INTERNATIONAL MONETARY FUND

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# WEST AFRICAN ECONOMIC AND MONETARY UNION (WAEMU)

March 2014

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

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

- **Staff Report** on Common Policies for Member Countries, prepared by a staff team of the IMF for the Executive Board's consideration on March 14, 2014, following discussions with regional institutions that ended on January 24, 2014. Based on information available at the time of these discussions, the staff report was completed on February 27, 2014.

- **Press Release** (PR) summarizing the views of the Executive Board as expressed during its March 14, 2014 discussion of the staff report.

- **Executive Director's Statement**

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# WEST AFRICAN ECONOMIC AND MONETARY UNION (WAEMU)

## STAFF REPORT ON COMMON POLICIES FOR MEMBER COUNTRIES

February 27, 2014

## KEY ISSUES

**Context.** The region continued to experience a strong upswing in 2013 and the immediate outlook is for further vigorous growth and moderate inflation. Sustaining this performance over the medium term, however, will require ambitious growth-enhancing reforms, high quality public investment, and consolidation of the recent improvements in the regional political and security situation. The outlook is subject to moderate downside risks. In the short term, political stability could be tested with the upcoming elections in a number of member states, particularly in a context of high demand for better governance and higher living standards. Security issues in the Sahel constitute another short-term risk. Delays in implementing reforms, at both the national and regional levels, are the principal medium-term risk.

**Policy recommendations**:

- **Maintaining the current macroeconomic policy mix**. The recent upswing is welcome. As growth is now better entrenched, more stimulus is not required at this juncture. With continued strong growth projected for the region, countries are encouraged to seek opportunities to strengthen fiscal sustainability while maintaining public investment efforts. The widening current account deficit and declining reserves–which remain adequate–should be monitored closely and warrant a pause in loosening monetary policy.
- **Increasing fiscal policy coordination.** The ongoing review of the regional surveillance framework is welcome. Its ultimate goal should be to preserve fiscal and external sustainability. This will involve redesigning fiscal convergence criteria, improving regional surveillance, and strengthening the application of fiscal rules.
- **Accelerating financial sector reforms**. Developing the financial sector while preserving its stability is essential to support sustainable economic development and improve the effectiveness of macroeconomic policies. Developing the interbank and government debt markets and strengthening substantially transparency, bank supervision, and the crisis management and resolution framework are priorities. Ongoing reforms go in the right direction but the pace of implementation needs to accelerate.
- **Moving toward a more dynamic and resilient union**. The regional growth agenda should be reinforced by concrete and coordinated actions to improve structural competitiveness, accelerate regional integration, and strengthen economic resilience.

Approved By
**Roger Nord and Peter Allum**

Discussions were held in Ouagadougou, Abidjan, Dakar, and London during January 12–24, 2014. The staff team comprised Mr. Joly (head), Messrs. Basdevant and Kireyev, Ms. Zdzienicka (all AFR), Mr. Imam (MCM), and Mr. Flanchec (AFRITAC West). The mission was assisted by Messrs. Le Hen and Loko (resident representatives), and Ms. Coulibaly (local economist). Messrs. Allé and Diallo (OED) participated in the discussions. Other contributors included Messrs. Fahlberg, Garcia-Verdu, Hitaj, and Shapiro, Ms. Snyder (all AFR), and Mr. Weber (RES).[1]

WAEMU countries are Benin, Burkina Faso, Côte d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo. They share the same currency, the CFA franc, which is pegged to the euro.

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[1] The mission would like to thank the WAEMU authorities, in particular Governor Koné (Banque Centrale des Etats d'Afrique de l'Ouest, BCEAO), President Soumaré (WAEMU Commission), and Secretary General Sanou (Banking Commission), as well as their staff, for their time, support, and the quality of discussions. The mission would also like to thank the Fund's WAEMU countries teams and Messrs. De Broeck, Debrun, Kinda and Razafimahefa (all FAD) for their support and assistance.

**TABLES**



**ANNEXES**



**APPENDIXES**

# ROBUST GROWTH WITH MODERATE DOWNSIDE RISKS

## A. Recent Developments

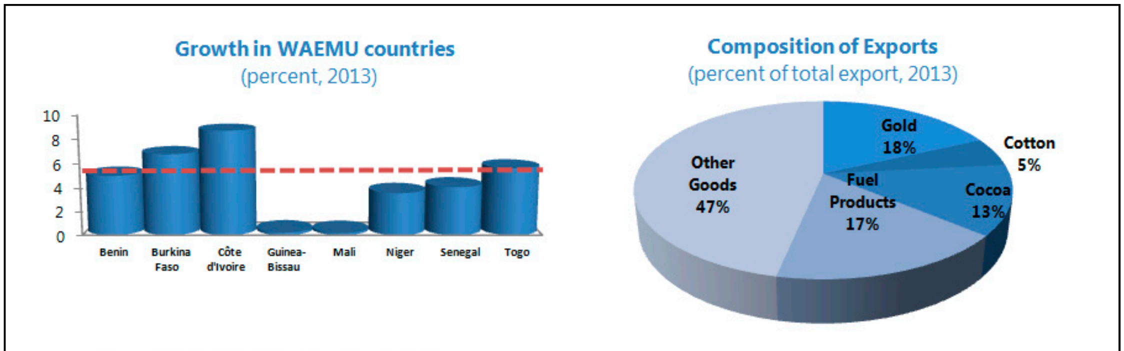
1. **The political and security situation in the region has stabilized, but remains fragile.** The political situation has become more settled, with peaceful elections in Mali and Togo and further progress towards normalization in Côte d'Ivoire. Nevertheless, political stability could be tested with the upcoming elections in a number of member states, particularly in a context of high demand for better governance and higher living standards. The region also remains vulnerable to internal security breakdowns and spillovers from neighboring countries.

2. **Regional growth remained strong and inflation moderate in 2013.** After rebounding from 1.2 percent in 2011 to 6.6 percent in 2012, regional growth reached 5.5 percent last year. This performance was driven by the post-crisis recovery in Côte d'Ivoire, public investment efforts, good harvests in several countries, and the beginning of oil production in Niger. Growth was particularly strong in Côte d'Ivoire, at about 9 percent, but also exceeded 5 percent in Benin, Burkina Faso, and Togo. The economy remained weak in Guinea-Bissau, and the drought in the Sahel took a heavy toll on GDP growth in post-crisis Mali. Regional inflation decreased to 1.6 percent, thanks to lower food prices.

3. **Despite a substantial increase in public investment in 2013, the area-wide fiscal deficit (including grants) stabilized at about 3 percent of GDP**. The composition of spending shifted in favor of investment, while grants and tax revenue increased in most countries. Fiscal deficits decreased in all countries but Benin, Mali, and Niger. Public debt ratios declined in all countries but Burkina Faso, Niger and Senegal, and the average public debt ratio for the region recorded a small decline to about 39 percent of GDP.

4. **Monetary policy was further eased.** The BCEAO lowered the policy rates by 50 basis points in 2013 and increased liquidity injections as bank liquidity contracted and inflationary pressures remained moderate. Money growth remained moderate, at about 10 percent, as the decline of net foreign assets was offset by strong growth in credit to the economy. Bank lending rates recorded a small decrease.

5. **The area-wide current account deficit continued to increase in 2013 mainly owing to higher public investment and a sharp decline in gold prices.** The current account deficit (including official transfers) widened from 5.6 percent of GDP in 2012 to 6.7 percent in 2013. Imports of intermediate goods, equipment, and services were boosted by higher public investment in most countries. Gold exports, which now represent about 20 percent of total regional exports, dropped on account of falling international gold prices. The overall balance of payments recorded a slight deficit, which led to a small decline of official reserves to 4.7 months of next year's extra-regional imports.




Source: BCEAO, IMF, African Department database

**6. The external position remains sustainable but vulnerabilities have increased** (Appendix I). Despite an effective nominal appreciation of about 4.5 percent, the CFA franc appreciated only by 2.5 percent in real effective terms in 2013 owing to low inflation. Various analyses suggest that the real effective exchange rate remains broadly in line with regional fundamentals, and official reserves adequate, provided the current account deficit narrows in the medium term as projected. However, in light of recent trends, current account and reserves developments warrant close monitoring.

## B. Outlook and Risks

**7. With sustained reform implementation, growth would remain strong in 2014 and the medium term**. It would exceed 6 percent in 2014, reflecting a substantial scaling up of investment in Côte d'Ivoire and Niger, and rebounding agricultural production in Mali. This favorable trend is expected to continue in the medium term, with growth exceeding 5 percent in most WAEMU countries. Such robust and lasting growth would mark a clear break with historical performance (Appendix II). Projections assume stabilization of political and security situations, and sustained implementation of growth-enhancing reforms and investment. Inflation would remain moderate at about 2 percent. The current account deficit would gradually decline after 2014, as gross investment would stabilize at a high level and start generating higher exports, boosting income and savings. The current account deficit would remain financed mostly through non-debt creating inflows (FDI and grants).

**8. The outlook is subject to moderate downside risks** (Risk Assessment Matrix). The main ones are sociopolitical instability and security issues, and delays in implementing growth-enhancing investments and reforms, at national and regional levels. Both would affect growth, with negative implications for poverty reduction and fiscal sustainability as suggested by alternative scenarios in recent debt sustainability analyses (Figure 2). Lower growth in both emerging and advanced markets[2] would affect trade, remittances, foreign aid, and direct investment. It could also affect commodity prices, which have a significant impact on the WAEMU's economies. Finally, the two

[2] Staff's estimates suggest that despite growing exposure to emerging markets in the region, their slowdowns would have only a limited direct impact on WAEMU countries. The indirect impact, however, would be more substantial if this slowdown affected growth in Europe, to which the WAEMU remains more exposed on average.

WAEMU countries planning to tap international markets in 2014 could face higher financing costs should unconventional monetary policy exit lead to increased global financial market volatility.

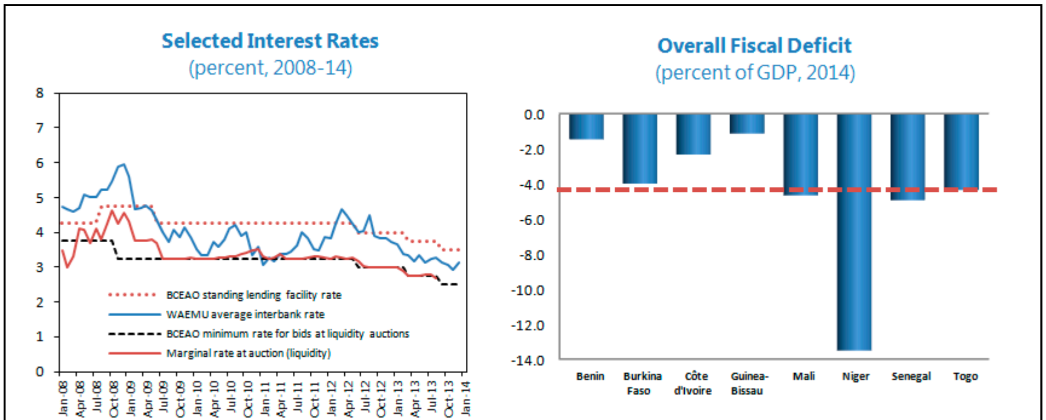
## Risk Assessment Matrix

| Source | Likelihood | Expected Impact |
|---|---|---|
| **Persistence of political and security risks (including regional spillovers)** | **Medium**<br>• Possible deterioration of security conditions in some countries.<br>• High demand for better governance and living standards could test political stability in the context of upcoming elections. | **High**<br>• Negative impact on economic activity, growth, and inequality.<br>• Further delay in reforms and investment.<br>• Additional fiscal costs (security spending, refugee inflows) or lower fiscal revenue.<br>• Destruction of capital (incl. human). |
| **Adverse weather conditions** | **Low**<br>• Unfavorable weather conditions in the region.<br>• This risk may be higher for Sahel countries (insufficient rainfall). | **Medium to High**<br>• Food insecurity for vulnerable population.<br>• Additional fiscal costs.<br>• Negative impact on economic activity and inflation. |
| **Sharp slowdown in China Protracted period of slower growth in advanced and emerging economies** | **Medium (China; elsewhere), High (Europe)**<br>• Larger-than-expected deleveraging, lower investment.<br>• Large financial and fiscal losses owing to buildup of excess capacity. | **Low to Medium**<br>• Negative impact on exports in some countries.<br>• Lower foreign investment in the region.<br>• Larger impact on economic activity if it affects European recovery too.<br>• Some impact on remittances and aid flows. |
| **Sustained decline in commodity prices** | **Medium**<br>• Deceleration of global demand and coming-on-stream of excess capacity. | **Medium**<br>• Impact could be positive on average (external position, inflation and economic activity), but with significant variations across countries depending on the extent of natural resources in GDP and exports.<br>• Impact could be negative if decline affected mostly gold prices. |
| **Delays in key reforms at both country and regional levels**<br>• Investment in infrastructure<br>• Energy sector<br>• Public finance<br>• Financial sector<br>• Regional integration | **Medium**<br>• Creating fiscal space and introducing reforms will require sustained efforts and strong political will to oppose vested interests.<br>• Weak implementation capacity and bureaucratic delays.<br>• Delays in public finance and financial sector reforms can constrain financing, affect banking sector and key investment. | **Medium to High**<br>• Sustainability issues may arise if public finance reforms are delayed and fiscal consolidation is insufficient in countries that need it.<br>• Lower growth and slower poverty reduction. Lower growth would further affect fiscal sustainability.<br>• Financial instability may increase if supervision does not keep pace with the evolution of the financial system, in particular regional banking groups. |

# COORDINATING POLICIES TO ENSURE STABILITY AND SUPPORT GROWTH

## A. Macroeconomic Policy Mix in 2014

**9. The area-wide fiscal deficit (excluding Niger) would slightly decrease in 2014, despite a further scaling-up of investment.** Niger's deficit would temporarily increase substantially with government financing of a large project in the hydrocarbon sector. Fiscal consolidation would continue in higher-deficit countries (Senegal and Togo). Public investment is expected to increase in all countries, and in most of them the ratio of current expenditure to GDP would decline. The regional public debt ratio would remain stable at about 39 percent of GDP.




Source: BCEAO, IMF, African Departement database.

### *Staff's advice*

**10. The current mix looks appropriate and more stimulative policies are not required at this juncture.** Monetary policy easing was justified in the past two years in light of favorable inflationary developments and prospects and uncertainty on the growth outlook. With growth now better entrenched, a worsening current account deficit and declining official reserves, a pause in the easing seems appropriate. As projections are for continued strong growth, countries are encouraged to seek opportunities to strengthen fiscal sustainability while maintaining public investment efforts and expanding social safety nets. Additional efforts to improve the quality of spending and revenue mobilization are required for this purpose. Should temporary downside risks materialize in 2014, automatic stabilizers (i.e., higher deficits driven by lower tax receipts) could be left to operate where financing is available. A more permanent shock to growth, however, would require adjustment.

### *Authorities' views*

**11. The authorities broadly agreed with this assessment, but were more optimistic on the balance of risks.** They were confident that with the return of political stability and security and ongoing reforms potential growth would be much higher than in the past. They concurred that preserving fiscal sustainability was of paramount importance, but also stressed the extent of development needs, which requires higher investment and social spending.

## B. Monetary Policy Effectiveness

**12. Monetary policy transmission is limited and asymmetric across countries.** With limited capital mobility with the rest of the world, there is some scope for active monetary policy in the context of the exchange rate regime. Recent empirical work conducted by the BCEAO and staff suggests that changes in policy rates have a statistically significant impact on inflation, but the impact is small. This reflects a shallow financial system–with in particular an underdeveloped interbank market and no secondary market for government debt–and the absence of an exchange rate channel. The impact also differs across countries, reflecting differences in financial depth and concentration and limited financial integration in the region (Appendix III).

### *Staff's advice*

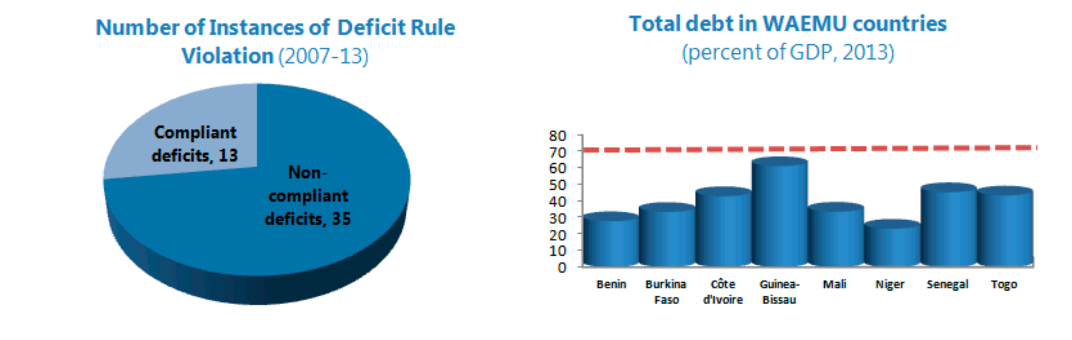
**13. The reforms to develop the interbank and public debt markets need to be accelerated.** They would help reduce the need for liquidity injections, improve liquidity transactions among banks, and set a reference interest rate for the conduct of monetary policy. Although significant progress has been made recently in modeling inflation and liquidity demand, more work is needed to understand better the channels of monetary policy transmission in the region and in individual countries. Better policy coordination with country authorities, in particular in projecting the net government position vis-à-vis the banking system and establishing a single treasury account in each country, would help strengthen liquidity management and monetary policy implementation. Finally, improvements in the quality, timeliness, and coverage of economic and financial data remain essential for the conduct of monetary policy. In particular, intra-annual indicators on economic and financial activity need to be further developed.

### *Authorities' views*

**14. The authorities reiterated their intention to complete these reforms as soon as possible.** They acknowledged that delays had been incurred in launching the electronic platform to auction and trade liquidity and government paper. They expected the launch by mid-2014, together with the introduction of collateralized operations on the interbank market and of primary dealers. The BCEAO also noted that banks' increased demand for liquidity in the past two years would likely increase monetary policy effectiveness in the future. Efforts are ongoing to develop quarterly national accounts.

## C. Fiscal Policy Coordination

**15. The regional surveillance framework is being reviewed to improve fiscal policy coordination**. The existing criteria and enforcement mechanism suffer from a number of shortcomings. For instance, the key criterion on the basic fiscal deficit[3] has often been violated and after debt relief the debt criterion (with a ceiling of 70 percent of GDP) is no longer constraining and may now be high from a debt vulnerability perspective. In light of these issues, the WAEMU Commission has launched a review of the whole framework (Appendix IV). The review covers both the design of convergence criteria and incentives for complying with the rules. At the time of the mission, the WAEMU Commission had received a report from experts but had not yet formulated a reform proposal to submit to member states.




Source: BCEAO, IMF, African Department database

### *Staff's advice*

**16. The design of new criteria could follow a few simple principles**. First, the ultimate objective should be specified. In staff's view, this objective is fiscal sustainability, which is critical for the stability of the monetary union and exchange rate regime. Second, only criteria that are directly related to attaining this objective should be kept, to focus attention on critical issues. It could therefore be considered to keep only two or three criteria (out of the existing eight), for instance a debt criterion and a deficit criterion. Third, the mutual consistency of remaining criteria should be ensured as much as possible. For instance, a ceiling on the deficit should not be set at a level so high that it would likely lead in the medium term to a breach of the debt ceiling by most countries. From this perspective, relying on comprehensive debt sustainability analysis helps ensure consistency. Another option is to introduce "debt brakes", which adjust the deficit ceiling based on past deviations from targets or the distance to the debt ceiling. Fourth, criteria should be kept simple, transparent, and easy to implement and monitor. Fifth, some tailoring of the fiscal rules at the national level should be allowed, as long as they remain consistent with the regional ones. For instance, countries with a high share of revenue coming from natural resources may wish to adopt a rule specifying how this revenue should be saved for a rainy day if prices for natural resources are high, or saved for future generations (because of the exhaustibility of the resources), or invested in public infrastructure. Sixth, any ceiling on debt and/or the deficit should not be construed as an optimal level. Staying away from the ceilings gives space to respond to shocks when needed.

[3] The basic fiscal balance is defined as total fiscal revenue (excluding project grants) less total expenditure excluding foreign-financed investment (Table 8).

**17. Improving country ownership of the new rules is critical for compliance**. International experience indeed suggests that incentive mechanisms are more effective at the national level. An inclusive approach to reforming the current framework should be the starting point, even if it means further delays. Regional rules, once agreed, could be transposed into national laws and fiscal frameworks, which would increase the cost of deviation for policy makers. Increasing transparency and communication on objectives and outcomes is also essential. National fiscal councils could be used, provided they are adequately staffed and independent. They would complement and reinforce the role of the WAEMU Commission in regional surveillance. Finally, national budget processes should be strengthened, for instance through the systematic use of medium-term fiscal frameworks.

***Authorities' views***

**18. The authorities concurred with many of the broad principles, but raised issues with a few staff proposals**. The WAEMU Commission stressed that financial sanctions were unlikely to work and agreed with the need to have full ownership of the rules by country authorities. It intended to have an inclusive approach to the reform of regional surveillance. The Commission expressed doubts as to whether it would be possible to establish independent fiscal councils in member states. The Commission concurred with the need to have simple rules, and in this regard was of the view that the use of a cyclically-adjusted fiscal deficit was probably too complex at this juncture. It disagreed with staff's earlier recommendation to lower the debt ceiling, arguing that it would constrain public investment and ultimately growth.

## D. Other Areas for Policy Coordination

**19. Progress in coordinating or harmonizing public finance management (PFM), debt management, and tax policy has been uneven recently**.

- The transposition of regional PFM directives into national laws, which should have been completed by end-2011, is way behind schedule.[4]
- The regional market and to a lesser extent the international market have become an important source of government financing, raising new debt management challenges. Efforts are ongoing at the national level to build capacity. A regional debt agency was created and is now operational. It will focus on improving debt issuance coordination, providing advice to national authorities on debt management, and broadening the investor base.
- Trade and tax policies are in principle highly coordinated, although actual application might not always been consistent. An agreement was found on a common external tariff (CET) for the Economic Community of West African States (ECOWAS), which is driven by ongoing negotiations with the European Union on an Economic Partnership Agreement (EPA).

[4] The WAEMU directives harmonize the rules for the preparation, submission, approval, execution, and budget control, and encourage efficient and transparent management of public finances.

### *Staff's advice*

**20. Transposition and implementation of the PFM directives should accelerate.** As mentioned above, better PFM plays an important role in ensuring fiscal sustainability. The WAEMU Commission should identify the reasons for the delays and communicate its findings and recommendations to the Council of Ministers.

**21. The extension of the customs union to ECOWAS carries risks for tax coordination that need to be carefully considered.** Ongoing efforts in the WAEMU to further harmonize tax policies (with technical support from the IMF) are welcome. A regional approach on specific issues, such as the taxation of investment and petroleum products, seems warranted to reduce distortions affecting the single market. Staff regrets that the new CET for ECOWAS raised external protection for WAEMU countries. In addition, the possibility given to each ECOWAS country to apply additional protection for a few years to 3 percent of tariff lines of its choice carries serious risks for the integrity of the tariff regime and the single market, and could jeopardize tax harmonization efforts in the WAEMU.

### *Authorities' views*

**22. The authorities acknowledged delays and risks but pointed out a number of positive developments.** The WAEMU Commission underscored that the technical work on the transposition of PFM directives was well advanced and should allow for substantial progress in 2014. While aware of the risks related to the new ECOWAS tariff, it stressed that it was still a significant achievement that would foster regional integration in West Africa. The authorities noted that the regional debt agency would contribute to building capacity in debt management.

## ACCELERATING FINANCIAL SECTOR REFORMS

**23. Despite significant financial sector development in recent years[5], financial depth, breadth, and access remain low**. The financial sector remains bank-centered and, while financial depth is broadly in line with WAEMU countries' structural characteristics, there is substantial scope to increase it further and improve access, as suggested by the experience of East African countries.[6] The regional debt markets remain underdeveloped, particularly for private debt. Participation from foreign investors is very limited, unlike in neighboring Ghana and Nigeria, reflecting a range of

[5] The banking sector has expanded with an average credit-to-GDP ratio increasing from 15 to 23 percent over the last decade. The microfinance sector–although significantly smaller–has also developed quickly since the early 2000s, reaching now about 15 percent of the WAEMU population. Similarly, the regional government debt market has expanded rapidly since its creation in 2003. For more information, see IMF Country Report No. 13/9 and a Supplement to IMF Country Reports No. 12/337 and 13/92.

[6] See last year's report on financial depth and macro-stability.

issues (Appendix V). Mobile banking is on the rise, but penetration remains much lower than in East Africa.[7] Microfinance continues to develop.

**24. While the financial sector appears sound on average, vulnerabilities have increased.** Banks are liquid and relatively well capitalized on average, but there is substantial heterogeneity among them. For instance, a quarter of banks do not meet the solvency ratios and some banks face serious difficulties in Benin, Côte d'Ivoire, Mali, and Togo; these difficulties, however, are country-specific and not systemic in nature. The main risk is the high concentration of lending, which partly reflects the lack of economic diversification; half of banks do not respect the single risk exposure ratio, despite it being much higher than international standards. Asset quality is also an issue, as illustrated by the high share of nonperforming loans. Finally, fast developing regional banking groups, some of which facing governance or financial challenges, raise new opportunities but also new risks.[8]

**Respect of Key Prudential Norms by Country, end-June 2013**

| | Solvency Ratios | | Other Prudential Ratios | | | |
|---|---|---|---|---|---|---|
| Number of Banks per country | Minimum Capital Ratio (CFAF 5 billion) | Capital Adequacy Ratio (min. 8%) | Exposure to largest borrower (max 75% of capital) | Related Party Lending (max 20% of capital) | Transformation Ratio (50%) | Liquidity Ratio |
| Benin (12) | 10 | 10 | 6 | 9 | 9 | 9 |
| Burkina Faso (12) | 8 | 7 | 1 | 8 | 9 | 7 |
| Cote d'Ivoire (24) | 17 | 15 | 11 | 13 | 16 | 15 |
| Guniea-Bissau (4) | 3 | 3 | 3 | 3 | 3 | 4 |
| Mali (13) | 11 | 9 | 8 | 10 | 9 | 10 |
| Niger (10) | 7 | 7 | 6 | 7 | 7 | 7 |
| Senegal (19) | 17 | 15 | 13 | 14 | 17 | 7 |
| Togo (12) | 8 | 9 | 7 | 7 | 6 | 7 |
| WAEMU (106) | 81 | 75 | 55 | 71 | 76 | 66 |
| Percent of Banks Respecting Ratios | 76% | 71% | 52% | 67% | 72% | 62% |

Source: BCEAO

### *Staff's advice*

**25. Reforms to develop and strengthen the financial system go in the right direction, but need to be accelerated.** Weak transparency, underdeveloped judicial and business environments, limited financial skills, and suboptimal taxation regimes remain the main obstacles to financial sector development. The planned creation of credit bureaus is welcome, as it will help reduce information asymmetry. As mentioned above, ongoing reforms to develop the interbank and sovereign debt markets are a priority and should be completed as soon as possible; together with more active

[7] As shown in last year's report (see Supplement 1, Box 2), while the number of mobile phone subscriptions in the WAEMU is comparable to that in East Africa, mobile banking costs are generally higher in the WAEMU and services are more limited.

[8] Pan-African banking groups hold about 50 percent of the assets of the WAEMU's banking system.

communication (including by the new regional debt agency) and further harmonization of financial product taxation, they will help make the regional market more attractive to foreign investors.

**26. Ongoing efforts to strengthen supervision and the crisis prevention and resolution frameworks need to be accelerated too:**

- *Bank supervision and regulation.* Compliance with key prudential ratios remains insufficient and urgently needs to improve (Figure 4). Recent efforts to strengthen staffing and training at the Banking Commission are welcome and need to continue to allow for more frequent on-site supervision and improve the early identification of risks. Other measures should be considered to increase the credibility of the supervision framework, such as stronger and more systematic sanctions. Ongoing efforts to strengthen collaboration with other supervisors are also critical to improve the supervision of regional banking groups. The move to Basel II/III regulation—with IMF technical support—will be an opportunity to bring prudential rules closer to international standards. As this process is likely to take time, the authorities should consider in the meantime a tightening of certain rules, for instance on risk concentration and claims and provisioning classification, and fixing an early deadline for raising banks' minimum capital requirement to CFAF 10 billion. Moving to consolidated reporting and supervision is also a priority.
- *Crisis prevention and resolution.* To improve transparency and market discipline, the authorities should compile and publish financial soundness indicators on a regular and timely basis.[9] They should also continue developing macro-prudential analyses, with regular stress tests and early-warning indicators. Bank resolution is a protracted process in the WAEMU, with the risk of increasing the ultimate cost borne by taxpayers. This reflects the division of responsibilities between a number of institutions at the regional and national levels. In this regard, while there is a single supervisor in the WAEMU, there is no single resolution framework. Staff recommends a reconsideration of this architecture to give more powers to the supervisor, in line with international best practice. Reducing the time a bank can spend in receivership is also desirable to force early decisions on restructuring or closing.
- *Resources.* Adequate resources will need to be dedicated if this ambitious and important reform agenda is to be implemented in time. Staff also recommends close cooperation between regulators and supervisors.

**27. The BCEAO has made substantial progress in improving its governance framework, but further strengthening of external audit is necessary.** The last safeguards assessment was concluded in December 2013. The assessment found that the BCEAO continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform, enhanced its governance framework. Specifically, an audit committee was established to oversee the audit and financial reporting processes, transparency has increased with more timely publication of the

[9] The availability of timely information on the financial sector varies across countries but is generally limited. This affects the authorities' surveillance activities. For instance, the BCEAO conducted in 2013 stress tests on the banking system which were based on end-2011 data. Staff recommended that future exercises be conducted on more recent data.

audited financial statements, and the BCEAO is committed to IFRS implementation by end-2014. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure its adequacy.

### *Authorities' views*

**28. The authorities underscored the need to take a longer perspective on the assessment of the situation of certain banks and ongoing reforms.** Recent efforts to strengthen the Banking Commission have been substantial, with a doubling of its supervisors last year. Banks have increased their capital in recent years, as the minimum capital was already raised a few years ago to CFAF 5 billion. The principle of raising it further to CFAF 10 billion has been agreed, and only the deadline needs to be determined now. The authorities also argued that banks facing problems were well known, circumscribed, and their issues being addressed. They were confident that their situation would improve substantially in 2014, and as a result observance of prudential norms would increase significantly. While admitting that concentration of lending was an important risk in the region, the authorities argued that lowering the concentration ratio would raise serious challenges, such as providing sufficient financing for key harvests in certain countries. They noted that important steps toward consolidated and cross-border supervision had been made in the past year, in particular with the Moroccan and Nigerian authorities, including regular information sharing and joint onsite inspections.

**29. The authorities also stressed that many reforms were in the pipeline to address both financial development and stability issues**. A deposit insurance scheme (pre-funded by banks' contributions) and a payment guarantee scheme are expected to be launched in 2014. The deposit insurance scheme, once sufficiently funded, will likely contribute to faster bank resolution. Work is still ongoing on the financial stability fund, whose main goal would be to avoid possible debt payment incidents by sovereigns facing liquidity problems. A number of reforms will also contribute to financial development. Credit bureaus are expected to be operational in 2014 and will have a regional coverage. An agreement was found with banks on a list of free basic banking services. Work is ongoing on promoting and regulating Islamic finance, on a legal framework for leasing contracts, investment funds, and mortgage credits, and on better supervising the microfinance sector.

