



WEST AFRICAN ECONOMIC AND MONETARY UNION

April 2015

COMMON POLICIES OF MEMBER COUNTRIES—STAFF REPORT; PRESS RELEASE; AND 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:

- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on March 20, 2015, following discussions with regional institutions that ended on January 23, 2015. Based on information available at the time of these discussions, the staff report was completed on March 6, 2015.
- A **Press Release** summarizing the views of the Executive Board as expressed during its March 20, 2015 discussion of the staff report.
- A **Statement by the Executive Director**

The document listed below has been or will be separately released.

Selected Issues Paper

The publication policy of staff reports and other documents allows for the deletion of market-sensitive information.

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WEST AFRICAN ECONOMIC AND MONETARY UNION

STAFF REPORT ON COMMON POLICIES OF MEMBER COUNTRIES

March 6, 2015

KEY ISSUES

Context. The region continued to experience strong growth in 2014, led by the continued economic expansion in Cote d'Ivoire. The outlook is for further strong growth, subject to a range of downward risks, in particular political instability ahead of upcoming elections in several countries, and security issues in Mali and Niger. With an elevated fiscal deficit exerting pressure on the balance of payments and the regional financial market, delays in fiscal consolidation or structural reforms pose the main medium-term risks.

Policy recommendations:

- **Fiscal consolidation.** Safeguarding external stability in the region will require governments to adhere to their budget deficit reduction plans while maintaining public investment efforts, which will require increasing tax revenue and controlling current expenditure.
- **Monetary policy.** Macroeconomic conditions do not warrant a tightening of monetary policy at this juncture. However, if fiscal deficits do not decline as envisaged, the BCEAO should consider increasing its policy rates. In the mean time, the BCEAO should very closely follow the evolution of the macro-prudential risks flowing from its sharp increase in commercial bank refinancing.
- **Financial stability.** The WAEMU authorities should enforce existing prudential rules and raise standards to international best practice. Ongoing reforms go in the right direction but need to be accelerated.
- **Structural transformation and regional integration.** Policies to promote structural transformation should focus on addressing weaknesses, such as the lack of education and training, finance, and supportive regulatory environments. Countries should refrain from using the possibility to deviate from the common external tariff of the Economic Community of West African States (ECOWAS) in force since January 1, 2015, in order to protect the gains from regional integration in WAEMU.

Approved By
Roger Nord and Peter
Allum

Discussions were held in Abidjan, Lomé, Ouagadougou, and Dakar during January 12-23. The staff team comprised Mr. Josz (head), Messrs. Hooley and Kireyev, Ms. Newiak (all AFR), Mr. Awad (MCM), and Mr. Flanchec (AFRITAC West). The mission was assisted by Messrs. Feler, Keller, Le Hen, and Loko (resident representatives). Mr. Diallo (OED) participated in the discussions. Other contributors included Messrs. Klos and Narvaez, and Ms. Ourigou.

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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ROBUST GROWTH WITH DOWNSIDE RISKS

A. Recent Developments

1. **The security and political situation remains fragile.** The recent terrorist attacks in France triggered social unrest in several countries. The security situation remained volatile in the North of Mali. Niger suffered from spillovers from neighboring countries. Upcoming elections in several countries (Togo, Benin, Burkina Faso, and Côte d'Ivoire) could reignite tensions.
2. **Growth was strong and inflation subdued** (Figure 1 and Tables 1-2). Growth reached 6.1 percent in 2014, driven by continued recovery in Côte d'Ivoire and a favorable agricultural season in many countries. Rising public infrastructure investment also stimulated economic activity. The impact of Ebola on growth, although very important in Guinea, Liberia and Sierra Leone, was small in WAEMU. Consumer price and underlying inflations were close to zero in 2014.
3. **The fiscal deficit widened to a twenty year-high in 2014** (Figure 1; Tables 3 and 4). The overall budget deficit (including grants) reached 4.6 percent of GDP in 2014,¹ compared to an average of 2.9 percent of GDP during the past decade, owing to rising public investment to address the infrastructure gap, especially in Burkina Faso, Côte d'Ivoire, Mali and Niger. With tax revenue remaining broadly unchanged at 16 percent of GDP, countries increasingly tapped the regional financial market, but faced more difficulties in 2014 when bonds issued by Côte d'Ivoire, Niger and Togo were not fully subscribed.² Average T-Bill rates increased by about ½ percentage point since the beginning of 2014, from 4.8 to 5.6 percent. The total public debt declined slightly to 38.1 percent of GDP (Table 5).
4. **Monetary policy has fueled robust credit growth** (Table 5 and Figure 2). The BCEAO has kept its key refinancing interest rate unchanged at 2.5 percent since September 2013. Credit to the economy has continued to grow at robust rates (14 percent y-o-y) and credit to governments at even higher rates (24 percent y-o-y). Refinancing operations by the BCEAO have risen sharply, almost doubling over the past year, and banks' position with the central bank has turned from a net creditor to a net debtor position. Commercial banks' borrowing from the central bank and governments' borrowing from commercial banks have risen in synch: the former has reached 9 percent of banks' liabilities and the latter about 20 percent of their assets. The positive interest rate differential between central bank refinancing and T-bills and bonds, and the zero capital

¹3.7 percent of GDP, excluding Niger's government's participation to an investment project into the hydrocarbon sector.

²Governments issued a total of CFAF 2,131 billion (\$4.3 billion or 4.5 percent of GDP) on the regional market in 2014 (in CFAF billions by country: Côte d'Ivoire: 777; Benin: 369; Mali: 352; Senegal: 311; Burkina Faso: 195; Togo: 159; Niger: 134; and Guinea-Bissau: 15). Overall, issuances recorded a slight under-subscription (FCFA 26 billion or 1.1 percent), in contrast to an over-subscription by about 11 percent in 2013. WAEMU commercial banks are the main purchasers of T-bills and bonds issued by WAEMU governments on the regional market.

requirement for WAEMU government paper, may also have provided an incentive to borrow from the central bank and invest in government paper. In the mean time, the transactions turnover in the interbank market has shrunk.

5. The external current account deficit declined slightly in 2014 but remained well above its historical average (Table 6 and Figure 1). The deterioration of the current account deficit since 2011 has been due to increasing savings-investment gap in both the public and private sectors. The expansion of the private savings-investment gap is mainly driven by a sharp increase in private consumption in Cote d'Ivoire since the end of the crisis in 2011. After widening sharply in 2012-13, the current account deficit (including grants) declined to 7.3 percent of GDP in 2014, mainly reflecting the drop in international oil prices. As a result, after declining for three consecutive years, the international reserves of the BCEAO rose slightly in 2014, owing notably to a stricter implementation of the obligation to repatriate export receipts, although this was broadly offset by the decline in the net foreign asset position of commercial banks.

6. The external position remains sustainable but vulnerabilities have increased (Box 1). The exchange rate appears broadly in line with fundamentals, but external buffers have been shrinking: the BCEAO's gross international reserves (GIR) coverage decreased from 6.6 months of imports in 2010 to 4.6 months of imports in 2014; commercial banks' net foreign exchange position has declined significantly in 2014 and turned negative (¶5). The level of GIR is below optimal based on standard metrics (5 to 12 months of imports).³ However, GIR are still significantly higher than the floor that acts as a warning signal under the zone's monetary arrangement with France (84 percent of narrow money compared with 20 percent).

B. Outlook and Risks

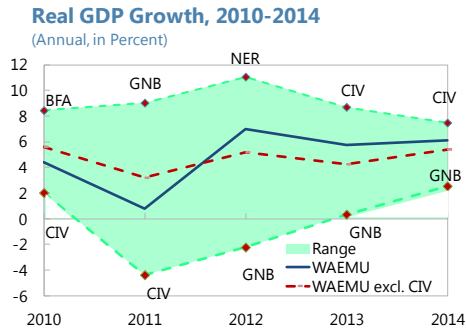
7. Growth should stay strong and fiscal and current account deficits should gradually decline if governments implement their fiscal consolidation plans (Figure 3). Growth should remain above 6 percent owing to continued buoyant public and private sector investment and be supported by the weakening of the €, to which the CFAF is pegged, and the improvement in the terms of trade compared to last year's assessment, owing notably to the decline in international oil prices. Meanwhile, inflation is expected to average around 2 percent over the medium term. The overall fiscal deficit should fall to 4 percent in 2015, and then gradually decrease below 3 percent of GDP by 2019 if governments implement their fiscal consolidation plans. Total public debt is projected to stabilize at moderate levels (about 40 percent of GDP). Owing to the decrease in oil prices and fiscal consolidation, the current account deficit (including grants) should gradually improve from 7.3 percent of GDP in 2014 to 6.3 percent of GDP by 2019, with reserve coverage staying above 4 months of imports.

³This metric does not fully apply for the WAEMU given the commitment of France to back the convertibility of the CFA franc.

