint).[3]



Text Table 1. 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

8. Tax policy reforms are needed to increase tax revenues. Efforts to increase revenue have mainly relied on strengthening the tax administration and digitalization in recent years. Tax revenues remain reliant on customs revenues, with many value-added tax (VAT) exemptions—in agribusiness, transportation, and construction—besides low direct and indirect tax rates. Efforts need to continue on broadening the tax base (including by reaching medium-sized firms), reducing VAT exemptions,

[2] Beyond mechanically increasing the denominator of the debt service-to-revenue ratio, DRM can also lower cost of debt servicing by raising investors' confidence, which would result in lower interest rates and improved market access.

[3] Pacte-de-convergence-UEMOA.pdf (umoatitres.org)

accelerating the removal of business tax exemptions, streamlining the personal income tax regime, strengthening controls on fiscal evasion, and rationalizing excise taxes. Simplifying the personal income tax system applied to wages, salaries, profits and capital income, besides dematerializing customs clearance procedures, and implementing a single taxpayer identification number, should also be kept high on the agenda.

Establishing an Appropriate and Effective Fiscal Rule

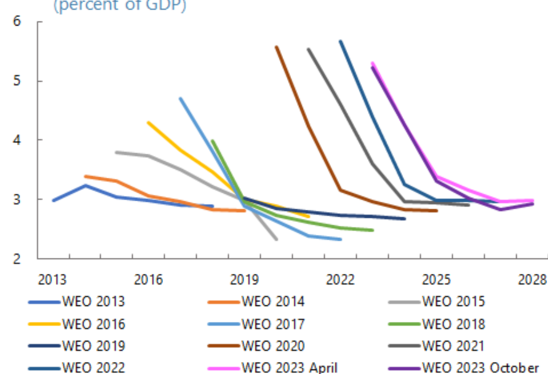
9. The national and regional authorities should urgently reintroduce a regional fiscal rule via the Pact with the original ceilings to enhance the credibility of fiscal commitments, while significant efforts should be made to reduce SFAs to a minimum (Panel 1). The reintroduction of the fiscal rule would strongly complement the ongoing fiscal consolidation, by cementing the imbedded commitment to fiscal discipline. Within the context of re-establishing a fiscal rule, the deficit and debt ceilings should remain at 3 percent and 70 percent of GDP, respectively. Debt has surged in recent years due to persistently high fiscal deficits, which have consistently exceeded projections (Panel 1.A). Large increase in indebtedness not only affects debt sustainability, but also regional financing stability and foreign reserves, thus posing risks for external viability and domestic financial stability. SFAs also played an important role in raising indebtedness (Panel 1.B), adding about 13 percent of GDP to the regional debt to GDP ratio between 2013 and 2021 (WAEMU Selected Issues, 2023). Ongoing missions by the WAEMU Commission (completed in 5 member countries in late 2023, with 3 remaining in 2024) are welcome, with a view of providing a more comprehensive picture of the scope of SFAs, their sources, as well as remedies.

10. Simulations show that the only scenario consistent with both debt stabilization and the recovery of fiscal buffers to cope with future shocks is a deficit target of 3 percent of GDP in the absence of SFAs (Figure 1.C). A 4 percent of GDP ceiling could stabilize debt at a higher level if SFAs were eliminated, but this would allow for no restoration of buffers and leave the region exposed to debt sustainability risks in the event of further adverse shocks. Moreover, a deficit limit of 4 percent of GDP with SFAs at historical averages would lead to an explosive debt path even in absence of further shocks.

Figure 1. Debt Dynamics

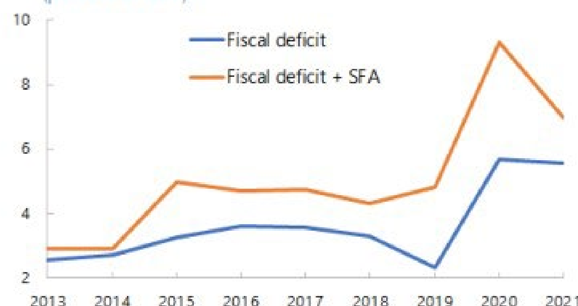
A. Past projections of deficit reduction have proven to be overoptimistic…

Fiscal Deficit (Annual Vintages)
(percent of GDP)



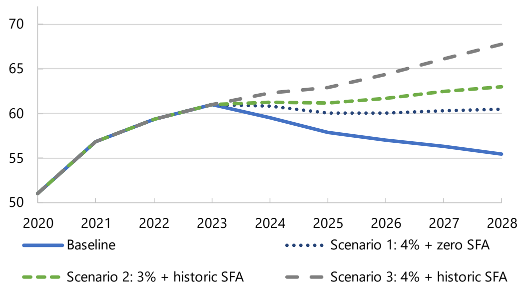
B. …while SFAs have contributed to indebtedness.