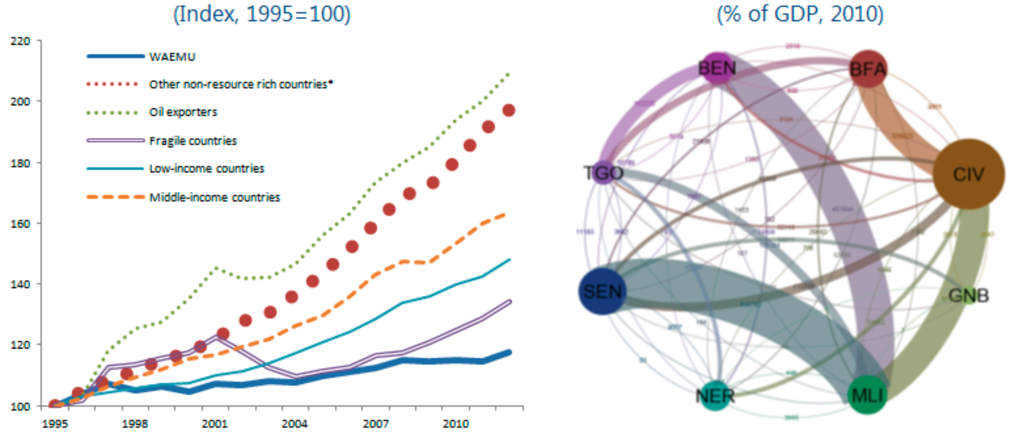
## Regional Authorities' Response to Staff Recommendations on Financial Sector Reforms

| Recommendation | Implementation Status |
|---|---|
| ***Deepening Capital Markets*** | |
| Introduction of Collateralized operations (repo) | Ongoing |
| Rollout of electronic platform to auction and trade liquidity and government paper (Application Trésor) | Ongoing |
| Introduction of Primary Dealers | Ongoing |
| Improve issuance coordination with help of *Agence UMOA Titres* | Done |
| Address distortion (e.g. tax advantage) for sovereign paper | Ongoing |
| Promote mobile banking | Ongoing |
| Accelerate establishment of credit and guarantee bureau | Ongoing |
| Improve at all levels data quality, coverage and timeliness | No major improvement |
| Strengthen liquidity and inflation forecasting to improve liquidity management | Ongoing |
| ***Strengthening Regulation and Supervision*** | |
| Increase compliance with prudential norms | No major improvement |
| Provide Banking Commission with power to impose elevated pecuniary penalties | Under consideration |
| Bring down gradually 75 percent single risk exposure towards international norms | Not started yet |
| Tighten NPL classification and bring them down to international standards (90 days), and tighten provisioning rules when initial credits provided with guarantees | Not started yet |
| Reflect on whether to change zero risk weighting of government bonds | Not started yet |
| Broadening application of capital requirement to include operational risk | To be considered in the context of moving to Basel II/III |
| Move towards consolidated supervision, including supervising financial holding companies | Working group started, and combined with Basel II/III |
| Improve cross-border supervision, by signing cooperation protocol with all supervisors of parent companies of subsidiaries, setting up regular meeting with them and regular sharing of information, and clarify actual responsibilities of parent company in case of recapitalization needs | Ongoing |
| ***Improve Crisis Management Framework*** | |
| More active use of stress testing | Ongoing |
| Produce and publish more disaggregated data on lending, sectoral balance sheets | Not started yet |
| Develop early warning system indicators, and improve timeliness and distribution of Financial Soundness Indicators | Ongoing |
| Expand set of macro-prudential instruments | Ongoing |
| BCEAO receives explicit mandate for Early Warning System | Yes |
| Strengthen resolution regime, including by adopting key attributes of Financial Stability Board of closing down banks | Not started yet |
| Devise ex ante burden sharing arrangement to overcome bank resolution delays | Not started yet |
| Systematic investigation of responsibilities of directors, shareholders and auditors in case of bankruptcy, and prosecution if fault found | Ongoing |
| Launch deposit insurance system | Ongoing |

# TOWARD A MORE DYNAMIC AND RESILIENT ECONOMIC UNION

**30. Numerous political, institutional, structural, and macroeconomic factors have prevented WAEMU countries from keeping pace with sub-Saharan Africa's high-growth economies during the past two decades** (Appendices I-II). Sociopolitical instability and security issues have been one of the main reasons behind this growth underperformance. Weak structural competitiveness, mainly resulting from challenging business and legal environments, infrastructure gaps, undeveloped financial sectors and weak institutional capacities, has been an important factor too. Finally, frequent asymmetric shocks and the limited availability and effectiveness of smoothing mechanisms have contributed to substantial economic volatility. Despite a common currency and, in principle, the free flow of goods and factors within the WAEMU, regional integration remains low. The recovery in Côte d'Ivoire starting in 2012 has boosted regional economic prospects. The key challenge facing the WAEMU will be to sustain this new-found momentum and translate it into sustained and inclusive growth.

**Real GDP per capita in SSA countries** (Index, 1995=100) | **Intraregional trade flows** (% of GDP, 2010)




* Cabo Verde, Ethiopia, Ghana, Mozambique, Rwanda, Tanzania, and Uganda (Appendix II)
Source: BCEAO, WAEMU Commission, IMF, African Department database. A network-based analysis is used to illustrate intraregional trade flows (Kireyev, 2014), that accounted for 12 percent of total trade in 2013.

### *Staff's advice*

**31. Regional policies have an important role to play to sustain high growth and increase resilience in the medium term.**

- *Accelerating regional integration.* Deepening the single market could provide an additional impetus to growth. There are still important nontariff obstacles to the mobility of goods within the WAEMU, such as illicit road blocks and payments. Coordinated action is urgently needed to address these issues.

- *Improving structural competitiveness.* There is substantial scope for coordinated action at the regional level, for instance in the area of transportation and energy infrastructure investment or to improve business and legal environments. A regional project on improving the business climate is a welcome development as it will help disseminate best regional practices and address issues requiring changes to regional policies. Accelerated implementation of the second phase of the Regional Economic Program (PER) is required on the infrastructure front.

- *Strengthening economic resilience.* Further integration and more efficient stabilization mechanisms are needed to reduce the occurrence and impact of shocks, particularly asymmetric ones. Developing the financial system and improving access to it, and facilitating remittances flows, which are countercyclical and contribute significantly to external financing (Appendix VI), are priorities in this regard. More fiscal federalism could be considered in the medium term; for instance, staff estimates suggest that a system of temporary transfers, through a relatively small centralized fiscal risk-sharing mechanism, could provide significant income smoothing.

### *Authorities' views*

**32. The authorities concurred with the need to pursue regional integration forcefully.** They noted that full implementation of the PER is hampered by financing availability and they intended to step up their fund-raising efforts. They are also considering ways to channel remittances towards investment.

## STAFF APPRAISAL

**33. Strong growth and low inflation are expected to continue in 2014, with moderate risks to the downside.** Sustaining this performance over the medium term, however, will require ambitious growth-enhancing reforms, high quality public investment, and consolidation of the recent improvements in the regional political and security situation. In the short term, political stability could be tested with the upcoming elections in a number of member states, particularly in a context of high demand for better governance and higher living standards. Security issues in the Sahel constitute another short-term risk. Delays in implementing growth-enhancing reforms, at both the national and regional levels, are the principal medium-term risk.

**34. Against these risks, the current macroeconomic policy mix looks appropriate and more stimulus is not required at this juncture.** Monetary policy easing was justified in the past two years in light of favorable inflationary developments and prospects and uncertainty on the growth outlook. With growth now better entrenched, a worsening current account deficit and declining official reserves, a pause in the easing seems appropriate. As projections are for continued strong growth, countries are encouraged to seek opportunities to strengthen fiscal sustainability while maintaining public investment efforts and expanding social safety nets. Additional efforts to improve the quality of spending and revenue mobilization are required for this purpose.

**35. Fiscal policy coordination needs to be improved.** The ongoing review of the regional surveillance framework is welcome. Its ultimate goal should be to preserve fiscal and external sustainability. Convergence criteria should be reconsidered in light of this objective, which does not preclude leaving room for fiscal responses to shocks. Improving country ownership of the new rules will be critical for compliance. A highly participatory approach to the reform is therefore highly desirable.

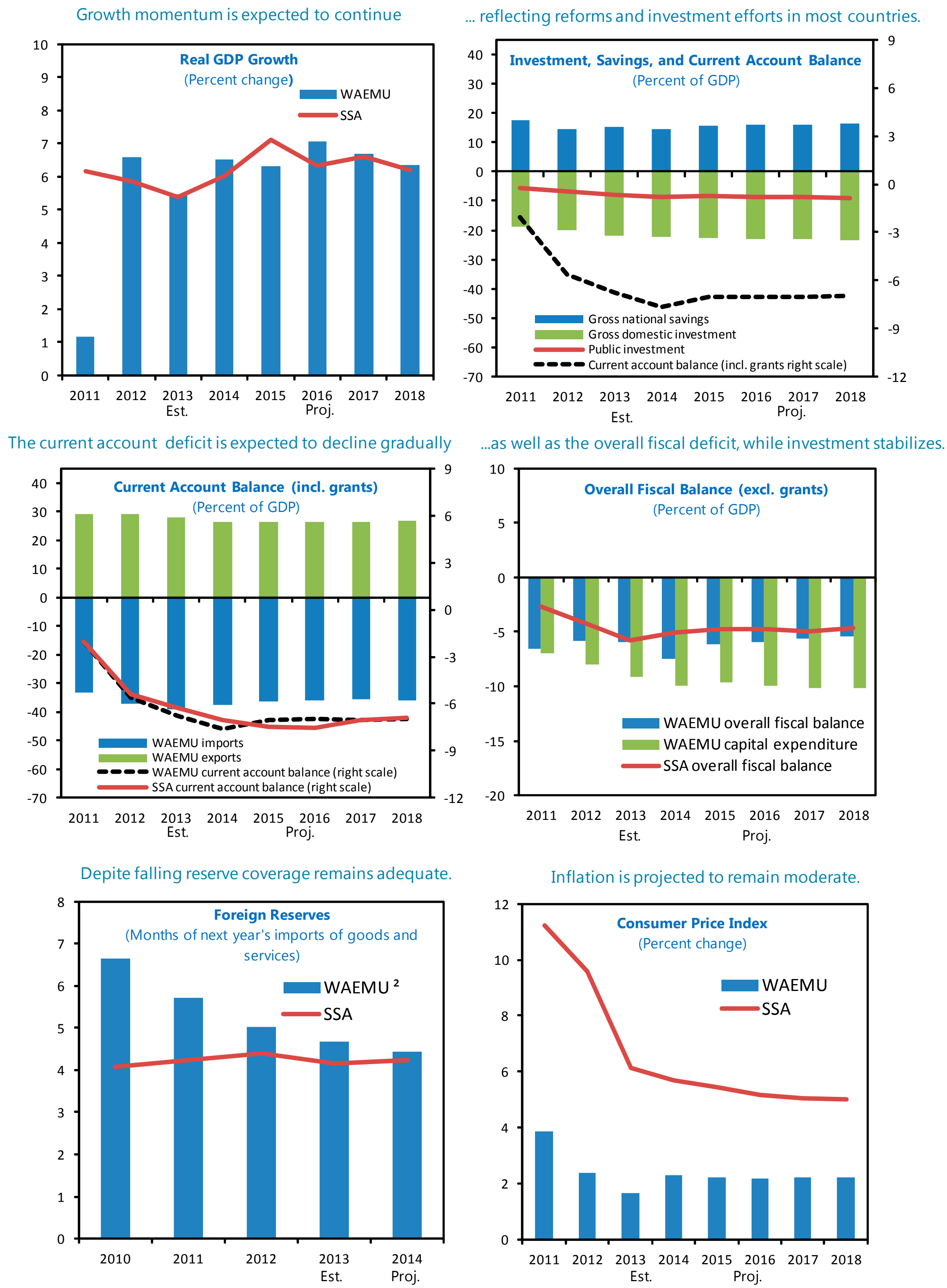
**36. Financial sector reforms go in the right direction but the pace of implementation needs to increase**. Despite significant financial sector development in recent year years, financial depth, breadth and access remain low and hamper sustainable economic development and the effectiveness of macroeconomic policies. Reforms to develop the interbank and sovereign debt markets have incurred delays and should be completed as soon as possible. Banks' compliance with key prudential ratios remains insufficient and urgently needs to improve. Recent efforts to strengthen staffing and training at the Banking Commission are welcome and need to continue. Stronger sanctions, and more broadly a strengthening of the role of the supervisor, should also be considered. As the welcome move to Basel II/III regulation is likely to take time, a tightening of certain prudential rules and fixing an early deadline for raising banks' minimum capital requirement is recommended in the meantime. Ongoing reforms to improve the financial crisis prevention and resolution framework are welcome and will require adequate resources to be pursued in parallel.

**37. Transparency, availability and quality of information need to improve.** The BCEAO's recent efforts to publish more information and analysis are welcome. Coordinated efforts involving national and regional authorities will be required to improve data quality, coverage, and timeliness.

**38. Regional integration offers opportunities to increase resilience and growth, but recent developments in this area are a source of concern.** More concerted efforts are required to develop regional infrastructure and improve the functioning of the common market. The enlargement of the customs union to ECOWAS, although potentially beneficial, has regrettably led to higher protection and raises risks for tax policy coordination and the integrity of the single market.

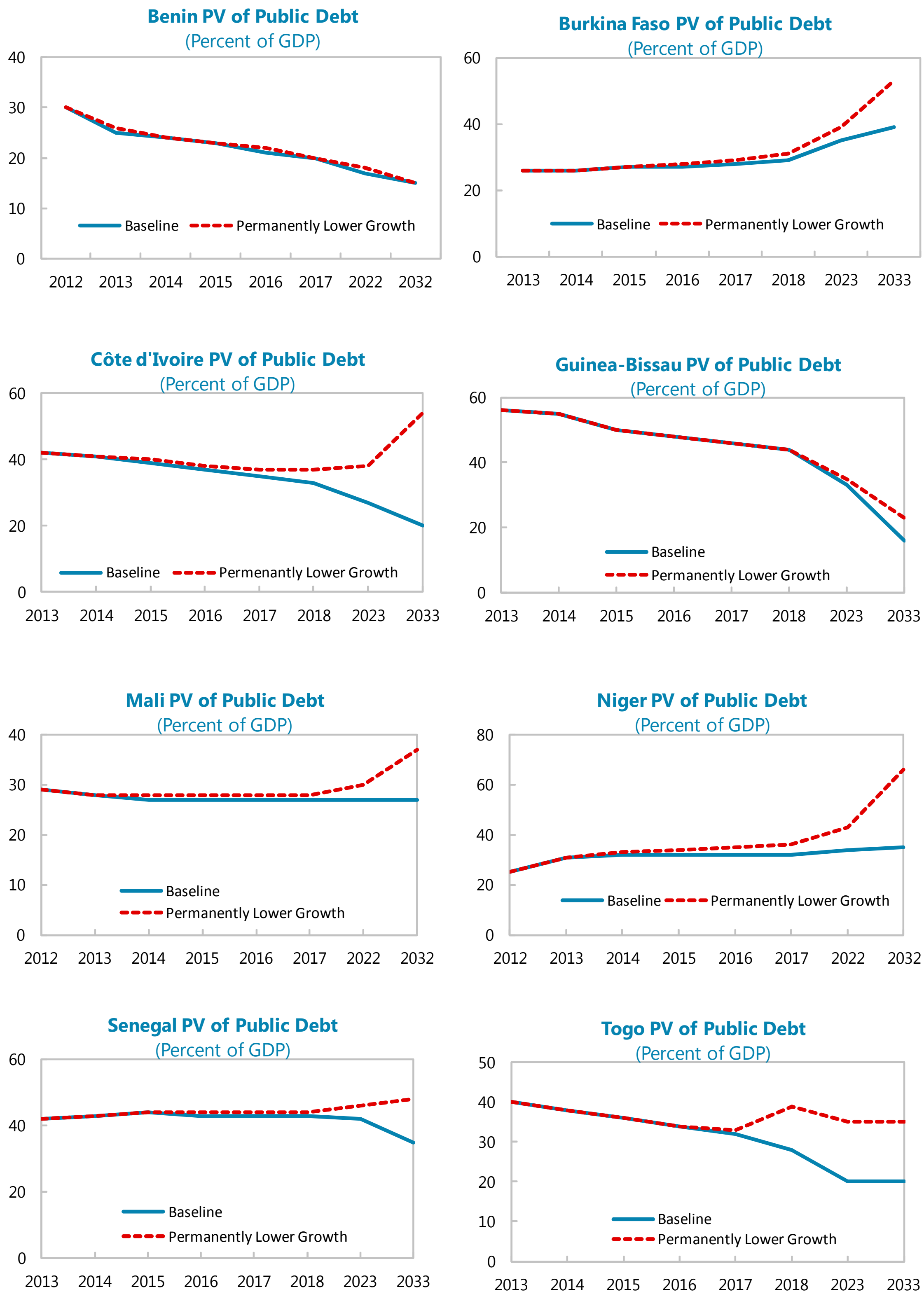
**39.** It is proposed that the discussions with the WAEMU authorities remain on the standard 12-month cycle.

## Figure 1. WAEMU: Medium Term Outlook, 2010–2018[1]




**Sources: IMF, African Department database, and Regional Economic Outlook database.**
**[1] Aggregate values for Sub-Saharan Africa exclude Nigeria and South Africa.**
**[2] Historical series based on BCEAO data, projections based on internal AFR database.**

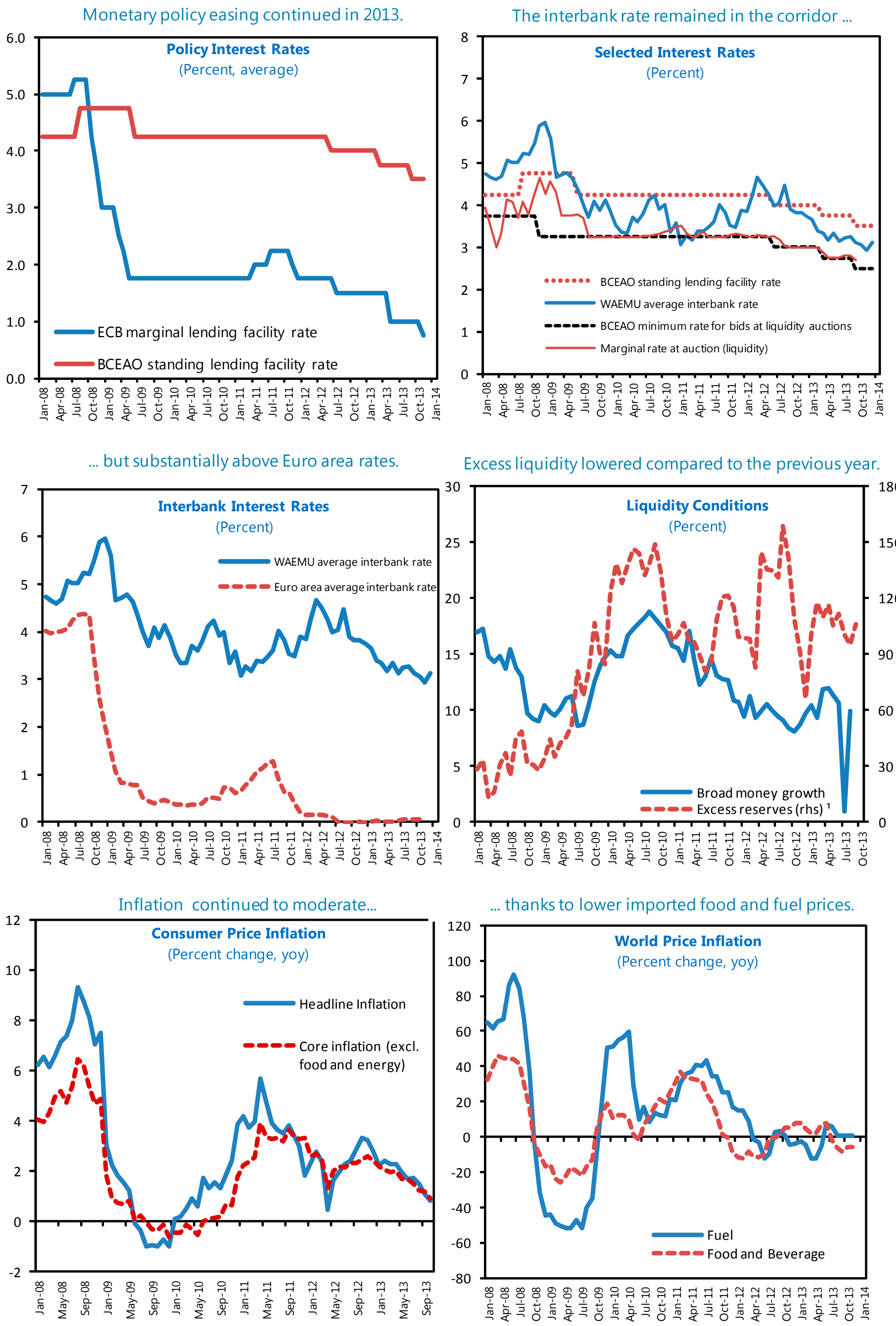
## Figure 2. Sensitivity of Public Debt to Lower Growth




**Source: IMF staff estimation**

**Note: Projections are taken from 2013 DSAs of WAEMU countries (2012 DSA for Benin). The permanently lower growth scenario assumes that GDP growth is one standard deviation below the baseline divided by the square root of the length of the projections (i.e., around 0.4 percent below the baseline GDP growth on average).**

## Figure 3. WAEMU: Monetary Policy and Inflation, 2008–2014




**Sources: BCEAO, IMF, African Department database, and Regional Economic Outlook database.**

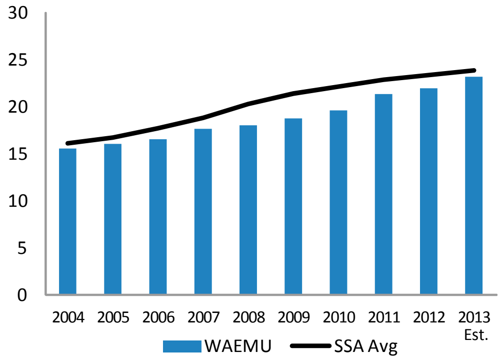
**[1] Excess reserves as a percentage of required reserves.**

## Figure 4. WAEMU: Financial Developments (2004–2013)

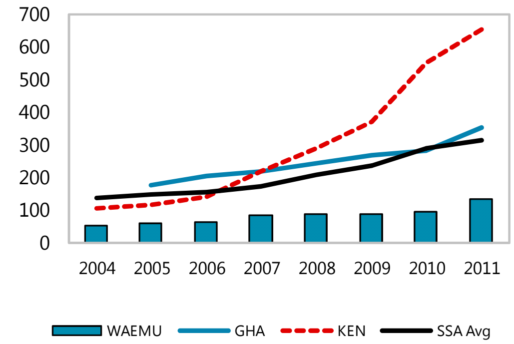
Despite financial sector development continuing its upwards trend....

...it remains behind peer countries.

**Credit to Private Sector**
(Percent of GDP, 2007-13)



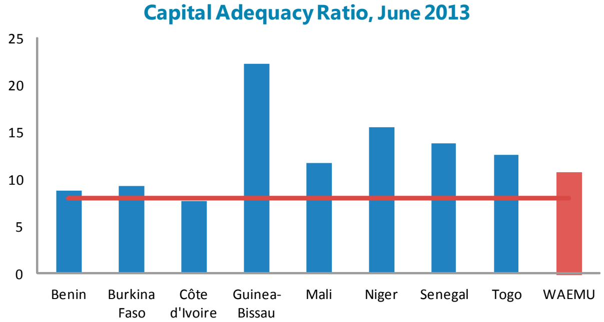

**Banking Accounts**
(2004–11; per 1000 pers.)



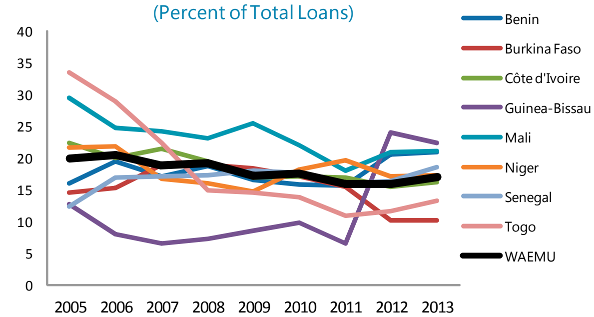

The banking sector appears well capitalized ,but substantial heterogeneity exists across countries and institutions.

Non performing loans have increased recently for most countries...

**Capital Adequacy Ratio, June 2013**

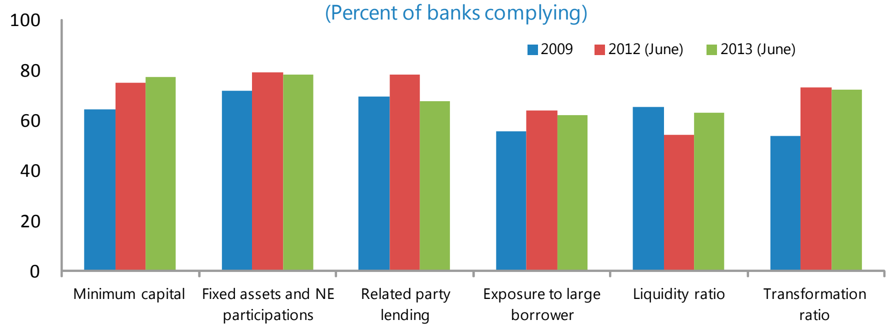



**Non-Performing Loans, 2005-2013**
(Percent of Total Loans)




... and progress in compliance with prudential regulation remains limited.

**Prudent Regulations**
(Percent of banks complying)




**Sources: BCEAO, IMF, African Department database, and Regional Economic Outlook database.**
**Note: The transformation ratio (stable resources/M&L term loans) was lowered from 75 percent to 50 percent early 2013, the data reported for 2012 takes the 50 percent into account.**

**Table 1. WAEMU: Selected Economic and Financial Indicators, 2010–2018**

| | 2010 | 2011 | 2012 | 2013 Est. | 2014 Proj. | 2015 Proj. | 2016 Proj. | 2017 Proj. | 2018 Proj. |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Annual percentage change) | | | | | |
| National income and prices | | | | | | | | | |
| GDP at constant prices | 4.2 | 1.2 | 6.6 | 5.5 | 6.5 | 6.3 | 7.1 | 6.7 | 6.3 |
| GDP per capita at constant prices | 1.2 | -1.7 | 3.7 | 2.6 | 3.6 | 3.4 | 4.1 | 3.8 | 3.4 |
| Broad money to GDP | 8.3 | 6.3 | -1.6 | 5.3 | ... | ... | ... | ... | ... |
| Consumer prices (average) | 1.4 | 3.9 | 2.4 | 1.6 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 |
| Terms of trade | -0.4 | 6.4 | -1.0 | -0.8 | 1.2 | 0.9 | -0.6 | -0.7 | -0.4 |
| Nominal effective exchange rates | -4.3 | 1.7 | -2.3 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rates | -6.3 | 1.0 | -2.7 | ... | ... | ... | ... | ... | ... |
| | | | | (Percent of GDP) | | | | | |
| National accounts | | | | | | | | | |
| Gross national savings | 14.9 | 17.6 | 14.4 | 15.1 | 14.6 | 15.5 | 15.9 | 16.1 | 16.5 |
| Gross domestic investment | 19.7 | 19.0 | 20.0 | 21.9 | 22.2 | 22.6 | 22.9 | 23.1 | 23.4 |
| *Of which:* public investment | 5.8 | 5.7 | 6.6 | 7.8 | 8.6 | 8.4 | 8.7 | 8.8 | 8.9 |
| | | | | (Annual changes in percent of beginning-of-period broad money) | | | | | |
| Money and credit [1] | | | | | | | | | |
| Net foreign assets | 3.1 | 1.0 | -2.1 | -4.3 | ... | ... | ... | ... | ... |
| Net domestic assets | 12.6 | 9.7 | 11.9 | 14.8 | ... | ... | ... | ... | ... |
| Broad money | 15.7 | 10.7 | 9.8 | 10.6 | ... | ... | ... | ... | ... |
| | | | | (Percent of GDP, unless otherwise indicated) | | | | | |
| Government financial operations [2] | | | | | | | | | |
| Government total revenue, excl. grants | 17.9 | 16.6 | 19.0 | 19.4 | 19.4 | 19.4 | 19.8 | 20.2 | 20.4 |
| Government expenditure | 23.3 | 23.2 | 24.8 | 25.3 | 26.9 | 25.5 | 25.7 | 25.8 | 25.8 |
| Overall fiscal balance, excl. grants | -5.4 | -6.5 | -5.8 | -5.9 | -7.5 | -6.1 | -5.9 | -5.7 | -5.4 |
| Official grants | 2.3 | 2.5 | 2.2 | 2.9 | 3.2 | 2.9 | 2.8 | 2.7 | 2.5 |
| Overall fiscal balance, incl. grants | -3.1 | -4.0 | -3.6 | -3.0 | -4.3 | -3.2 | -3.1 | -3.0 | -2.9 |
| Basic fiscal balance, incl. grants & HIPC | -0.7 | -2.1 | -2.1 | -0.9 | -1.1 | -0.9 | -0.8 | -0.7 | -0.6 |
| External sector | | | | | | | | | |
| Exports of goods and services [3] | 29.1 | 29.0 | 29.1 | 27.8 | 26.2 | 26.4 | 26.5 | 26.4 | 26.7 |
| Imports of goods and services [3] | 36.4 | 33.4 | 37.0 | 39.0 | 37.6 | 36.6 | 36.2 | 35.8 | 36.1 |
| Current account, excl. grants [4] | -6.8 | -3.3 | -7.1 | -10.5 | -10.4 | -9.1 | -9.0 | -8.6 | -8.4 |
| Current account, incl. grants [4] | -5.0 | -2.0 | -5.6 | -6.7 | -7.6 | -7.1 | -7.0 | -7.0 | -7.0 |
| External public debt | 32.5 | 31.5 | 26.5 | 26.8 | 27.8 | 27.8 | 27.6 | 27.3 | 27.1 |
| Total public debt | 44.4 | 44.3 | 39.7 | 38.8 | 38.7 | 38.5 | 38.2 | 37.5 | 37.1 |
| Broad money | 28.6 | 30.4 | 29.9 | 31.5 | ... | ... | ... | ... | ... |
| *Memorandum items:* | | | | | | | | | |
| Nominal GDP (billions of CFA francs) | 34,779 | 36,688 | 40,200 | 43,220 | 47,056 | 51,117 | 55,869 | 60,869 | 66,068.8 |
| Nominal GDP per capita (US dollars) | 714 | 768 | 756 | 816 | 895 | 961 | 1,040 | 1,122 | 1,202.7 |
| CFA franc per US dollars, average | 495 | 472 | 511 | 494 | ... | ... | ... | ... | ... |
| Euro per US dollars, average | 0.76 | 0.72 | 0.78 | 0.75 | ... | ... | ... | ... | ... |
| Foreign exchange cover ratio [5] | 99.9 | 97.2 | 98.4 | 91.2 | ... | ... | ... | ... | ... |
| Reserves in months of imports (excl. intra-WAEMU imports) | 6.6 | 5.7 | 5.0 | 4.7 | ... | ... | ... | ... | ... |

Sources: IMF, African Department database; World Economic Outlook; IMF staff estimates.

[1] The estimates for 2013 refer to annual change at end-June, with the beginning-of-period referring to end-June 2012.

[2] Fiscal data for 2014 reflect a strong increase in the fiscal deficit of Niger, following a new project in the hydrocarbon sector.

[3] Excluding intraregional trade.

[4] Data up to 2011 are corrected for intraregional trade discrepancies by BCEAO.

[5] Gross official reserves divided by short-term domestic liabilities (IMF definition). The estimates for end-September 2013.