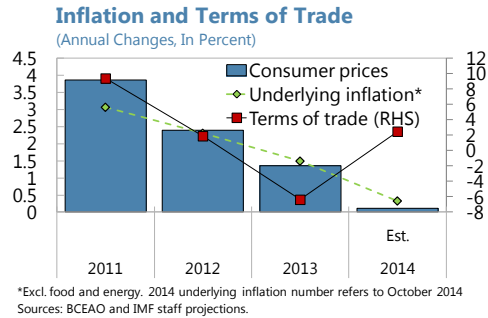
8. The outlook is subject to downside risks (Risk Assessment Matrix). A decrease in non-oil commodity prices as a result of a slowdown of growth in advanced and emerging market countries would negatively impact the external accounts of commodity exporters such as Burkina Faso, Mali and Niger. Tighter external financing conditions due to the normalization of advanced countries' monetary policy could increase the cost of financing for countries with access to international markets like Côte d'Ivoire and Senegal. The absence of fiscal consolidation and slow structural reform implementation, including reforms to increase public investment efficiency, would reduce growth and worsen the external and fiscal positions of the region. The decline in Ebola infections in the three most affected countries is welcome; a flare-up would pose renewed risks for the region.

Figure 1. WAEMU: Recent Economic Developments

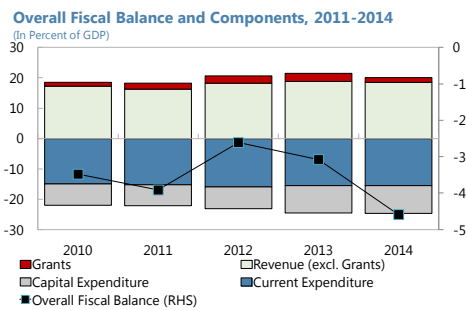
Growth remained strong in 2014, ...



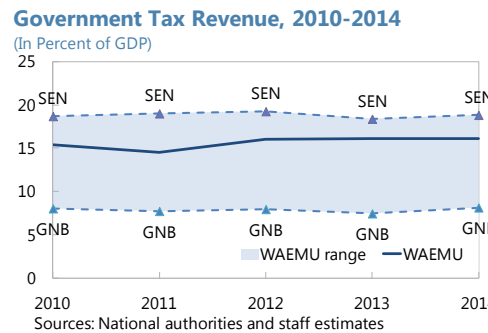
... with more favorable terms of trade, and inflation close to zero.



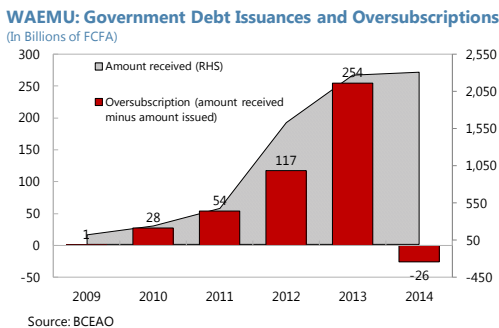
The fiscal deficit widened in 2014, mainly reflecting higher capital expenditures, ...



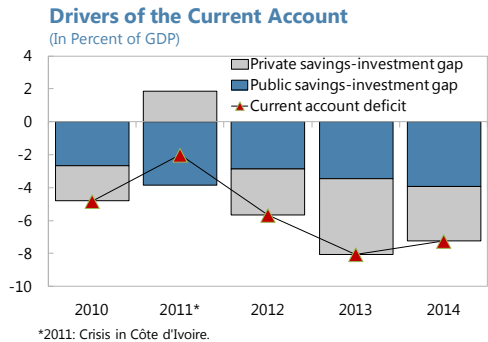
... while tax revenues stabilized at 16 percent of GDP on average.



The fiscal deficit was more difficult to finance on the regional market.

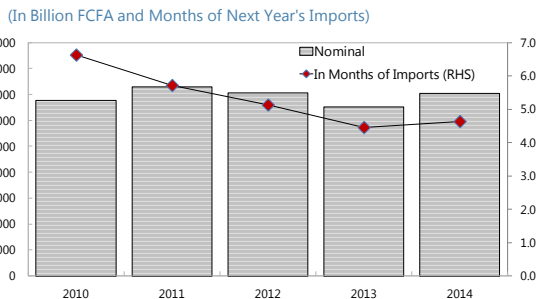


The current account deficit declined, owing to the private sector, ...



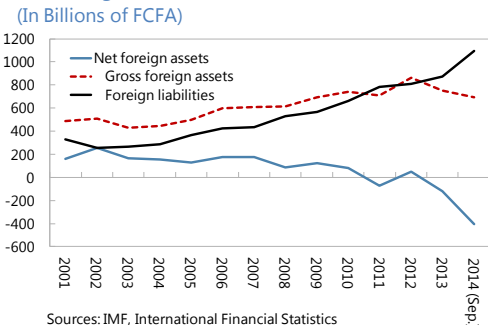
...the reserve coverage is trending lower, ...

Gross International Reserves



... and commercial banks have become net debtor vis-à-vis the rest of the world.

Net Foreign Assets- Commercial Banks, 2011-2014



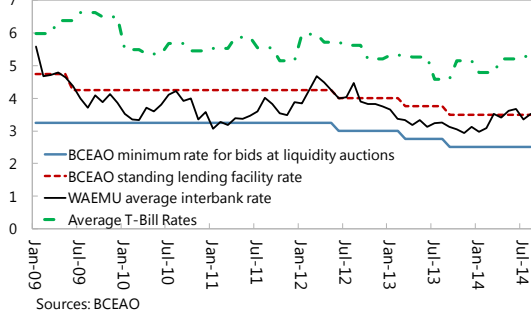
Source: IMF African department database, World economic outlook, BCEAO, and IMF staff estimates.

Figure 2. WAEMU: Monetary Developments

The monetary policy stance has been accommodative...

Interest Rates

(In Percent)

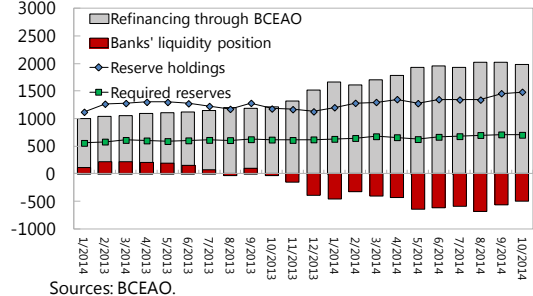


Sources: BCEAO

... and banks have increased their recourse to central bank borrowing.

Evolution of Bank Liquidity

(Mid-month, in Billions of FCFA)

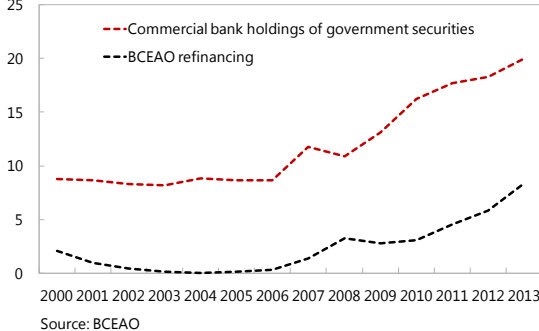


Sources: BCEAO.

Central bank refinancing of commercial banks and commercial banks lending to government have increased in synchrony ...

BCEAO refinancing and commercial bank holdings of government securities

(Percent of commercial bank assets)

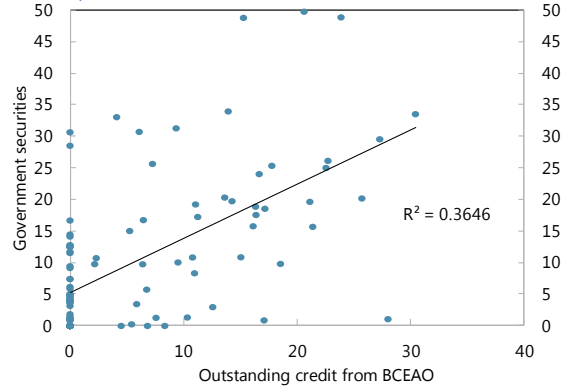


Source: BCEAO

...with some banks' business models particularly reliant on this type of activity.

Government securities holdings and borrowings from the BCEAO (2014 Q2)

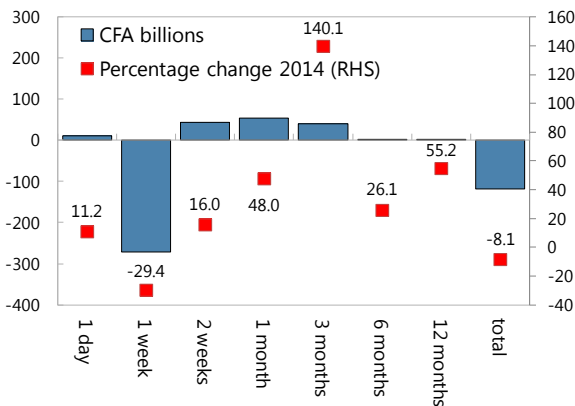
(In percent of total assets)



There are signs that the interbank market is being crowded out by higher central bank lending ...

Interbank Market Activity by Maturity

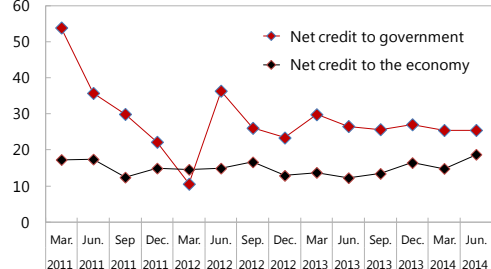
(Change: 2014 on 2013, in CFA Billions and Percent)



... although credit growth to the private sector remains robust.

Domestic Credit

(Year-on Year Percent Change)



Source: IMF, International Financial Statistics.