Deficit and SFA
(percent of GDP)



C. And controlling both will be crucial in containing debt at a sustainable level in the medium term…

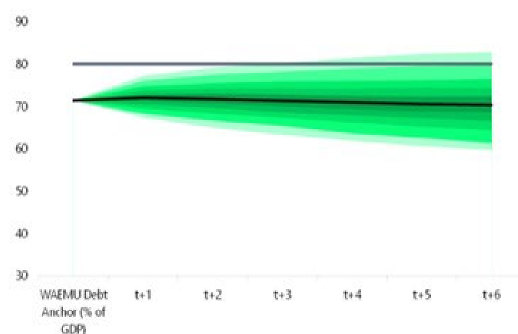
Debt Dynamics Scenarios
(percent of GDP)



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).

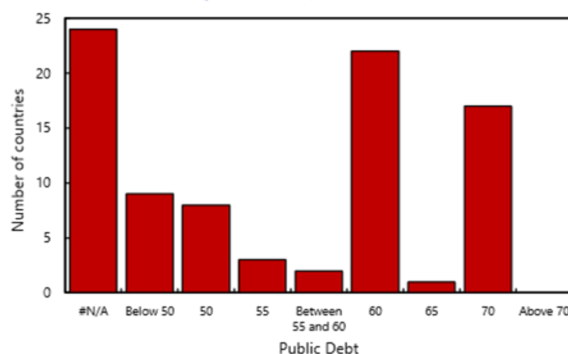
D. …while preserving a debt anchor of 70 percent of GDP is necessary to ensure that debt does not exceed 80 percent of GDP.

Debt Anchor (Percent of GDP)

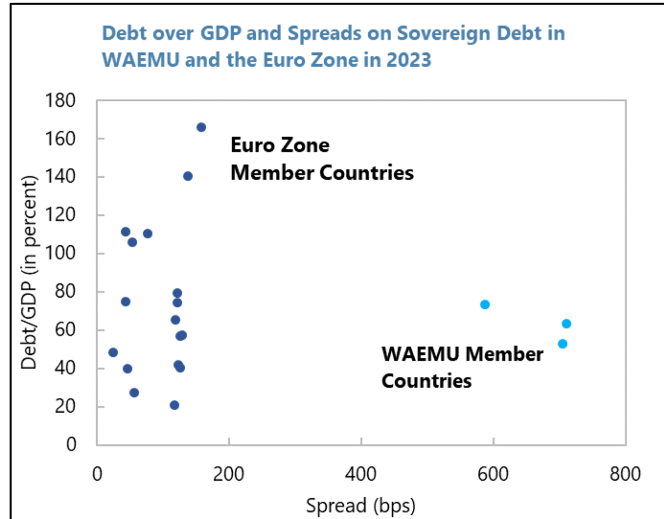


11. A debt ceiling of 70 percent of GDP remains appropriate, as a further increase in the debt ceiling would result in higher debt servicing costs, fully offsetting the increase in fiscal space of the associated increase in deficit ceiling (Figure 2). Fiscal flexibility to support the economy should be balanced against the sustainability risks of higher debt levels. International experience also shows that most countries with debt rule set debt limits at or below 70 percent of GDP. Moreover, a comparison of the level of indebtedness versus large, advanced economies—such as the European Union—would not be appropriate

Distribution of Public Debt Ceiling, 2021
(percent of GDP)