**Table 2. WAEMU: Selected National Accounts and Inflation Statistics, 2010–2018**

| | 2010 | 2011 | 2012 | 2013 Est. | 2014 Proj. | 2015 Proj. | 2016 Proj. | 2017 Proj. | 2018 Proj. |
|---|---|---|---|---|---|---|---|---|---|
| | (Annual percentage change) | | | | | | | | |
| Real GDP | | | | | | | | | |
| Benin | 2.6 | 3.5 | 5.4 | 5.0 | 4.8 | 4.5 | 4.5 | 4.5 | 4.5 |
| Burkina Faso | 8.4 | 5.0 | 9.0 | 6.8 | 6.1 | 7.1 | 7.0 | 6.9 | 6.8 |
| Côte d'Ivoire | 2.4 | -4.7 | 9.8 | 8.7 | 8.2 | 8.1 | 7.8 | 7.5 | 7.0 |
| Guinea-Bissau | 3.5 | 5.3 | -1.5 | 0.2 | 3.6 | 3.9 | 3.9 | 3.9 | 4.0 |
| Mali | 1.7 | 2.7 | -0.2 | 0.2 | 8.0 | 5.5 | 5.5 | 4.9 | 4.8 |
| Niger | 8.4 | 2.3 | 11.1 | 3.6 | 6.5 | 5.9 | 14.3 | 11.9 | 9.8 |
| Senegal | 4.3 | 2.1 | 3.5 | 4.0 | 4.6 | 4.8 | 5.1 | 5.1 | 5.1 |
| Togo | 4.1 | 4.8 | 5.9 | 5.6 | 6.0 | 6.0 | 6.1 | 5.8 | 5.5 |
| WAEMU | 4.2 | 1.2 | 6.6 | 5.5 | 6.5 | 6.3 | 7.1 | 6.7 | 6.3 |
| Real GDP per capita | | | | | | | | | |
| Benin | -0.3 | 0.6 | 2.6 | 2.2 | 2.1 | 1.9 | 2.0 | 2.0 | 2.1 |
| Burkina Faso | 5.3 | 2.0 | 6.5 | 4.4 | 3.7 | 4.7 | 4.6 | 4.5 | 4.4 |
| Côte d'Ivoire | -0.5 | -7.5 | 6.6 | 5.6 | 5.1 | 4.9 | 4.6 | 4.3 | 3.8 |
| Guinea-Bissau | 1.3 | 3.2 | -3.5 | -1.8 | 1.4 | 1.8 | 1.7 | 1.8 | 1.9 |
| Mali | -1.3 | -0.4 | -3.2 | -2.8 | 4.7 | 2.3 | 2.3 | 1.7 | 1.7 |
| Niger | 5.1 | -0.8 | 7.7 | 0.4 | 3.3 | 2.7 | 10.8 | 8.6 | 6.5 |
| Senegal | 1.3 | -0.8 | 0.5 | 1.1 | 1.6 | 1.8 | 2.1 | 2.1 | 2.1 |
| Togo | 1.4 | 2.1 | 3.2 | 2.9 | 3.3 | 3.3 | 3.4 | 3.1 | 2.8 |
| WAEMU | 1.2 | -1.7 | 3.7 | 2.6 | 3.6 | 3.4 | 4.1 | 3.8 | 3.4 |
| Inflation | | | | | | | | | |
| Benin | 2.6 | 2.7 | 6.7 | 0.9 | 0.5 | 3.6 | 2.8 | 2.8 | 2.8 |
| Burkina Faso | -0.6 | 2.8 | 3.8 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Côte d'Ivoire | 1.4 | 4.9 | 1.3 | 2.9 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Guinea-Bissau | 1.1 | 5.1 | 2.1 | 0.6 | 2.5 | 2.0 | 2.0 | 2.0 | 2.0 |
| Mali | 1.3 | 3.1 | 5.3 | -0.6 | 4.5 | 2.5 | 2.2 | 2.2 | 2.2 |
| Niger | -2.8 | 2.9 | 0.5 | 2.3 | 2.5 | 0.4 | 1.3 | 1.5 | 1.8 |
| Senegal | 1.2 | 3.4 | 1.4 | 0.8 | 1.4 | 1.7 | 1.7 | 1.9 | 1.9 |
| Togo | 1.4 | 3.6 | 2.6 | 2.0 | 3.0 | 2.7 | 2.5 | 2.5 | 2.5 |
| WAEMU | 1.4 | 3.9 | 2.4 | 1.6 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 |
| | (Percent of GDP) | | | | | | | | |
| Gross national savings | | | | | | | | | |
| Benin | 8.9 | 10.9 | 9.3 | 10.6 | 11.2 | 11.7 | 12.2 | 12.7 | 13.3 |
| Burkina Faso | 15.8 | 14.5 | 22.0 | 18.2 | 10.4 | 12.8 | 13.3 | 13.2 | 13.6 |
| Côte d'Ivoire | 11.4 | 21.1 | 12.4 | 15.8 | 16.7 | 16.7 | 16.4 | 16.7 | 16.7 |
| Guinea-Bissau | 1.3 | 9.0 | 1.0 | -3.2 | 2.5 | 2.5 | 4.7 | 6.6 | 7.2 |
| Mali | 17.7 | 16.2 | 9.1 | 12.0 | 10.5 | 14.1 | 13.5 | 11.0 | 12.7 |
| Niger | 25.5 | 21.6 | 22.0 | 19.5 | 18.9 | 19.1 | 21.7 | 23.7 | 24.1 |
| Senegal | 18.5 | 19.4 | 17.4 | 17.5 | 18.6 | 18.3 | 19.0 | 19.8 | 20.0 |
| Togo | 12.6 | 9.6 | 7.3 | 6.8 | 10.2 | 12.1 | 13.8 | 13.5 | 13.2 |
| WAEMU | 14.9 | 17.6 | 14.4 | 15.1 | 14.6 | 15.5 | 15.9 | 16.1 | 16.5 |
| Gross domestic investment | | | | | | | | | |
| Benin | 17.6 | 18.7 | 17.7 | 19.0 | 19.4 | 19.5 | 19.6 | 19.9 | 20.0 |
| Burkina Faso | 18.0 | 15.6 | 22.8 | 22.6 | 17.2 | 20.1 | 19.5 | 19.3 | 19.1 |
| Côte d'Ivoire | 9.0 | 8.2 | 13.7 | 17.6 | 19.3 | 19.6 | 21.0 | 21.8 | 22.5 |
| Guinea-Bissau | 9.8 | 10.1 | 7.5 | 5.5 | 7.0 | 7.0 | 7.8 | 9.0 | 9.0 |
| Mali | 30.8 | 21.7 | 13.1 | 20.0 | 21.6 | 24.1 | 22.7 | 19.8 | 21.1 |
| Niger | 45.3 | 43.9 | 37.4 | 36.7 | 40.7 | 37.1 | 36.8 | 38.2 | 37.2 |
| Senegal | 22.9 | 27.3 | 27.8 | 26.8 | 26.1 | 25.0 | 25.4 | 25.8 | 26.0 |
| Togo | 18.9 | 18.6 | 19.1 | 18.8 | 21.1 | 21.9 | 22.1 | 21.6 | 20.9 |
| WAEMU | 19.7 | 19.0 | 20.0 | 21.9 | 22.2 | 22.6 | 22.9 | 23.1 | 23.4 |

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

## Table 3. WAEMU: Selected Fiscal Indicators, 2010–2018

| | 2010 | 2011 | 2012 | 2013 Est. | 2014 Proj. | 2015 Proj. | 2016 Proj. | 2017 Proj. | 2018 Proj. |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Percent of GDP) | | | | | |
| Primary fiscal balance | | | | | | | | | |
| Benin | -1.0 | -1.4 | 0.1 | 0.3 | -0.9 | -0.7 | -0.7 | -0.6 | -0.5 |
| Burkina Faso | -3.9 | -1.8 | -2.5 | -2.7 | -3.5 | -3.1 | -3.0 | -3.1 | -3.0 |
| Côte d'Ivoire | -0.6 | -2.3 | -1.6 | -1.3 | -1.0 | -1.9 | -2.0 | -2.0 | -2.0 |
| Guinea-Bissau | -1.9 | -2.0 | -2.8 | -2.3 | -1.3 | -1.0 | -1.0 | -0.9 | -0.9 |
| Mali | -2.3 | -3.1 | -3.6 | -1.4 | -4.1 | -2.2 | -2.0 | -1.8 | -1.8 |
| Niger [1] | -2.2 | -2.6 | -0.8 | -2.2 | -12.9 | -2.0 | -1.5 | -1.3 | -1.3 |
| Senegal | -4.2 | -5.2 | -4.4 | -3.8 | -3.3 | -2.0 | -1.7 | -1.5 | -1.2 |
| Togo | -1.1 | -2.7 | -5.7 | -3.9 | -2.9 | -2.5 | -1.9 | -1.3 | -0.8 |
| WAEMU | -2.1 | -2.8 | -2.5 | -2.0 | -3.2 | -2.1 | -1.9 | -1.8 | -1.7 |
| Overall fiscal balance (including grants) | | | | | | | | | |
| Benin | -1.6 | -1.8 | -0.5 | -0.2 | -1.5 | -1.3 | -1.3 | -1.3 | -1.3 |
| Burkina Faso | -4.4 | -2.4 | -3.3 | -3.2 | -4.0 | -3.8 | -3.7 | -3.8 | -3.7 |
| Côte d'Ivoire | -2.3 | -4.3 | -3.4 | -2.7 | -2.3 | -3.4 | -3.4 | -3.5 | -3.5 |
| Guinea-Bissau | -2.5 | -2.6 | -3.1 | -1.5 | -1.1 | -1.8 | -1.7 | -1.5 | -1.4 |
| Mali | -2.8 | -3.8 | -4.3 | -2.0 | -4.7 | -2.8 | -2.6 | -2.4 | -2.4 |
| Niger | -2.4 | -3.0 | -1.2 | -2.5 | -13.5 | -2.5 | -1.9 | -1.7 | -1.6 |
| Senegal | -5.2 | -6.7 | -5.9 | -5.4 | -4.9 | -3.9 | -3.7 | -3.5 | -3.2 |
| Togo | -2.1 | -3.4 | -6.6 | -5.3 | -4.4 | -3.8 | -3.1 | -2.4 | -2.1 |
| WAEMU | -3.1 | -4.0 | -3.6 | -3.0 | -4.3 | -3.2 | -3.1 | -3.0 | -2.9 |
| Government revenue (excluding grants) | | | | | | | | | |
| Benin | 18.6 | 17.6 | 18.7 | 19.2 | 18.4 | 18.6 | 18.7 | 18.9 | 19.0 |
| Burkina Faso | 15.3 | 16.1 | 17.8 | 19.0 | 18.4 | 18.9 | 18.8 | 18.8 | 19.1 |
| Côte d'Ivoire | 19.2 | 14.9 | 20.2 | 19.6 | 19.6 | 19.1 | 19.4 | 19.8 | 20.1 |
| Guinea-Bissau | 10.8 | 11.5 | 10.8 | 10.0 | 10.5 | 10.5 | 10.6 | 10.6 | 10.6 |
| Mali | 17.9 | 17.5 | 19.0 | 20.3 | 20.4 | 20.4 | 20.5 | 20.8 | 21.1 |
| Niger | 13.6 | 14.2 | 15.9 | 16.9 | 18.1 | 18.9 | 21.3 | 23.2 | 23.5 |
| Senegal | 19.3 | 20.2 | 20.4 | 20.9 | 20.8 | 21.0 | 21.2 | 21.3 | 21.3 |
| Togo | 18.4 | 17.3 | 18.2 | 18.7 | 19.1 | 19.7 | 19.8 | 20.0 | 20.0 |
| WAEMU | 17.9 | 16.6 | 19.0 | 19.4 | 19.4 | 19.4 | 19.8 | 20.2 | 20.4 |
| Government expenditure | | | | | | | | | |
| Benin | 21.6 | 21.9 | 21.1 | 22.0 | 21.9 | 22.0 | 22.0 | 22.1 | 22.1 |
| Burkina Faso | 24.2 | 23.6 | 26.0 | 27.1 | 27.2 | 26.4 | 26.3 | 26.3 | 26.3 |
| Côte d'Ivoire | 22.0 | 19.4 | 24.2 | 24.0 | 24.4 | 24.6 | 24.9 | 25.2 | 25.3 |
| Guinea-Bissau | 22.5 | 21.2 | 20.0 | 17.0 | 18.1 | 18.8 | 18.9 | 18.8 | 18.7 |
| Mali | 23.6 | 25.4 | 22.4 | 24.2 | 28.0 | 26.0 | 25.8 | 25.3 | 25.5 |
| Niger | 20.6 | 20.9 | 23.4 | 25.7 | 37.4 | 26.6 | 28.3 | 29.9 | 29.9 |
| Senegal | 27.0 | 29.1 | 29.1 | 29.1 | 28.6 | 27.6 | 27.5 | 27.3 | 26.9 |
| Togo | 22.5 | 23.8 | 26.4 | 26.0 | 27.1 | 27.0 | 26.5 | 25.7 | 25.1 |
| WAEMU | 23.3 | 23.2 | 24.8 | 25.3 | 26.9 | 25.5 | 25.7 | 25.8 | 25.8 |
| Government current expenditure | | | | | | | | | |
| Benin | 15.5 | 15.0 | 15.4 | 15.2 | 15.1 | 15.2 | 15.3 | 15.2 | 15.3 |
| Burkina Faso | 11.9 | 12.7 | 14.7 | 14.5 | 14.1 | 14.0 | 13.8 | 13.7 | 13.7 |
| Côte d'Ivoire | 18.6 | 16.9 | 19.3 | 16.8 | 16.6 | 16.7 | 16.6 | 16.7 | 16.6 |
| Guinea-Bissau | 11.9 | 12.4 | 14.8 | 11.4 | 12.3 | 13.2 | 13.3 | 13.2 | 13.1 |
| Mali | 13.4 | 14.6 | 14.1 | 15.9 | 15.1 | 15.0 | 15.1 | 15.1 | 15.1 |
| Niger | 12.9 | 12.6 | 11.9 | 11.7 | 14.2 | 14.3 | 14.1 | 14.0 | 13.9 |
| Senegal | 15.5 | 18.1 | 17.5 | 17.6 | 16.8 | 16.1 | 16.0 | 15.7 | 15.6 |
| Togo | 14.7 | 15.7 | 17.6 | 17.3 | 16.4 | 16.1 | 15.6 | 15.7 | 15.7 |
| WAEMU | 15.5 | 15.6 | 16.5 | 15.9 | 15.7 | 15.6 | 15.5 | 15.5 | 15.4 |
| Government capital expenditure [2] | | | | | | | | | |
| Benin | 5.5 | 6.6 | 5.6 | 6.6 | 6.8 | 6.8 | 6.8 | 6.9 | 6.9 |
| Burkina Faso | 10.9 | 9.9 | 11.1 | 12.4 | 13.0 | 12.2 | 12.3 | 12.4 | 12.5 |
| Côte d'Ivoire | 3.1 | 2.5 | 4.9 | 7.2 | 7.7 | 8.0 | 8.3 | 8.5 | 8.7 |
| Guinea-Bissau | 8.8 | 8.1 | 5.2 | 5.7 | 5.5 | 5.2 | 5.2 | 5.2 | 5.2 |
| Mali | 8.2 | 9.0 | 6.4 | 6.5 | 11.2 | 9.1 | 8.9 | 8.4 | 8.5 |
| Niger | 7.7 | 6.8 | 11.5 | 14.0 | 12.2 | 12.3 | 14.2 | 15.9 | 16.0 |
| Senegal | 11.5 | 10.5 | 11.4 | 11.5 | 11.8 | 11.5 | 11.5 | 11.6 | 11.3 |
| Togo | 7.9 | 8.1 | 8.8 | 8.7 | 10.6 | 10.9 | 10.9 | 10.1 | 9.4 |
| WAEMU | 7.2 | 6.9 | 7.9 | 9.2 | 10.0 | 9.7 | 9.9 | 10.1 | 10.2 |

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

[1] 2014 data for Niger reflect the impact of a new project in the hydrocarbon sector.

[2] Excludes net lending.

**Table 4. WAEMU: Selected External Indicators, 2010–2018**

| | 2010 | 2011 | 2012 | 2013 Est. | 2014 Proj. | 2015 Proj. | 2016 Proj. | 2017 Proj. | 2018 Proj. |
|---|---|---|---|---|---|---|---|---|---|
| | (Percent of GDP) | | | | | | | | |
| Exports of goods and services | | | | | | | | | |
| Benin | 19.1 | 16.8 | 15.9 | 16.0 | 16.1 | 15.9 | 16.0 | 15.9 | 15.9 |
| Burkina Faso | 21.0 | 27.0 | 30.3 | 26.1 | 23.4 | 22.4 | 21.8 | 21.2 | 21.3 |
| Côte d'Ivoire | 54.2 | 57.7 | 52.8 | 51.0 | 49.8 | 49.7 | 49.4 | 50.5 | 52.2 |
| Guinea-Bissau | 17.7 | 26.5 | 19.4 | 20.7 | 22.0 | 22.3 | 22.8 | 23.8 | 25.7 |
| Mali | 26.9 | 27.1 | 32.3 | 27.5 | 24.2 | 22.6 | 21.1 | 20.1 | 19.1 |
| Niger | 22.4 | 20.9 | 24.3 | 23.3 | 22.2 | 20.9 | 24.9 | 22.5 | 20.9 |
| Senegal | 24.9 | 25.2 | 24.3 | 27.7 | 26.8 | 26.6 | 26.5 | 26.7 | 27.2 |
| Togo | 40.2 | 40.7 | 39.6 | 39.6 | 39.0 | 39.3 | 39.3 | 39.2 | 38.9 |
| WAEMU[1] | 29.1 | 29.0 | 29.1 | 27.8 | 26.2 | 26.4 | 26.5 | 26.4 | 26.7 |
| Imports of goods and services | | | | | | | | | |
| Benin | 31.1 | 27.7 | 27.7 | 27.5 | 27.1 | 26.6 | 26.4 | 26.1 | 25.6 |
| Burkina Faso | 28.4 | 33.6 | 36.0 | 34.6 | 33.4 | 32.2 | 30.5 | 29.8 | 29.3 |
| Côte d'Ivoire | 45.9 | 37.9 | 47.6 | 47.8 | 48.3 | 48.4 | 49.8 | 51.6 | 54.1 |
| Guinea-Bissau | 28.6 | 30.5 | 27.6 | 29.1 | 27.9 | 26.5 | 25.8 | 26.2 | 26.4 |
| Mali | 44.6 | 37.3 | 39.0 | 56.8 | 47.9 | 40.8 | 38.1 | 34.0 | 33.1 |
| Niger | 49.3 | 47.8 | 42.7 | 42.2 | 44.3 | 39.1 | 38.2 | 34.9 | 32.5 |
| Senegal | 40.2 | 41.7 | 42.3 | 48.4 | 45.6 | 44.5 | 44.3 | 44.2 | 44.6 |
| Togo | 56.9 | 61.1 | 61.4 | 62.2 | 62.4 | 61.8 | 59.7 | 58.2 | 55.5 |
| WAEMU[1] | 36.4 | 33.4 | 37.0 | 39.0 | 37.6 | 36.6 | 36.2 | 35.8 | 36.1 |
| External current account (excl. grants) | | | | | | | | | |
| Benin | -11.7 | -9.7 | -10.7 | -10.5 | -10.0 | -9.6 | -9.3 | -9.0 | -8.5 |
| Burkina Faso | -6.0 | -5.3 | -4.4 | -7.5 | -9.2 | -9.1 | -8.1 | -7.9 | -7.3 |
| Côte d'Ivoire | 1.8 | 12.9 | -1.4 | -3.2 | -4.7 | -4.8 | -6.3 | -6.8 | -7.3 |
| Guinea-Bissau | -12.1 | -4.6 | -10.3 | -11.3 | -8.4 | -6.4 | -5.0 | -4.5 | -3.9 |
| Mali | -15.2 | -7.1 | -4.9 | -26.6 | -20.7 | -15.0 | -13.8 | -10.7 | -10.4 |
| Niger | -25.4 | -24.9 | -18.4 | -19.4 | -23.0 | -19.5 | -16.6 | -15.8 | -14.5 |
| Senegal | -4.9 | -8.8 | -11.2 | -9.9 | -8.1 | -7.1 | -6.8 | -6.4 | -6.2 |
| Togo | -8.3 | -11.4 | -13.6 | -14.0 | -14.5 | -13.4 | -11.9 | -11.3 | -10.7 |
| WAEMU | -6.8 | -3.3 | -7.1 | -10.5 | -10.4 | -9.1 | -9.0 | -8.6 | -8.4 |
| External current account (incl. grants) | | | | | | | | | |
| Benin | -8.7 | -7.8 | -8.5 | -8.4 | -8.2 | -7.8 | -7.4 | -7.2 | -6.7 |
| Burkina Faso | -2.2 | -1.2 | -0.8 | -4.4 | -6.8 | -7.2 | -6.2 | -6.1 | -5.5 |
| Côte d'Ivoire | 2.5 | 12.9 | -1.3 | -1.8 | -2.6 | -2.9 | -4.5 | -5.1 | -5.8 |
| Guinea-Bissau | -8.6 | -1.2 | -6.5 | -8.7 | -4.6 | -4.4 | -3.0 | -2.5 | -1.9 |
| Mali | -13.1 | -5.5 | -3.9 | -8.1 | -11.1 | -10.0 | -9.2 | -8.7 | -8.5 |
| Niger | -19.8 | -22.3 | -15.4 | -17.2 | -21.7 | -18.0 | -15.1 | -14.4 | -13.1 |
| Senegal | -4.4 | -7.9 | -10.3 | -9.3 | -7.5 | -6.6 | -6.4 | -6.0 | -6.0 |
| Togo | -6.3 | -9.1 | -11.8 | -12.0 | -10.9 | -9.8 | -8.3 | -8.0 | -7.7 |
| WAEMU | -5.0 | -2.0 | -5.6 | -6.7 | -7.6 | -7.1 | -7.0 | -7.0 | -7.0 |

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

[1]Excludes intraregional trade.

## Table 5. WAEMU: Government Debt, 2010–2018

| | 2010 | 2011 | 2012 | 2013 Est. | 2014 Proj. | 2015 Proj. | 2016 Proj. | 2017 Proj. | 2018 Proj. |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (Percent of GDP) | | | | | |
| External Debt | | | | | | | | | |
| Benin | 18.1 | 17.8 | 16.6 | 16.8 | 16.8 | 16.6 | 16.4 | 16.3 | 16.1 |
| Burkina Faso | 26.1 | 24.6 | 23.2 | 24.3 | 25.7 | 27.3 | 28.7 | 29.3 | 29.8 |
| Côte d'Ivoire | 50.6 | 55.1 | 30.7 | 28.1 | 28.0 | 26.9 | 26.1 | 25.6 | 25.3 |
| Guinea-Bissau | 24.0 | 23.4 | 27.7 | 27.3 | 26.3 | 25.8 | 25.7 | 25.6 | 25.5 |
| Mali | 27.8 | 25.2 | 26.5 | 26.9 | 29.0 | 30.2 | 31.4 | 32.3 | 33.1 |
| Niger | 16.9 | 16.4 | 17.1 | 17.8 | 29.1 | 28.6 | 25.9 | 24.7 | 24.1 |
| Senegal | 27.3 | 29.2 | 31.0 | 33.2 | 34.6 | 32.8 | 30.8 | 28.8 | 27.0 |
| Togo | 17.2 | 15.6 | 18.1 | 18.1 | 18.9 | 20.2 | 21.1 | 21.8 | 22.4 |
| WAEMU | 32.5 | 31.5 | 26.5 | 26.8 | 27.8 | 27.8 | 27.6 | 27.3 | 27.1 |
| Domestic Debt | | | | | | | | | |
| Benin | 12.1 | 14.0 | 12.6 | 10.9 | 10.8 | 10.9 | 10.9 | 10.9 | 10.8 |
| Burkina Faso | 4.5 | 5.9 | 5.5 | 9.0 | 6.4 | 6.6 | 6.3 | 6.0 | 5.7 |
| Côte d'Ivoire | 17.8 | 18.6 | 18.4 | 14.8 | 12.8 | 12.9 | 12.9 | 12.5 | 12.1 |
| Guinea-Bissau | 29.9 | 26.3 | 30.9 | 33.7 | 32.0 | 27.3 | 24.7 | 22.4 | 20.5 |
| Mali | 4.5 | 4.9 | 7.9 | 6.5 | 6.0 | 5.5 | 5.1 | 4.4 | 4.1 |
| Niger | 7.0 | 6.4 | 5.6 | 5.3 | 4.6 | 4.0 | 3.1 | 2.4 | 1.8 |
| Senegal | 8.2 | 11.3 | 12.4 | 12.0 | 12.0 | 12.9 | 13.9 | 14.7 | 15.3 |
| Togo | 30.1 | 28.4 | 27.1 | 25.2 | 24.7 | 22.0 | 19.9 | 18.2 | 17.0 |
| WAEMU | 11.9 | 12.8 | 13.1 | 12.0 | 10.8 | 10.8 | 10.6 | 10.3 | 10.0 |
| Total Debt | | | | | | | | | |
| Benin | 30.2 | 31.9 | 29.1 | 27.7 | 27.7 | 27.5 | 27.3 | 27.1 | 26.9 |
| Burkina Faso | 30.7 | 30.5 | 28.7 | 33.3 | 32.1 | 33.8 | 34.9 | 35.2 | 35.5 |
| Côte d'Ivoire | 68.4 | 73.7 | 49.2 | 42.9 | 40.8 | 39.7 | 39.0 | 38.1 | 37.5 |
| Guinea-Bissau | 54.0 | 49.7 | 58.5 | 61.0 | 58.3 | 53.1 | 50.3 | 48.0 | 45.9 |
| Mali | 32.3 | 30.1 | 34.4 | 33.4 | 34.9 | 35.7 | 36.5 | 36.6 | 37.2 |
| Niger | 24.0 | 22.7 | 22.7 | 23.2 | 33.7 | 32.6 | 29.0 | 27.1 | 25.9 |
| Senegal | 35.5 | 40.5 | 43.4 | 45.2 | 46.6 | 45.7 | 44.6 | 43.5 | 42.3 |
| Togo | 47.3 | 44.0 | 45.2 | 43.3 | 43.6 | 42.3 | 41.0 | 40.0 | 39.4 |
| WAEMU | 44.4 | 44.3 | 39.7 | 38.8 | 38.7 | 38.5 | 38.2 | 37.5 | 37.1 |

Source: IMF, African Department database.

## Table 6. WAEMU: Monetary Survey , Jun. 2010–Sep. 2013

| | 2010 Jun. | 2010 Sep. | 2010 Dec. | 2011 Dec | 2012 Dec. | 2013 Jun. | 2013 Sep. |
|---|---|---|---|---|---|---|---|
| | (Billions of CFA francs) | | | | | | |
| Net foreign assets | 5,188 | 4,980 | 5,385 | 5,501 | 5,219 | 4,704 | 4,283 |
| Net domestic assets | 5,670 | 6,050 | 6,587 | 7,751 | 9,328 | 10,219 | 10,619 |
| Domestic credit | 7,450 | 7,987 | 8,643 | 10,065 | 11,597 | 12,441 | 12,804 |
| Net credit to government | 1,402 | 1,625 | 1,842 | 2,251 | 2,777 | 3,285 | 3,346 |
| Net credit to the economy | 6,049 | 6,362 | 6,801 | 7,814 | 8,820 | 9,156 | 9,458 |
| Claims on private sector | 6,046 | 6,357 | 6,796 | 7,813 | 8,815 | 9,149 | 9,453 |
| Claims on other financial institutions | 3 | 5 | 4 | 1 | 5 | 7 | 5 |
| Other items, net | -1,781 | -1,937 | -2,056 | -2,313 | -2,269 | -2,222 | -2,184 |
| | | | | | | | |
| Broad Money | 10,858 | 11,030 | 11,972 | 13,252 | 14,547 | 14,923 | 14,902 |
| Money | 6,947 | 6,933 | 7,709 | 8,714 | 9,440 | 9,627 | 9,473 |
| of which: Currency in circulation | 2,992 | 2,971 | 3,559 | 3,676 | 3,893 | 3,771 | 3,671 |
| Quasi-money | 3,911 | 4,097 | 4,263 | 4,539 | 5,108 | 5,296 | 5,430 |
| | (Factors affecting liquidity, in percent of previous period's broad money) | | | | | | |
| Net foreign assets | 9.2 | 6.6 | 3.1 | 1.0 | -2.1 | -2.2 | -4.3 |
| Net domestic assets | 8.6 | 11.6 | 12.6 | 9.7 | 11.9 | 12.8 | 14.8 |
| Domestic credit | 10.7 | 14.0 | 14.0 | 11.9 | 11.6 | 12.5 | 13.4 |
| Net credit to government | 6.6 | 8.4 | 7.4 | 3.4 | 4.0 | 5.1 | 5.1 |
| Net credit to the economy | 4.1 | 5.6 | 6.6 | 8.5 | 7.6 | 7.4 | 8.3 |
| Claims on private sector | 4.1 | 5.6 | 6.6 | 8.5 | 7.6 | 7.4 | 8.3 |
| Claims on other financial institutions | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other items, net | -2.1 | -2.4 | -1.5 | -2.2 | 0.3 | 0.3 | 1.5 |
| Broad Money | 17.7 | 18.2 | 15.7 | 10.7 | 9.8 | 10.6 | 10.6 |
| | (Year on year percent change) | | | | | | |
| Net foreign assets | 19.5 | 14.0 | 6.4 | 2.2 | -5.1 | -6.0 | -11.9 |
| Net domestic assets | 16.2 | 21.9 | 24.6 | 17.7 | 20.3 | 20.4 | 23.2 |
| Domestic credit | 15.2 | 19.5 | 20.2 | 16.5 | 15.2 | 15.7 | 16.4 |
| Net credit to government | 75.8 | 93.2 | 71.0 | 22.2 | 23.4 | 26.6 | 25.7 |
| Net credit to the economy | 6.7 | 8.9 | 11.2 | 14.9 | 12.9 | 12.2 | 13.4 |
| Claims on private sector | 6.7 | 8.9 | 11.2 | 15.0 | 12.8 | 12.2 | 13.4 |
| Claims on other financial institutions | 55.0 | 294.5 | 163.8 | -74.7 | 329.0 | 211.1 | 14.9 |
| Other items, net | 12.1 | 12.8 | 7.9 | 12.5 | -1.9 | -1.9 | -8.3 |
| Broad Money | 17.7 | 18.2 | 15.7 | 10.7 | 9.8 | 10.6 | 10.6 |

Source: IMF, International Financial Statistics.

**Table 7. WAEMU: Financial Soundness Indicators 2007–2013**

| | 2007 Dec. | 2008 Dec. | 2009 Dec. | 2010 Dec. | 2011 Dec. | 2012 Dec. | 2013 Jun. |
|---|---|---|---|---|---|---|---|
| | (in percent, unless otherwise indicated) | | | | | | |
| **Solvency ratios** | | | | | | | |
| Regulatory capital to risk weighted assets | 6.75 | 9.79 | 10.16 | 11.09 | 10.72 | 10.70 | 10.73 |
| Tier I capital to risk-weighted assets | 6.01 | 9.37 | 9.80 | 10.55 | 10.08 | 9.91 | 10.03 |
| Provisions to risk-weighted assets | 12.75 | 12.24 | 10.96 | 12.05 | 10.40 | 10.48 | 10.98 |
| Capital to total assets | 4.29 | 6.07 | 6.20 | 6.41 | 6.48 | 6.34 | 6.19 |
| **Composition and quality of assets** | | | | | | | |
| Total loans to total assets | 59.06 | 59.41 | 57.56 | 55.27 | 55.17 | 55.04 | 55.07 |
| Gross NPLs to total loans | 18.90 | 19.20 | 17.20 | 17.58 | 15.92 | 15.98 | 16.98 |
| Provisioning rate | 65.74 | 68.05 | 61.45 | 63.68 | 64.23 | 63.44 | 60.73 |
| Net NPLs to total loans | 7.40 | 7.10 | 7.40 | 7.19 | 6.35 | 6.50 | 7.44 |
| Net NPLs to capital | 90.85 | 69.00 | 68.54 | 61.99 | 54.07 | 56.47 | 66.15 |
| **Earnings and profitability** | | | | | | | |
| Average cost of borrowed funds | 2.40 | 2.60 | 2.50 | 2.90 | 2.40 | 2.40 | ... |
| Average interest rate on loans | 9.90 | 10.60 | 10.10 | 10.90 | 9.60 | 9.80 | ... |
| Average interest margin[1] | 7.50 | 8.00 | 7.60 | 8.00 | 7.20 | 7.40 | ... |
| After-tax return on average assets (ROA) | | | | 1.11 | 1.19 | 1.22 | ... |
| After-tax return on average equity (ROE) | 4.80 | 1.90 | 14.80 | 12.63 | 13.67 | 14.13 | ... |
| Noninterest expenses/net banking income | 62.64 | 60.91 | 63.79 | 64.75 | 61.63 | 60.10 | ... |
| Salaries and wages/net banking income | 27.57 | 26.50 | 27.09 | 27.11 | 26.37 | 25.30 | ... |
| **Liquidity** | | | | | | | |
| Liquid assets to total assets | 38.13 | 36.64 | 33.93 | 33.27 | 33.59 | 32.54 | 31.86 |
| Liquid assets to total deposits | 50.95 | 50.43 | 46.04 | 45.12 | 46.07 | 45.80 | 44.67 |
| Total loans to total deposits | 78.89 | 81.76 | 78.45 | 83.97 | 84.29 | 86.20 | 86.09 |
| Total deposits to total liabilities | 74.87 | 72.66 | 73.37 | 74.12 | 72.91 | 71.05 | 71.32 |
| Sight deposits to total liabilities[2] | 38.41 | 36.90 | 36.07 | 36.66 | 37.79 | 36.49 | 36.84 |
| Term deposits to total liabilities | 36.45 | 35.76 | 37.30 | 37.46 | 35.11 | 34.56 | 34.48 |

Source: BCEAO. Simple average.
Note: Simple averages of country indicators.

[1] Excluding tax on bank operations
[2] Including saving accounts

**Table 8. WAEMU: Number of Countries Violating Convergence Criteria, 2010–2013**

| | 2010 | 2011 | 2012 | 2013 Est. |
|---|---|---|---|---|
| **First-order criteria** | | | | |
| Basic fiscal balance/GDP (≥ 0 percent) [1] | 3 | 6 | 5 | 5 |
| Average consumer price inflation (≤ 3 percent) | 0 | 5 | 3 | 0 |
| Total debt/GDP (≤ 70 percent) | 0 | 1 | 0 | 0 |
| Change in domestic arrears (≤ 0) | 1 | 1 | 5 | 1 |
| Change in external arrears (≤ 0) | 0 | 2 | 1 | 0 |
| **Second-order criteria** | | | | |
| Wages and salaries/tax revenue (≤ 35 percent) | 4 | 5 | 6 | 5 |
| Capital expenditure domestically financed/tax revenue (≥ 20 percent) | 4 | 2 | 1 | 3 |
| External current account balance, excluding grants/GDP (≥ -5 percent) | 6 | 6 | 5 | 7 |
| Tax revenue/GDP (≥ 17 percent) | 7 | 7 | 6 | 6 |

Sources: WAEMU; Central Bank of West African States (BCEAO); and staff estimates.

[1] Total fiscal revenues, excluding grants, minus total expenditures excluding foreign-financed investment expenditure. From 2009, total fiscal revenues plus budget support grants plus counterpart of HIPC/MDRI-related spending for both current and capital spending less current expenditure and capital expenditure financed by own resources.