Box 1. WAEMU: External Stability¹

Based on four methodologies which give a qualitatively similar assessment, the real effective exchange rate (REER) appears to be broadly in line with fundamentals. Nevertheless, a reserve adequacy metric suggests that the region's reserve coverage is below optimal levels and should increase to provide buffers against typical external shocks. Indicators of non-price-competitiveness have improved, but the business climate remains challenging.

The exchange rate appears broadly in line with fundamentals if the planned fiscal consolidation materializes.

Four methodologies are used to assess the WAEMU's real exchange rate from different angles: "EBA-lite"² provides a current account benchmark for 2013 based on the WAEMU's fundamentals relative to the rest of the world adjusted by a policy gap (the region's policies relative to an optimal level and relative to the rest of the world). The macro-balance and real equilibrium exchange rate approaches provide current account and real exchange rate benchmarks based on a set of fundamentals expected for the region and its trading partners in the medium term. Finally, the external sustainability approach provides a current account benchmark which is consistent with stabilizing NFA at -40 percent (median for lower middle income countries). Under current macroeconomic projections, the results of all methodologies suggest that the real exchange rate overvaluation ranges between 1.0 and 9.8 percent, which means that the real exchange rate can be considered as broadly in line with the region's fundamentals given the margins of uncertainty of such estimations. The exchange rate misalignment would increase in the absence of fiscal consolidation.

International reserves should increase to provide higher buffers against typical shocks.

Following Dabla-Norris et al. (2011), the "optimal" level of reserves is determined by maximizing their net benefits which depend on (i) the expected cost of a crisis given the stock of reserves, (ii) a vector of fundamentals (exchange rate regime, fiscal balance, institutions), (iii) the exposure to shocks (terms of trade, external demand, FDI, aid), and (iv) the cost of holding reserves (interest rate differential with the rest of the world). The approach suggests about 5 to 12 months of imports coverage for the region. This result implies that the region's reserve coverage is currently below "optimal" levels and, given current macroeconomic projections, would stay below these levels even in the medium term.

The business climate has improved, but remains challenging. The WAEMU's position in the Doing Business ranking has improved compared to the last assessment, with half of the regions' member countries improving their ranking by at least 10 positions. However, all WAEMU countries are still lagging behind African and Asian benchmark groups. Access to and the quality of electricity provision, the registration of property, the enforcement of contracts, investor protection and financial access pose particular challenges to firms.

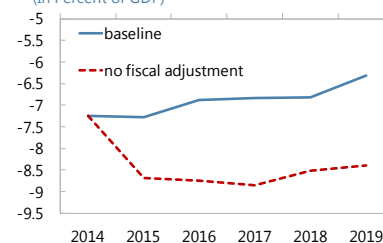
Summary: Real Effective Exchange Rate Assessment

	Current Account/GDP		REER ¹
	Norm	Underlying ²	
EBA-lite	-5.7	-8.1	5.7
CGER			
Macrobalance	-7.6	-8.1	1.0
Equilibrium real exchange rate	...	...	8.9
External sustainability	-3.9	-8.1	9.8

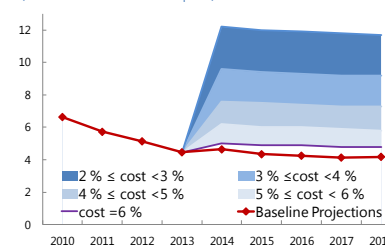
¹Positive values indicate overvaluation

²Short-term incl. grants, medium term excl. grants

Current Account incl. Grants
(In Percent of GDP)



Optimal and Projected Level of Reserves, 2014-2018
(In Months of Next Year's Imports)



Ease of Doing Business 2015
(Rank among 189 Economies)



¹ This box summarizes the analysis in Section 1 of the accompanying Selected Issues Paper.

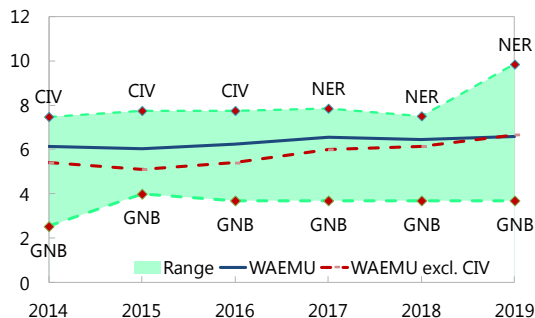
² External Balance Assessment for low income and emerging markets.

Figure 3. WAEMU: Medium-term Outlook, 2014-2019

Growth should remain strong in the medium term, ...

Real GDP Growth, 2014-2019

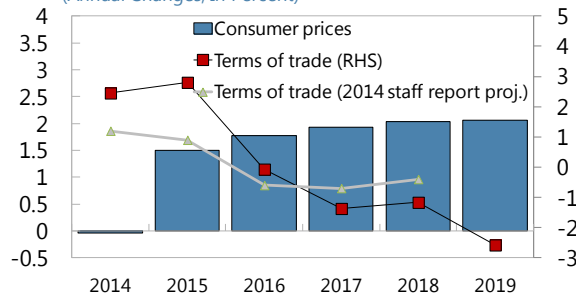
(Annual, in Percent)



... and inflation low.

Inflation and Terms of Trade

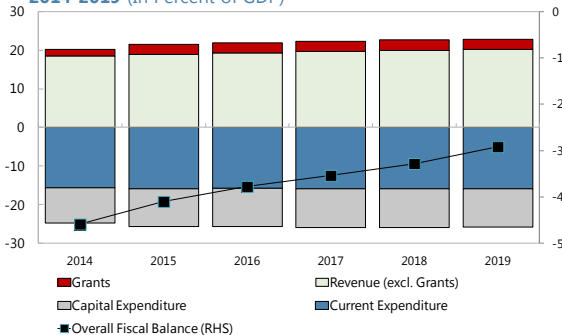
(Annual Changes, in Percent)



In line with governments' plans to consolidate the fiscal deficit below 3 percent by 2019, ...

Overall Fiscal Balance (Cash Basis) and Components, 2014-2019

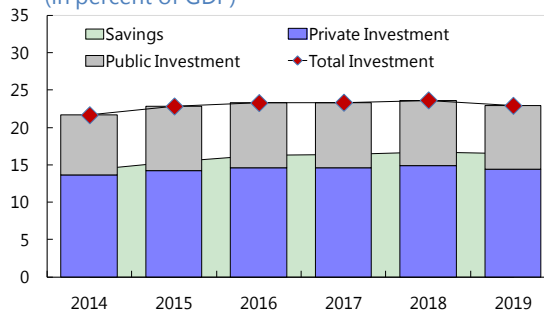
(In Percent of GDP)



... the region's savings-investment gap would decrease, while public and private investments would remain high.

National Savings and Investment

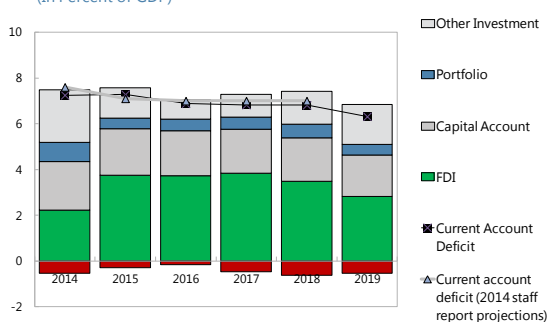
(in percent of GDP)



Financial and capital accounts would on average finance the current account deficit, ...

Financing Sources

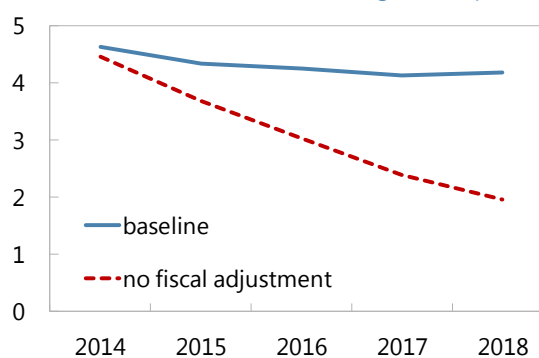
(In Percent of GDP)



... stabilizing their GIR coverage in the medium-term, provided fiscal consolidation is implemented as planned.

Gross International Reserves

(In Months of Next Years Extra-Regional Imports)



Source: IMF African department database, World economic outlook, BCEAO, and IMF staff estimates and projections.