Source: IMF, Fiscal Rules Database



based on institutional and economic factors.[4] And when considering possible changes to the WAEMU ceiling, it is essential to consider the implications for interest rate expenses and the associated reduction of fiscal space available for other spending. Higher debt is associated with higher borrowing costs, and there is empirical evidence that an increase in debt of 10 percentage points of GDP leads to an increase in sovereign spreads of 100–120 basis points for typical countries (Hadži-Vaskov and Ricci, 2022); the increase is even higher in countries with weaker institutions and in cases of financial distress.[5] Hence, if raising debt limit from 70 percent to 80 percent of GDP in WAEMU resulted in 10 percent of GDP higher *actual* debt level in the new steady state, it could raise interest rate by about 1.2 percentage points on non-concessional debt. Based on the current composition of debt, this would add more than 1 percent of GDP in higher interest payments (Panel 2.D). Such an increase in interest expenditure would thus reduce fiscal space by over 1 percent of GDP, which would fully offset the increase in fiscal space for non-interest expenditure sought for via a change in the deficit ceiling from 3 to 4 percent of GDP (which is sometime considered together with the increase in the debt ceiling).[6] Moreover, the recent tightening of global financing conditions, which have led to a surge in spreads and regional funding costs (Panel 2.A and B) and squeeze in funding for African countries, is likely to exacerbate these pressures on the spread. Overall, as discussed in WAEMU Selected Issues 2022, for WAEMU a debt level beyond 80 percent of GDP can lead to an unsustainable debt path, based on an assessment accounting for various factors including achievable primary surpluses, risks related to the market sentiment, and heightened interest rate pressures. In this context, the 70 percent of GDP debt ceiling remains appropriate and should not be increased, to ensure the debt does not exceed 80 percent of GDP (Panel 1.D), also given the need to allow for sufficient fiscal buffers to cope with the uncertainty surrounding the global and regional economic outlook, as well as high-for-longer borrowing costs.

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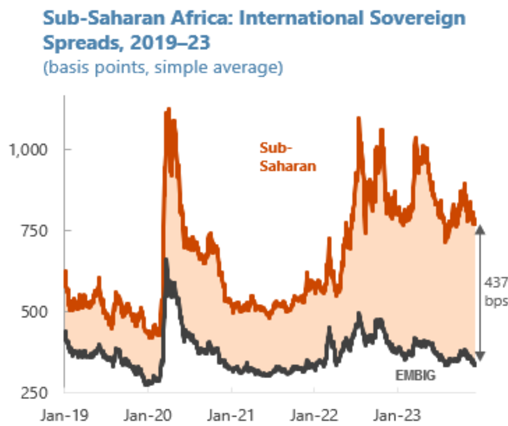
[4] With respect to the European Union, the WAEMU experiences a much more limited access to international markets, a much steeper demand for its assets with higher spreads, much more limited monetary policy independence, a more vulnerable exchange rate regime, and weaker credibility. These factors imply that they cannot afford the same debt carrying capacity.

[5] Based on WEF's Institutions Index 2019, covering 141 countries, Mali ranks 127th; Cote d'Ivoire 122nd; Guinea-Bissau 108th; Benin 100th; Burkina Faso 95th; and Senegal 72nd.

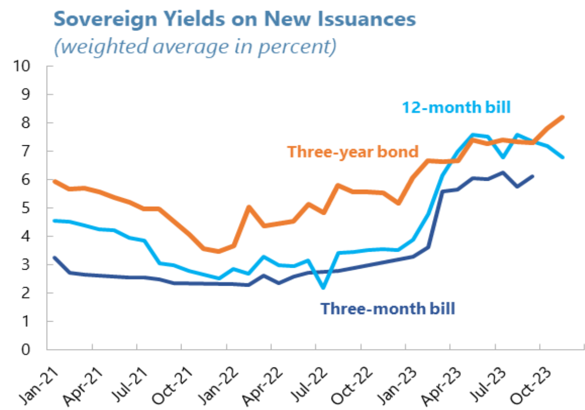
[6] The simulation is for illustration purposes and is based on simple assumptions, not a general equilibrium dynamic model. To the extent that larger financing is allocated to highly productive public investments, there would also a positive effect on growth and debt sustainability. Also, to the extent that part of borrowing comes from external sources, it would help replenish the union's reserves.