# Annex 1. Regional Authorities' Responses to 2013 Policy Recommendations

(Scale: fully consistent, broadly consistent, partially consistent, inconsistent)

| | 2013 Article IV Recommendations | Authorities' Response |
|---|---|---|
| **Policy Mix** | • Pursue current monetary policy stance taking into account inflationary outlook and financial system constraints.<br>• Reduce fiscal deficit in high-deficit countries.<br>• Continue reducing fiscal deficit and rebuild fiscal space over the medium term. | **Broadly consistent**<br>• Monetary policy stance has been appropriate.<br>• Macroeconomic policies at the country level have been broadly consistent with Fund advice in the context of Fund-supported programs. |
| **Fiscal policy coordination** | • Review fiscal convergence criteria.<br>• Strengthen regional surveillance framework.<br>• Improve tax policy coordination.<br>• Strengthen country debt management and improve liquidity and debt policy coordination. | **Partially consistent**<br>• The reform of the regional surveillance framework is ongoing.<br>• Regional debt agency has been launched to advise treasuries and improve issuance coordination.<br>• TA has been received to revise certain aspects of tax directives. |
| **Monetary policy/ Financial sector development** | • Accelerate interbank and government debt markets reforms.<br>• Improve inflation and liquidity forecasting.<br>• Improve the quality, availability and timeless of macroeconomic and financial information. | **Partially/Broadly consistent**<br>• Regional debt agency (above) has been launched.<br>• Delays in the reform of interbank and debt market, with launch now expected in early 2014.<br>• Regional rules on credit and guarantee bureaus have been approved, with launch expected in 2014.<br>• Availability of macroeconomic and financial information is improving through more regular BCEAO publications. |
| **Financial regulation and supervision** | • Strengthen regulation.<br>• Improve supervision and crisis prevention.<br>• Enhance the crisis management framework. | **Partially/Broadly consistent**<br>• MCM TA has been requested to move to the Basel II, but the process will take time.<br>• MCM Training has been received to improve supervision, and staffing of the Banking commission has increased. Availability of financial soundness indicators has marginally improved.<br>• Progress has been made in developing the supervision of banking groups and international cooperation with other supervisors.<br>• Work is ongoing on setting up a deposit insurance scheme and a financial stability fund. |
| **Growth/ Regional Integration** | • Strengthen regional integration agenda.<br>• Coordinate action to remove trade barriers, increase labor mobility, financial integration, and regional structural policy.<br>• Coordinate actions to preserve common market. | **Partially consistent**<br>• Limited progress has been reached here. |

# Annex 2. Selected Policy Recommendations for Member States

| | Fiscal and Debt Policies | Financial Sector and Structural Reforms |
|---|---|---|
| BEN | • Use fiscal space and rely on concessional financing to scale up public investment.<br>• Introduce strong PFM and tax administration reforms to preserve fiscal stability. | • Improve the business climate with strong reforms. |
| BFA | • Improve quality and pace of investment spending.<br>• Envisage fiscal rules to manage natural resources revenue.<br>• Maintain prudent fiscal management if a deficit emerges. | • Reduce infrastructure gaps particularly in the energy sector by targeted and timely investments.<br>• Boost investment to support structural transformation and employment. |
| CIV | • Adopt a medium-term debt strategy.<br>• Prompt regularization of domestic arrears.<br>• Accelerate tax reforms (VAT). | • Accelerate public banks restructuring.<br>• Continue to implement reforms to improve the business climate. |
| GNB | • Adopt prudent fiscal management by improving transparency on non-regular spending.<br>• Develop a contingency plan in case financial support remains limited.<br>• Continue PFM and tax administration reforms. | • Accelerate action to strengthen and develop the microfinance sector.<br>• Improve transparency and introduce reforms in the energy sector. |
| MLI | • Reinforce PFM to effectively use increasing donor assistance.<br>• Improve revenue collection. | • Implement a single treasury account.<br>• Improve transparency and strengthen banks' balance sheets.<br>• Accelerate restructuring of a state-owned bank and the microfinance sector.<br>• Improve competiveness and the business climate. |
| NGR | • Accommodate fiscal policy to face additional fiscal costs (security, refugees) and maintain prudent fiscal policy over the medium term.<br>• Introduce prudent and transparent debt management.<br>• Continue advancing in the PFM reforms and strengthening the oversight of oil and mining sectors to improve revenue collection. | • Strengthen oversight on natural resources sector, but limit public participation in projects.<br>• Encourage private sector development.<br>• Assess progress in implanting financial sector reform and action plan. |
| SEN | • Reduce the fiscal deficit to a more sustainable level by streamlining expenditures and accelerating reform implementation. | • Accelerate reform in the electricity sector. |
| TOG | • Reduce fuel subsidies.<br>• Accelerate PFM and tax administration reforms.<br>• Improve public debt management by controlling new loans and stopping prefinancing fund public investment. | • Accelerate restructuring of a systemic state-owned bank.<br>• Initiate steps for setting up a single treasury account. |

# Appendix I. External Stability Assessment[1]

*The WAEMU current account deficit is expected to continue increasing in 2013–14, mostly on account of much higher investment in most WAEMU countries. It would then gradually decrease in the medium term, reflecting a stabilization of domestic investment and higher public and private savings. Aid and FDI continue to be the main source of external financing. Although decreasing, reserves remain adequate according to different metrics. While various analyses do not suggest significant current account disequilibria and real effective exchange rate misalignments, this result hinges on the projected reduction of the current account deficit, which needs to be carefully monitored. Survey-based indicators point to important structural competitiveness issues.*

## A. Balance of Payments

1. **The regional current account deficit has increased recently reflecting important investment efforts in most of WAEMU countries, and particularly post-crisis ones.** The regional current account deficit has increased from 2 percent of GDP in 2011—a low point, largely reflecting the crisis in Côte d'Ivoire—to 5.6 percent of GDP in 2012 and 6.7 percent of GDP in 2013.[2] This increase has been driven mainly by reconstruction efforts in post-crisis countries, investment in most of the member states, and a slight deterioration in the regional terms of trade. Regional investment augmented from about 20 percent of GDP in 2012 to about 22 percent of GDP in 2013, while the trade balance deficit deteriorated from 7.9 percent in 2012 to 11.2 percent in 2013. The current account deficit in individual members in 2013 ranged from 17.2 percent of GDP in Niger to 1.8 percent of GDP in Côte d'Ivoire. In the medium term, the WAEMU current account deficit is expected to stabilize at about 7 percent of GDP, owing to a lower pace of public investment efforts and continued increase in national savings and exports.

2. **Aid, foreign direct investment (FDI), and private transfers constitute the main sources of external financing.** Private transfers have remained at about 3 percent of GDP in recent years. Public current transfers (grants) increased from 1.4 percent of GDP in 2012 to 3.7 percent of GDP in 2013 and are expected to remain at about 2.8 percent in 2014. Capital grants increased from 1.5 percent of GDP in 2012 to 1.8 percent of GDP in 2013 and are expected to reach 2 percent of GDP in 2014. While portfolio investment has been limited, FDI have been steady sources of external financing in recent years averaging around 2.2 percent of GDP. Although loans increased from 1.3 percent of GDP in 2012 to about 3 percent in 2013 they are expected to stabilize at this level in the medium term. Overall non-debt creating flows are expected to remain the main source of external financing.

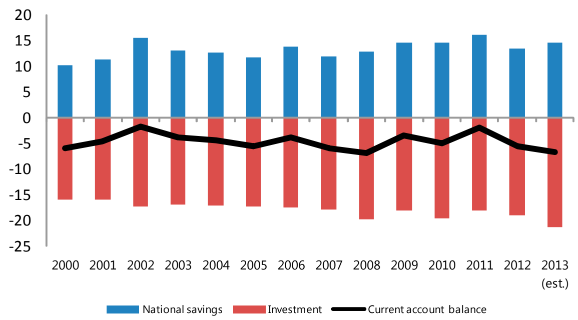
[1] This note was prepared by Samuel Fahlberg, Douglas Shapiro and Aleksandra Zdzienicka.

[2] The current account deficit excluding grants increased from 3.3 percent of GDP in 2011 to 7.1 percent of GDP in 2012 and 10.5 percent of GDP in 2013. This larger increase largely reflects the situation in Mali, where much higher imports (partly related to the military intervention) have been financed through higher grants. As this situation is expected to be temporary, the current account deficit excluding grants is projected to record a larger decrease in the medium term.

# Figure 1. WAEMU: External Sector Developments

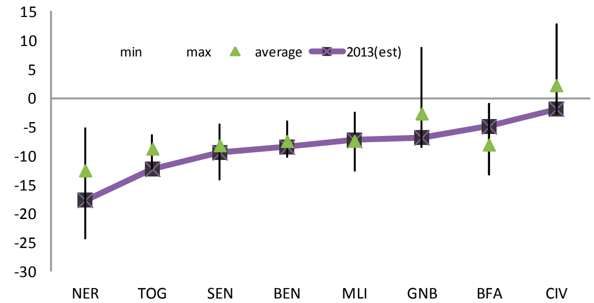
**Regional current account balance deficit has increased recently reflecting more important investment efforts…**

**Current account balance components**
(percent of GDP, 2000-13)



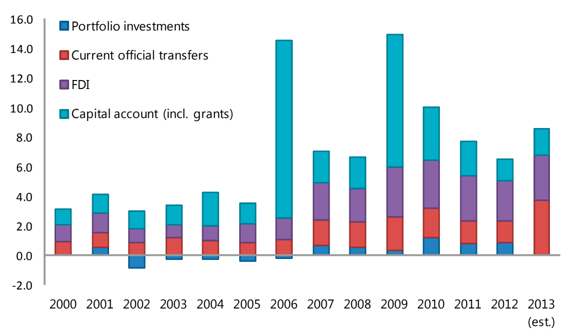

**…in most of WAEMU countries.**

**Current account balances of WAEMU countries**
(percent of GDP, 2000-13)



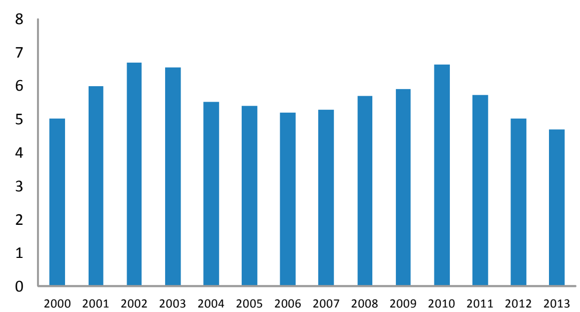

**Official transfers and FDI have remained the main source of external financing.**

**D.Current account financing**
(percent of GDP, 2000-2013)



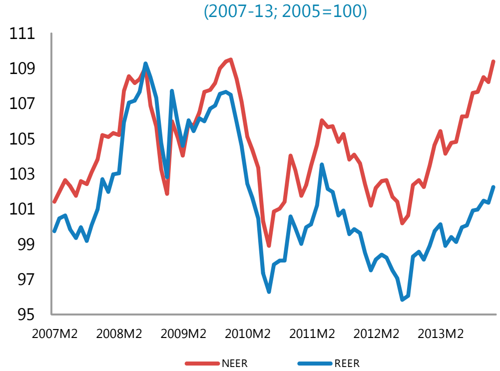

**Reserve coverage remains adequate.**

**Reserves coverage**
(Months of next year's imports of goods and services)



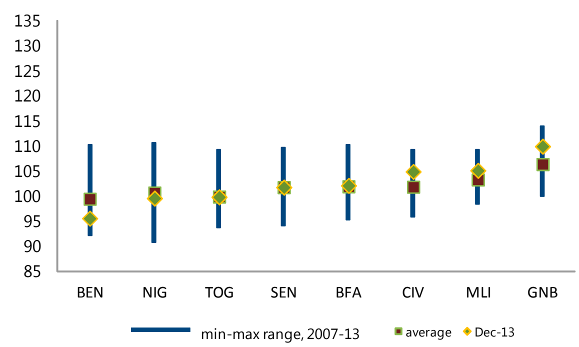

**Real effective exchange rates appreciation has been attenuated by …**

**Real and nominal effective exchange rates**
(2007-13; 2005=100)




**… low inflationary pressures in WAEMU countries.**

**Real effective exchange rate of WAEMU countries**
(2007-13; 2005 = 100)




Source: BCEAO, DTTS, IMF staff calculations

## B. Reserves Adequacy

**3. Official reserves coverage appears adequate according to different metrics.**[3] Regional official reserves are projected to decrease from CFAF 7051 billion (US$13. 8 billion) at the end-2012 to CFAF 6886 billion (US$13.9 billion) at the end of 2013. Reserves coverage remains adequate at 4.7 months of next year imports, 50 percent of broad money, and about 91 percent of short-term liabilities. An alternative analysis based on cost-benefit analysis (Dabla-Norris et al., 2011) indicates that the level of reserve is at the low end of the *optimal* reserves range which varies between 5 to 10 months of imports depending on the interest rate differential with the rest of the world.

## C. Price Competitiveness

**4. The assessment of real effective exchange rate (REER) at the regional level does not suggest any significant misalignment and price-competitiveness issues.** Although the effective nominal exchange rate appreciated by about 4.6 percent since the beginning of 2013, reflecting the euro appreciation, the real exchange rates appreciated only by 2.5 percent, owing to moderate inflation developments in the region. The real exchange rate remained below or close to its 2000–12 average for most WAEMU countries. Some divergences have been recorded within the WAEMU in 2013, with moderate REER appreciations in Niger (by about 5 percent) and Côte d'Ivoire, Guinea-Bissau and Senegal (by about 4 percent), and moderate depreciations in Benin (by about 2 percent). Model-based assessments (Box 1) do not point to significant misalignments of the real effective exchange rate for the region.

### Box 1. Model-based Real Effective Exchange Rate Assessments

The CGER methodology applied to the WAEMU indicates relatively small deviations from equilibrium, both positive and negative (Table 1), which suggests no significant misalignment of the real effective exchange rate at the regional level. In particular, the macroeconomic balance approach estimates that the exchange rate depreciation necessary to close the gap between the equilibrium and underlying current account balances should be around 7 percent. The equilibrium real exchange rate estimated as a function of medium-term fundamentals points to a 2.1 percent undervaluation. Finally, the external sustainability method comparing the underlying current account balance with the balance that stabilizes net foreign assets at its 2012 level (42 percent of GDP) indicates a misalignment of about 5 percent. These results reflect, to some extent, the projected high growth rates and decrease in the current account deficit. Under the baseline scenario, regional growth is expected to remain strong owing to growth-enhancing reforms and high public investment. The current account is expected to improve as the pace of investment would lower and exports would continue to increase.

**Table 1. WAEMU: Real Effective Exchange Rate Assessment**

| | CAB/GDP | | REER[1] |
|---|---|---|---|
| | Norm | Underlying[2] | |
| Macroeconomic Balance | -4.2 | -8.4 | 6.6 |
| Equilibrium real exchange rate | ... | ... | -2.1 |
| External Sustainability | -5.6 | -8.4 | 4.4 |

[1] "-" indicates undervaluation; [2] the medium-term regional current account deficit (excl.grants)
Source: IMF staff estimates.

[3]These approaches, however, do not take into account the access to reserves guaranteed by the French Treasury under the franc zone arrangements

## D. Structural Competitiveness

**5. Survey-based indicators point to important structural competitiveness issues.** Various competitiveness indicators rank WAEMU member states very low.

- The World Bank's "Doing Business" indicators for 2014 show an overall worsening of the WAEMU countries' situation in the recent period (Table 2) despite significant improvements in post-crisis Côte d'Ivoire.[4] The WAEMU business climate has improved marginally over the last five years and remains well behind that of peer countries (Figure 2). In particular, the region faces challenges in enforcing contracts, starting a business, protecting investors' rights and trading across borders. Supply of infrastructure and electricity remains inadequate and procedures for paying taxes and registering properties continue to be cumbersome.

- The relative position on governance and political stability is better, according to the World Bank's Governance Indicators (WGI). However, they still suggest institutional and governance problems which affect significantly economic development. In addition, WGI show a relative deterioration in terms of governance over the last 5 years.

**Table 2: Doing Business Indicators**

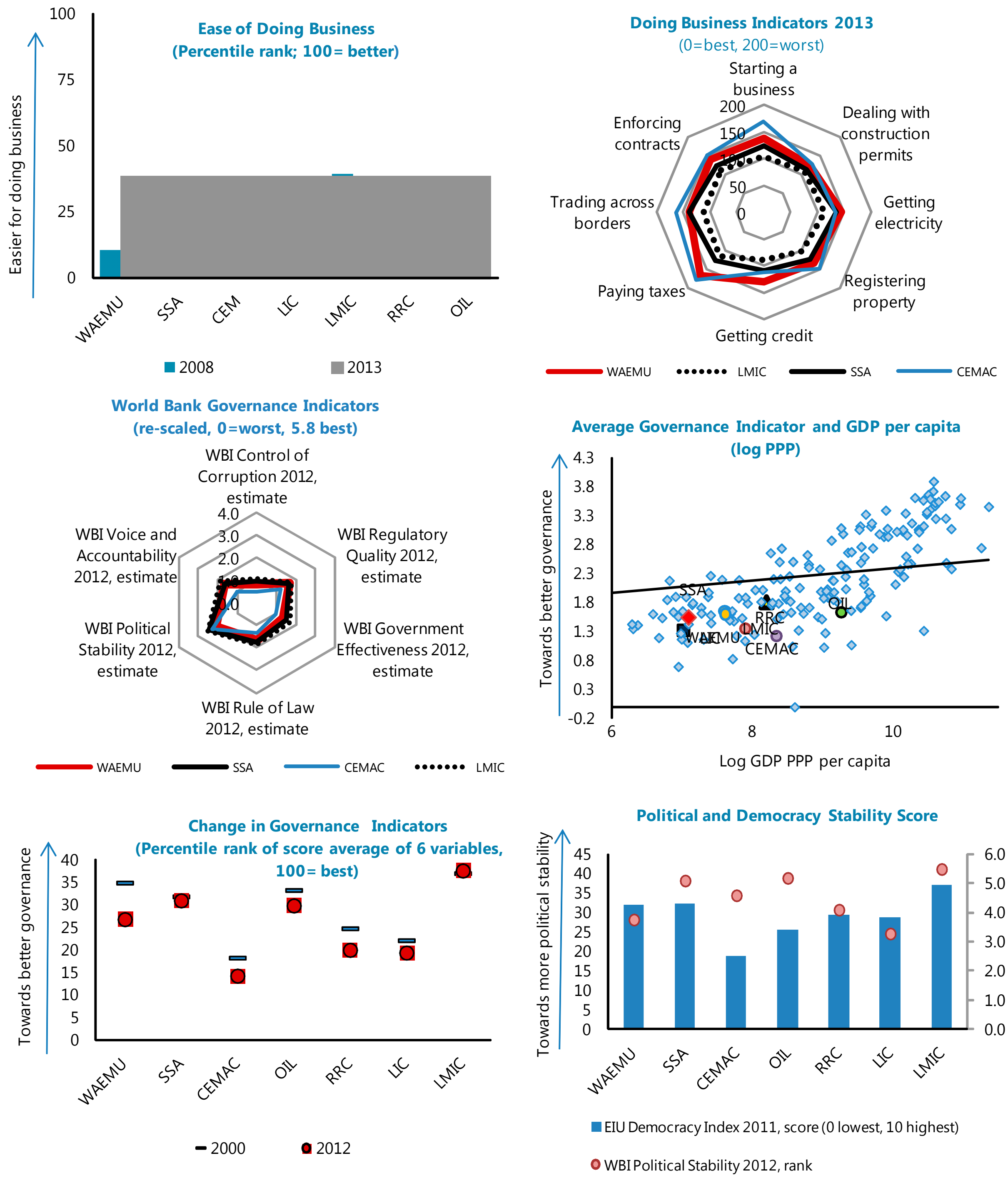
| | 2013* | 2014 | 2013/14 |
|---|---|---|---|
| Benin | 175 | 174 | 1 |
| Burkina Faso | 154 | 154 | 0 |
| Cote d'Ivoire | 173 | 167 | 6 |
| Guinea-Bissau | 181 | 180 | 1 |
| Mali | 153 | 155 | -2 |
| Niger | 174 | 176 | -2 |
| Senegal | 176 | 178 | -2 |
| Togo | 159 | 157 | 2 |
| **Average** | **168** | **168** | 0 |
| *Total of countries* | *185* | *189* | |

* Adjusted for data corrections

Source: World Bank, Doing Business Indicators, 2014.

[4] These indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

## Figure 2. WAEMU: Business Environment and Governance




Sources: *Doing Business, 2012*; World Bank's *Governance Indicators, 2011,* (average of control of corruption, government effectiveness, rule of law, regulatory quality, political stability and voice and accountability); Economist Intelligence Unit (EIU) ; and IMS staff calculations.

SSA = Sub-Saharan Africa; LIC=Low-income country; HIC= High-income countries; UMIC= Upper-middle income country; LMIC= Low-middle-income country; OIL=Oil producers; RR= Resource-rich countries.

# Appendix II. Growth in the WAEMU[1]

*The growth takeoff in Africa has been one of the salient facts of the global economy in the last two decades. However, while per capita GDP has more than doubled in faster-growing sub-Saharan economies during this period, it has increased only moderately on average in the WAEMU. This note explores this divergence. Political instability, challenging business and legal environments, a substantial infrastructure gap, and weak institutional and public investment management capacity have affected both the level of investment and even more its efficiency, and prevented most WAEMU countries from achieving sustainable high growth. Limited structural transformation also seems to have played a role.*

1. **While economic performance has significantly improved in faster-growing sub-Saharan African (SSA) countries over the last two decades, it has changed only modestly, on average, in the WAEMU** (Figure 1). Economic growth has increased significantly in a fairly large set of SSA countries since the mid-1990s. While natural resources have played a role in a number of countries, a few non-resource rich SSA countries (Cabo Verde, Ethiopia, Ghana, Mozambique, Rwanda, Tanzania, and Uganda) have also recorded sustained and robust growth, with a doubling of per-capita income during this period.[2] Despite relatively similar initial conditions, average performance in the WAEMU has been much more modest, with a 20 percent increase in per-capita income since 1995. Growth underperformance in the WAEMU therefore seems to be "more than a commodity story."[3] There are, however, substantial differences across WAEMU countries, with Burkina Faso recording a performance similar to that of Uganda or Tanzania, and others registering a decrease in per-capita GDP (Côte d'Ivoire, Niger, and Guinea-Bissau).

2. **This note attempts to explain this divergence, relying on a number of approaches.** First, it identifies differences between the two groups–the WAEMU and the sample of fast-growing non-resource rich SSA countries–with regard to external and domestic indicators through a benchmarking exercise. Second, it uses some elements of a growth diagnostic à la Haussman, Rodrik, Velasco (2005) for WAEMU countries. Finally, it applies this information to run a growth regression and provides a quantitative assessment of the main factors at play.

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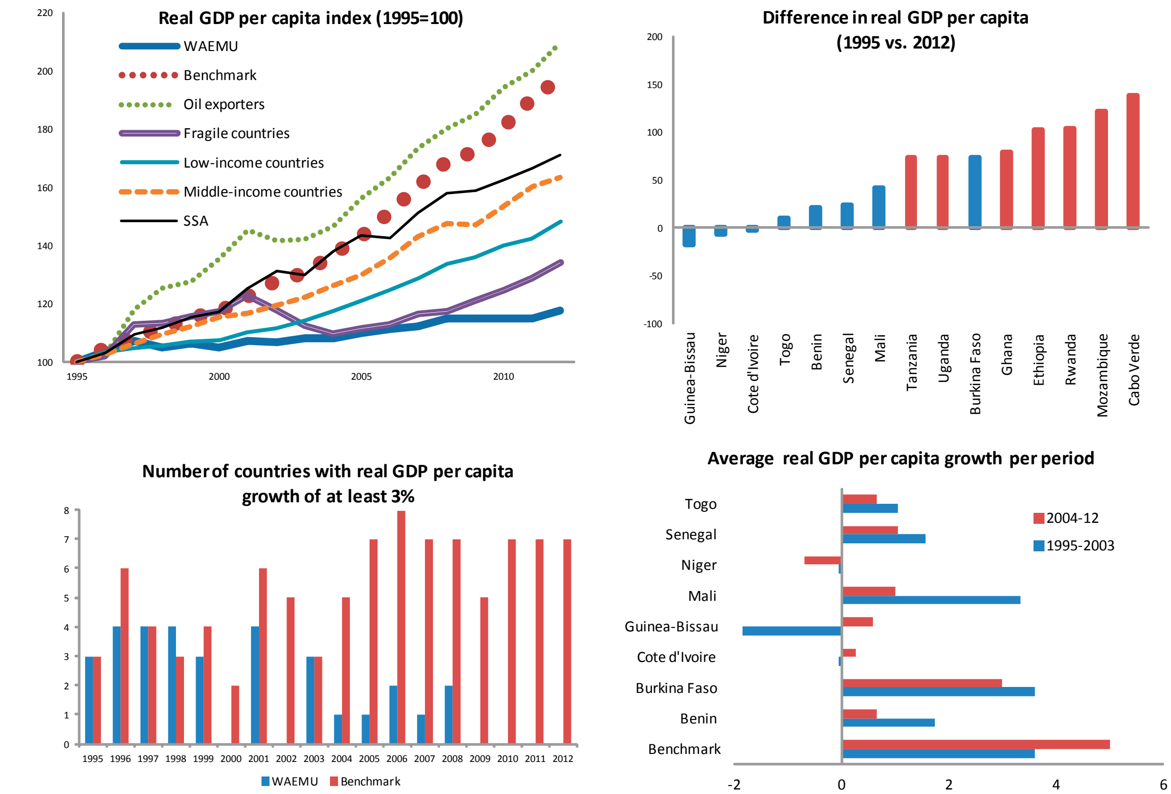
[1] This note was prepared by Douglas Shapiro and Aleksandra Zdzienicka with inputs from Rodrigo Garcia-Verdu.

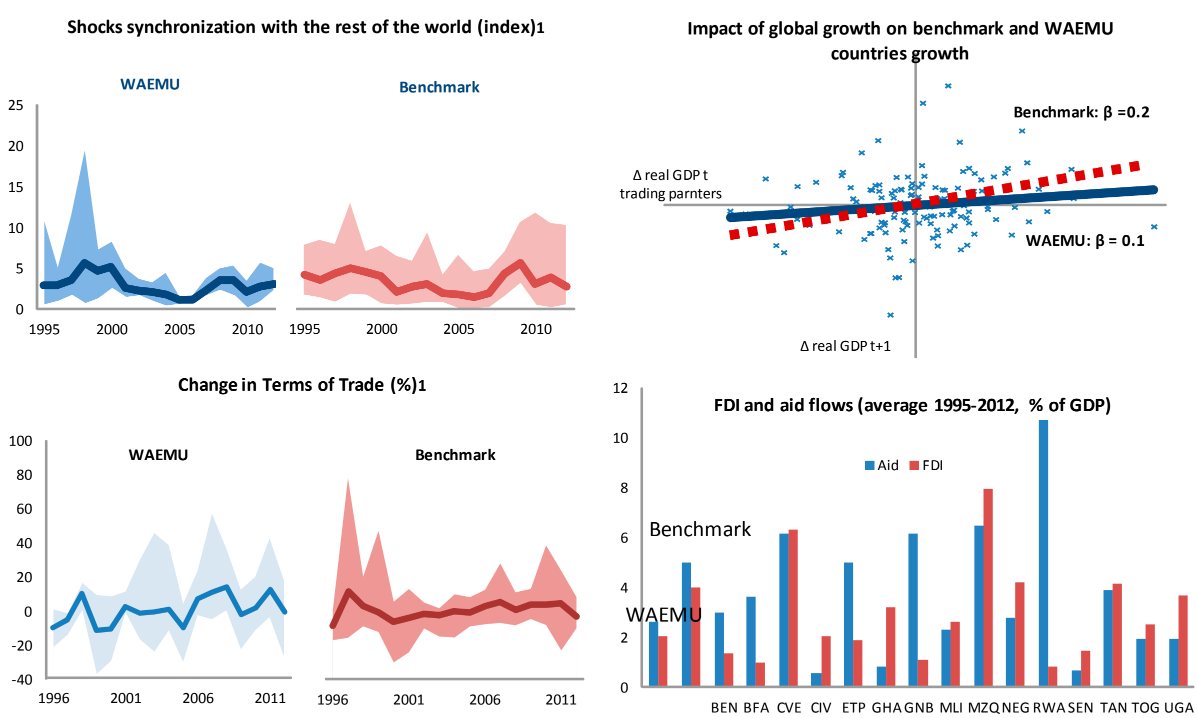
[2] Robust and sustained growth episodes are indentified as periods of at least 5 consecutive years in which per capita growth has been at least 3 percent (Berg et al., 2008; IMF, 2008). Burkina Faso has recorded similar growth spurts, but for the purposes of this analysis it is not part of the benchmark sample.

[3] IMF (2013a).

## Figure 1: Growth Performance




## Figure 2: External Environment




[1] Shaded area corresponds to maximum and minimums values for WAEMU or benchmark countries, lines to un-weighted regional average.

Source: IMF staff computation

# The Role of External and Domestic Factors

## A. External Environment

**3. External volatility, which can affect growth, does not seem to have been higher in the WAEMU** (Figure 2). Average shocks synchronization with the rest of the world–a broad measure of country or region-specific shocks–has been broadly similar. The fluctuations of external demand seemed to have had a lower impact on growth in the WAEMU than in the benchmarks countries.[4] Terms of trade have had more favorable trend in the WAEMU, but their volatility seems to have been slightly higher than in the benchmark sample. A similar analysis for individual WAEMU countries supports these conclusions.[5]

**4. WAEMU countries, however, have received less FDI and foreign aid than benchmark countries** (Figure 2). The difference amounts to an (un-weighted) average of about 2 percent of GDP over the entire period. There are, however, significant differences across countries. For instance, Niger, Mali, and Togo have received relatively large FDI inflows, while Guinea-Bissau, Burkina Faso, and to the lesser extent Benin and Niger received relatively large aid inflows.

## B. Macroeconomic Environment and Policies

**5. A better inflation performance, but also higher external debt and lower and/or less efficient public investment were recorded in the WAEMU during the last two decades** (Figure 3). Inflation has been on average lower and much less volatile in the WAEMU, a likely consequence of its exchange rate and monetary regime. Current account deficits have been broadly comparable across the two groups of countries. External debt, however, was on average higher in WAEMU countries until recently. Public investment has been higher in benchmark countries on average (particularly so in Cabo Verde, Mozambique and Ethiopia). Differences in public investment ratios, however, have been limited between Burkina Faso, Mali, Benin, Togo, and Senegal and the other benchmark countries, suggesting that public investment efficiency may be lower in the WAEMU.

## C. Structural Environment

**6. Lower total factor productivity (TFP) growth explains a large part of the WAEMU's underperformance** (Figure 4). Average TFP growth has been negative in Guinea-Bissau, Côte d'Ivoire, Senegal and Togo and low in Niger, Benin and Mali. Burkina Faso has been the only WAEMU country with a significant increase in TFP over the last 20 years. This low TFP growth might reflect a number of structural factors, such as limited structural transformation and innovation, weak governance and regulatory frameworks, and more generally a more unfavorable business climate in WAEMU

[4] On average a one percentage point change in real GDP growth in 95 percent of trading partners leads to 0.1 percentage point change in the WAEMU growth and 0.2 percentage point change in the benchmark growth one year later. Our estimates also suggest that the WAEMU countries' growth reacts more slowly to external changes and tracks less closely advanced economies' growth.

[5] Results not reported for brevity are available upon request.

countries.[6] Slower capital accumulation was also a factor behind the WAEMU's lower growth performance.

7. **Despite increasing openness, the structure of trade and structural competitiveness remain important obstacles to growth in the WAEMU.** The two groups of countries have similar degrees of openness (Figure 4). One possible reason why this trade openness has not contributed to higher growth in the WAEMU is that structural transformation has been much more limited there on average. In particular, the share of industry and services in GDP has not increased significantly in the WAEMU. The share of industry has actually decreased (except in Côte d'Ivoire), a marked difference with benchmark countries. The share of services in GDP has increased less on average in the WAEMU than in the benchmark countries. Also, although export composition has changed in some countries, such as Mali, Togo, Burkina-Faso, most WAEMU countries continue to export mainly non-transformed commodities. Structural competitiveness (measured here by business climate indicators) has also remained low, which may have hampered structural transformation in the WAEMU and reaping the full growth benefits of higher trade integration with the rest of the World.

## D. Institutional Environment

8. **Institutional quality seems to contribute to the WAEMU underperformance** (Figure 5). Institutional quality remains an important issue in most SSA countries, and particularly in the WAEMU. WAEMU countries score significantly lower in terms of quality of governance and property rights, transparency, accountability and corruption. Their weaker institutions and governance frameworks, in turn, affect the business climate and private investment (both domestic and foreign).[7]

9. **Political instability has played an important role in a number of WAEMU countries.** Although on average the number of social conflicts has been similar in both groups, their severity and frequency has been more important in the WAEMU. The economic impact of social unrest has also been larger as illustrated by a slower post-conflict recovery in WAEMU countries.

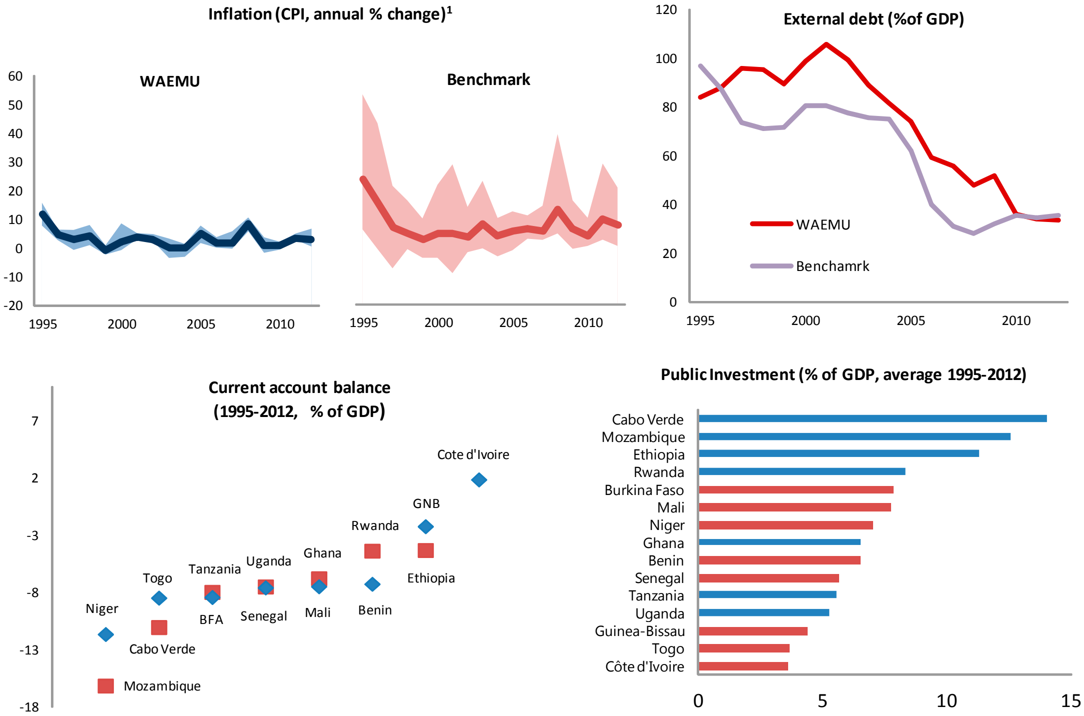
# Growth Diagnostics: the Role of Private Investment and Entrepreneurship

10. **Differences in private investment explain to some extent lower growth in the WAEMU.** As mentioned above, capital accumulation has been slower in the WAEMU. Average domestic private investment and its growth have been lower there (Figure 6). Some differences, however, exist across countries. For instance, the level of private investment has been higher in Mali and Senegal, and has increased significantly in Niger in the recent period. In the growth diagnostics framework, two sets of factors can explain low private investment: high cost of finance and low return on economic activity (Box 2).