WAEMU: Risk Assessment Matrix

Source of Risk	Relative Likelihood	Potential Impact
Spillover Risks		
A surge in global financial market volatility.	High	Low to medium. The region's exposure to portfolio flows remains limited, but increased financial market volatility and financing costs could adversely affect WAEMU countries which plan to tap international financial markets.
Persistent dollar strength	Medium	Medium. Since the CFAF is pegged to the euro, a strong dollar would make WAEMU exports of goods and services outside of the euro zone more competitive, while imports would become more expensive.
Protracted period of slower growth in advanced and emerging economies.	High	Medium. <ul style="list-style-type: none"> Slower growth in advanced markets, in particular Europe, could lower trade, remittances, foreign aid and FDI. Slower growth in and subsequently lower demand for commodities by emerging markets, including China, could dampen commodity prices and thus exports in some countries (e.g. gold, cocoa); a positive impact is expected for the region's current account deficit if mainly oil prices are affected.
Growth slowdown and financial risks in China.	Low-Medium	
Heightened risk of fragmentation/state failure in the Middle East, leading to a sharp rise in oil prices, with negative spillovers to the global economy.	Medium	Medium to high. With the exception of Niger, all WAEMU countries are net oil importers. An increase in oil prices would deteriorate the current account balance and negatively impact growth through an increase in production costs.
Bond market stress from a reassessment in sovereign risk: <ul style="list-style-type: none"> Japan Euro area United States 	Medium Low Low	Medium. Higher interest rates or less appetite by investors for member countries' sovereign bonds would increase borrowing cost, with implications for budgets, in particular in the context of a high need for infrastructure financing.
Regional Risks		
Political and security risks, including regional spillovers.	Medium	High. Security risks in the Sahel remain. Stability could be tested within the context of elections in several WAEMU countries. Risks include a destruction of (human) capital, negative effects on growth and inclusiveness, delays in reforms, and increased fiscal cost and liquidity risks for the affected sovereign.
Delay in reforms at country and regional level related to (i) fiscal consolidation (ii) infrastructure investment, (iii) the energy sector, (iii) PFM, (iv) the financial sector and (iv) regional integration.	Medium	Medium to high. Fiscal consolidation and key reforms will require strong political will. Weak implementation capacity and bureaucratic hurdles pose risks to efficient reform implementation. With many countries targeting large infrastructure investments, a delay in PFM reforms and inefficient investment could give rise to debt, fiscal and external sustainability issues, with negative implications for growth and poverty reduction. Delays in supervisory reforms may pose financial stability risks.
Adverse weather conditions.	Medium	High. Lower agricultural production could imply heightened food security risks, a decline in growth rates, and additional fiscal costs.
Regional spillovers from the outbreak of Ebola.	Medium	Medium, assuming a quick containment of the disease. Border closures could negatively impact trade. Negative effects on tourism, transportation and redistributive trade could negatively impact economic activity. High, if the containment is delayed or the disease spreads into the region.

PRESERVING MACROECONOMIC STABILITY

A. Fiscal Policy

9. The external position of WAEMU will only remain sustainable if the programmed fiscal consolidation materializes. While individual countries' fiscal deficits do not raise concerns from a debt sustainability perspective, the resulting regional fiscal deficit has put increasing pressure on the external accounts. The current account deficit has widened, gross reserves of the central bank have declined over the past few years, resulting in a decrease of the GIR coverage of imports since 2010, and commercial banks' net foreign assets have decreased since 2012 (¶15).⁴ If fiscal deficits were maintained at the levels observed in 2014 for another five years, the GIR coverage could fall below 2 months of imports in 2019 (Figure 3 and Section I of accompanying Selected Issues Paper). The less than full subscription of government paper in 2014 on the regional financial market (¶13) may be another sign that the overall fiscal deficit is starting to hit financing constraints.

Staff's advice

10. Governments need to implement their fiscal consolidation plans. While the current investment drive to close the infrastructure gap needs to continue, countries should increase tax revenue and rein in current expenditure to reduce their fiscal deficits.

11. To assist governments in implementing these plans, the WAEMU Commission should encourage countries to take steps to increase national ownership of the new convergence criteria. The reduction of the number of convergence criteria and the focus on fiscal sustainability of the revised surveillance framework adopted by the Heads of State in January 2015 go into the right direction (Box 2, Table 9). However, scope should be provided to exceed the budget deficit convergence criterion for temporary periods in the event of adverse economic shocks, subject to well defined rules; the 70 percent of debt-to-GDP ratio should be viewed as an upper limit and not an optimal level towards which to converge; and debt management should be driven by regular debt sustainability analyses rather than by the debt criterion. The WAEMU Commission should take steps to increase countries' ownership of the new criteria by encouraging them to transpose regional rules into national laws and strengthening monitoring and oversight, including possibly through the establishment of fiscal councils at the national level. The WAEMU Commission should also urge member countries to move to revised national accounts, the new table of government financial operations (TOFE) and better public accounting practices in order to improve the quality and comparability of convergence criteria among member countries.

12. The WAEMU Commission should urge the governments to improve public financial management in order to translate their ambitious public investment plans into outcomes that

⁴ Commercial banks' net foreign assets were negative by around CFA 570 billion at end-November 2014, which represents around 34 percent of banks' capital.

will boost growth. First, all governments should not only transpose but also implement the WAEMU directives modernizing their PFM framework, which is overdue in half of the countries. Second, the WAEMU Commission should seek the assistance of the West African Development Bank (BOAD) and other development partners in order to spread best practices in public investment management among member countries.

Authorities' views

13. The authorities agreed with staff on the need for fiscal consolidation and improved PFM practices. The BCEAO and the WAEMU Commission agreed on the need to reduce fiscal deficits while closing the infrastructure gap, which will require increasing tax revenue. In that context, the BCEAO expressed disappointment about the limited progress observed in the tax pressure in several countries. According to the BCEAO, the under subscription of government paper reflected primarily technical factors (size and bunched timing of the issuances) rather than a lack of appetite from banks. In their view, the newly created *Agence UMOA Titres*, a regional agency tasked with implementing reforms to improve the functioning of the primary and secondary government debt markets, will improve the functioning of the regional bond market and attract foreign investors. To catch up with the delays in implementing the PFM and other directives, the WAEMU Commission conducted missions in all WAEMU countries to bring these lags to the attention of the highest authorities of the countries and agree on a timeline to implement them. The BOAD and WAEMU Commission will consider collaborating on best practices in public investment.

Box 2. WAEMU: Changes to the Region's Surveillance Framework

On January 19, 2015, the WAEMU Heads of States adopted a new set of convergence criteria to be met by 2019.¹ Current projections suggest that several countries will remain non-compliant, notably with the second order criteria.

WAEMU: Compliance with new convergence criteria (Number of Countries Non-Compliant with Criteria)									
	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Est.			Proj.		
First-order criteria									
Overall Balance/GDP (≥ -3 percent)	5	2	3	4	6	6	5	4	2
Average consumer price inflation (≤ 3 percent)	5	3	0	0	1	0	0	0	0
Total debt/GDP (≤ 70 percent)	0	0	0	0	0	0	0	0	0
Second-order criteria									
Wages and salaries/tax revenue (≤ 35 percent)	5	6	5	5	5	5	5	5	4
Tax revenue/GDP (≥ 20 percent)	8	8	8	8	8	8	7	7	6
Sources: WAEMU; Central Bank of West African States (BCEAO); and staff estimates and projections.									

¹ Non-accumulation of arrears, the limit on the current account deficit and the floor on investment-expenditure-to-revenue ratio have been eliminated from the list of criteria, while the basic fiscal balance ceiling has been replaced with a ceiling on the overall balance.

B. Monetary Policy

14. While not an immediate concern for inflation or external stability, the sharp rise in refinancing operations by the BCEAO raises potential macro-prudential risks and financial market development concerns (Box 3). Inflation is expected to remain low and stable (¶17), the external stability assessment suggests that the exchange rate peg is secure (¶16), and monetary policy has a weak impact on inflation in the absence of more developed and integrated financial markets and of an exchange rate channel.⁵ However, the increased provision of liquidity to commercial banks and their rising exposure to governments pose risks to financial stability. In particular, it exposes banks to higher sovereign risks and potential liquidity and interest rate risks should the BCEAO be required to tighten monetary policy in the future. The rising share of credit to sovereigns financed by central bank liquidity provision also stifles financial market development.

Staff's advice

15. An immediate tightening of monetary policy is not warranted, since inflation remains low and the exchange peg secure. However, should fiscal deficits fail to decline as planned, the BCEAO should consider tightening monetary policy, which could unfortunately crowd out private sector investment. In the mean time, the BCEAO should very closely follow the evolution of the macro-prudential risks flowing from its sharp increase of commercial bank refinancing. To prevent these risks from materializing, the BCEAO should consider selectively tightening liquidity provision to those commercial banks with particularly high levels of BCEAO borrowings or a high share of government securities on their balance sheet. Introducing non-zero capital requirement for WAEMU government paper and eliminating the tax exemption on WAEMU government paper would also reduce market distortions that encourage excessive bank exposure to WAEMU sovereign risks.

16. The BCEAO should accelerate the implementation of ongoing financial market reforms to strengthen the transmission mechanism of monetary policy. Staff encourages the BCEAO to complete reforms of interbank and secondary debt markets, which will also help make CFAF government paper more attractive for international investors. The BCEAO should also improve the transparency and quality of financial and macroeconomic data and its forecasting of governments' liquidity needs.

Authorities' views

17. The BCEAO did not fully share staff's concerns about the macro-prudential and developments risks posed by the sharp increase of BCEAO refinancing. In their view, this increase is only temporary and necessitated by the nascent stage of development of the interbank market. They underlined that several important reforms are ongoing to develop the interbank

⁵ See [IMF Country Report No. 14/84. West African and Monetary Union \(WAEMU\): Staff Report on Common Policies for Member Countries](#), Appendix III.

market, such as licensing primary dealers in government securities to activate the secondary market for government paper, and launching an electronic platform to facilitate interbank lending secured by government and other securities. They underscored that the need for central bank refinancing will abate when these reforms will bear fruit. They viewed selectively tightening liquidity for specific banks as difficult to implement in practice.