Figure 2. Fiscal Targets in Context

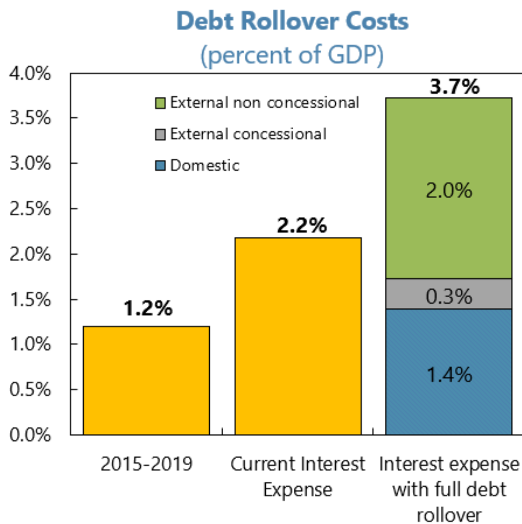
A. Sovereign spreads have surged across SSA…



B. while yields in the regional market have also increased.

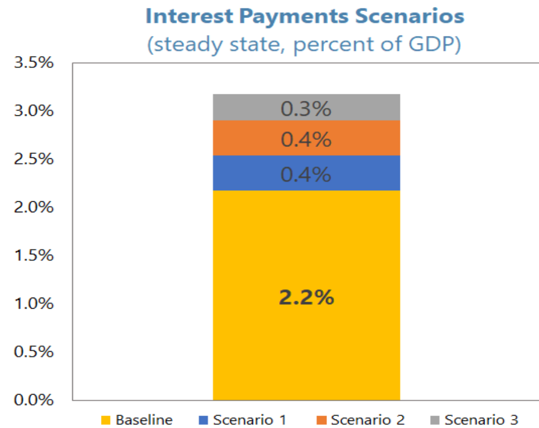


C. Rolling over debt thus becomes more expensive.



Notes: The left bar plots average annual interest expense 2015-2019. The middle bar plots the current interest expense based on 2023 debt data. The right bar simulates the interest expense if WAEMU debt were to be fsully rolled over today (i.e. preserving the current debt composition) at the interest rates currently prevailing for different types of debt.

D. Increasing debt limit to 80 percent would further inflate the debt servicing bill, while the associated 1 percent of GDP larger deficit would mostly be spent on higher debt service—with no material gain in fiscal space.



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.

Sources: IMF Staff Calculations, Regional Economic Outlook

12. Moreover, rolling over debt has become more expensive, which makes higher indebtedness even more costly and risky. While the share of WEAMU debt that is sensitive to market rates has benefited from a global environment of low rates, this environment has changed with the tightening of monetary policy in advanced economies. WAEMU is already spending 0.9 percent of GDP more on interest in 2023 compared to 2015-2019 (Text Table 1). Hence, an additional factor to consider when assessing the risk of increasing indebtedness is the fiscal cost of rolling over debt at the now prevailing higher rates. As an illustration, if WEAEMU debt at its current level and composition were to be fully rolled over at the interest rates currently prevailing, the higher interest rates would further increase debt servicing bill by about 1.5 percent GDP (Panel 2.C).

Supporting Arrangements

13. A credible debt correction mechanism (particularly if associated with a stronger oversight) could help prevent a repeat of past debt trends (persistently increasing, well in excess of forecasts), thus enhancing fiscal discipline and restoring the strength and credibility of the fiscal rule. Several reasons have made it urgent to include, in a revised fiscal rule, a credible and well-defined debt correction mechanism that can guide fiscal policy adjustment following breaches of a debt ceiling. Indeed, WAEMU debt has increased from 29 to 61 percent of GDP over the past 10 years, and debt is very close to or exceeds the 70 percent of GDP ceiling in three member states, while SFAs not captured by the deficit rule have been significantly and persistently contributing to debt creation. A debt correction mechanism would envisage that potential breaches are compensated by appropriate fiscal adjustments in the following years, except under exceptional circumstances. There are several examples of mechanism offered by other countries (for example, Colombia, Poland, Costa Rica): some countries envisage parliamentary hearings, or freeze in wages, or tightening of fiscal deficit ceilings, when debt gets too close to the ceiling. When designing the correction mechanism, one should consider:

- *Specifying a timeframe for correction.* In many fiscal rules, the corrective action must happen within one to two years (Belgium, Finland, and France), and sometimes within a longer period (Grenada). A careful study is needed to identify a suitable timeframe for the WAEMU context.

- *Indicating the adjustment measures.* Some fiscal rules are prescriptive about which corrective measures should be adopted. For example, freezing public wages if debt exceeds a certain threshold (Slovakia) or cutting spending. Other options prescribe *qualitative* measures, for example, presenting to the parliament an explanation of deviations and submitting a supplementary budget upon request. Other fiscal rules leave full discretion to the government about which measures to take (Germany and Switzerland).