[6] Although weak structural competitiveness has been an important impediment for growth in the WAEMU, price competitiveness does not seem to have been an important issue. Since the 1994 devaluation of the CFA franc, the real effective exchange rate (REER) has been broadly in line with the region's economic fundamentals. Some of the benchmark economies have actually recorded larger REER appreciations.

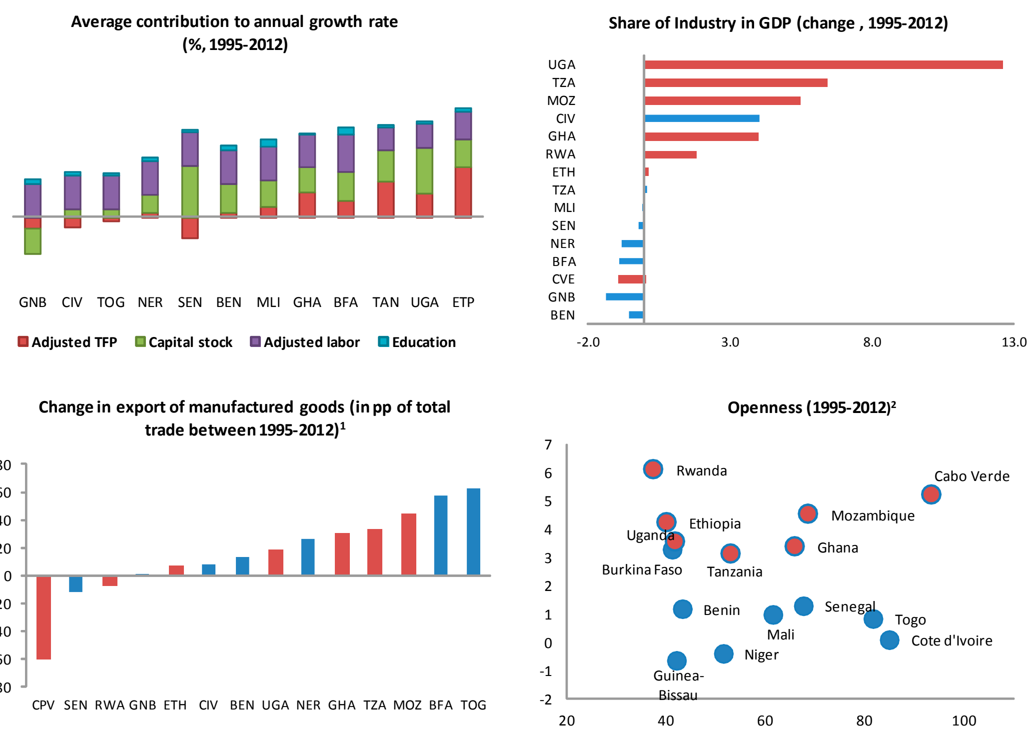
[7] See for instance Rodrik (1998).

## Figure 3: Macroeconomic Environment




1 Shaded area corresponds to maximum and minimums values for WAEMU or benchmark countries, lines to un-weighted regional average

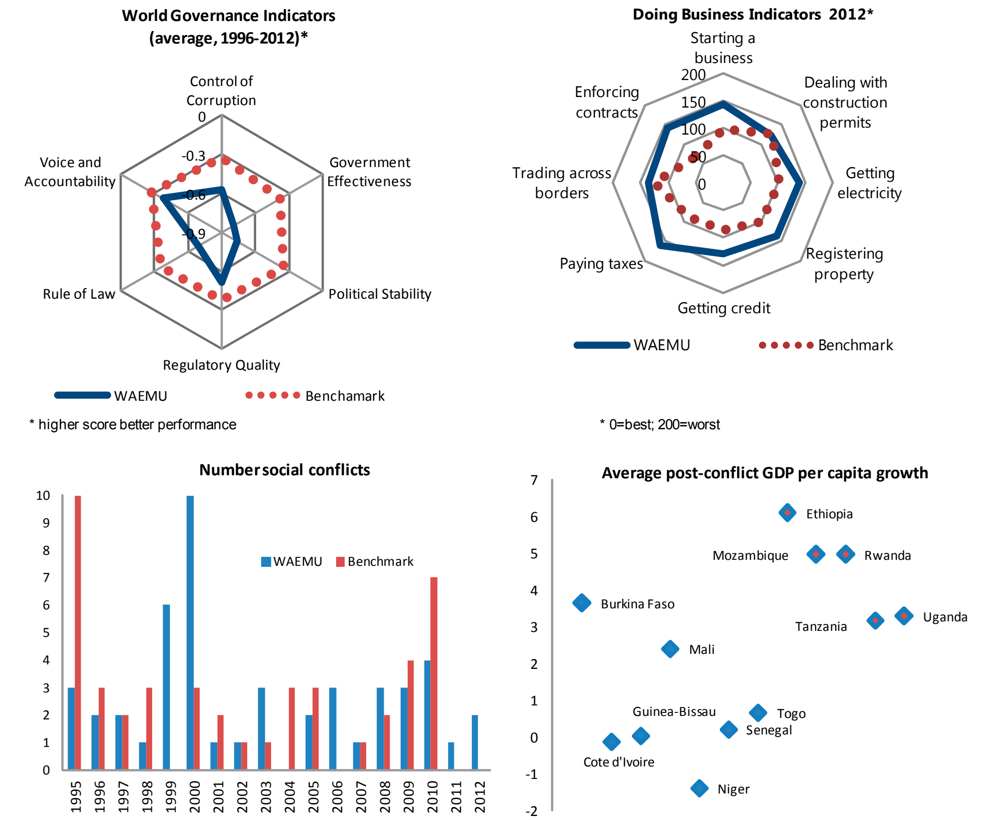
## Figure 4: Structural Environment




[1] chemicals, manufactured goods, commodities; Mali is excluded due to data availability [2] mesured as sum of exports and imports over GDP

Source: PWT, Barro and Lee (2012) database, WITS, IMF staff computation

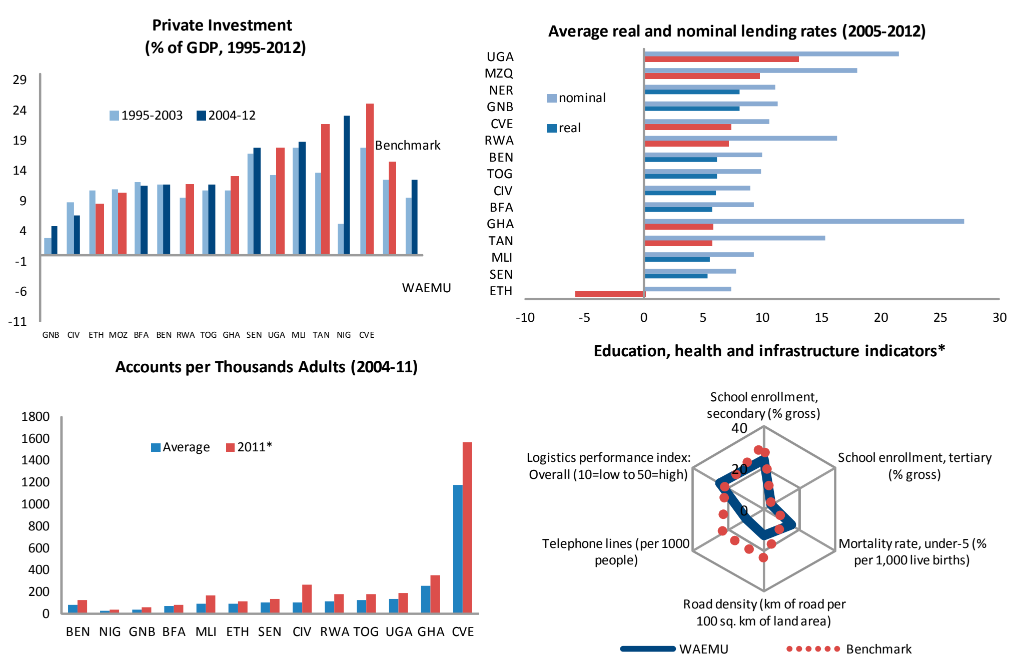
## Figure 5: Institutional Environment




Note: Social conflicts include assassinations, riots, guerrilla warfare, major government crises, purges.

Source: WDI, Doing Business indicators, CNTS, IMF staff computation

## Figure 6: Private Investment Environment



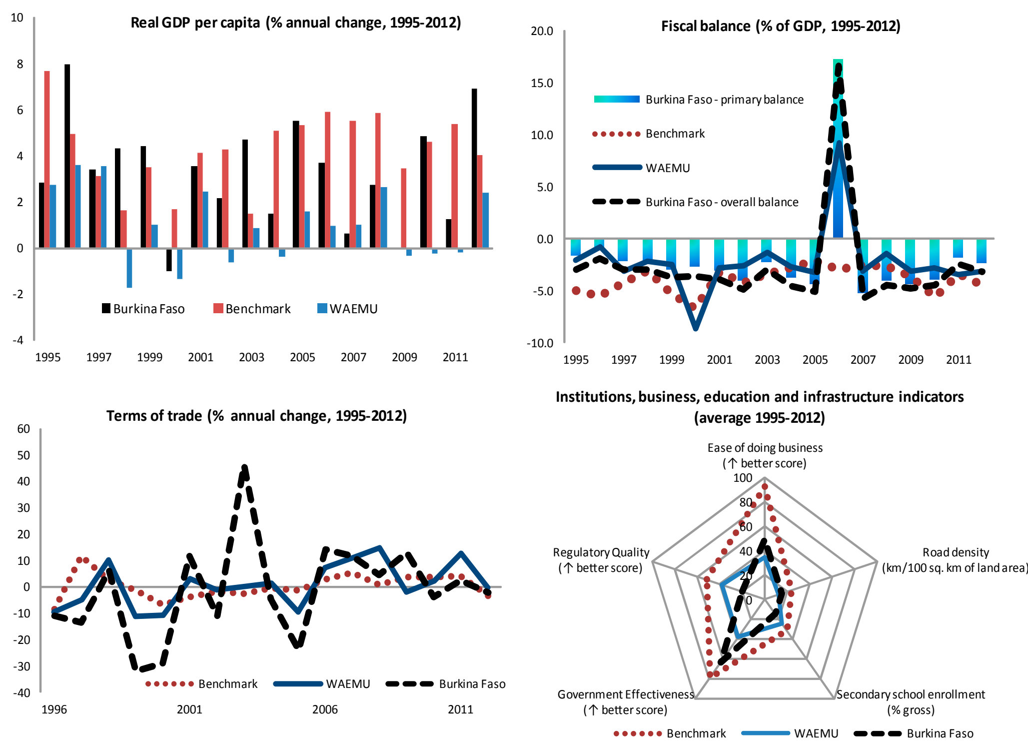

Source: BCEAO, WDI, FinStats, IMF Staff computation

### Box 1. Growth in Burkina Faso[1]

**Burkina Faso has recorded a few growth spurts since the CFA franc devaluation in 1994.** This growth takeoff has been mainly driven by sound economic management, with an early focus on medium-term macroeconomic planning, and reforms in the cotton sector. A boom in gold exports has also contributed to a substantial growth pick-up in the recent period.

**The country made a significant progress in implementing structural reforms and public investment programs.** Taking advantage of favorable economic conditions, the authorities have contained fiscal deficits, generated space for public investment, and implemented structural reforms. These efforts coupled with substantial aid inflows helped to improve the institutional and business environment leading to a significant increase in TFP (Figure 2, 3, 4 of the main text).

**Figure 1: Burkina Faso: Growth Indicators**




Source: IMF staff computation

**Despite these achievements, the economy remains fragile and vulnerable to external and climatic shocks**. Heavy reliance on agriculture production, cotton and gold exports makes Burkina Faso's economy particularly vulnerable to terms-of-trade fluctuations and weather conditions. Economic volatility remains important with implications on poverty reduction and sustainable development. In this context, pursuing structural reforms and closing still important infrastructure gaps to support private sector development is essential.

[1] IMF (2012); IMF (2013a); World Bank (2013).

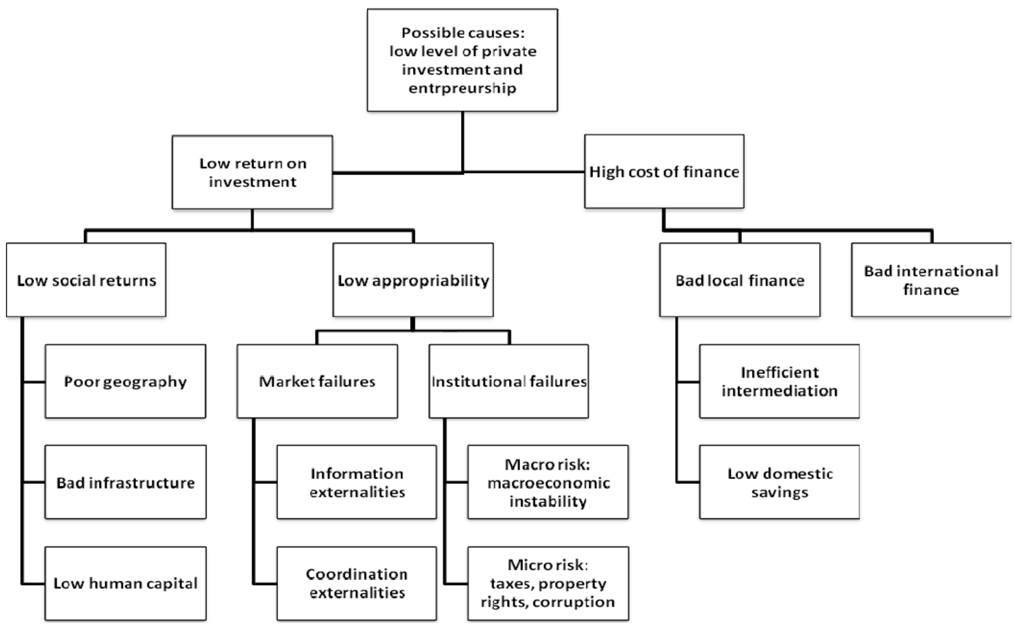
**11. The cost of financing seems to play only a limited role in explaining WAEMU underperformance.** Although WAEMU countries have attracted less foreign investment and aggregate domestic savings appear slightly lower, costs and access to capital seem to be broadly similar to those in the benchmark countries. In particular, the development and efficiency of the banking sector appear to be broadly comparable while returns on capital are sometimes lower in the WAEMU (Figure 6).

**12. Low return on investment appears to be the biggest obstacle to WAEMU growth in this framework.** While social returns to investment seem broadly similar between both groups of countries, high microeconomic risks prevent them to be easily transferred to the individual level. In particular, relatively weaker institutional and legal environment, higher political instability, complicated tax procedures (Figure 5)[8] and, sometimes more important infrastructure gaps (Figure 6) are the main constraints to increase (the efficiency of) private investment and entrepreneurship. An inadequate business environment also prevents the development of "new ideas" (non-traditional products, higher-productivity activities) and these market failures undermine competitiveness and slower structural transformation in the region.

**Box 2. Growth Diagnostics**

**Growth Diagnostics identify the main obstacles to growth in a given country** based on the endogenous growth theory (Hausmann et al., 2006, 2008). Theoretical growth determinants (such as TFP, production factors and externalities, return on capital, tax rate) are then grouped in two sets of factors that could constrain economic activity in low-income countries. The potential constraints are organized in the form of a decision tree (Figure 1) and are analyzed and identified sequentially based on economic analyses (data, surveys), anecdotal evidence, benchmarking of similar countries. This identification of the main constraints can then be used to design policy and reform actions as Growth Diagnostics focus on reforms with large direct effects on the economy.

**Figure 1: Growth Diagnostics decision tree**




## Quantitative Assessment

**13. The quantitative assessment points to the role of institutional and macroeconomic factors in explaining growth underperformance in WAEMU countries.** The level of external indebtedness and public investment, and political instability are the main factors explaining the growth differential between WAEMU and benchmark countries. In particular, social conflicts seem to have had a large impact on the growth gap between both groups as an occurrence of a new conflict in the WAEMU increases this differential by about 0.6–0.8 percentage point. The impact of public

[8] Doing Business indicators should be interpreted with caution due to a limited number of respondents, a limited geographical coverage, and standardized assumptions on business constraints and information availability.

investment also seems substantial, as with a one percentage point increase in the public investment-to-GDP ratio in WAEMU countries reducing the growth gap by about 0.5–0.7 percentage point. External indebtedness appears to play a statistically significant, but less important role. Empirical results also suggest that the quality of institutions and governance, the efficiency of the legal environment, and transparency have an impact on growth by affecting political stability.[9]

**Table 1: Growth Regression**

| | External | Macro | Structural | Institutional | | All |
|---|---|---|---|---|---|---|
| **Terms of trade growth** | -0.005 | | | | | |
| | (-0.28) | | | | | |
| **Openness** | 0.04 | | | | | |
| | (-0.59) | | | | | |
| **Shock synchronization** | 0.094 | | | | | |
| | (-0.39) | | | | | |
| **Inflation** | | 0.088 | | | | |
| | | (-0.71) | | | | |
| **Current account (% of GDP)** | | 0.121 | | | | |
| | | (-0.65) | | | | |
| **External debt (% of GDP)** | | -0.033** | | | | -0.016*** |
| | | (-3.37) | | | | (-4.00) |
| **Public investment (% of GDP)** | | 0.814* | | | | 0.425** |
| | | (-2.25) | | | | (-2.59) |
| **Services (% of GDP)** | | | -0.702 | | | |
| | | | (-1.12) | | | |
| **Industry (% of GDP)** | | | -0.147 | | | |
| | | | (-1.62) | | | |
| **Social conflicts** | | | | -0.823** | -0.580* | -0.612*** |
| | | | | (-3.94) | (-1.84) | (-2.94) |
| **Governance** | | | | | -0.912 | |
| | | | | | (-0.74) | |
| N | 131 | 136 | 136 | 136 | 111 | 135 |
| $R^2$ | 0.36 | 0.35 | 0.28 | 0.26 | 0.24 | 0.44 |

Note: Estimations for 8 WAEMU countries over the period 1995-2012; Variables are taken in relative terms compared to the benchmark; Governance indicator is computed using a principal component analysis and WGI; Country and time fixed effects included but not reported; t-statistics basic on clustered standard errors reported in parenthesis.***,**,* denote significance at 1%,5% and 10%, respectively. Source: IMF staff computation.

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[9] The results show that the effect of political instability is significantly reduced when governance variables are controlled for. In addition, the empirical analysis (results available upon request) based on Probit regressions suggests that an improvement in institutional quality significantly decreases the probability of the occurrence of a social conflict. This result is consistent with previous findings in the literature, suggesting that the level of governance plays a significantly role in reducing the probability of social conflicts occurrence (Bernal-Verdugo et al. 2013) and in accelerating post-conflicts recovery (David et al, 2011).

# Appendix III. Monetary Policy Transmission in WAEMU Countries[1]

*Despite some recent progress in regional financial development and integration, transmission of the single monetary policy to WAEMU countries has remained limited on average, asymmetric, and more effective for countries with significant financial intermediation and less concentrated banking sector. In this context, further developing financial markets, increasing financial intermediation and fostering competition in the banking sector would be crucial to improve the effectiveness of monetary policy in the WAEMU.*

1. **This note provides some evidence, based on different approaches, of an asymmetric transmission of monetary policy actions to individual countries.** First, it describes the interest rate channel, which is of the few available channels of monetary policy transmission in the WAEMU (because of the peg, the exchange rate channel is inactive, and so is the asset price channel in the absence of developed asset markets; see last year's staff report). Second, it applies a distributed lag model to assess the impact of the policy interest rate changes on each WAEMU country's deposit and lending rates, and inflation. Finally, it employs a panel VAR with interaction terms that models the monetary policy transmission as a function of a country's banking sector characteristics.

2. **In the WAEMU economic agents face common and country-specific interest rates.[2]** In a pursuit of its main inflation objective, the BCEAO sets two policy rates:[3] the minimum bid rate for liquidity injections and the rate for liquidity provision outside auctions. These rates aim to influence monetary market conditions (intermediate target), such as the money market rate or the one-week interbank interest rate. This intermediate target should in principle influence banks' deposit and lending rates, and ultimately inflation. The transmission mechanism of monetary policy can be presented in a stylized way as in Figure 1.[4] Deposit and lending rates differ substantially among WAEMU countries. Côte d'Ivoire and Senegal, for instance, have lower lending rates than other countries (Figure 2).

3. **The variability of all rates has been limited.** In particular, the policy rates and deposit rates have not changed substantially over time (Figure 2). For instance, the standard deviation from the mean of both rates has been very low at about 0.2 over the last 5 years. The interbank market and lending rates have larger dispersion around the mean. Some differences exist again at the country level with more important fluctuations in the lending rates in Benin, Guinea-Bissau and Niger.

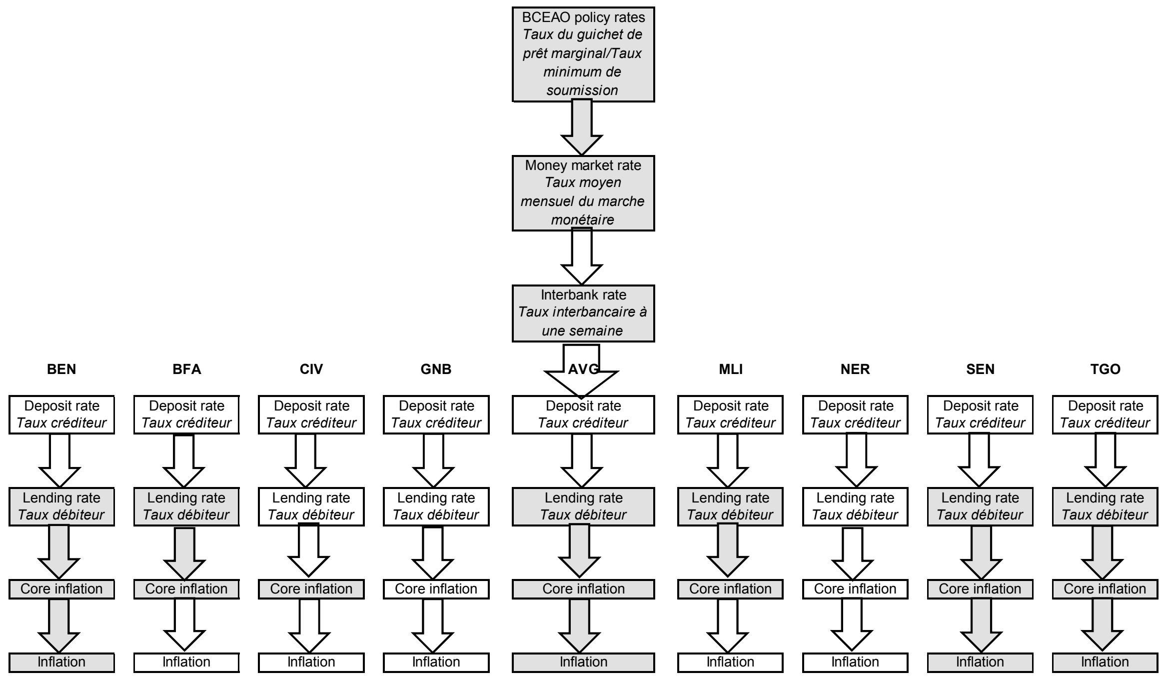
[1] Prepared by Alexei Kireyev and Sebastian Weber.

[2] For more detailed presentation see Kireyev (2014).

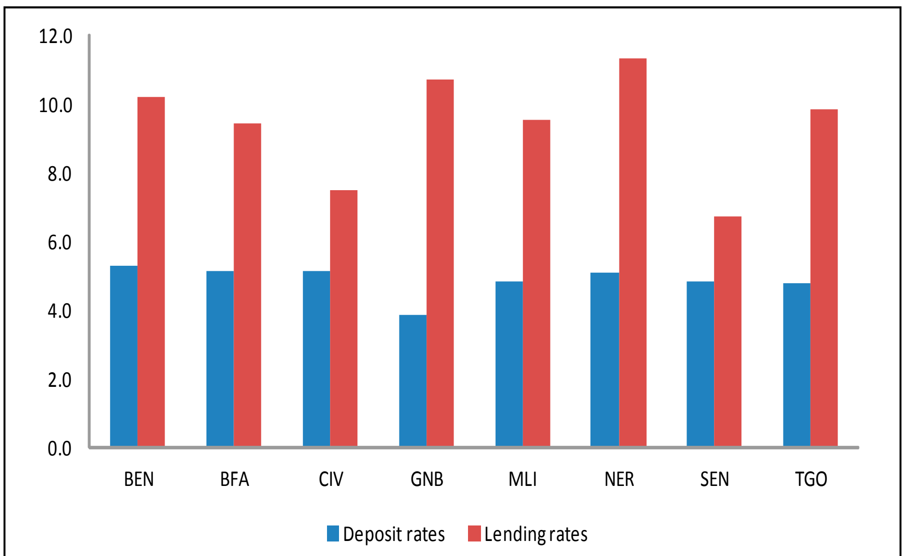
[3] The BCEAO also sets reserve requirements and controls the amount of liquidity injections. As discussed in the last staff report, limited capital mobility means that there is some scope for monetary policy action, despite the peg to the euro.

[4] This is a simplification, as in practice some other channels might be at work. For instance, policy rates might affect directly lending rates if there is indexation.

## Figure 1: Monetary Transmission in the WAEMU

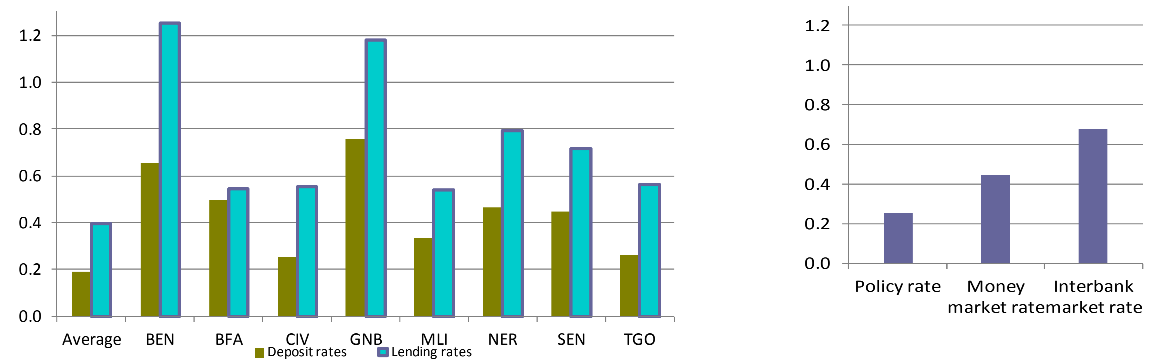



## Figure 2: Average Deposit and Lending Rates (2005–2013)




Source: IMF staff computation

## Figure 3. Standard Deviation of Interest Rates, 2009–2013




Source: IMF staff calculations.

4. **The policy rates appear to affect significantly the money market, interbank rate, and average lending rates, but the average effect on deposit rates and inflation seems limited** (see annex for details on the methodology and Table 1 for results)**.** Policy rate changes have been associated with changes in the money market, interbank, and average lending rates and average inflation in the region. For example, a one percentage point increase in the policy rates translates into a 1.4 percentage point increase in the money market rate and a 1.9 percent increase in the interbank rate, a 0.7 percent increase in the lending rate and a 0.05 percent decline in inflation. There is, however, no significant impact on average deposit rates.

## Table 1. Policy Rate Impact on Single and Average Interest Rate

| | Lags | Coeff. | t-value | Sign |
|---|---|---|---|---|
| **a. BCEAO policy rate on** | | | | |
| money market rate | 0 | 1.35 | 12.3 | |
| | 0 | 0.70 | 2.78 | |
| | 1 | 0.97 | 3.49 | |
| interbank rate | 0 | 1.91 | 8.11 | |
| | 0 | 1.89 | 9.66 | |
| average deposit rate | 0 | -0.22 | -3.35 | wrong |
| | 3 | -0.24 | -3.45 | wrong |
| average lending rate | 0 | 0.69 | 4.79 | |
| | 1 | 0.72 | 5.53 | |
| | 11 | 0.67 | 3.88 | |
| average core inflation | 0 | -0.03 | -1.95 | |
| | 12 | -0.04 | -3.50 | |
| average inflation | 0 | -0.05 | -3.95 | |
| | 1 | -0.05 | -2.77 | |
| **b. Money market rate on** | Lags | Coeff. | t-value | Sign |
| interbank rate | 0 | 1.36 | 11.2 | |
| | 0 | 1.00 | 5.61 | |
| | 2 | 0.48 | 2.65 | |
| average deposit rate | 0 | -0.14 | -3.52 | wrong |
| | 1 | -0.15 | -3.56 | wrong |
| average lending rate | 0 | 0.25 | 2.56 | |
| | 6 | 0.44 | 4.35 | |
| average core inflation | 12 | -0.02 | -2.29 | |
| average inflation | 0 | -0.02 | -3.07 | |
| | 12 | -0.03 | -2.52 | |

| | Lags | Coeff. | t-value | Sign |
|---|---|---|---|---|
| **c. Interbank rate on** | | | | |
| average deposit rate | 0 | -0.12 | -5.33 | wrong |
| | 1 | -0.13 | -5.85 | wrong |
| average lending rate | 0 | 0.06 | 1.01 | |
| | 10 | 0.17 | 2.04 | |
| average core inflation | 12 | -0.02 | -2.68 | |
| average inflation | 0 | -0.01 | -1.55 | |
| | 12 | -0.01 | -2.59 | |
| **d. Average deposit rate on** | | | | |
| average lending rate | 0 | -0.10 | -0.35 | wrong |
| average core inflation | 5 | 0.04 | 2.72 | wrong |
| average inflation | 5 | 0.04 | 2.35 | wrong |
| **e. Average lending rate on** | | | | |
| average core inflation | 0 | -0.02 | -2.43 | |
| average inflation | 0 | -0.03 | -3.95 | |
| | 0 | -0.02 | -2.32 | |
| | 3 | -0.03 | -3.16 | |

Source: IMF Staff estimates

**5. The money market rates seem to play a role in the monetary transmission mechanism.** A one percentage point increase in the money market rates leads to an increase in the interbank rate by about 1.4 percentage point, in the average lending rate by 0.3 percentage point, and a decline in inflation by 0.03 percent. The interbank rate, however, does not seem to play a significant role in the transmission of monetary policy. The impact of the lending rates changes on inflation appears to be less significant and more delayed (up to three months) in time. Finally, the average deposit rates do not seem to play any role in the transmission process.

**6. Country-specific estimates are broadly in line with the common effects, but some significant differences exist across countries** (Table 2). The link between the money market and interbank rates and the lending rate is also the main channel of monetary transmission at the individual countries level. While this link is relatively strong in Benin, Burkina Faso, Guinea-Bissau, Senegal and Togo, it seems almost nonexistent in Côte d'Ivoire, Mali and Niger. Some differences exist also in the impact and pace of the monetary transmission. For instance, lending rates react quickly to the change in the money market and interbank rates in Burkina Faso and Senegal while the impact is more delayed in Togo. The deposits rates seem to be affected by the changes in the policy rates in Mali, but not by the money market rates. The impact of the policy and money market rates on inflation is also asymmetric with no significant impact in Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, and Niger, unlike in Benin, Senegal and Togo.

**7. A different approach is used to check the robustness of these results and explore the role of specific country characteristics** (see methodological appendix). A panel VAR approach models the dynamic interaction between the policy rate, the retail lending rate, and the inflation rate, taking into account the characteristics of the financial sector in each country.

**8. The results[5] confirm a significant (if small) impact of the policy rates on average inflation dynamics in WAEMU** (Figure 4). The results suggest that the central bank reacts with a very significant, but small tightening to a cost-push shock. While the lending rate increases at about half the rate of the policy rate, the response is insignificant. A monetary policy shock in turn reduces significantly the price level, although the lending rate channel does not appear to contribute to this tightening as the lending rate only reacts marginally. A shock to the lending rate has no significant impact on the price level nor does it trigger a reaction by the central bank.