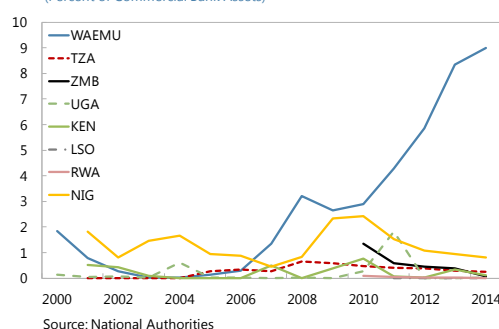
Box 3. WAEMU: Developments in banks' liquidity position¹

Since 2011, commercial banks have increased sharply their borrowing from the central bank and their holdings of government securities. The likely underlying causes are the region's widening fiscal and related external imbalances and carry-trade activity by some banks. These developments pose potential risks to fiscal and financial stability, financial development and monetary policy effectiveness. While effective implementation of planned fiscal consolidation is the most appropriate policy response, the WAEMU authorities should monitor closely these liquidity trends and consider pre-emptive policy action, in order to prevent such risks from crystallizing.

The level of central bank liquidity provision to commercial banks in the WAEMU has increased sharply since 2011 and is elevated relative to other countries.

Commercial banks increased their stock of borrowing from the BCEAO from 4 percent to 9 percent of total assets between 2011 and 2014 – a similar magnitude to their increase in holdings of government securities (Figure 2). Credit from the BCEAO currently represents around 9 percent of commercial bank assets in the WAEMU, compared to much less in African comparator countries, where, as in the WAEMU, there is no (or negligible) direct monetary financing of governments going on.

Commercial Bank Liabilities to the Central Bank
(Percent of Commercial Bank Assets)



The likely underlying causes are the region's widening fiscal and related external imbalances and carry-trade activity by some banks. The region's fiscal balance has deteriorated since 2011, reaching an historic high of 4.6 percent of GDP in 2014. Much of the increased government borrowing has been financed by the domestic banking system, which appears to have funded the additional lending with central bank credit (perhaps indicating capacity constraints of the regional market). An increase in the external deficit (itself a reflection of widening fiscal deficits) has also fuelled commercial banks' demand for central bank liquidity as deposits have been withdrawn to fund imports. Finally, banks' business models may also be playing a role: market contacts suggest some banks may be taking advantage of the spread between BCEAO refinancing rate (2.5 percent) and T-bills (about 5 percent) to earn 'carry-trade' type profits (Figure 2).

Potential risks are posed to fiscal and financial stability, financial development and the effectiveness of macroeconomic policy. Government borrowing that is indirectly financed by short-term BCEAO credit poses liquidity risk for governments and banks in the event of a tightening in monetary policy. The development of interbank and other financial markets may be hindered if banks can borrow more cheaply and easily from the central bank. And in view of the above financial stability risks, the cost of tightening monetary policy when inflationary pressures emerge may become higher.

¹ This box summarizes the analysis in Section 2 of the accompanying Selected Issues Paper.

18. The BCEAO underscored that a tightening of monetary policy would have little impact on countries' fiscal stance. In the absence of inflation risks, they saw no need for early monetary policy tightening, which would be ineffective to reduce fiscal deficits and would only affect private sector demand.

STRENGTHENING AND DEVELOPING THE FINANCIAL SECTOR

A. Strengthening the Stability of the Financial Sector

19. Low prudential standards and their incomplete observance pose a risk for financial stability (Figure 4, Box 4 and Tables 7-8). The prudential standards in WAEMU are weaker than in comparable countries. As a result, the average capital adequacy ratio (9.3 percent at the end of June 2014) of banks is about half that observed in comparable Sub-Saharan African countries, and is lower than the minimum requirement of 8 percent in half of the countries (Benin: 4.2 percent; Togo: 6.0 percent, Côte d'Ivoire: 7.7 percent, and Burkina Faso: 7.98 percent). In addition, the enforcement of prudential standards is loose. Indeed, thirteen banks, or about 10 percent of banks, have negative capital. About one fourth of banks do not meet the minimum capital requirement. About one fourth of banks do not comply with the connected lending limit. About half of banks do not respect the relatively high single large exposure limit,⁶ owing partly to the lack of economic diversification. Asset quality is also an issue, as illustrated by the high level of nonperforming loans (15.7 percent of total loans) under less demanding provisioning rules.⁷ The substantially negative net foreign assets in banks also cause prudential concerns as they may signal that banks are exposed to an increasingly high level of foreign exchange risk (¶9). Finally, fast-developing regional banking groups which account for almost 70 percent of WAEMU's banking sector assets, raise new opportunities but also pose risks, as bank holding companies in WAEMU are not subject to banking regulation or consolidated supervision.

20. The authorities are taking steps to upgrade the regulatory framework to international standards and strengthen prudential supervision. The BCEAO has initiated in 2013 a process aimed at implementing Basel II/III standards—with IMF technical assistance support—and better aligning regulations with Basel principles, including on consolidated supervision. The Banking Commission has put considerable effort into building operational capacity and enhancing banking supervision in the last few years, in particular after the disruptions of its activity in the wake of the Côte d'Ivoire crisis in 2011. A deposit insurance fund and a financial stability fund have been established but not yet become operational. They have been under establishment over the last years and are expected to start operations later in 2015.

⁶ 75 instead of 25 percent of capital, as recommended by international standards.

⁷ Provisioning of non-performing loans start after 180 days rather than after 90 days, as recommended by international standards.

*Staff's advice***21. Ongoing efforts to strengthen banking sector oversight are welcome; they need to be implemented with more urgency, and should be accompanied by shorter term measures to address increasing vulnerabilities:**

- *Bank supervision and regulation.* Compliance with key prudential ratios remains insufficient and needs to improve. Recent capacity building efforts at the Banking Commission are welcome but need to be reinforced by strengthening and effectively implementing risk-based supervisory tools and processes, including those related to supervision of anti-money laundering/countering the Financing of Terrorism (AML/CFT) measures. A stronger corrective action framework should be put in place in order to reduce regulatory forbearance and better enforce compliance with prudential norms, including by taking timely and effective corrective measures against weak and/or noncompliant banks. The move to Basel II/III standards will be an opportunity to bring prudential rules closer to international norms. As this process is taking time, the authorities should meanwhile tighten certain rules, for instance on concentration risk and provisioning of non-performing loans, and increase banks' capital adequacy levels, including through fixing an early deadline for raising operating banks' minimum share capital to CFAF 10 billion. The authorities should also closely monitor banks' exposure to foreign exchange risks and strengthen prudential limits to address them. Moving to consolidated supervision and application of International Financial Reporting Standards (IFRS) should also be a high priority.
- *Oversight of pan-African banks.* Consistent with the recommendations of the recent IMF study on pan-African banking groups,⁸ the authorities should act urgently to subject bank holding companies to appropriate banking regulation and consolidated supervision, create supervisory colleges for pan-African banking groups that have their home in the region, conduct regular stress tests on the consolidated positions of such groups, and strengthen cross-border supervision and understandings on resolution.
- *Macro-prudential supervision and financial stability.* To improve transparency and market discipline, the authorities should improve the quality of financial data as well as compile and publish financial soundness indicators on a regular and timely basis. They should also continue developing macro-prudential policy and analyses, with regular stress tests and early-warning indicators. The deposit insurance and financial stability funds are key components of a financial stability and resolution toolkit and should be made operational without any further delay.
- *Crisis management and resolution.* Bank resolution is a protracted process in the WAEMU, due to the division of power among a number of institutions at the regional and national levels. Staff recommends a reconsideration of this architecture through putting in place a single and

⁸ See [IMF, January 2015, Pan-African Banks--Opportunities and Challenges for Cross-Border Oversight](#).

independent administrative resolution authority to allow for a less complicated and faster resolution, in line with international standards and best practices.⁹

Authorities' views

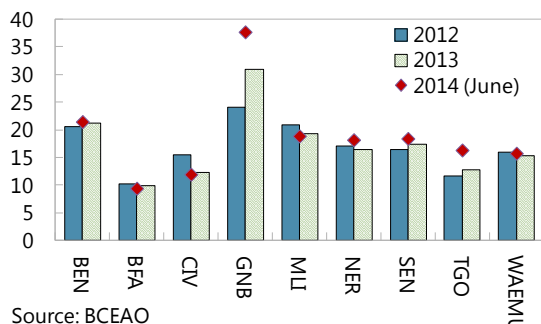
22. The authorities' underscored that they were well aware of all the issues raised by staff and that they were addressing them with IMF technical assistance. In their view, most of these issues are a legacy of socio-political events that affected several member countries since 2000, notably Côte d'Ivoire. They underlined that the Banking Commission closely monitors all banks with negative capital. They explained that the decrease of the capital adequacy ratio in 2014 also reflected the increasing scrutiny by the Banking Commission since 2011. In addition, they emphasized that many initiatives were underway to raise prudential standards to international norms: (i) the Basel II/III implementation project (¶20), which will give the Banking Commission jurisdiction over companies holding banking groups; (ii) the revision of the banking chart of accounts to implement IFRS; (iii) the preparation of revised AML/CFT laws and regulations for adoption by the Council of Ministers later in 2015; (iv) the proposal to set an early deadline to increase existing banks' minimum share capital to FCFA 10 billion, which will be submitted to the Council of Ministers in March 2015; (v) the first meeting of the supervisory college of a large pan-African banking group originating in WAEMU, which is planned in 2015; and (vi) the forthcoming implementation of the deposit insurance scheme and the financial stability fund, which will facilitate the closure of failed banks.