- *Avoiding making fiscal policy procyclical, via careful design*. For example, tightening expenditure ceiling when debt exceeds a certain threshold may not be ideal, as it is likely to create strong procyclicality in the face of recession.

14. The introduction of well-defined escape clauses is also essential, to allow flexibility in managing large exceptional shocks without undermining the credibility of the fiscal rule. Cross-country experience with escape clauses is shown in the Text Table 2 below, and an IMF note (Medas and Gbohoui, 2020) provides details in light of COVID-19 experience. A well-defined escape clause could specify:

- *The nature and the size of the triggers.* The activation of escape clauses should be based on exceptional events that are exogenous and outside government control, which would otherwise provide the wrong incentives for policymakers to take an expansionary bias. The trigger events could include severe economic recessions, major natural disasters, and states of emergency such as epidemics. For events that are well-defined and measurable, escape clauses can specify a minimum change of a given indicator that is required to trigger the clause (such as GDP growth dropping by a certain amount—often 2 percentage points—below certain yearly moving average levels—e.g. the previous five-year average). There is a trade-off when defining the triggers. On the one hand, precision helps prevent arbitrariness; on the other hand, uncertainty on the nature, size, and severity of the shocks makes it difficult to pre-specify which events should warrant the activation of escape clause. When considering developments in terms of revenues and growth, they should be measured as percent of GDP or rates, as opposed to nominal values. Moreover, there should be no criteria based on a gap between budget or growth projections versus past benchmarks, to maintain adequate incentives for realistic budgeting. These considerations enhance the effectiveness of the escape clause by improving credibility and transparency.

- *Procedure of activation and monitoring.* Activating an escape clause typically requires parliamentary approval, often subject to endorsement by an independent fiscal agency (such as a fiscal council). In the case of WAEMU, one may look at the European experience, where the decision of the European Council to invoke the general escape clause of the Stability and Growth Pact is also based on a recommendation of the European Commission, which has the responsibility to confirm that conditions for triggering the clause have been fulfilled.

- *Procedures of returning to the fiscal rule.* Escape clauses often predefine the timeframe for: (i) re-instating rule compliance; and/or (ii) correcting for the cumulative deviation attained during the rule suspension. In Panama, for instance, the escape clause requires returning to rule compliance within 3 years, in equal annual adjustments without the need to compensate for the *accumulated* deviations. Germany, on other hand, requires a plan to reduce the extra borrowing "within a reasonable time frame". As for the debt correction timeline, deeper analysis would be needed to specify the suitable timeframe for returning to the fiscal rule in the WAEMU context.

Text Table 2. WAEMU: Cross Country Experiences with Escape Clauses

Country (rule; year)	Triggers	Authorization	Duration	Size	Correction	Use
Brazil (ER+DR; 2000)	- Economic slowdown [g≤1% last 4Q] - National catastrophe - State of siege	Congressional approval by supermajority	Congressional discretion [to delay required fiscal			Yes
Colombia (SBR; 2011)	- Extraordinary events threatening macro-stability	CONFIS opinion (internal fiscal council headed by MoF)				
Colombia (SBR; 2011)	- Growth 2 percentage points below long-run growth and negative output gap	CONFIS opinion on size of counter-cyclical spending and correction		20 percent of output gap	In two years, as far as in the first year growth exceeds long-run growth	
Germany (SBR; 2011)	- Natural disaster - Extraordinary situations beyond gov't control	Parliamentary supermajority			Amortization plan to reduce extra borrowing "within a reasonable time	
India (BBR; 2004)	- National security or calamity - Exceptional circumstances as the government specify	Central government				2009-2013
India (BBR; 2017)	- National security or calamity (e.g., collapse of agricultural output) - Far reaching structural reforms with unanticipated - g< mean(g)-3% over past 4Q	Central government with advice from the fiscal council		0.5 percent of GDP	Return to original target in the ensuing year	
Mexico (BBR; 2006)	- Exceptional circumstances					2010-2012
Panama (BBR; 2012)	- State of emergency - g≤2% in 2Q	MoF and Parliament	Max 3 years		3 years; equal adjustment	
Switzerland (SBR; 2003)	- Exceptional circumstances	Parliamentary approval by qualified majority	Parliamentary discretion on "extraordinary expenditures" via supplementary budgets.		-Since 2010, deficits arising from extraordinary expenditures are accumulated in an account, and need to be redeemed over the next 6 years by running structural surplus through expenditure cuts, once the compensation account balance becomes nonnegative.	2017 "to accommodate migration-related spending"

Source: IMF staff compilation based on IMF Fiscal Rules Database (1985-2021).
Notes: Abbreviations of the types of fiscal rules: debt rule (DR); expenditure rule (ER); structural balance rule (SBR); budget balance rule (BBR).