**9. Country characteristics seem to explain the heterogeneity in monetary transmission.** Results assign a high relevance to the level of financial development for the transmission of monetary policy rates to inflation. In response to a one standard deviation increase in the monetary policy rate, the lending rate increases significantly if the economy has a higher level of financial

[5] The baseline results under which no country variation is allowed, by estimating a constrained model where all coefficients are time and country invariant, i.e. $\alpha^{l}_{pq,i,t} = \beta^{l}_{pq}$ for all *l*, *p*, and *q*. This provides us with a benchmark as to whether results for the impulse responses are meaningful. We use 6 lags and use monthly data, including all WAEMU countries. We depict the cumulative effect of a one standard deviation increase in the respective shock variable on impact. Confidence bands are drawn for a 90 percent range and are based on bootstrapping methods using 200 draws (see Towbin and Weber 2013 for details).

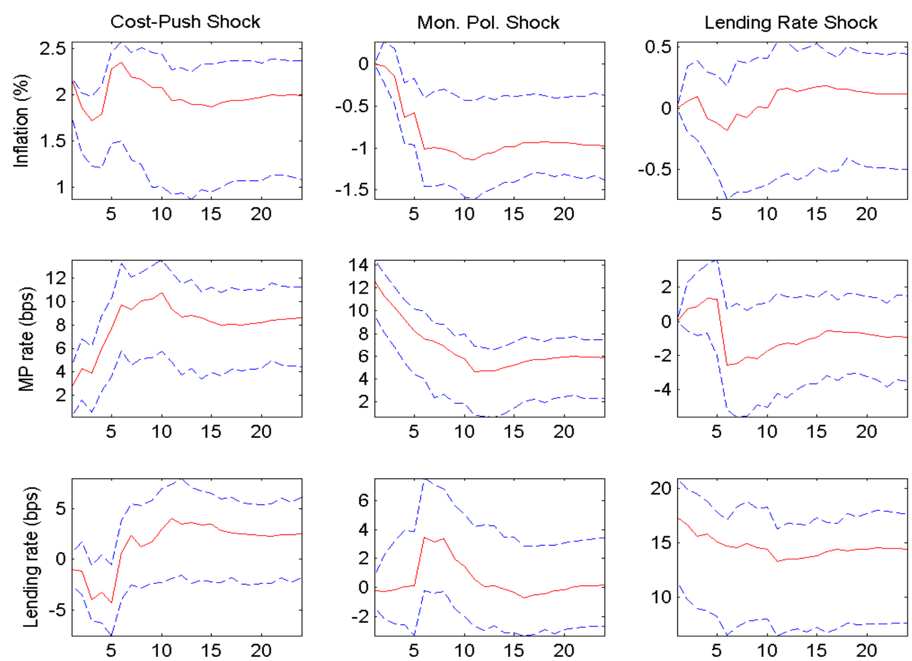
# Table 2. Country-Specific Effects of a Single Interest Rate Policy

| | | BCEAO policy rate | | | | Money market rate | | | | Interbank rate | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Lags | Coeff. | t-value | Sign | Lags | Coeff. | t-value | Sign | Lags | Coeff. | t-value | Sign |
| BEN | | | | | | | | | | | | | |
| | Deposit rate | none | none | none | | 0 | -0.62 | -3.92 | wrong | 3 | -0.32 | -1.91 | wrong |
| | | | | | | 10 | -0.75 | -4.66 | wrong | 12 | -0.47 | -5.12 | wrong |
| | Lending rate | 0 | 2.65 | 2.23 | | 1 | 1.42 | 6.54 | | 0 | 0.96 | 6.50 | |
| | | | | | | 12 | 1.54 | 7.39 | | 12 | 1.51 | 10.30 | |
| | | | | | | 12 | -0.05 | -3.03 | | | | | |
| | Core inflation | 0 | -0.10 | -6.93 | | 0 | -0.06 | -6.13 | | 0 | -0.02 | -3.22 | |
| | Inflation | 0 | -0.08 | -1.89 | | 0 | -0.17 | -7.62 | | none | none | none | |
| | | | | | | 5 | 0.04 | 2.36 | wrong | | | | |
| BFA | | | | | | | | | | | | | |
| | Deposit rate | 1 | 0.62 | 3.43 | | 0 | 2.01 | 7.27 | | 12 | 0.21 | 2.07 | |
| | | 10 | 0.61 | 3.43 | | 5 | -0.89 | -3.19 | wrong | | | | |
| | | | | | | 11 | 0.49 | 2.77 | | | | | |
| | Lending rate | 2 | 0.66 | 3.59 | | 2 | 0.71 | 2.95 | | 0 | 0.36 | 3.00 | |
| | | 12 | 1.50 | 8.30 | | 6 | -0.56 | -2.14 | wrong | | | | |
| | | | | | | 11 | 0.62 | 3.38 | | | | | |
| | Core inflation | 0 | -0.05 | -6.12 | | 0 | -0.04 | -7.59 | | 0 | -0.02 | -6.06 | |
| | | | | | | 0 | -0.03 | -4.28 | | 0 | -0.02 | -2.44 | |
| | | | | | | 11 | -0.02 | -2.28 | | | | | |
| | Inflation | 1 | 0.17 | 2.77 | wrong | 2 | 0.09 | 2.87 | wrong | 0 | 0.08 | 6.80 | wrong |
| | | 6 | 0.33 | 4.48 | wrong | 4 | 0.12 | 3.33 | wrong | 6 | 0.06 | 3.23 | wrong |
| | | | | | | 11 | 0.18 | 6.88 | wrong | 8 | 0.04 | 2.18 | wrong |
| | | | | | | | | | | 11 | 0.07 | 4.95 | wrong |
| CIV | | | | | | | | | | | | | |
| | Deposit rate | none | none | none | | none | none | none | | 3 | 1.04 | 2.28 | |
| | | | | | | | | | | 6 | -1.06 | -2.18 | wrong |
| | | | | | | | | | | 12 | 0.62 | 2.76 | |
| | Lending rate | none | none | none | | none | none | none | | 3 | 1.48 | 2.01 | |
| | | | | | | | | | | 6 | -1.70 | -2.10 | wrong |
| | | | | | | | | | | 12 | 1.00 | 2.80 | |
| | Core inflation | 0 | -0.07 | -9.13 | | 0 | -0.04 | -7.22 | | 0 | -0.02 | -6.06 | |
| | | 0 | -0.06 | -4.14 | | | | | | 0 | -0.02 | -2.44 | |
| | | 12 | -0.03 | -2.15 | | | | | | | | | |
| | Inflation | 0 | -0.08 | -4.66 | | 1 | -0.04 | -4.78 | | 0 | -0.01 | -3.18 | |
| | | 10 | -0.09 | -4.62 | | 7 | 0.02 | 2.01 | wrong | 12 | -0.03 | -7.77 | |
| | | | | | | 10 | -0.03 | -3.42 | | | | | |
| | | | | | | 12 | -0.05 | -5.57 | | | | | |
| GNB | | | | | | | | | | | | | |
| | Deposit rate | 0 | -0.22 | -0.61 | wrong | 0 | -0.61 | -2.63 | wrong | none | none | none | |
| | | | | | | 5 | 0.67 | 2.79 | | | | | |
| | Lending rate | 1 | 2.44 | 82.4 | | 0 | 1.22 | 2.87 | | none | none | none | |
| | | | | | | 3 | -1.82 | -3.02 | wrong | | | | |
| | | | | | | 4 | 1.71 | 2.95 | | | | | |
| | Core inflation | 0 | -0.04 | -3.39 | | 0 | -0.02 | -2.29 | | | | | |
| | | 7 | -0.08 | -5.37 | | 10 | -0.03 | -4.04 | | | | | |
| | | 12 | -0.05 | -3.1 | | 12 | -0.04 | -4.82 | | 12 | -0.03 | -6.58 | |
| | Inflation | 2 | -0.05 | -2.09 | | 10 | -0.04 | -2.93 | | 12 | -0.05 | -3.94 | |
| | | 12 | -0.10 | -3.93 | | 12 | -0.05 | -4.49 | | | | | |
| MLI | | | | | | | | | | | | | |
| | Deposit rate | 9 | 0.53 | 2.15 | | 5 | -0.33 | -2.44 | wrong | none | none | none | |
| | | | | | | 11 | 0.39 | 3.00 | | | | | |
| | Lending rate | 1 | 0.87 | 4.14 | | 0 | 0.42 | 2.48 | | none | none | none | |
| | | 12 | 1.31 | 6.29 | | 11 | 0.80 | 4.52 | | | | | |
| | Core inflation | 0 | -0.05 | -5.79 | | 0 | -0.03 | -4.66 | | 0 | -0.01 | -2.65 | |
| | | 2 | -0.05 | -2.28 | | 12 | -0.02 | -2.06 | | 1 | -0.05 | -5.56 | |
| | | | | | | | | | | 12 | -0.04 | -3.33 | |
| | Inflation | none | none | none | | 0 | -0.06 | -4.30 | | 0 | -0.02 | -2.53 | |
| NER | | | | | | | | | | | | | |
| | Deposit rate | 0 | -1.56 | -3.44 | wrong | none | none | none | | none | none | none | |
| | | 1 | 1.61 | 3.48 | | | | | | | | | |
| | Lending rate | 1 | 1.32 | 4.16 | | 9 | 0.88 | 3.67 | | 12 | 0.39 | 2.80 | |
| | | 12 | 1.27 | 4.03 | | | | | | | | | |
| | Core inflation | 0 | 0.05 | 5.81 | wrong | 0 | 0.03 | 6.62 | wrong | 0 | 0.02 | 6.57 | |
| | | 0 | 0.05 | 3.27 | wrong | 0 | 0.03 | 5.17 | wrong | 0 | 0.02 | 5.72 | |
| | | 7 | 0.04 | 2.74 | wrong | 8 | 0.02 | 4.46 | wrong | 8 | 0.01 | 4.45 | |
| | | 12 | -0.05 | -2.82 | | | | | | | | | |
| | Inflation | 9 | 0.06 | 2.17 | wrong | 0 | -0.06 | -4.30 | | 0 | -0.02 | -2.53 | |
| | | 12 | -0.06 | -2.37 | | | | | | 3 | -0.01 | -2.04 | |
| | | | | | | | | | | 12 | -0.03 | -4.74 | |
| SEN | | | | | | | | | | | | | |
| | Deposit rate | none | none | none | | none | none | none | | 8 | 0.19 | 1.92 | |
| | Lending rate | 0 | 1.60 | 4.38 | | 0 | 0.84 | 4.09 | | 0 | 0.42 | 3.42 | |
| | | 10 | 0.88 | 2.09 | | | | | | 8 | 0.37 | 2.81 | |
| | | | | | | | | | | 12 | 0.31 | 2.34 | |
| | Core inflation | 0 | -0.01 | -2.4 | | | | | | | | | |
| | | 0 | -0.02 | -4.49 | | 10 | -0.01 | -2.58 | | | | | |
| | | 12 | -0.03 | -4.34 | | 12 | -0.01 | -2.36 | | 12 | -0.01 | -3.69 | |
| | Inflation | 3 | -0.07 | -5.32 | | 4 | -0.02 | -2.51 | | 12 | -0.03 | -7.52 | |
| | | 12 | -0.07 | -5.05 | | 12 | -0.04 | -6.33 | | | | | |
| TGO | | | | | | | | | | | | | |
| | Deposit rate | 2 | -0.43 | -2.93 | wrong | 0 | -0.19 | -2.36 | wrong | 0 | -0.11 | -2.32 | wrong |
| | | 9 | -0.33 | -2.02 | wrong | 1 | -0.17 | -2.37 | wrong | 3 | 0.15 | 2.47 | |
| | | | | | | 12 | -0.27 | -3.74 | wrong | 11 | -0.21 | -4.93 | wrong |
| | Lending rate | 7 | 0.70 | 2.22 | | 0 | 0.38 | 2.75 | | 0 | 0.23 | 2.53 | |
| | | | | | | 10 | 0.62 | 4.42 | | 2 | 0.27 | 2.79 | |
| | | | | | | | | | | 8 | -0.48 | -2.14 | wrong |
| | | | | | | | | | | 9 | 0.51 | 2.37 | |
| | Core inflation | 0 | -0.11 | -7.44 | | 0 | -0.07 | -7.37 | | 0 | -0.04 | -5.79 | |
| | | 0 | -0.10 | -7.30 | | 0 | -0.03 | -3.61 | | | | | |
| | | 11 | -0.08 | -4.21 | | 2 | -0.02 | -2.63 | | | | | |
| | | | | | | 10 | -0.03 | -3.15 | | | | | |
| | | | | | | 12 | -0.05 | -5.84 | | 12 | -0.04 | -2.80 | |
| | Inflation | 0 | -0.05 | -3.95 | | 0 | -0.10 | -7.49 | | 0 | -0.04 | -5.68 | |
| | | 1 | -0.11 | -5.04 | | 0 | -0.03 | -2.88 | | 12 | -0.05 | -2.97 | |
| | | 10 | -0.08 | -3.46 | | 2 | -0.04 | -3.36 | | | | | |
| | | | | | | 7 | 0.03 | 2.57 | wrong | | | | |
| | | | | | | 10 | -0.05 | -4.55 | | | | | |
| | | | | | | 12 | -0.06 | -6.08 | | | | | |

Source: IMF Staff Estimates

development (equivalent to the upper 80th percentile value of the credit to GDP values within WAEMU - Figure 4b). This in turn also contributes to the significant reduction in the inflation rate in response to the monetary tightening, with a fall in the inflation rate by about 1 percentage point (Figure 4a). However, at low levels of financial development (equivalent to the 20$^{th}$ percentile), no impact from the monetary tightening for neither the lending rate or inflation rate is found. These results are consistent with the previous findings that monetary policy is most effective in Benin, Senegal and Togo, which happen to be the three WAEMU countries with the largest financial depth according to traditional metrics.

## Figure 4: Average Impulse Responses for WAEMU




Source: IMF staff estimates.

**10. Banking sector concentration appears to limit the impact of monetary policy on inflation, however not via the lending rate.** Monetary tightening is associated with a lower inflation if the banking sector is not very concentrated, while under a highly concentrated banking sector there appears to be no effect on inflation (Figure 5b). However, the lending rate does not seem to be the transmission channel since there appears to be no significant difference between the responses of the lending rate under different degrees of concentration in the banking sector (Figure 5a).

**Figure 4a: Inflation Response to MP shock, varying Banking Sector Concentration**

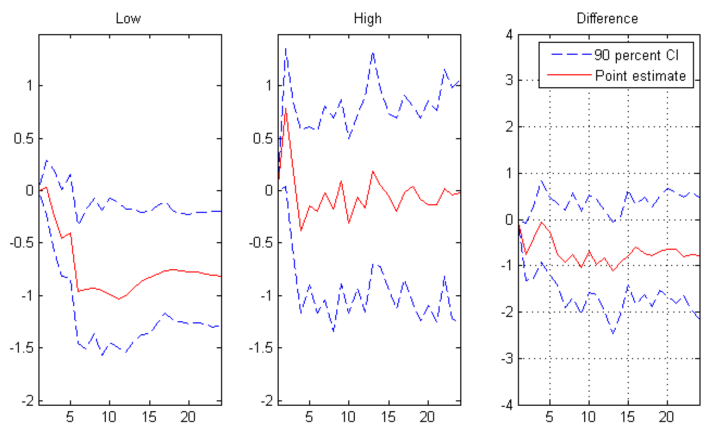



**Figure 5a: Lending Rate Resp. to MP shock, varying Banking Sector Concentration**

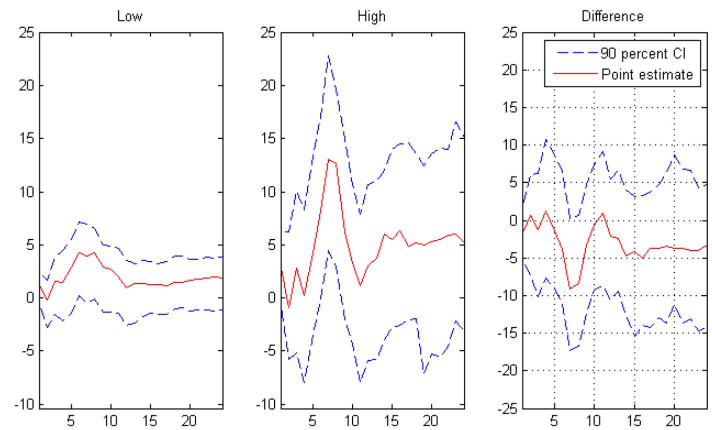



**Figure 4b: Inflation Response to MP shock, varying Credit to GDP Ratio**

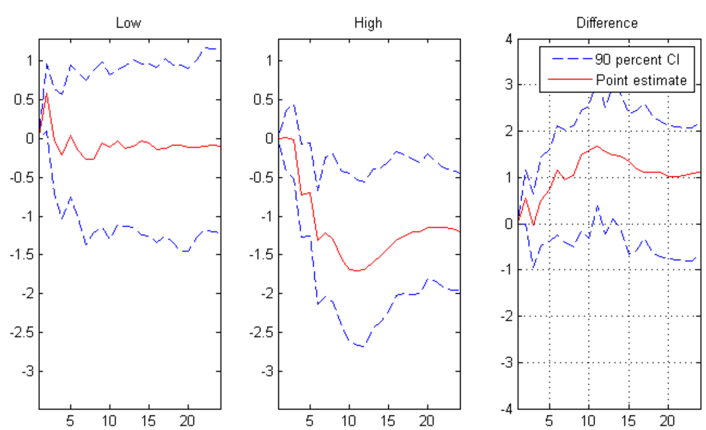
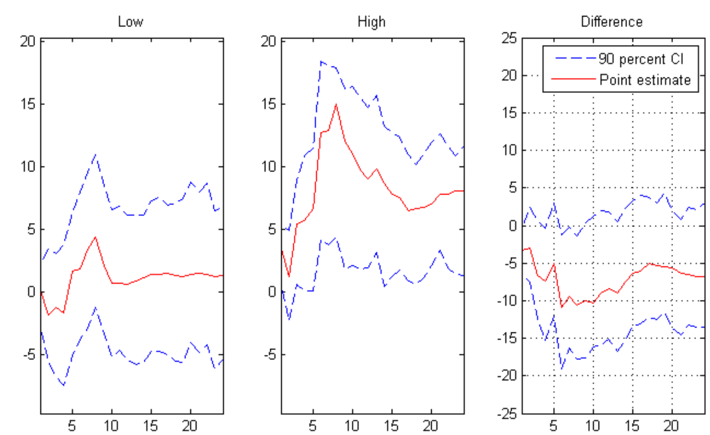



**Figure 5b: Lending Rate Resp. to MP hock, varying Credit to GDP Ratio**




Source: IMF Staff estimates

## Conclusions

**11. Preliminary results from both approaches suggest that policy rates have an impact on other rates, whose size and significance varies across countries**. They also have a significant, if small, impact on inflation. Further work is in order to understand better the transmission mechanism, as the two approaches give somewhat conflicting results in this area.

**12. The characteristics of the financial sector seem to explain the heterogeneity in monetary transmission across countries,** with the effectiveness of monetary policy increasing with the level of financial development and the degree of competition in the financial sector. This could explain why, for instance, monetary policy seems to be more effective in Benin, Senegal, and Togo, whose financial depth is higher.

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# Methodological Annex

## Distributed Lag Model

**The estimations are based on a distributed lag (DL) model, which links key variables in the monetary transmission chain**.

$Y_t = \alpha_0 + \alpha_{r+1} X_{t-r} + \varepsilon_t$ (1)

where $Y_t$ is the dependent variable of interest regressed on an independent variable $X_t$ and $r$ of its lags. Separate estimates are performed for each possible transmission link. The independent variable $X_t$ is sequentially represented by the BCEAO policy rate, the marginal rate of liquidity injections, and the interbank rate under the assumption that these three common interest rates are directly linked to BCEAO's monetary policy actions, and then by the deposit and lending rates of each individual WAEMU country. The dependent variable $Y_t$ is sequentially represented by the marginal rate of liquidity injections, by the deposit and lending rates, and inflation of each individual country.[1]

**The estimation strategy aims at establishing dynamic causal effects from changes in BCEAO's policy rates on all other interest rates and inflation**. The strategy consists of three steps; (i) run an OLS regression on the effects of a unit change in each $X_t$ on $Y_t$ and get the contemporaneous (zero period) dynamic multiplier or impact effect; (ii) if the impact coefficient is significant and has the right sign, augment the model by adding 12 lags of the independent variable; (iii) choose the appropriate lag structure by an autometric model reduction. Given the problem on collinearity in the independent variable, select the lag structure which does not change with changes in the specification.

**The data were received directly from the BCEAO.** The estimation period is February 2007-September 2013 on monthly data (80 observations). The selected estimation period reflects the most active recent period of BCEAO's monetary policy when it started managing liquidity more actively by introducing liquidity injections in February 2007, and discontinued the discount rate (*taux d'escompte*), which was used mainly for penalty calculations, and established the marginal lending window with the corresponding maximum lending rate, which replaced the repo rate (*taux de pension*), and the minimum bid rate at liquidity auctions. During the estimation period, the BCEAO has changed its policy rate only six times, of which four times in 2012–2013. This gives very little variability in the key independent variable.

## Panel VAR Approach

**The benchmark model is based on a panel interaction VAR framework as described in Towbin and Weber (2013).** The framework can be understood as a generalized panel VAR regression that models the dynamic interaction between the policy rate, the retail lending rate, and the inflation rate

[1]Multicollinearity does not reduce the predictive power or reliability of the model as a whole, at least within the sample data themselves. It only affects calculations regarding individual independent variables. That is, a multiple regression model with correlated independent variables can indicate how well all independent variables together predict the dependent variable, but it may not give valid results about any individual independent variable, or about which independent variables are redundant with respect to others.

in which each right-hand-side variable can vary deterministically with structural country characteristics. In other words, the inflation rate is modeled as a function not only of its own lags and the contemporaneous and lagged policy and lending rate, but also of interaction terms between all these regressors with given structural characteristics. The full model is given by:

$$\begin{pmatrix} 1 & 0 & 0 \\ \beta_{21}^{0} & 1 & 0 \\ \alpha_{31,i,t}^{0} & \alpha_{32,i,t}^{0} & 1 \end{pmatrix} \begin{pmatrix} \Delta\pi_{i,t}^{P} \\ \Delta i_{i,t}^{P} \\ \Delta i_{i,t}^{R} \end{pmatrix} = \sum_{l=1}^{3} \begin{pmatrix} \alpha_{11,i,t}^{l} & \alpha_{12,i,t}^{l} & \alpha_{13,i,t}^{l} \\ \beta_{21}^{l} & \beta_{22}^{l} & \beta_{23}^{l} \\ \alpha_{31,i,t}^{l} & \alpha_{32,i,t}^{0} & \alpha_{33,i,t}^{l} \end{pmatrix} \begin{pmatrix} \Delta\pi_{i,t-l}^{P} \\ \Delta i_{i,t-l}^{P} \\ \Delta i_{i,t-l}^{R} \end{pmatrix} + \begin{pmatrix} u_{i,t}^{\pi} \\ u_{i,t}^{P} \\ u_{i,t}^{R} \end{pmatrix} \qquad (2)$$

$$\alpha_{pq,i,t}^{l} = \beta_{pq}^{l} + \gamma_{pq}^{l} X_{i,t} \qquad (3)$$

Where $\pi^p$ is the inflation rate, $i^p$ is the policy rate, $i^r$ is the retail lending rate. The variables in *Xi,t* are country specific and may vary over time, though potentially at a lower frequency than the other variables.

**We identify shocks using a simple Choleski ordering.** The model implicitly assumes that prices are slow moving and adjust only with a lag to interest rates. The policy rate in turn can be adjusted to the contemporaneous inflation rate and the retail lending rate adjusts to both the current policy rate and the current inflation rate.

**Furthermore, we allow the responses of the inflation rate and the retail lending rate to vary with the respective countries' structural characteristics (Xi,t) to the other variables in the system according to equation (2),** from which we derive the α-coefficients. The policy rate of the central bank is assumed to react to inflation and the retail lending rate in a uniform manner, i.e., not taking country characteristics into account (β-coefficients). While this set up is a simplification, it is a short hand to a more involved model that would consist of two blocks: a union wide block in which the policy rate reacts to the weighted union wide lending and inflation rate and a country specific block in which country specific retail lending and inflation rates respond to shocks from the union wide block in different ways depending on the characteristics of the respective economy.

**The impulse response functions can thus vary over time and across countries, with the structural characteristics of a given economy.** We illustrate the importance of each of the structural characteristics in $X_{i,t}$ by contrasting cumulative impulse response functions evaluated at the 20$^{th}$ and 80$^{th}$ percentiles of the respective sample distributions. This strategy allows understanding how estimates would change if, holding the other variables at the median, a country were to move from a low to a high value in terms of a given structural characteristic.

# Appendix IV. Fiscal Rules and Institutions for Growth and Stability in the WAEMU[1]

## Introduction

1. **Fiscal policy is the main policy tool available to WAEMU countries, and is critical to the stability of the monetary union**. The WAEMU is a region with a common monetary policy and a fixed exchange rate regime. The scope for active monetary policy is therefore limited, even in the case of symmetric shocks. In addition, labor mobility within the region is low and there are no significant intra-regional fiscal transfers. These features make national fiscal policies the main stabilization instrument in a region where macroeconomic volatility remains high, and asymmetric shocks are frequent. Fiscal policies also need to contribute to addressing member countries' large development needs**.**

2. **At a time when convergence criteria are being reconsidered by the authorities, this note suggests avenues to explore to strengthen fiscal rules and institutions in the WAEMU, based on international experience**. The WAEMU has a set of regional fiscal rules that try to address the issues described above. These rules, in practice, have proven to be of limited effectiveness, either because they are not complied with (e.g., the fiscal deficit convergence criterion) or because they are not binding in the short term (e.g., the debt convergence criterion). In light of these issues, the authorities are reviewing the existing regional surveillance framework. This note contributes to this process by focusing on (i) reasons for reconsidering current fiscal rules; (ii) considerations for the design of new fiscal rules and institutions; and (iii) the potential contribution from more fiscal federalism.

## Designing Effective Fiscal Rules

### A. Why Current Rules Need to be Reconsidered

3. **WAEMU convergence criteria include fiscal rules, but the two main ones are either not observed (deficit) or not binding (debt)**. The target of a positive basic fiscal balance–the so-called key convergence criterion–has been missed in a large majority of cases over the past five years (Figure 1). In addition, new economic conditions (e.g., access to international market) raise the issue of whether targeting the basic fiscal balance, which excludes for instance foreign-financed expenditures, is still adequate. The target of a public debt ratio below 70 percent of GDP is now easily met by all WAEMU countries, thanks to debt relief (Figure 2). This target was set at a time when all these countries were heavily indebted, and restoring fiscal sustainability was the main objective. Beyond redesigning specific rules, another critical issue to reconsider is the enforcement mechanism, which has not proved fully effective.[2]

[1] The authors of this note are Olivier Basdevant and Aleksandra Zdzienicka with input from M. De Broeck, X. Debrun, T. Kinda and I. Razafimahefa (all FAD).

[2] Last year's staff report included a number of recommendations. The criterion on nominal public debt could be lowered to reduce the risk of debt distress (a threshold closer to 50 percent of GDP applied to a comprehensive definition of public debt would seem more appropriate), and should be seen as a ceiling, not as an optimal debt

(continued)

**Figure 1: Basic Fiscal Balance in line with WAEMU Deficit Rules, 2007-12**

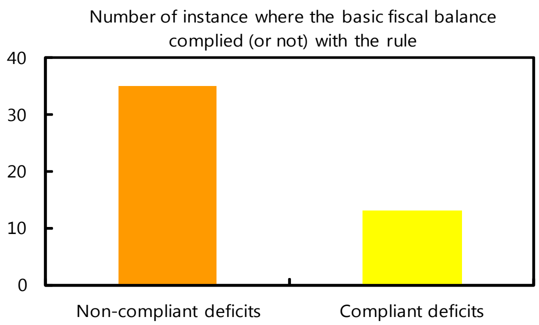



**Figure 2: Public Debt in the WAEMU, 2012**

(percent of GDP)

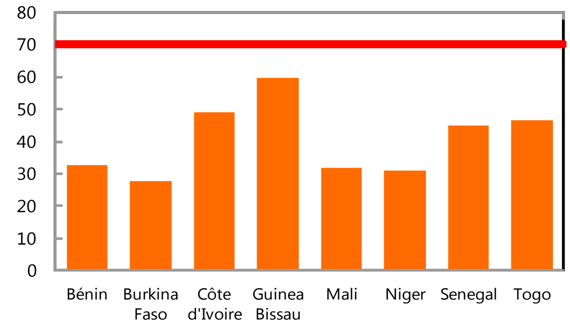



**Figure 3: Deficit Bias in the WAEMU**

(Percent of GDP, negative values indicate an underestimation of the fiscal deficit)

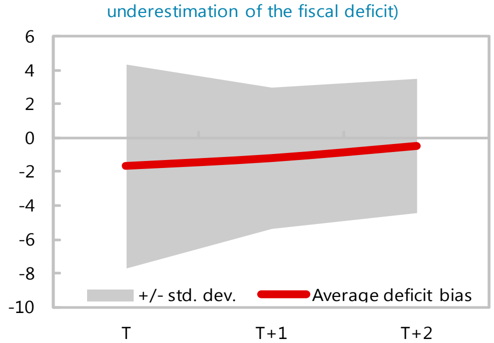



**Figure 4: Real GDP Growth and Fiscal Deficit Relationship in the Post-MDRI WAEMU**

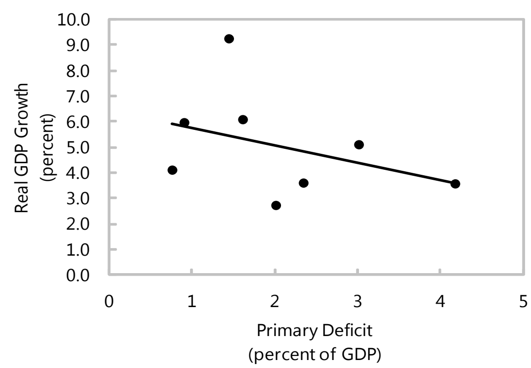
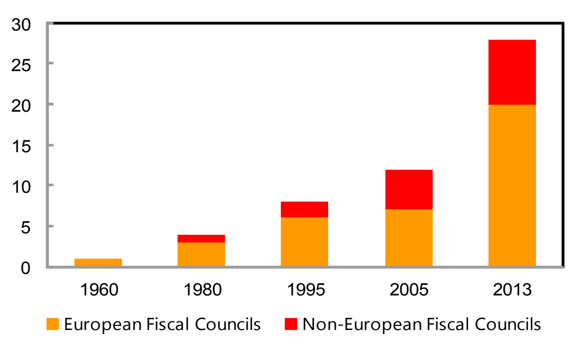



**Figure 5: Countries that Have Adopted Fiscal Councils**




4. **The existence of deficit biases, which create fiscal risks, is the main rationale for fiscal rules.** As Table 1 shows, a number of WAEMU countries have accumulated significant public debt since MDRI debt relief was provided. For some, it is the result of a deficit bias, illustrated by

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level. Additionally, an overall fiscal deficit ceiling could be preferred to a basic deficit one as the latter excludes foreign-financed capital expenditure.

repeatedly missed deficit targets. While WAEMU countries have experienced significant differences, deficit biases are on average of about 1 percent of GDP (Figure 3). In particular, the predicted deficits 1 and 2 years ahead at the time the budget for year T is formulated, underestimate the outturn by significant margins. Over time, this tends to produce significantly higher than expected debt levels. This bias is found elsewhere in the world. In fiscal strategy plans reviewed in Mauro (2011), primary fiscal deficit turned out to be higher by ½ percent of GDP on average than initially planned. Numerical fiscal rules can be helpful to address issues related to recurrent deficit biases. Credible rules can in principle lead to higher welfare than discretion (Barro and Gordon 1983, Drazen 2000), as well as lower risk premia (Hallerberg and Wolff, 2006).

### Table 1. Key Debt Indicators since MDRI

| | MDRI Year | General government debt | | Average increase since MDRI | Risk of Debt Distress[1] |
|---|---|---|---|---|---|
| | | MDRI Year | In 2013 | | |
| | | (Percent of GDP) | | | |
| Benin | 2006 | 12.5 | 27.7 | 2.2 | Low |
| Burkina Faso | 2006 | 22.6 | 33.3 | 1.5 | Moderate |
| Côte d'Ivoire | 2012 | 45.8 | 42.9 | -2.9 | Moderate |
| Guinea-Bissau | 2010 | 51.7 | 61.0 | 3.1 | Moderate |
| Mali | 2006 | 20.4 | 33.4 | 1.9 | Moderate |
| Niger | 2006 | 27.1 | 23.2 | -0.6 | Moderate |
| Senegal | 2006 | 21.8 | 45.2 | 3.3 | Low |
| Togo | 2010 | 47.3 | 43.3 | -1.4 | Moderate |

Source: IMF Debt Sustainability Analyses, World Economic Outlook database.

[1]The risk of debt distress is carried out by the Joint IMF - World Bank Debt Sustainability Analysis for the latest available year which differs by country.

## B. A Possible Approach to Redefining Effective Fiscal Rules

**5. Specify the ultimate objective**. Existing convergence criteria are numerous and target multiple objectives, such as fiscal sustainability, the composition of spending, revenue mobilization, etc. In staff's view, the ultimate objective is fiscal sustainability, which is critical for the stability of the monetary union and exchange rate regime.