⁹ As illustrated in the guidance issued by the Financial Stability Board in October 2014 on the key attributes of effective resolution regimes for financial institutions.

Figure 4. WAEMU: Financial Stability and Development

Non-performing loans have been increasing in some countries, ...

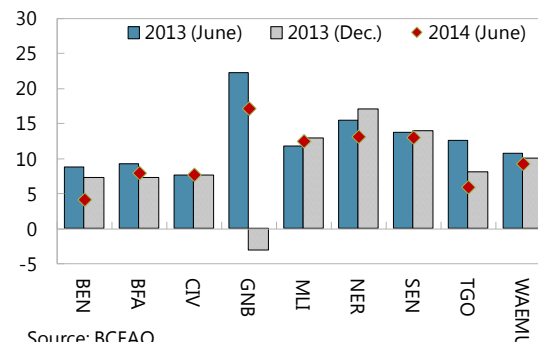
Non-Performing Loans, 2012-2014
(In Percent of Total Loans)



Source: BCEAO

... and the capital adequacy ratio has declined on average in the region.

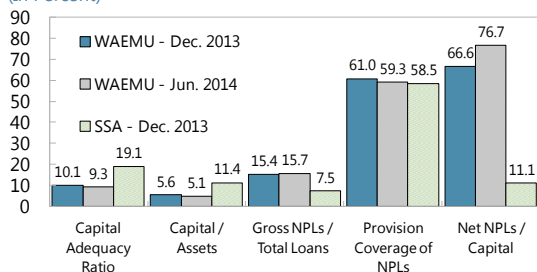
Capital Adequacy Ratios, 2013-2014
(In Percent)



Source: BCEAO.

Prudential indicators do not compare favorably with those of other African peers ...

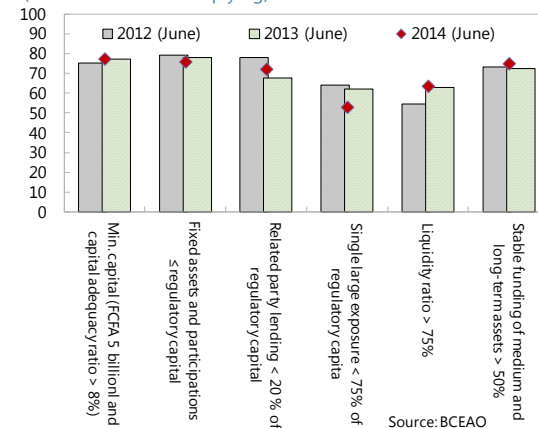
Financial Soundness Indicators in the WAEMU and Sub-Saharan Africa
(In Percent)



Note: WAEMU indicators based on data received from the authorities, SSA indicators based on the simple average of FSIs compiled by the IMF for reporting SSA countries (Burundi, Cameroon, Congo, Gabon, Ghana, Kenya, Lesotho, Mauritius, Mozambique, Namibia, Nigeria, Rwanda, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Uganda, Zambia). Comparison should be cautiously considered since different countries may be adopting different capital adequacy and loan classification and provisioning standards.

... and compliance to prudential norms is weak and has not improved on average.

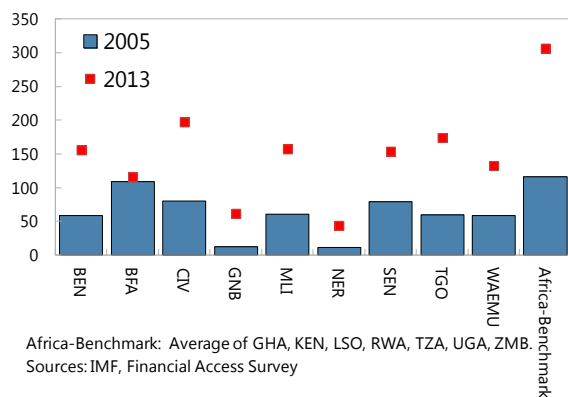
Compliance to Prudential Ratios, 2012-2014
(Percent of Banks Complying)



Source: BCEAO

Access to financial services has increased but at a slower pace than in benchmark countries, ...

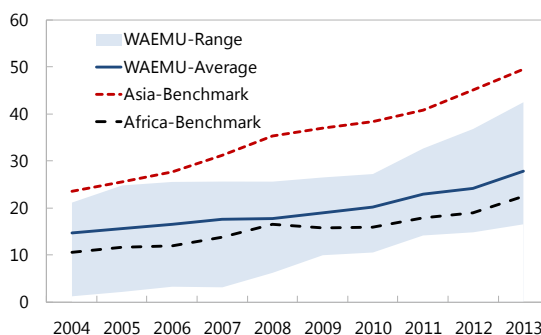
Depositors with Commercial Banks
(Per Thousands of Adults)



Africa-Benchmark: Average of GHA, KEN, LSO, RWA, TZA, UGA, ZMB. Sources: IMF, Financial Access Survey

... while credit growth has been strong and in line with African peers.

Outstanding Loans from Commercial Banks
(In Percent of GDP)



Africa-Benchmark: Average of GHA, KEN, LSO, RWA, TZA, UGA, ZMB. Asia-Benchmark: Average of BGD, KHM, IND, LAO, NPL VTN. Sources: IMF, Financial Access Survey

Box 4. WAEMU: Banking System Soundness - Findings from the Stress Tests

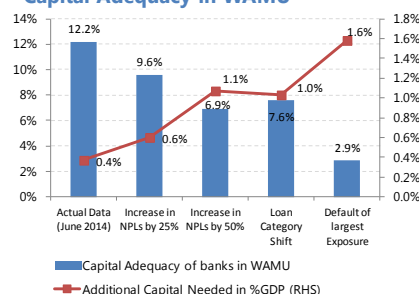
Stress tests covered only banks and were limited to a series of basic sensitivity analyses due to data limitations. While the mission conducted stress tests on bank-by-bank level using end-June 2014 data,¹ the BCEAO performed them on end-2013 country-level figures. Due to the unavailability of sufficiently granular data, the exercise was confined to a few basic sensitivity analyses involving credit and liquidity risks. These included a set of large but plausible shocks, mainly: credit default risks (increase in non-performing loans (NPLs) and category shift), concentration risks (both sectoral and single large exposures), as well as liquidity risk (deposit runs over 5 consecutive days). BCEAO stress tests were similar in certain aspects but also added a scenario on the impact of a potential default in sovereign exposures.

Results of the stress tests performed by the BCEAO and the mission confirmed the increasing banking sector vulnerabilities. The results showed a significant overall impact from a potential deterioration in credit risk or default of concentrated exposures particularly in Benin, Togo and Guinea-Bissau. To address these potential risks, the authorities should better enforce prudential norms, increase banks' capital requirements, and tighten other key prudential limits and norms.

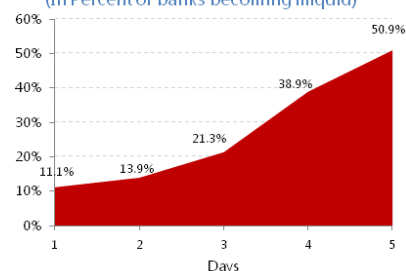
Main conclusions drawn from the stress tests:

- *Weak asset quality (loans):* given that credit risk is the major risk factor for banks in WAMU and due to the current high level of NPLs, banks would be substantially affected in case of further deterioration in their loan portfolio quality, with Togo and Benin the most seriously affected.
- *Severe sectoral and counterparty concentration:* due to the lack of economic diversification and the high large exposure prudential limit, banks in all WAMU countries are very vulnerable to default in large exposures, to specific economic sectors, or single counterparties.
- *Increased reliance on sovereign risk:* as per the authorities stress tests, banks' capital adequacy ratio in four member countries would fall below the minimum 8 percent in case of a partial default in sovereign bonds. This underlines the increasing sovereign credit risk exposure in banks' investments.²
- *Need for close monitoring of liquidity of some banks:* more than half the banks in the WAEMU may face liquidity problems following a substantial deposit run scenario over 5 consecutive days.

Impact of Credit Shocks on Banks' Capital Adequacy in WAMU



Impact of Liquidity Shock in WAMU (In Percent of banks becoming illiquid)



¹Based on banking data supplied by BCEAO, derived from banks' reports. Banks' capital adequacy in these reports is higher than the ratio computed by the WAMU Banking Commission (BC, ¶19). While this is due to adjustments made by the BC based on their own inputs, the mission was not able to get a revised set of banking data reflecting those adjustments. Accordingly, stress test results may be more severe than reported in this box.

²This test takes only the direct sovereign exposures into account without incorporating, e.g., loans secured by sovereign assets or collateral.

B. Increasing Financial Development and Inclusion

23. WAEMU countries lag behind benchmark countries in several dimensions of financial development (Annex 1). Access to finance is low, especially for the most vulnerable parts of the population, and the financial sector appears to only modestly contribute to the population's ability to deal with shocks as well as firms' financing needs.