15. **Enhancing communication, monitoring, and accountability is also essential, including by strengthening the role of the WAEMU Commission**. An effective communication strategy would also help the WAEMU ensure credibility and transparency of the reintroduced fiscal rule. It is also important to revisit and enhance the institutional accountability and enforcement framework, for example, by broadening the role of the WAEMU Commission in preparing forecasts on fiscal performance, offering related guidance on appropriate policy actions, assessing fiscal outcomes, and effectively enforcing rules.

Ensure Adequate Perimeter for Fiscal Indicator Definitions

16. **A final, yet still crucial, point is the importance of establishing and implementing a consistent definition of fiscal indicators across the region.** A consistent definition of the deficit and debt perimeter would support equal treatment across countries and facilitate the framework's

ability to capture all potential risks to debt creation and sustainability. Annexes to the main legislation could elaborate the parameters of the deficit and debt criteria and set a deadline for each member state to adopt a harmonized definition of the public sector deficit and debt. Compliance with the reporting standard could be a secondary focus of surveillance (potentially similar to the second-tier convergence criteria in the original Pact, alongside the deficit and debt ratios which would remain first-tier criteria). There should be no carve-out for spending on items like investments or security, as this would undermine the credibility of the targets.

C. Conclusions

17. Fiscal consolidation to a deficit of 3 percent of GDP should be ensured by 2025 (unless otherwise agreed in the context of an IMF program), and efforts need to emphasize domestic revenue mobilization while controlling expenditure (notably the wage bill). While debt has helped WAEMU countries finance development projects and cope with global shocks, domestic revenue mobilization is crucial to ensure debt sustainability while providing fiscal space to service debt and to preserve development, security, and social spending needs. At the same time, containing government expenditure, notably by bringing the wage bill to the suspended Pact target of 35 percent of tax revenues, is also important.

18. To enhance fiscal credibility, and maximize prospects for debt sustainability, financial stability and external viability, it is essential and urgent to reintroduce regional fiscal rules at the original ceilings—3 percent GDP for deficit and 70 percent GDP for debt. The target for fiscal deficit of 3 percent GDP remains appropriate for preserving debt sustainability, providing credibility to the fiscal policy, and anchoring expectations, particularly in case of difficulties in containing SFAs. It is also essential to preserve the debt ceiling at 70 percent of GDP, to contain further increases in interest spending which would further erode fiscal space. Indeed, interest payment as percent of GDP have already increased in recent years (owing to both higher debt and higher interest rates) and would continue to increase if—with the heightened global and regional volatility—market rates may not go back to their historical low levels in the near to medium term. Conversely, it is essential to build fiscal buffers to cope with future shocks, while—as recognized in the original Convergence Pact—large increases in indebtedness not only affect debt sustainability, but also regional financing stability and foreign reserves, thus posing risks for external viability.

19. Going forward, more emphasis should be put on understanding and addressing the drivers of debt accumulation, notably SFAs. SFAs have contributed to rising public debt in the last decade, averaging 1.5 percent of GDP. Regional and national authorities should make every effort to contain and address these extra-budgetary and below the line operations that increase the debt. Not accounting for these operations would accelerate the rise in debt and may put it on an unsustainable path, especially with the possible occurrence of future shocks. The initial steps by the WAEMU Commission in this area are welcome, and the efforts should intensify.

20. Furthermore, it is critical to introduce broader mechanisms for deviations from the target and correction, as well as for assessment, accountability, and enforcement. The

enhanced support arrangements—including a credible debt correction mechanism, well-designed escape clauses and an effective communication strategy—would ensure appropriate near-term fiscal adjustments following any breach of the fiscal or debt ceilings and avoid the uncertainty about when the rule will resume. It is also important to enhance communication, as we as the institutional accountability and enforcement framework.

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