**6. Keep a short list of criteria that are directly related to attaining the ultimate objective.** Having too many criteria runs the risk that the authorities do not focus sufficiently on those that are critical for fiscal sustainability. From this perspective, it could be considered to keep only two or three criteria, while the others would become indicators that would continue to be monitored. One of the remaining criteria could be on the stock of public debt and another one related to flows contributing to debt accumulation (e.g., a deficit rule).

**7. Ensure as much as possible the internal coherence of the set of remaining criteria.** If a debt criterion and a deficit criterion are kept, the link between the two should be as clear as possible. For instance, a ceiling on the deficit should not be set at a level so high that it would likely lead in the medium term to a breach of the debt ceiling by most countries. From this perspective, relying on comprehensive debt sustainability analysis helps ensure this consistency. Another way to force this consistency is to introduce "debt brakes", which adjust the deficit ceiling based on past deviations from targets or the distance to the debt ceiling.

**8. Keep rules simple and easy to implement and monitor**. Sophisticated rules can help address simultaneously a number of issues. For instance, a structural deficit rule may help preserve fiscal sustainability while allowing for countercyclical policy. However, defining, calculating, and monitoring a structural deficit would likely be challenging in countries with data availability and quality problems and where the existence of an economic cycle is debatable. Simple rules might be cruder, but they have the advantage of being easy to understand and implement.

**9. Allow for some tailoring of the rules at the national level.** While the general principles should be common to all countries and defined at the regional level, this does not necessarily preclude different specific rules at the national level, taking into account country circumstances and consistent with the general principles. For instance, countries with a high share of revenue coming from natural resources may wish to adopt a rule specifying how this revenue should be saved for a rainy day if prices for natural resources are high, or saved for future generations (because of the exhaustibility of the resources), or invested in public infrastructure. Countries with stronger budget processes, including effective medium-term frameworks, and with easy access to financing may wish to specify the scope for counter-cyclical policy.

**10. Stress that any ceiling should not be construed as an optimal level**. Ceilings on public debt and the fiscal deficit are typically levels that countries should try to stay away from, not optimal levels to target. This means in particular that the deficit should be significantly lower than the ceiling when economic circumstances are favorable. In other words, fiscal rules with ceilings on debt and the deficit say little about how fiscal policy should be conducted and can be complemented by additional rules at the country level (see above).

**11. Rules should go with a strengthening of budget processes**. The latter are critical to avoid deficit biases (Milesi-Ferretti, 1997) and therefore to achieve fiscal sustainability. The WAEMU has a number of recent public financial management rules, which are spelled out in directives. However, countries are late in transposing these rules into their national laws (with only Senegal having finished this first step, which was expected to be completed by end-2011) and this raises doubts as to whether the deadlines for implementation will be met. Accelerating this process is therefore of critical importance. In particular, framing a fiscal strategy in a credible and binding medium-term fiscal framework would help ensure that deficit biases are avoided.

**12. Addressing fiscal risks and planning for contingencies is also key to the success of fiscal rules.** Delivering on a fiscal strategy requires not only a plan, but also measures to address fiscal vulnerabilities. For example, countries facing specific expenditure risks need to implement measures to mitigate these risks to ensure the success of their fiscal strategies (IMF 2010). A typical issue for WAEMU countries in this regard is the risks pertaining to the energy sector. The budgetary cost of supporting energy sectors has not only tended to be high, but it has often been higher than initially budgeted, thus complicating fiscal management and adherence to fiscal rules. This has also led to inefficient adjustment, with investment spending bearing the brunt of spending cuts. Contingency planning is therefore highly desirable to avoid such outcomes.

## C. Bringing Flexibility to Fiscal Rules

**13. Fiscal rules do not preclude growth-friendly fiscal policies.** A concern often expressed is that rules focusing on fiscal sustainability will hamper growth and development. However, the contribution of fiscal policy to growth is not through permanently higher deficits. As Figure 4 shows, larger fiscal deficits in the WAEMU have not been associated with higher growth rates post MDRI. The empirical literature also suggests that fiscal multipliers tend to be small in developing countries (see Spilimbergo, Symansky, and Schindler, 2009). These results suggest that growth should not be sought through sustained fiscal stimulus. There is likely a larger role for fiscal policy to foster growth through contributing to macroeconomic stability, the composition and quality of spending (e.g., favoring investment over inefficient transfers, such as generalized price subsidies), and more efficient tax systems that reduce distortions.

**14. Fiscal rules are helpful to address deficit biases, but can affect to various degrees the ability to conduct counter-cyclical policies**. Simple rules usually imply a trade-off between a focus on debt sustainability (e.g., debt or deficit rules) or on avoiding procyclical policies (e.g., expenditure rules). Table 2 summarizes the properties of commonly used fiscal rules. As discussed above, the procyclicality of certain rules, such as ceilings on the debt ratio or the overall deficit, can be greatly reduced by staying away from the ceilings in favorable economic circumstances and thereby building buffers to be used in the event of a negative shock.

**15. Well-defined escape clauses can play a useful role.** They allow for the temporary suspension of the fiscal rule in exceptional circumstances. However, they too need to be designed carefully to avoid abuse. A typical way to address such a hurdle is to require super-majorities (e.g., from parliament) to approve the temporary suspension of the rule.

### Table 2. Performances of Simple Numerical Rules Against Key Objectives

| | Simples rules setting a ceiling on: | | | |
|---|---|---|---|---|
| | Debt ratio | Overall deficit | Primary deficit | Expenditure |
| Preserve a sustainable debt ratio | +++ | ++ | + | - |
| Sound deficit level | - | +++ | ++ | - |
| Avoids large adjustments in a single year | - | + | + | +++ |
| Limit procyclicality | - | - | - | ++ |
| Target relatively controllable | - | + | ++ | +++ |
| Comprehensive coverage | +++ | +++ | +++ | - |

Source: IMF Staff.

Note: +++ = very good, ++ = good, + = fair, - = poor.

## D. Improving Adherence to Fiscal Rules

**16. One of the reasons for the lack of effectiveness of WAEMU fiscal rules is the insufficient incentives for compliance.** The WAEMU Commission is in charge of regional surveillance, but its mission is hampered by the lack of availability and timeliness of data, and also by capacity issues (IMF, 2013). Sanctions are possible but not applied.[3]

**17. International experience suggests that incentive mechanisms are more effective at the national level.** Regional rules are desirable in a monetary union because of externalities. In the WAEMU, they are even more critical because of the need to ensure that the regional fiscal stance is consistent with the exchange rate regime. However, regional rules may not be fully owned by the national authorities. Adopting binding rules at the country level may help foster ownership and adherence. The fundamental issue is to encourage policy makers to comply with rules by increasing costs for deviations. Financial sanctions have proved ineffective; costs therefore need to be of a different nature. Typically these costs can be of two types: either of a legal nature, or political, by raising public awareness of deviations and their economic implications. Thus two avenues, which have been taken by some countries, could be explored. First, rules could be transposed into domestic laws (or even enshrined in constitutions), which would increase their binding character for national policy-makers. Second, fiscal councils could strengthen compliance by increasing public awareness of potential deviations from announced policies (see below).

**18. National fiscal councils could play an important role in increasing fiscal transparency**. To the extent that fiscal councils are independent and perceived as such and credible, they can provide an effective contribution to fiscal stability and growth. They are increasingly used across countries (Figure 5), and are typically in charge of an independent assessment of public finances and public information about this assessment. There are many design options, ranging from fiscal councils simply reporting to the public and parliament about compliance of budgets and their executions with rules, to more elaborate ones that provide in-house fiscal projections. In resource-constrained countries like the WAEMU members, it could be envisaged to have fiscal councils solely dedicated to reporting and alerting the public on compliance/noncompliance. Councils tend to work better at the national level, as they can more easily contribute to and influence domestic debates on fiscal policy. They would be a complement to the regional surveillance exercised by the WAEMU Commission.

## Beyond Better Rules: Could More Fiscal Federalism Contribute to Stability?

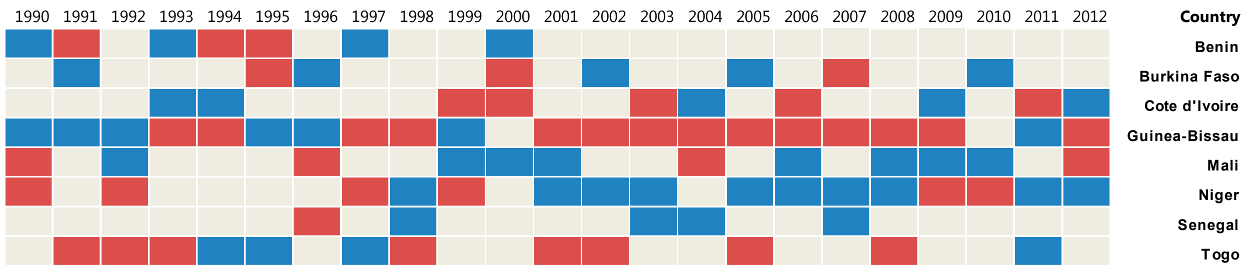
**19. A centralized fiscal risk-sharing mechanism could help smooth macroeconomic volatility.** Idiosyncratic shocks are still frequent (Table 3) and there is limited wage and price flexibility, limited labor mobility and constraints on the scope for counter-cyclical fiscal policies (e.g., availability of financing). Other existing risk-sharing mechanisms are much less effective in the WAEMU, in particular when they are most needed, i.e., during the crises (Figure 6).[4] Against this

[3]Under the Excessive Deficit Procedure (EDP), a deviating country is given 30 days to develop an adjustment strategy, which can benefit from financial support from the Union. Otherwise the country would expose itself to potential sanctions.

[4]The main shock-smoothing mechanisms are: (i) private insurance via international capital markets (e.g., through the holding of diversified portfolio of international assets or explicit insurance); (ii) saving and borrowing via international credit markets; (iii) private transfers (e.g., remittances) and official ones (e.g., foreign aid); and (iv) fiscal risk sharing across countries (e.g., via intra-union transfers).

background, more efficient fiscal risk-sharing mechanisms may provide a greater insurance against shocks and increase consumption smoothing. Public saving plays a significant role in consumption smoothing during normal output fluctuations, and larger fiscal buffers would help absorb the impact of shocks. When shocks become more severe, however, a centralized fiscal mechanism could significantly increase demand smoothing in the member states.

**Table 3. Frequency of Asymmetric Shocks in the WAEMU**




Note: The idiosyncratic growth shocks are derived as the part of the country-specific growth shocks that are not explained by WAEMU-wide growth shocks. Growth shocks (both for the WAEMU and individual countries) are computed as the residuals from a regression of the country's growth rate (respective to the WAEMU) over two lags. Red indicates negative shocks (inferior to 3.5 percent); Blue positive shocks (superior to 3.5 percent). Source: Nguyen and Zdzienicka (2013).

**20. A regional stabilization mechanism (IMF, 2013) could provide an effective instrument to deal with asymmetric shocks within the region**. The mechanism should: (i) be relatively simple; (ii) automatic; (iii) non-regressive (in the sense that the size of transfers and contribution do not vary with per capita income); and (iv) consist of temporary transfers that are a function of serially uncorrelated shocks and able to offset a large part of these shocks.[5] Another issue to address would be the nature of shocks triggering transfers. In a region where a number of asymmetric shocks have been triggered by socio-political events, the mechanism would need to be set up carefully to focus on smoothing non policy-related shocks and to reduce moral hazard issues. Such a mechanism would be financed by contributions that would be used to pay transfers to countries negatively hit by the shocks. While this exercise is highly stylized and should be interpreted cautiously, staff estimations show that a relatively small contribution of about ¾ percent of each WAEMU country's GDP would allow achieving an amount of income smoothing comparable with that observed in existing federal states (Figure 7). A contribution of about 1–1¼ percent of GDP could insure WAEMU countries against even more severe downturns. Disbursed transfers would be proportional to the size of the shocks, to the relative size of each economy compared to the rest of the union, and to the resources accumulated in the fund each year. If no country was affected by a negative shock, no disbursement would take place and contributions would be saved in the fund.

[5] Hammond and von Hagen (1995) about existing tradeoff between simplicity and moral hazard problems.

**Figure 6. WAEMU: Current shocks-smoothing**

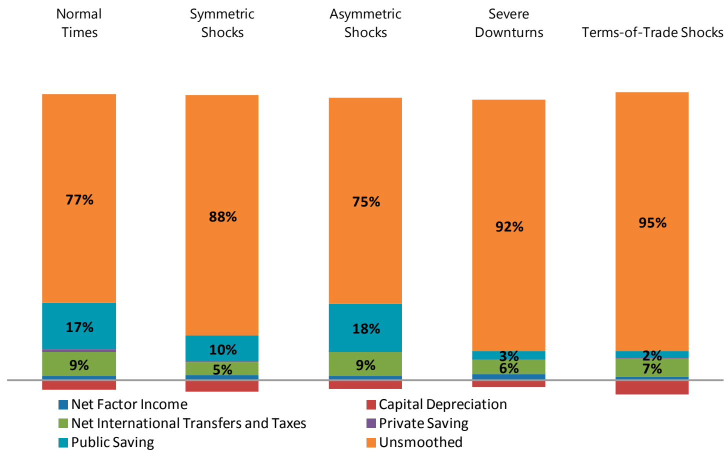
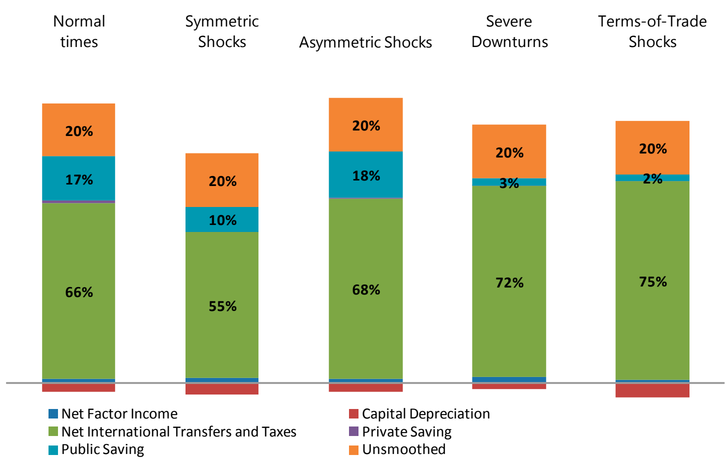



**Figure 7. WAEMU: Shock-smoothing with centralized fiscal mechanism**




Source: Nguyen and Zdzienicka (2013)

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# Appendix V. Foreign Investor Participation in the Regional Government Debt Market[1]

*The participation of nonresident investors in the WAEMU regional government debt market has been very limited, unlike in neighboring Ghana and Nigeria. This note discusses the possible reasons for this situation, drawing extensively on the views of a group of (mostly London-based) investors. It also makes a number of recommendations to make the regional market more attractive to foreign investors.*

## Introduction

1. **Appetite for Sub-Saharan "frontier markets'" debt has been growing in recent years.** Since the launch of the Ghana Eurobond in 2007, more and more countries in the region have borrowed overseas in foreign currency (see REO, 2013). A more recent trend has been increasing purchases of local currency bonds (LCBs). The profile of investors is also shifting, with traditional niche players increasingly joined by dedicated institutional frontier market funds and large institutional investors, mainly from the U.S. and the U.K.

2. **In contrast to neighbouring Ghana and Nigeria, there is little evidence of significant investment by nonresidents in the regional government debt market[2]** (henceforth the "WAEMU market"). While comprehensive information is not compiled, available data on Senegal–one of the main issuers on this market–suggest that less than 2.5 percent of its debt issued on the WAEMU market is held by nonresidents (see Figure 1). This contrasts with Ghana and Nigeria, where foreign ownership of government debt hovers around 20 and 25 percent, respectively.

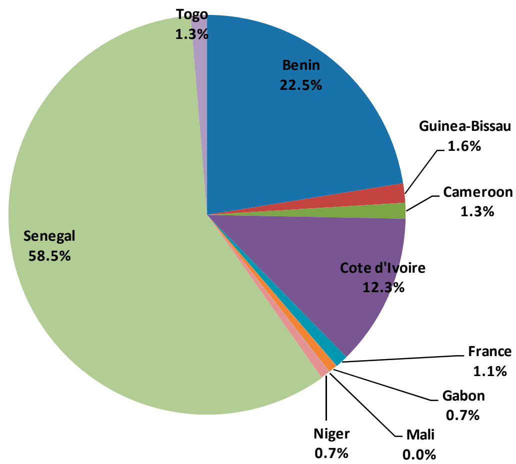
3. **This situation is surprising, as the WAEMU has characteristics that should make its market attractive to foreign investors**:

- ***High growth***: at about 6 percent in 2012 and 2013, and expected to remain robust.
- ***Sound fundamentals***: Fiscal sustainability was restored with debt relief and maintained since though appropriate fiscal policies. Structural reforms have been implemented to improve governance and the business environment.
- ***Diversification:*** Debt issued in the WAEMU is less likely, for instance, to be affected by the fluctuations of key commodity prices, unlike in other sub-Saharan African (SSA) countries, which are typically dependent on a single commodity.
- ***Low FX risk***: The credible peg to the euro reduces the exchange rate risk.
- ***Donor support***: Remains substantial and cushions the impact of external and fiscal shocks.

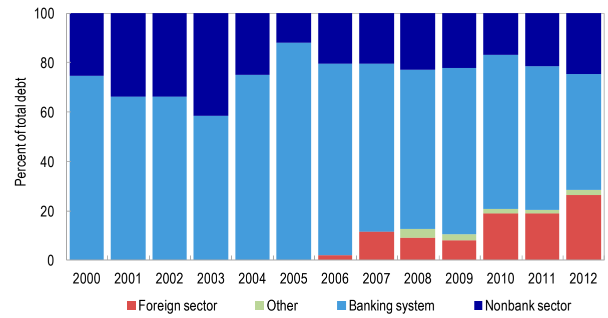
[1] This note was prepared by Patrick Imam.
[2] "Nonresidents" means investors from countries outside the WAEMU. Cross-border investment within the WAEMU is excluded here.

**Figure 1: Foreign Participation in Local Currency Bond market in Selected Countries**

*Senegalese debt is held mainly by WAEMU residents, with little foreign ownership …*




*… in contrast to Ghana's domestic government bonds where interest has been mounting.*




Source: BCEAO, IMF, African Departement database, Bloomberg

## The Views of Foreign Investors

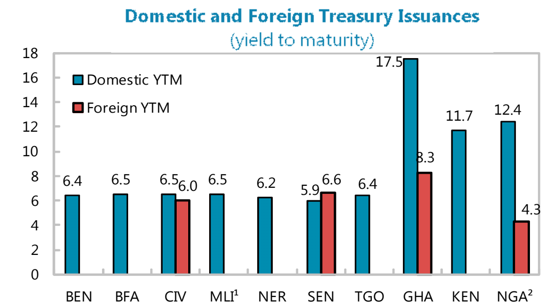
**4. This section reports on the views of investors met by the mission.** While this is based on a small sample of investors (mostly London-based), the views expressed during interviews were convergent and provide a preliminary picture of why the WAEMU market is currently perceived by foreign investors as not very attractive.

**5. Market participants view the risk-adjusted nominal interest rates on the WAEMU market as unattractive**. Investors in frontier markets consider both the yield on domestic debt and the exchange rate. The yields on the WAEMU market are viewed as low—when compared with other African countries (Figure 2)—even once the greater exchange rate stability associated with the exchange regime is taken into account. There is a perception that the regional market does not price risks adequately, a perception also underpinned by the fact that yields across sovereign issuers do not seem to reflect the range of fiscal situations.[3] Foreign investors are also uncertain about the extent to which solidarity across WAEMU countries could play in the event of a debt crisis. This makes risk pricing more challenging.

[3] Empirical work conducted last year by staff seems to confirm this view. Yields may be driven down by the lack of alternative investments for domestic banks, which are the main investors on the WAEMU market.

## Figure 2: Interest Rates on Domestic and Foreign Bonds in Selected Countries

*Yield on domestic and foreign WAEMU debt do not differ significantly.*

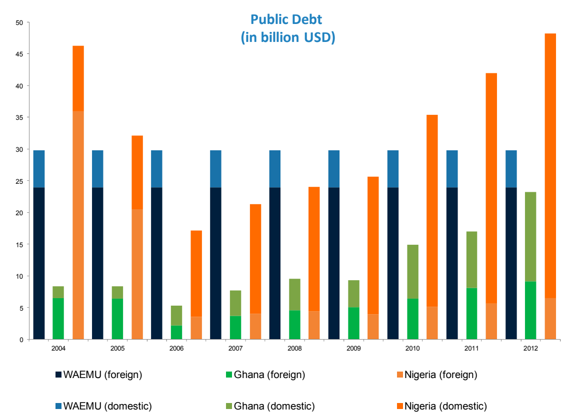



Source: Dealogic; Bloomberg; and BCEAO.
Benin 2009 issuance, 7 year maturity; Burkina Faso 2012 issuance, 5 year maturity; Côte d'Ivoire Euro bond 2012 issuance, 20 year maturity; CIV 2013 domestic issuance, 7-year maturity; Guinea-Bissau has not offered long-term bonds the last few years; Mali 2010 issuance, 5 year maturity; Niger 2013 issuance, 5 year maturity; Senegal Euro bond 2011 issuance, 10 year maturity; Togo 2013 issuance, 5 year maturity; Ghana 2013 Euro bond issuance, 10 year maturity; Kenya 2013 issuance, 15 year maturity; Nigeria 2013 issuance, 5year maturity.

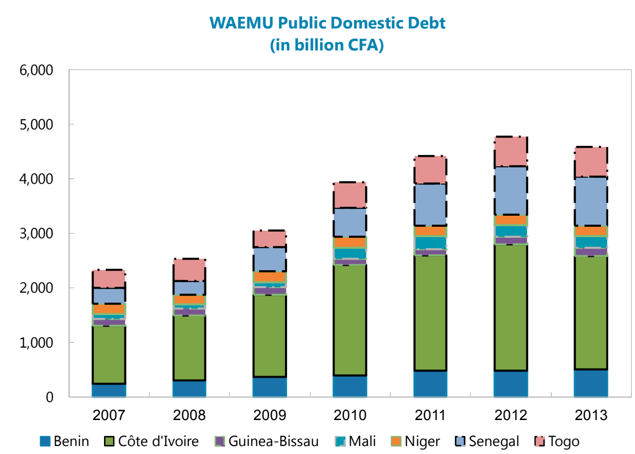
6. **The WAEMU market is too small.** The WAEMU market amounts to about 8 percent of the regional GDP. All but one WAEMU countries have issued on the market. Even for the larger issuers (Côte d'Ivoire and Senegal), the outstanding stock of debt on the WAEMU market is relatively small (Figure 3). By contrast Nigeria's and Ghana's domestic debt markets are much deeper. Size is important to foreign investors, as it is generally associated with liquidity and better pricing. Small size also means that no debt issued on the WAEMU market is included in LCB global indices, which bond funds often use to benchmark their exposure. Nigeria was included in 2012 in the JP Morgan Government Bond-Emerging Markets Index, which triggered additional demand for its debt.

## Figure 3. Size of Domestic Sovereign Debt Market

*Absolute levels of public WAEMU debt have not grown much, unlike Ghana and Nigeria ...*




*... with Côte d'Ivoire the main issuer.*




Source: BCEAO, IMF, African Departement database, Bloomberg

7. **The lack of a secondary market is also an issue.** Without the ability to sell bonds or bills on a secondary market (including because of the "buy-and hold" strategy of domestic investors), a

foreign investor is constrained to hold these instruments until maturity (or perhaps to sell them at a deep discount). As a result, foreign investors will at best be interested in short-term paper. The lack of an active secondary market also makes pricing at issuance more difficult.

**8. Exchange control regulations and practices are viewed as cumbersome in the WAEMU.** In principle, there are no regulatory obstacles to capital inflows to buy government securities on the WAEMU market, or to the repatriation of proceeds. However, according to investors, observance of rules and regulations on capital flows requires a number of administrative steps and is very burdensome in practice, particularly on the way out. This tends to dissuade capital inflows in the first place. Another concern expressed by investors is that capital repatriation might become even more difficult in the event of a crisis. Investors' perception is that investing in Ghana or Nigeria is much easier. While Ghana uses macroprudential policies—such as foreigners only allowed to purchase longer-term paper—and Nigeria has only a few restrictions, they are seen as transparent and not cumbersome.

**9. In the wake of the euro area crisis, investors also mention issues related to currency union architecture.** A country in a monetary union does not issue its currency. In the event of a loss of confidence from investors, there may therefore not be a "buyer of last resort" to restore confidence, with a liquidity problem that may turn into a solvency problem (de Grauwe, 2011). In the WAEMU, direct financing of governments by the BCEAO has been phased out, and there are strict rules on the amount of government paper the BCEAO can accept for bank refinancing purposes. The Financial Stability Fund (FSF) is expected to play the role of a liquidity backstop for governments in the future, but it is not yet operational.

## Other Possible Factors

**10. A number of other factors explaining low foreign participation in the WAEMU market are listed below.** While they were not all necessarily mentioned by investors met by the mission, they are likely to play a role.

**11. The regional market for government securities in the WAEMU is fragmented**. This does not just refer to the fact that an investor has to choose between eight different sovereigns. Government paper is issued through two different channels: auctions by the BCEAO on the money market; and the regional stock exchange (only longer-term paper). This fragmentation reduces liquidity and raises the costs of investing.

**12. Communication targeting foreign investors is very limited.** Until the recent creation of Agence UMOA-titres there was no structured communication about the WAEMU market. The only road-shows were done for Eurobonds. Also, the dissemination of economic and financial information by national and regional authorities has been limited until recently, and has generally been exclusively in French. Discussions with investors clearly illustrated that they had limited knowledge or understanding of key developments or institutional arrangements in the WAEMU. A good example of this is the lack of awareness of rules and institutions supporting the exchange rate regime.

**13. Language is another important barrier**. Limited English is spoken in francophone Africa, and information and documents are mainly in French. The major international capital markets are, however, Anglophone. Language issues add to the complexity of dealing with legal traditions and institutions that foreign investors may not be familiar with. News flows emanating from Francophone African countries are also lower than from Anglophone African countries, given the dominance of English speaking news outlets, which creates an additional information gap.

**14. Political stability and the investment climate may be perceived as less favorable than in other frontier markets.** As detailed in the note on growth in the WAEMU, the region tends to have lower scores in these areas in available international surveys. Tax issues may also play a role. Within the Union, interests are subject to taxation for investors who do not reside in the issuing country, with tax rates varying from country to country. A foreign investor can only buy on the WAEMU market by opening a bank account in a WAEMU country. To optimize taxation, an investor interested in all the sovereigns would therefore need to open an account in each of the issuing countries. Double taxation (in the investor's home country) may also be an issue. Finally financial infrastructure, rules and practices (regulations, custody, settlements, etc) in WAEMU countries may also lag behind those of Anglophone competitors. For instance, custodians and brokers are typically the same entity, though U.S. law requires a separation of these two activities for U.S. investors. The technological platform with real time pricing only came into effect in 2013.

## Policy Recommendations

**15. Nonresident investment in the WAEMU market should be sought and increased gradually, while addressing the related risks.** Governments have a choice of financing their deficits through domestic and external funds, with different costs and benefits. Tapping external savings increases the resources available to the economy and reduces the risk of crowding out, although it should be recognized that the latter has likely been limited in the WAEMU until recently due to excess liquidity in the banking system. External savings can be tapped by issuing on international markets (e.g., Eurobonds) or on the regional market. The advantage of the latter option is that it contributes to the development of the market, which in principle increases liquidity, reduces costs and a number of risks through a diversification of the investor base. Issuing in local currency also eliminates the exchange rate risk. This type of capital inflows, however, raises other challenges that the authorities need to prepare for. Some of the foreign investors may be more footloose than domestic ones, and their large size can generate volatility in a small market. This complicates monetary policy, reserve management, and preserving financial stability. On balance, however, a gradual move to higher nonresident participation in the WAEMU market is desirable and should be accompanied by adequate safeguards.

**16. A number of steps could be taken by the authorities to increase the attractiveness of the WAEMU market.** Sound macroeconomic and financial sector policies are prerequisites, as discussed above. Beyond this, based on the obstacles described in this note, the following measures could be considered:

- ***Improve communication with nonresidents:*** Agence UMOA Titres will have a key role to play in this area in the short term. The BCEAO has improved a lot its external communication in the past two years and should continue doing so, for instance by publishing English versions of key documents (such as the quarterly reports prepared for the monetary policy council).

Governments should also improve the dissemination of key economic and financial information, including in English.

- ***Accelerate ongoing reforms to develop the WAEMU market:*** Significant foreign investment in the WAEMU market is unlikely to take place until the market reaches a larger size and there is a secondary market. The ongoing reforms in this area (and to develop the interbank market) are therefore critical. Another important reform in this area is the establishment of the financial stability fund, which could address some of the liquidity concerns raised by investors.

- ***Reduce the segmentation of the sovereign bond market:*** this would help increase the size of the market and therefore liquidity.

- ***Harmonize taxation:*** this will ensure that foreign investors see the WAEMU market as one single integrated market. Double taxation should also be avoided.

## Selected References

De Grauwe, Paul, 2011, "Managing a Fragile Eurozone", CESifo Forum, Vol. 12, pp. 40–45.

Regional Economic Outlook, IMF, 2013, "Issuing International Sovereign Bonds: Opportunities and Challenges for Sub-Saharan Africa" Chapter 2.

# Appendix VI. The Role of Worker Remittances in Stabilizing Output in the WAEMU[1]

*Remittances have become an increasingly important source of financing for members of the West African Economic and Monetary Union (WAEMU), with important differences across countries. In addition remittances, including within the WAEMU, play an important role as a shock-absorbing device when economies slow down. Encouraging and facilitating remittances inflows should therefore be encouraged and facilitated. They could benefit from more competition and transparency in the transfer market, innovative transfer technologies and improved access to financial institutions.*

## Introduction

1. **Reducing output volatility in the WAEMU, whose member countries are exposed to frequent shocks, has proven a difficult task.** Limited product diversification and geographic conditions combine to subject WAEMU countries to various and frequent exogenous shocks, many of which asymmetric. As discussed in last year's reports, macroeconomic policies are constrained by a number of factors in their ability to address these shocks. While aid could potentially reduce output volatility, it has often proven procyclical. Staff research suggests that remittances have been the main factor smoothing the impact of shocks in these countries (see IMF, 2013).

2. **This note explores in more detail the role of remittances as output stabilizers for WAEMU countries.** It first provides an overview of the historical trends of remittances inflows, as well as a recent geographic decomposition of destinations of migration and sources of remittances. Furthermore, it explores the countercyclical character of remittances inflows, and finally, it assesses their role in reducing output volatility.

## Remittances in the WAEMU: An Overview

3. **Remittances have become an increasingly important resource for WAEMU countries, reaching an estimated $3.6 billion in 2011** (Figure 1.) While part of the increase over the last decade is likely due to better measurement, it also reflects higher migration from Africa and higher incomes of African migrants.[2] In 2011 remittances were about 50 percent higher than net foreign direct investment,[3] and amounted to about 60 percent the amount of official aid inflows. Ratha et al. (2011) show that remittances are more likely to finance investment in land, technology, health, and education, rather than consumption, which makes them an important source of development financing. In the WAEMU, however, remittances finance mainly consumption (55 percent) and then investment (21 percent).[4]

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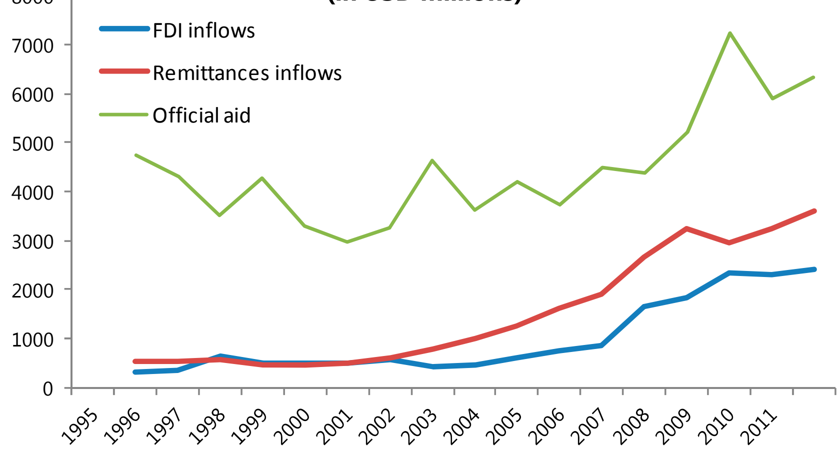
[1] This note was prepared by Ermal Hitaj.

[2] Ratha, D. et. al (2011), "Leveraging Migration for Africa: Remittances, Skills and Investments", *The World Bank*.

[3] Remittances inflows in Figure 1 are computed using IMF data, which report slightly higher numbers than the recent BCEAO survey, reflecting more buoyant assumptions on informal inflows.

[4] BCEAO (2013).

**Figure 1. WAEMU: Select Financial Flows (in USD millions)**




Sources: International Monetary Fund and World Bank

4. **The bulk of migrants from WAEMU countries work in another WAEMU country or Nigeria** (Tables 1 and 2). In 2010, according to the World Bank, about 5.5 million citizens of WAEMU countries, or about 6 percent of the region's population, lived abroad, of which 63 percent lived in other WAEMU countries. Nigeria and France were also popular destinations, with respectively about 600,000 and 300,000 WAEMU migrants. Within the WAEMU, Côte d'Ivoire and Burkina Faso are the source of about 65 percent of intra-WAEMU migration, and serve as destination for about 85 percent of it. The importance of migration varies across countries, and Burkina Faso, with 10 percent of its population living abroad, appears to be the country with the highest dependence on migration. It must be noted that the data in Table 1 and Table 2 is likely dated, and after the end of its internal conflict Côte d'Ivoire's importance as a migration destination is likely to have increased.