Staff's advice

24. Improvements in the business and legal environment, novel technologies to increase financial access and the development of financial markets can help WAEMU countries to catch up. The authorities need to address weak transparency, underdeveloped judicial and business environments, limited financial skills, and suboptimal taxation¹⁰ and prudential regimes, which remain the main obstacles to financial sector development. Lower collateral requirements stemming from a better legal environment could increase firms' access to financing and boost investment and GDP. Given high mobile phone penetration rates, further development of mobile payments services with appropriate oversight can help reaching a large part of the unbanked population.

Authorities' views

25. The authorities agreed with the thrust of staff's analysis, and stressed that mobile payments services have picked up in the region. Mobile payment services have expanded since 2011, in particular in Senegal and Côte d'Ivoire. The BCEAO supports the development of mobile services as part of their regional financial inclusiveness strategy while ensuring the stability of the sector.

¹⁰ Interest revenue on government paper is tax exempt.

IMPLEMENTING STRUCTURAL REFORMS TO BOOST POTENTIAL GROWTH

A. Promoting Structural Transformation

26. Growth in the WAEMU has been lower and more volatile over the past 25 years than in comparable countries and the structure of the economy has changed little (Annex 2). The majority of the region's population is employed in low-productivity agriculture and the secondary sector is underdeveloped. Further structural transformation and diversification of output and exports could yield significant growth dividends.

Staff's Advice

27. Policies to promote structural transformation and diversification should focus on addressing weaknesses that hinder entry into new lines of economic activity. Weaknesses include gaps in infrastructure, education and training, finance, trade networks, functioning factor markets, and supportive regulatory environments. While the evidence is more mixed concerning the success of industry-focused measures, the agricultural sector does warrant special attention in WAEMU, given its large scope for productivity and quality improvements and its high share of employment.

Authorities' views

28. The authorities concurred with the need implement reforms to promote structural transformation. Their regional economic plan (PER), though being only about half covered through committed financing so far, targets key areas such as improvements to governance, access to energy, and the development of regional infrastructure and human resources.

B. Promoting Regional Integration

29. The implementation of the ECOWAS Common External Tariff (CET) offers opportunities for boosting regional trade but also entails risks for regional integration. The CET for ECOWAS became effective in January 2015. It liberalizes trade within ECOWAS and frees the access to a market of 230 million people, not least Nigeria, for WAEMU countries. However, it increases tariff protection for WAEMU countries with the introduction of a new 35 percent tariff band for specific goods, and the possibility to deviate from the CET for 3 percent of their tariff lines for several years, with negligible impact on tax revenue.¹¹ Staff supports the WAEMU Commission's view that member states should uniformly implement the CET and sparingly, if at all, make use of

¹¹ See Section 6 of the accompanying Selected Issues Paper.

the possibility to deviate from it, in order to preserve the gains of regional integration in the WAEMU.

STAFF APPRAISAL

30. Economic growth in the WAEMU has remained strong and inflation low. Led by the continued robust expansion in Cote d'Ivoire, the economies of WAEMU countries continued to enjoy strong growth in 2014 and the outlook for 2015 is positive. Meanwhile, inflation has fallen to very low levels.

31. However, high fiscal deficits are exerting increasing pressures on the external position. The combined fiscal deficit of the WAEMU widened to a historic high level in 2014, largely reflecting rising levels of public investment in infrastructure in several countries. Reflecting the high import content of this investment, the rising fiscal deficits continued to exert pressure on the current account deficit, the gross reserves of the BCEAO, the common central bank, and the net foreign assets of commercial banks. Meanwhile, despite the provision of additional liquidity to commercial banks by the BCEAO, several regional bond issues remained undersubscribed.

32. Fiscal consolidation during the coming years is needed, consistent with the recently-reaffirmed WAEMU convergence criteria. The intention to bring down fiscal deficits to below 3 percent of GDP by 2019 is welcome. To maintain much-needed infrastructure investment, including public investment, steps to increase tax revenue and control current expenditure will be essential.

33. The current monetary stance remains appropriate. Inflation or external stability risks do not warrant an early tightening of monetary policy. However, should the planned fiscal consolidation in member countries fail to materialize, the BCEAO may need to consider a tighter stance. A more rapid tightening of global liquidity conditions may similarly require a reassessment by the BCEAO. In the mean time, the BCEAO should very closely follow the evolution of the macro-prudential risks flowing from its sharp increase of commercial bank refinancing.

34. The WAEMU authorities should enforce existing prudential regulations and raise standards to international best practice. The ongoing efforts to strengthen bank supervision and raise prudential standards go in the right direction but will take time and need to be accelerated. In the interim, it will be important to proceed expeditiously with plans to raise banks' capital requirements. As the current macroeconomic environment is rather favorable, the steps to upgrade the regulatory framework and build buffers in the financial system should be accelerated before downside risks materialize. It is also important and urgent to subject bank holding companies incorporated in the WAEMU to appropriate banking regulation and consolidated supervision. The deposit insurance and financial stability funds should be made operational as a matter of priority. A single and independent administrative resolution authority should be established to ensure prompt and effective resolution of banks with negative capital.

35. Policies to support structural transformation and regional integration will boost growth and increase the region's resilience to shocks. The WAEMU Commission's intention to safeguard the common market through a uniform application of the ECOWAS common external tariff across WAEMU member countries and non-application of additional protection to 3 percent of tariff lines is welcome. The authorities' programs to improve regional infrastructure, develop human capital, enhance governance and provide more reliable and affordable energy will contribute to transforming the WAEMU into a more resilient union.

Table 1. WAEMU: Selected Economic and Financial Indicators, 2011–2019

	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Est.			Proj.		
	(Annual percentage change)								
National income and prices									
GDP at constant prices	0.8	7.0	5.8	6.1	6.0	6.2	6.5	6.4	6.6
GDP per capita at constant prices	-2.1	3.9	2.7	3.1	3.0	3.2	3.5	3.4	3.6
Broad money to GDP	7.5	-3.1	3.5	...	...	...	...	...	...
Consumer prices (average)	3.9	2.4	1.4	0.0	1.5	1.8	1.9	2.0	2.1
Terms of trade	9.3	1.9	-6.4	2.5	2.8	-0.1	-1.4	-1.2	-2.6
Nominal effective exchange rates	1.6	-2.3	4.4	...	...	...	...	...	...
Real effective exchange rates	1.0	-2.7	2.8	...	...	...	...	...	...
	(Percent of GDP)								
National accounts									
Gross national savings	17.8	15.8	14.0	14.4	15.5	16.4	16.5	16.8	16.6
Gross domestic investment	19.8	21.4	22.0	21.6	22.8	23.3	23.3	23.6	22.9
Of which: public investment	5.5	5.9	7.7	8.0	8.6	8.6	8.7	8.7	8.5
	(Annual changes in percent of beginning-of-period broad money)								
Money and credit ¹									
Net foreign assets	1.0	-2.1	-5.3	-1.4	...	...	...	...	...
Net domestic assets	9.7	11.9	15.8	14.5	...	...	...	...	...
Broad money	10.7	9.8	10.5	13.1	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)								
Government financial operations ²									
Government total revenue, excl. grants	16.3	18.3	18.8	18.5	18.9	19.2	19.6	19.9	20.2
Government expenditure	22.7	23.5	24.7	25.8	25.8	25.8	26.0	26.1	25.9
Official grants	2.5	2.6	2.9	2.7	2.8	2.8	2.9	2.9	2.7
Overall fiscal balance, incl. grants (cash basis)	-3.9	-2.6	-3.1	-4.6	-4.1	-3.8	-3.5	-3.3	-2.9
Basic fiscal balance, incl. grants & HIPC	-2.2	-1.7	-1.4	-1.3	-1.2	-0.8	-0.7	-0.7	-0.5
External sector									
Exports of goods and services ³	28.2	28.1	26.0	25.6	26.0	25.3	24.9	24.6	24.3
Imports of goods and services ³	32.4	35.7	37.1	36.9	35.3	34.4	33.6	33.6	32.7
Current account, excl. grants ⁴	-3.2	-7.0	-11.2	-10.4	-9.9	-9.1	-8.7	-8.7	-8.1
Current account, incl. grants ⁴	-2.0	-5.7	-8.1	-7.3	-7.3	-6.9	-6.8	-6.8	-6.3
External public debt	30.9	25.6	25.8	26.2	29.7	30.0	29.9	29.5	29.0
Total public debt	43.5	37.8	38.9	38.4	41.3	41.7	41.6	41.2	40.4
Broad money	29.8	28.9	29.9	31.4	...	...	...	...	...
<i>Memorandum items:</i>									
Nominal GDP (billions of CFA francs)	37,791	41,709	44,473	47,569	51,573	55,874	60,773	66,023	71,847
Nominal GDP per capita (US dollars)	795	795	851	884	843	892	952	1,017	1,085
CFA franc per US dollars, average	472	511	494	...	...	...	...	...	...
Euro per US dollars, average	0.72	0.78	0.75	...	...	...	...	...	...
Foreign exchange cover ratio ⁵	97.2	98.4	84.0	80.4	...	...	...	...	...
Reserves in months of imports (excl. intra-WAEMU imports)	5.7	5.1	4.5	4.6	4.3	4.2	4.1	4.2	...