**Table 1. WAEMU: Migration Matrix, 2010**

| Source country (across) - Destination country (down) | Benin | Burkina Faso | Côte d'Ivoire | Guinea-Bissau | Mali | Niger | Senegal | Togo | Total |
|---|---|---|---|---|---|---|---|---|---|
| Côte d'Ivoire | 62,371 | 1,310,892 | 0 | 388 | 440,960 | 84,705 | 33,250 | 56,527 | 1,989,093 |
| Burkina Faso | 6,513 | 0 | 842,931 | 0 | 68,295 | 19,885 | 0 | 23,993 | 961,616 |
| Nigeria | 238,561 | 8,307 | 4,361 | 4,847 | 133,464 | 87,529 | 4,748 | 115,791 | 597,608 |
| France | 17,163 | 5,324 | 71,334 | 8,653 | 68,786 | 3,863 | 91,446 | 21,722 | 288,291 |
| Gambia, The | 0 | 0 | 0 | 20,158 | 12,992 | 0 | 177,306 | 0 | 210,456 |
| Niger | 27,691 | 29,881 | 1,859 | 0 | 69,790 | 0 | 0 | 15,001 | 144,223 |
| Benin | 0 | 10,606 | 0 | 0 | 0 | 80,789 | 0 | 51,302 | 142,697 |
| Italy | 2,768 | 11,651 | 22,276 | 35 | 1,082 | 1,238 | 81,424 | 4,179 | 124,653 |
| Other | 102,184 | 179,242 | 151,832 | 53,129 | 198,116 | 86,155 | 226,745 | 79,567 | 1,076,970 |
| Total | 457,252 | 1,555,904 | 1,094,592 | 87,210 | 993,484 | 364,164 | 614,919 | 368,081 | 5,535,608 |
| In percent of source country population | 4.8 | 10.0 | 5.8 | 5.5 | 7.1 | 2.3 | 4.7 | 5.8 | 5.8 |

**Table 2. WAEMU: Intra-union Migration Matrix, 2010**

| Source country (across) - Destination country (down) | Benin | Burkina Faso | Côte d'Ivoire | Guinea-Bissau | Mali | Niger | Senegal | Togo | Total |
|---|---|---|---|---|---|---|---|---|---|
| Côte d'Ivoire | 62,371 | 1,310,892 | 0 | 388 | 440,960 | 84,705 | 33,250 | 56,527 | 1,989,093 |
| Burkina Faso | 6,513 | 0 | 842,931 | 0 | 68,295 | 19,885 | 0 | 23,993 | 961,616 |
| Niger | 27,691 | 29,881 | 1,859 | 0 | 69,790 | 0 | 0 | 15,001 | 144,223 |
| Benin | 0 | 10,606 | 0 | 0 | 0 | 80,789 | 0 | 51,302 | 142,697 |
| Mali | 577 | 22,365 | 77,549 | 0 | 0 | 5,836 | 11,895 | 950 | 119,172 |
| Togo | 74,336 | 0 | 0 | 0 | 2,771 | 17,315 | 0 | 0 | 94,421 |
| Senegal | 0 | 0 | 0 | 24,155 | 17,502 | 0 | 0 | 0 | 41,657 |
| Guinea-Bissau | 0 | 0 | 0 | 0 | 0 | 0 | 9,807 | 0 | 9,807 |
| Total | 171,488 | 1,373,745 | 922,339 | 24,543 | 599,317 | 208,530 | 54,952 | 147,773 | 3,502,687 |
| In percent of source country population | 1.8 | 8.8 | 4.9 | 1.5 | 4.3 | 1.3 | 0.4 | 2.3 | 3.7 |

Source: World Bank Migration and Remittances Factbook, 2011

5. **However, remittances from migrants residing in advanced countries remain substantial** (Table 3 and 4). France is the largest source of remittance to the WAEMU by volume with about US$0.5 billion. France, Italy, ad Spain account together for about a third of gross remittances inflows into WAEMU countries, and 43 percent of remittance originating from outside the WAEMU. Remittances coming from WAEMU countries make up about a quarter of the total, with Côte d'Ivoire and Burkina Faso accounting for the bulk of it.

**Table 3. WAEMU: Remittances by Country of Origin, 2011**

| Remittance-receiving country (across) - Remittance-sending country (down) | Benin | Burkina Faso | Côte d'Ivoire | Guinea-Bissau | Mali | Niger | Senegal | Togo | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (USD millions) | | | | | |
| France | 13 | 1 | 47 | 6 | 77 | 3 | 312 | 43 | 502 |
| Côte d'Ivoire | 18 | 86 | 0 | 0 | 163 | 20 | 50 | 37 | 374 |
| Italy | 2 | 2 | 14 | 0 | 1 | 1 | 265 | 8 | 293 |
| Gambia, The | 0 | 0 | 0 | 5 | 5 | 0 | 270 | 0 | 280 |
| Burkina Faso | 2 | 0 | 226 | 0 | 24 | 4 | 0 | 15 | 271 |
| Nigeria | 75 | 1 | 1 | 1 | 52 | 22 | 7 | 80 | 240 |
| Spain | 0 | 0 | 1 | 5 | 23 | 0 | 167 | 1 | 198 |
| Other | 45 | 17 | 62 | 23 | 97 | 27 | 372 | 111 | 753 |
| Other WAEMU | 30 | 4 | 21 | 6 | 30 | 23 | 33 | 42 | 189 |
| Total | 185 | 111 | 373 | 46 | 472 | 102 | 1,475 | 336 | 3,099 |

**Table 4. WAEMU: Intra-union Remittances by Country of Origin, 2011**

| Remittance-receiving country (across) - Remittance-sending country (down) | Benin | Burkina Faso | Côte d'Ivoire | Guinea-Bissau | Mali | Niger | Senegal | Togo | Total |
|---|---|---|---|---|---|---|---|---|---|
| Côte d'Ivoire | 18 | 86 | 0 | 0 | 163 | 20 | 50 | 37 | 374 |
| Burkina Faso | 2 | 0 | 226 | 0 | 24 | 4 | 0 | 15 | 271 |
| Benin | 0 | 1 | 0 | 0 | 0 | 19 | 0 | 33 | 52 |
| Mali | 0 | 1 | 21 | 0 | 0 | 1 | 18 | 1 | 42 |
| Niger | 8 | 2 | 0 | 0 | 23 | 0 | 0 | 9 | 42 |
| Togo | 22 | 0 | 0 | 0 | 1 | 4 | 0 | 0 | 26 |
| Guinea-Bissau | 0 | 0 | 0 | 0 | 0 | 0 | 15 | 0 | 15 |
| Senegal | 0 | 0 | 0 | 6 | 7 | 0 | 0 | 0 | 13 |
| Total | 50 | 90 | 247 | 6 | 217 | 48 | 82 | 93 | 834 |

Source: World Bank Migration and Remittances Factbook, 2011

6. **This reflects a much higher average amount of money sent by migrants residing in Europe** (Table 5). The average migrant from the WAEMU sends home about \$560 a year. Migrants residing in France send an average \$1,741 a year, whereas migrants residing in Côte d'Ivoire, the most popular destination by far, send home an average \$188 a year. This likely reflect a number of factors, such as higher income levels in Europe, but also the fact that migrants that reside in Europe are likely to be younger and better educated (BCEAO (2013)). The average amount of money sent also varies across recipient countries. Senegalese migrants send

the most money home, whereas migrants originating from Burkina Faso have the lowest average of remittances to their home country. While this reflects to some extent rather different geographic orientations of migration flows, other factors seem to be at work.

**Table 5. WAEMU: Remittances per migrant, 2010**

| Source country (across) - Destination country (down) | Benin | Burkina Faso | Côte d'Ivoire | Guinea-Bissau | Mali | Niger | Senegal | Togo | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | | | (USD per migrant) | | | | | |
| Côte d'Ivoire | 296 | 66 | . | 243 | 369 | 234 | 1,498 | 649 | 188 |
| Burkina Faso | 290 | . | 268 | . | 348 | 219 | . | 612 | 282 |
| Nigeria | 314 | 70 | 286 | 258 | 393 | 253 | 1,558 | 692 | 402 |
| France | 738 | 180 | 658 | 681 | 1,122 | 856 | 3,407 | 1,994 | 1,741 |
| Gambia, The | . | . | . | 252 | 383 | . | 1,522 | . | 1,330 |
| Niger | 290 | 61 | 268 | . | 328 | . | . | 574 | 290 |
| Benin | . | 65 | . | . | . | 231 | . | 641 | 366 |
| Italy | 703 | 171 | 627 | 646 | 1,062 | 806 | 3,257 | 1,885 | 2,351 |
| Other | 437 | 94 | 410 | 427 | 489 | 318 | 1,639 | 1,389 | 699 |
| Total | 404 | 71 | 341 | 526 | 475 | 279 | 2,399 | 913 | 560 |

Source: World Bank Migration and Remittances Factbook, 2011

# Remittances Inflows: Absorbing Shocks

**7. Remittances inflows in the WAEMU are countercyclical.** This note uses a dataset of select macroeconomic variables over 1995–2012 to explore the relationship between remittances and real output. The panel Ordinary Least Squares (OLS) regression in Table 6 shows that, controlling for country and year fixed effects, a one percent decrease in real WAEMU GDP is associated with a four percent increase in net remittances inflows to the WAEMU (about 0.1 percent of GDP). As it might be expected, migrants tend to send more money home when economic activity in a recipient country slows down, and vice versa. This result confirms the countercyclical character of remittances.

**Table 6. WAEMU: Real GDP and Net Remittances Inflows**

| | Log net remittances inflows |
|---|---|
| Log real GDP | -4.02037*** |
| | [0.001] |
| Country fixed effects | yes |
| Year fixed effects | yes |
| Constant | 35.54756*** |
| | [0.000] |
| Observations | 113 |

z-statistics in brackets
*** p<0.01, ** p<0.05, * p<0.1

8. **The role of remittances and other variables in reducing output volatility can be assessed using an analytical framework similar to Chami et al. (2009) over 1995–2011.** Output volatility for each country in a given year is defined as the standard deviation of real GDP growth from that country's average growth over the observation period. The variables tested for affecting output volatility are net remittances inflows, aid, government expenditure, FDI, terms of trade and a trade openness index. The results are obtained through a panel OLS estimation. Country fixed effects are included to account for country-specific characteristics that might affect output volatility, and year fixed effects are included to control for symmetric shocks.

9. **Remittances inflows in the WAEMU have a significant role in absorbing shocks and stabilizing output** (Table 7). The natural log of remittances has a negative and significant effect on output volatility, suggesting that remittances in the WAEMU act as countercyclical shock-absorbers. Government expenditure has a positive and significant effect on output volatility, in line with results from Dessus et al. (2013) which conclude that public spending in WAEMU is pro-cyclical. Aid, FDI, and private credit have no significant effect on output volatility. These results remain robust to the inclusion of the terms of trade and trade openness index.

**Table 7. WAEMU: Factors Affectting Output Volatility**

| | (Standard deviation of growth) | |
|---|---|---|
| Net remittances inflows (log) | -1.125** | -1.080** |
| | [0.028] | [0.038] |
| Government expenditure (log) | 7.559* | 9.151** |
| | [0.090] | [0.046] |
| Aid (log) | -1.911 | -1.895 |
| | [0.239] | [0.250] |
| FDI (log) | -0.008 | 0.300 |
| | [0.987] | [0.572] |
| Private credit (log) | 0.598 | 1.225 |
| | [0.670] | [0.424] |
| Terms of trade | | -0.043 |
| | | [0.117] |
| Trade opennes index | | -0.041 |
| | | [0.643] |
| Country fixed effects | | yes |
| Year fixed effects | | yes |
| Constant | -42.507 | -60.471 |
| | [0.357] | [0.204] |
| Observations | 94 | 94 |
| R-squared | 0.809 | 0.817 |

p-values in brackets
*** p<0.01, ** p<0.05, * p<0.1

## Conclusion

10. **Remittances inflows act as countercyclical output stabilizers, and facilitating their circulation could improve the WAEMU countries' resilience to shocks.** Remittances inflows are not only countercyclical, but they also are a significant factor in reducing output volatility. They can help smooth asymmetric shocks and increase member countries' resilience to them. They also constitute a source of financing for the region (at least those that come from outside the WAEMU). From this perspective, higher labor mobility, which in itself contributes to adjusting to asymmetric shocks, would also help indirectly through its impact on remittances.

11. **Improving access to financial institutions and money transfer companies, and increasing competition and transparency in the remittance transfer markets, could facilitate remittances flows.** Access to financial institutions in the WAEMU remains limited. The ratio of adults with a bank account is about 13 percent, significantly below the Sub-Saharan African (SSA) average of 31 percent. Higher access to financial institutions would channel more transfers into the formal sector and help reduce costs. Increasing transparency and competition

in the transfer markets would also help reduce the cost of sending money home. Furthermore, mobile banking, which has been a significant source of domestic transfers in East Africa, remains little developed in the western part of the continent. The development of mobile banking in the WAEMU could facilitate substantially intra-WAEMU remittances flows, as there would be no exchange rate cost associated with money transfers.

## Selected References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**IMF Executive Board Concludes Article IV Consultation with West African Economic and Monetary Union**

On March 14 2014, the Executive Board of the International Monetary Fund (IMF) concluded the annual Discussion on Common Policies of Member Countries of the West African Economic and Monetary Union (WAEMU).[1]

The political and security situation in the region has stabilized. Peaceful elections took place in Mali and Togo and further progress has been made towards normalization in Côte d'Ivoire.

Regional growth remained strong and inflation moderate in 2013. After rebounding to 6.6 percent in 2012, regional growth reached 5.5 percent last year. This performance was driven by the post-crisis recovery in Côte d'Ivoire, public investment efforts, good harvests in several countries, and the beginning of oil production in Niger. Growth was particularly strong in Côte d'Ivoire, at about 9 percent, but also exceeded 5 percent in Benin, Burkina Faso, and Togo. The economy remained weak in Guinea-Bissau, and the drought in the Sahel took a heavy toll on GDP growth in post-crisis Mali. Regional inflation decreased to 1.6 percent, thanks to lower food prices.

[1]Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. 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

Despite a substantial increase in public investment in 2013, the area-wide fiscal deficit (including grants) stabilized at about 3 percent of GDP. The composition of spending shifted in favor of investment, while grants and tax revenue increased in most countries. The average public debt ratio for the region recorded a small decline to about 39 percent of GDP. Monetary policy was further eased. The Central Bank of West African States (BCEAO) lowered the policy rates by 50 basis points in 2013 and increased liquidity injections as bank liquidity contracted and inflationary pressures remained moderate. Money growth remained moderate as the decline of net foreign assets was offset by strong growth in credit to the economy. Bank lending rates recorded a small decrease.

The area-wide current account deficit continued to increase in 2013 mainly owing to higher public investment and a sharp decline in gold prices. The current account deficit (including official transfers) widened to 6.7 percent in 2013. Imports of intermediate goods, equipment, and services were boosted by higher public investment in most countries. Gold exports, which now represent about 20 percent of total regional exports, dropped on account of falling international gold prices. The overall balance of payments recorded a slight deficit, which led to a small decline of official reserves to 4.7 months of next year's extra-regional imports.

The regional surveillance framework is being reviewed to improve fiscal policy coordination. The existing criteria and enforcement mechanism suffer from a number of shortcomings. For instance, the key criterion on the basic fiscal deficit has often been violated and after debt relief the debt criterion is no longer constraining. In light of these issues, the WAEMU Commission has launched a review of the whole framework.

**Executive Board Assessment**[2]

Directors welcomed the strong growth performance and moderate inflation in the region and noted that the near-term outlook is for continued strong growth. Directors underscored that sustaining this momentum in the medium term, while preserving macroeconomic stability, will require consolidating improvements in regional security, high-quality public investment, and

[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.

ambitious growth-enhancing reforms. Regional policies to improve competitiveness, foster economic, financial and trade integration, and financial sector development will enhance growth and strengthen resilience.

Directors viewed the current macroeconomic policy mix as appropriate. In light of the widening current account deficit and declining official reserves, they supported a pause in monetary easing. Given the strong growth outlook, Directors also encouraged the authorities to strengthen fiscal and debt sustainability and build buffers while maintaining public investment and expanding social safety nets. They emphasized the importance of additional efforts to improve the quality of spending and increase revenue mobilization.

Directors underscored the need to improve fiscal policy coordination, and they welcomed the ongoing review of the regional surveillance framework. Directors agreed that convergence criteria should aim at preserving fiscal and external sustainability, and that they should be simple and transparent, while leaving policy room for countries to respond to shocks. Adopting a participatory approach to the reform of the framework would increase ownership and compliance. Directors also recommended progress in the coordination of public finance management, debt management, and tax policy.

Directors welcomed the ongoing financial sector reforms, and looked forward to faster implementation. To foster financial deepening, priority should be given to developing the interbank and sovereign debt markets. Directors underscored that efforts to strengthen bank supervision should continue, so as to increase observance of prudential rules. Given that some of these rules need to be brought closer to international standards, Directors welcomed the authorities' intention to move to Basel II and III regulation. They recommended tightening certain prudential rules in the meantime. They also encouraged further improving the crisis prevention and resolution framework.

Directors stressed the importance of enhancing regional trade integration for creating new opportunities, sustaining high growth, and increasing resilience. They encouraged coordinated action to remove nontariff barriers to trade, fill regional infrastructure gaps, and improve the business and legal environments. Directors noted the important role that structural transformation and diversification will have to play in fostering long-run growth. Efforts should also continue to improve the quality and timeliness of data.

The views expressed by Executive Directors today will form part of the Article IV consultation discussions on individual member states that take place until the next Board discussion of WAEMU common policies.

**WAEMU: Selected Economic and Financial Indicators, 2010–2018**

| | 2010 | 2011 | 2012 | 2013 Est. | 2014 Proj. | 2015 Proj. | 2016 Proj. | 2017 Proj. | 2018 Proj. |
|---|---|---|---|---|---|---|---|---|---|
| | (Annual percentage change) | | | | | | | | |
| National income and prices | | | | | | | | | |
| GDP at constant prices | 4.2 | 1.2 | 6.6 | 5.5 | 6.5 | 6.3 | 7.1 | 6.7 | 6.3 |
| GDP per capita at constant prices | 1.2 | -1.7 | 3.7 | 2.6 | 3.6 | 3.4 | 4.1 | 3.8 | 3.4 |
| Broad money to GDP | 8.3 | 6.3 | -1.6 | 5.3 | ... | ... | ... | ... | ... |
| Consumer prices (average) | 1.4 | 3.9 | 2.4 | 1.6 | 2.3 | 2.2 | 2.2 | 2.2 | 2.2 |
| Terms of trade | -0.4 | 6.4 | -1.0 | -0.8 | 1.2 | 0.9 | -0.6 | -0.7 | -0.4 |
| Nominal effective exchange rates | -4.3 | 1.7 | -2.3 | ... | ... | ... | ... | ... | ... |
| Real effective exchange rates | -6.3 | 1.0 | -2.7 | ... | ... | ... | ... | ... | ... |
| | (Percent of GDP) | | | | | | | | |
| National accounts | | | | | | | | | |
| Gross national savings | 14.9 | 17.6 | 14.4 | 15.1 | 14.6 | 15.5 | 15.9 | 16.1 | 16.5 |
| Gross domestic investment | 19.7 | 19.0 | 20.0 | 21.9 | 22.2 | 22.6 | 22.9 | 23.1 | 23.4 |
| *Of which:* public investment | 5.8 | 5.7 | 6.6 | 7.8 | 8.6 | 8.4 | 8.7 | 8.8 | 8.9 |
| | (Annual changes in percent of beginning-of-period broad money) | | | | | | | | |
| Money and credit [1] | | | | | | | | | |
| Net foreign assets | 3.1 | 1.0 | -2.1 | -4.3 | ... | ... | ... | ... | ... |
| Net domestic assets | 12.6 | 9.7 | 11.9 | 14.8 | ... | ... | ... | ... | ... |
| Broad money | 15.7 | 10.7 | 9.8 | 10.6 | ... | ... | ... | ... | ... |
| | (Percent of GDP, unless otherwise indicated) | | | | | | | | |
| Government financial operations [2] | | | | | | | | | |
| Government total revenue, excl. grants | 17.9 | 16.6 | 19.0 | 19.4 | 19.4 | 19.4 | 19.8 | 20.2 | 20.4 |
| Government expenditure | 23.3 | 23.2 | 24.8 | 25.3 | 26.9 | 25.5 | 25.7 | 25.8 | 25.8 |
| Overall fiscal balance, excl. grants | -5.4 | -6.5 | -5.8 | -5.9 | -7.5 | -6.1 | -5.9 | -5.7 | -5.4 |
| Official grants | 2.3 | 2.5 | 2.2 | 2.9 | 3.2 | 2.9 | 2.8 | 2.7 | 2.5 |
| Overall fiscal balance, incl. grants | -3.1 | -4.0 | -3.6 | -3.0 | -4.3 | -3.2 | -3.1 | -3.0 | -2.9 |
| Basic fiscal balance, incl. grants & HIPC | -0.7 | -2.1 | -2.1 | -0.9 | -1.1 | -0.9 | -0.8 | -0.7 | -0.6 |
| External sector | | | | | | | | | |
| Exports of goods and services [3] | 29.1 | 29.0 | 29.1 | 27.8 | 26.2 | 26.4 | 26.5 | 26.4 | 26.7 |
| Imports of goods and services [3] | 36.4 | 33.4 | 37.0 | 39.0 | 37.6 | 36.6 | 36.2 | 35.8 | 36.1 |
| Current account, excl. grants [4] | -6.8 | -3.3 | -7.1 | -10.5 | -10.4 | -9.1 | -9.0 | -8.6 | -8.4 |
| Current account, incl. grants [4] | -5.0 | -2.0 | -5.6 | -6.7 | -7.6 | -7.1 | -7.0 | -7.0 | -7.0 |
| External public debt | 32.5 | 31.5 | 26.5 | 26.8 | 27.8 | 27.8 | 27.6 | 27.3 | 27.1 |
| Total public debt | 44.4 | 44.3 | 39.7 | 38.8 | 38.7 | 38.5 | 38.2 | 37.5 | 37.1 |
| Broad money | 28.6 | 30.4 | 29.9 | 31.5 | ... | ... | ... | ... | ... |
| *Memorandum items:* | | | | | | | | | |
| Nominal GDP (billions of CFA francs) | 34,779 | 36,688 | 40,200 | 43,220 | 47,056 | 51,117 | 55,869 | 60,869 | 66,068.8 |
| Nominal GDP per capita (US dollars) | 714 | 768 | 756 | 816 | 895 | 961 | 1,040 | 1,122 | 1,202.7 |
| CFA franc per US dollars, average | 495 | 472 | 511 | 494 | ... | ... | ... | ... | ... |
| Euro per US dollars, average | 0.76 | 0.72 | 0.78 | 0.75 | ... | ... | ... | ... | ... |
| Foreign exchange cover ratio [5] | 99.9 | 97.2 | 98.4 | 91.2 | ... | ... | ... | ... | ... |
| Reserves in months of imports (excl. intra-WAEMU imports) | 6.6 | 5.7 | 5.0 | 4.7 | ... | ... | ... | ... | ... |

**Sources: IMF, African Department database; World Economic Outlook; IMF staff estimates.**
**[1]The estimates for 2013 refer to annual change at end-June, with the beginning-of-period referring to end-June 2012.**
**[2]Fiscal data for 2014 reflect a strong increase in the fiscal deficit of Niger, following a new project in the hydrocarbon sector.**
**[3]Excluding intraregional trade.**
**[4]Data up to 2011 are corrected for intraregional trade discrepancies by BCEAO.**
**[5]Gross official reserves divided by short-term domestic liabilities (IMF definition). The estimates for end-September 2013.**

**Statement by Mr. Assimaidou and Mr. Diallo on WAEMU**
**Executive Board Meeting**
**March 14, 2014**

The WAEMU authorities thank staff for the candid and productive dialogue during their visit to the Union's institutions. Twenty years after its establishment, the WAEMU is at an important juncture as a regional economic community and my authorities appreciate the Fund's contribution to their ongoing work aimed at revamping the regional surveillance framework as well as implementing the key structural reforms which will help member states initiate their economic transformation. They broadly share the thrust of the staff report as a fair reflection of the views exchanged during the mission.

After experiencing the adverse impact of the political and security situation in the region, economic activity in 2013 sustained the pace of its 2012 rebound and WAEMU countries are committed to take advantage of this new momentum to entrench growth over the medium term. The reform package designed accordingly is on track, in the fiscal area, the financial sector, and other important structural reforms for the development of the private sector and trade.

## RECENT DEVELOPMENTS, GROWTH AND FISCAL POLICY COORDINATION

The Union's authorities concur with staff on the recent positive developments in the region and to the projected favorable outlook as well. Growth recorded a strong 5.5 percent in 2013 owing to an improved socio-political environment, buoyant public investment, a good harvest and oil production. Regional inflation was subdued at 1.6 percent as a result of lower food prices. The situation of public finances reflects the big shift towards investment mostly in infrastructure. The authorities are taking steps to further improve the composition of spending in that direction. Efforts have also been made on the revenue side, with countries stepping up the mobilization of taxes and grants to support their investment agenda. As a result, the area-wide fiscal deficit is contained at about 3 percent of GDP.

Overall, the authorities consider the recent developments in the public finances and the current account as encouraging signs of the success of the structural changes underway. The public spending profile is trending towards investment as opposed to the high current expenditures of the past. Consequently, imports are being dominated by capital goods. Although these developments entail some adverse effect on the fiscal and current account deficits in the short run, my authorities believe that they are temporary and the related investments should pave the way for a better stance in the medium term.

For the period ahead, the WAEMU has embarked on a thorough review of the regional surveillance framework, which should contribute to improve fiscal policy coordination and strengthen member countries' public finances. The overarching goal of the authorities in reforming the surveillance framework is to set new fiscal rules that support their development agenda while ensuring fiscal sustainability over the long term. To this end, the WAEMU Commission has initiated the review of the convergence criteria with an emphasis on the debt criterion. Drawing on the experience of weak compliance with the regional fiscal rules, the authorities have taken steps to ensure that the review process and the design of new rules are participatory and inclusive. Moreover, they have made arrangements to garner inputs and views from partners and external experts on the current surveillance framework and the changes that may be warranted. In particular, a study on the debt criterion was commissioned and the report by external experts is being discussed with partners including IMF staff, officials from member countries and experts of the WAEMU institutions.

Preliminary discussions have exposed divergent views between staff and the authorities, especially on the debt criterion, which warrant stressing the authorities' views. Staff recommended the lowering of the ceiling on the debt- to-GDP ratio, arguing that the current level of 70 percent of GDP is no more constraining and too high from a debt vulnerability perspective. Without prejudging the outcome of their ongoing review, my authorities consider that the external debt criterion should not be viewed only from a debt vulnerability perspective. The goal of policymakers, among others, is to grow the economy at strong and sustainable rates so as to create jobs, improve the standard of living of the population and generate enough revenue to honor public liabilities. At a time when African leaders and all their partners concur that Sub-Saharan Africa should seize the moment, my authorities strongly believe that, while maintaining macroeconomic stability, countries should not be over-constrained and unduly deprived of sources of financing for their structural transformation agenda. Rather, due account should be taken of the development imperatives in any debt assessment.

The WAEMU authorities are fully committed to preserve the improvement of macroeconomic management and the hard-won benefits of the HIPC and MDRI initiatives. Most countries in the region now have in place national debt management strategies and institutions with civil societies more aware of debt issues and the challenges they face. The combination of these factors resulted in the area-wide average debt- to-GDP ratio dropping from 125 percent in 2000 to less than 40 percent currently; with some countries' ratio standing at less than 20 percent. Such a favorable stance provides room for maneuver and should entail some flexibility in setting a ceiling on the debt-to-GDP ratio. Moreover, to ensure ownership and compliance, this ratio should be realistic and reflect countries' need to scale up public investment while maintaining long-term fiscal and debt sustainability.

The preparatory work on the other convergence criteria is proceeding well. The authorities will draw on their past experience and on relevant international best practices to design the new framework. In this regard, they appreciate the discussion with staff on a number of measures and instruments such as the transposition of regional rules into national laws and fiscal frameworks or the setting of independent national fiscal councils. While some of these instruments may appear helpful in principle, the institutional development stage of the WAEMU countries may not yet offer the suitable environment for their implementation and effectiveness. The final step of the current review process will be the formulation of a specific reform proposal to be submitted to the Council of Ministers for decision.

## FINANCIAL SECTOR DEVELOPMENT AND MONETARY POLICY

**The WAEMU authorities have taken** good note of staff's assessment that "various analyses suggest that the real effective exchange rate remains broadly in line with regional fundamentals". Monetary policy in the recent period has supported member countries' efforts to boost economic activity, especially after the post-crisis slowdown in some countries. This easing has contributed to the strong credit growth, albeit with a limited effect on bank lending rates.

The overall regional financial sector is sound and the authorities are addressing difficulties where needed, with no or limited impact on public finances. The banking commission has been strengthened, better staffed and equipped to closely monitor developments in the sector. Furthermore, the set of financial sector reforms mainly initiated by the central bank (BCEAO) should help address most of the vulnerabilities, including the high concentration of lending, which not only increases risks for banks but also impedes broad-based growth and economic diversification. Reforms have proceeded well and the authorities are stepping up efforts to accelerate those that encountered delays. The objective is to develop a deep and well-functioning financial sector, which provides the appropriate channels for the conduct of monetary policy, and which better supports the economic activity, including by availing credit to all sectors in need.

Regarding the interbank and public debt markets, the electronic infrastructure is in its final stage of implementation and should be functional before mid-2014. The creation of credit bureaus is underway, with companies to be selected in 2014. The regional agency set to assist countries in better coordinating the issuance of sovereign debt has been created; its senior management team is recruited and it is being further staffed. As regards supervision and crisis prevention, the banking commission has liaised with the authorities of parent banks of regional subsidiaries to better coordinate supervisory efforts in the face of fast developing regional banking groups. The authorities are also taking steps to implement Basel II/III regulation in the coming years. The creation of a financial stability fund aimed at addressing sovereign risks is also being finalized; the governance architecture is completed and the resources should be made available in the period ahead.

**STRUCTURAL REFORMS FOR ECONOMIC TRANSFORMATION**

Besides the fiscal area and the financial sector, other structural reforms are underway or are to be initiated to support member countries' efforts to sustain growth over the long-term and to speed up economic transformation. The first policy area is related to an array of regional initiatives aimed at boosting the development of the private sector, which should be the main driver of inclusive growth. The WAEMU Commission is taking steps to harmonize across countries the reforms for improving the business environment, including the World Bank "Doing Business" related reforms.

The Union's common industrial policy includes an emphasis on the development of SMEs. Efforts are underway to design a single set of characteristics for classifying SMEs within the region, with the view to facilitate the implementation of policies in this sub-sector. Likewise, a single market is being established to allow SMEs to sub-contract with bigger companies in public procurements across countries. Major steps have also been made in delivering regional infrastructure projects and in finding lasting regional solutions to the energy issue, all aimed at creating a conducive environment to growth. The implementation of the second phase of the Regional Economic Program (PER) should bolster these efforts.

The facilitation of regional trade is also a top priority of the Union which has designed a program that includes lifting nontariff barriers to the movement of people, goods and services within the WAEMU, and addressing issues such as illicit road blocks and payments of bribes. The recent agreement for a common external tariff (CET) for the whole Economic Community of West African States (ECOWAS) is also a good step to further enhance trade.

My authorities consider it an important achievement that work carried out for years have now been translated into an accord, with a CET to merge the WAEMU and ECOWAS markets. As for the risks associated with this development, the authorities view the agreement as a work in progress and they are committed to working expeditiously to address the current difficulties and improve the framework as the single market gains ground. Along these negotiations, the ECOWAS authorities are also working with the European Union on the terms of the Economic Partnership Agreement (EPA). The discussions now focus on a proposal by the ECOWAS to allow for a 75 percent free access for European goods to its market against initial proposals of 70 percent (ECOWAS) and 80 percent (EU).

The authorities also intend to promote the dissemination of best practices among countries by making regional rules of the positive experiences and achievements of a given member country. In the same vein, they have initiated a set of institutional reforms for a better functioning of WAEMU institutions, especially the Commission. These reforms are inspired by the Commission's Strategic Plan 2011-20. A forward-looking report on the "WAEMU in 2020" drafted by a high level panel also serves as a basis for internal discussions on key challenges facing the regional economy as a whole.

**CONCLUSION**

The regional framework provided by the WAEMU has contributed to the progress achieved by member countries in conducting fiscal and monetary policies and on important structural reforms. Despite internal challenges and adverse exogenous shocks, the Union has made significant inroads towards creating a well-functioning single market, basis for economic development and prosperity within the region.

The 20th anniversary is a milestone for the WAEMU and the authorities have high expectations from the review they initiated to bring changes to their fiscal coordination instrument. Paired with the comprehensive reforms in a wide range of sectors, my authorities are hopeful that the region's process of economic transformation will be well entrenched for sustainable and inclusive growth.