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

¹Year on year change, end December; for 2014 year on year change, end November.²Fiscal data for 2014 reflect a strong increase in the fiscal deficit of Niger, following a new project in the hydrocarbon sector.³Excluding intraregional trade.⁴Data up to 2011 are corrected for intraregional trade discrepancies by BCEAO.⁵Gross official reserves divided by short-term domestic liabilities (IMF definition).

Table 2. WAEMU: Selected National Account and Inflation Statistics, 2011–2019

	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Est.			Proj.		
	(Annual percentage change)								
Real GDP									
Benin	3.3	5.4	5.6	5.5	5.5	5.4	5.5	5.6	5.7
Burkina Faso	5.0	9.0	6.6	5.0	5.0	6.0	6.5	6.6	6.5
Côte d'Ivoire	-4.4	10.7	8.7	7.5	7.7	7.8	7.5	7.0	6.5
Guinea-Bissau	9.0	-2.2	0.3	2.5	4.0	3.7	3.7	3.7	3.7
Mali	2.7	0.0	1.7	6.8	5.6	5.0	5.2	5.3	5.3
Niger	2.3	11.1	4.1	6.1	4.6	5.5	7.9	7.5	9.8
Senegal	1.7	3.4	3.5	4.5	4.6	5.1	5.6	6.2	7.0
Togo	4.8	5.9	5.4	5.2	6.0	6.0	6.1	6.1	6.2
WAEMU	0.8	7.0	5.8	6.1	6.0	6.2	6.5	6.4	6.6
Real GDP per capita									
Benin	0.5	2.6	2.9	2.8	2.9	2.9	3.0	3.2	3.4
Burkina Faso	2.0	6.0	3.6	2.0	2.1	3.0	3.5	3.6	3.5
Côte d'Ivoire	-7.2	7.5	5.5	4.3	4.6	4.6	4.4	3.8	3.4
Guinea-Bissau	6.5	-4.4	-1.9	0.3	1.7	1.4	1.4	1.4	1.4
Mali	-0.3	-2.9	-1.2	3.5	2.3	1.7	2.0	2.0	2.0
Niger	-0.8	7.7	0.9	2.9	1.5	2.4	4.6	4.3	6.5
Senegal	-1.2	0.4	0.5	1.6	1.7	2.1	2.5	3.1	4.0
Togo	2.1	3.2	2.7	2.5	3.3	3.3	3.4	3.4	3.4
WAEMU	-2.1	3.9	2.7	3.1	3.0	3.2	3.5	3.4	3.6
Inflation									
Benin	2.7	6.7	1.0	-1.0	0.7	2.0	2.4	2.6	2.6
Burkina Faso	2.8	3.8	0.5	-0.4	0.9	1.7	2.0	2.0	2.0
Côte d'Ivoire	4.4	1.3	2.6	0.4	1.2	1.5	1.8	2.0	2.0
Guinea-Bissau	5.1	2.1	0.8	-1.0	1.3	2.3	2.5	2.5	2.5
Mali	3.1	5.3	-0.6	0.9	3.6	2.6	2.6	2.6	2.6
Niger	2.9	0.5	2.3	-0.9	1.5	2.0	1.5	1.8	2.0
Senegal	3.4	1.4	0.7	-0.5	1.5	1.4	1.4	1.4	1.4
Togo	3.6	2.6	1.8	0.1	1.9	2.1	2.5	2.5	2.5
WAEMU	3.9	2.4	1.4	0.0	1.5	1.8	1.9	2.0	2.1
	(Percent of GDP)								
Gross national savings									
Benin	10.9	9.3	9.7	10.2	10.9	11.6	12.1	13.1	14.0
Burkina Faso	14.1	16.7	13.5	7.5	7.1	9.2	11.2	11.7	11.2
Côte d'Ivoire	21.0	15.3	12.1	13.9	14.5	16.2	16.3	16.2	15.6
Guinea-Bissau	6.6	2.1	1.4	7.3	5.9	5.3	4.8	4.4	4.0
Mali	20.1	15.7	16.2	18.7	24.4	24.5	22.7	24.1	25.5
Niger	21.6	21.9	22.4	20.5	19.9	16.8	16.4	16.8	16.3
Senegal	17.8	19.0	16.4	17.4	18.7	19.3	19.9	20.5	19.8
Togo	10.6	10.9	11.2	14.3	14.9	16.3	15.2	13.6	13.3
WAEMU	17.8	15.8	14.0	14.4	15.5	16.4	16.5	16.8	16.6
Gross domestic investment									
Benin	18.7	17.6	25.6	18.7	22.5	23.8	24.2	24.8	22.8
Burkina Faso	15.7	21.3	20.5	13.5	13.1	15.9	17.5	18.0	17.7
Côte d'Ivoire	10.5	16.5	17.0	17.1	18.1	18.9	19.5	19.9	20.0
Guinea-Bissau	5.3	7.1	7.1	7.1	7.1	7.1	7.1	7.1	7.1
Mali	26.3	18.3	20.2	25.9	28.5	28.8	26.5	29.2	31.2
Niger	43.9	37.2	37.9	41.4	47.6	41.9	39.6	36.1	28.0
Senegal	25.8	29.8	27.4	27.7	26.3	26.6	27.0	27.2	26.3
Togo	18.6	19.1	18.4	20.6	19.9	22.1	21.6	20.9	21.1
WAEMU	19.8	21.4	22.0	21.6	22.8	23.3	23.3	23.6	22.9

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

Table 3. WAEMU: Selected Fiscal Indicators, 2011–2019

	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Est.			Proj.		
(Percent of GDP)									
Primary fiscal balance									
Benin	-1.4	0.1	-2.3	-1.0	-3.7	-3.3	-3.3	-3.1	-1.3
Burkina Faso	-1.8	-2.4	-3.0	-0.7	-0.8	-2.9	-3.3	-3.5	-3.4
Côte d'Ivoire	-2.2	-1.4	-0.9	-1.0	-1.9	-1.3	-1.0	-0.7	-0.5
Guinea-Bissau	-0.7	-2.3	-1.9	3.0	-0.9	-0.5	-0.3	0.0	0.2
Mali	-3.4	-0.5	-2.3	-4.0	-3.1	-2.2	-2.1	-2.1	-1.7
Niger ¹	-2.6	-0.8	-2.3	-16.1	-5.9	-3.3	-1.8	-1.7	-1.7
Senegal	-5.2	-4.4	-3.9	-3.5	-2.9	-2.5	-2.2	-1.9	-1.2
Togo	-3.4	-6.3	-3.5	-4.4	-3.4	-4.3	-3.6	-3.1	-2.7
WAEMU	-2.9	-2.0	-2.2	-3.1	-2.6	-2.3	-2.0	-1.8	-1.4
Overall fiscal balance (including grants), cash basis									
Benin	-2.4	-0.7	-2.7	-2.1	-5.1	-4.3	-4.2	-4.0	-2.2
Burkina Faso	-1.2	-2.8	-2.7	-1.1	-1.4	-3.4	-4.0	-4.2	-4.1
Côte d'Ivoire	-4.2	-1.7	-2.0	-3.0	-4.0	-3.6	-3.3	-2.9	-2.8
Guinea-Bissau	-1.4	-2.3	-1.9	1.4	-1.4	-1.0	-1.1	-0.7	-0.4
Mali	-3.8	-0.9	-2.7	-5.5	-3.9	-2.8	-2.7	-2.6	-2.4
Niger	-3.0	-0.9	-3.3	-17.0	-6.9	-4.2	-2.7	-2.3	-2.3
Senegal	-6.7	-5.9	-5.5	-5.2	-4.7	-4.2	-4.0	-3.7	-3.0
Togo	-4.1	-7.8	-5.3	-6.2	-4.9	-6.1	-5.3	-5.0	-4.6
WAEMU	-3.9	-2.6	-3.1	-4.6	-4.1	-3.8	-3.5	-3.3	-2.9
Government revenue (excluding grants)									
Benin	17.6	18.8	19.4	18.2	18.6	19.0	19.2	19.4	19.6
Burkina Faso	16.1	17.7	18.8	17.2	17.5	17.8	18.1	18.5	19.1
Côte d'Ivoire	14.1	18.4	18.5	17.7	18.5	19.0	19.4	19.7	20.1
Guinea-Bissau	10.1	9.4	8.7	11.4	12.1	12.2	12.4	12.6	12.8
Mali	16.9	18.2	19.4	19.8	19.6	19.8	19.9	20.1	20.3
Niger	14.2	15.9	17.2	19.2	18.8	19.8	21.5	21.8	21.9
Senegal	20.3	20.4	20.1	21.1	21.1	21.0	21.2	21.3	21.6
Togo	16.7	17.6	18.0	17.8	18.3	18.4	18.6	18.7	18.8
WAEMU	16.3	18.3	18.8	18.5	18.9	19.2	19.6	19.9	20.2
Government expenditure									
Benin	21.9	21.2	23.2	21.3	26.0	25.8	25.9	26.0	23.9
Burkina Faso	23.6	25.8	27.8	22.5	23.5	25.7	26.5	27.0	27.4
Côte d'Ivoire	18.4	22.1	22.1	21.9	24.0	24.2	24.3	24.3	24.4
Guinea-Bissau	17.5	14.2	14.3	18.2	21.3	21.0	21.2	21.1	20.9
Mali	25.0	18.5	23.8	28.0	25.7	24.6	25.1	25.6	25.2
Niger	20.9	23.4	28.2	43.8	32.4	31.0	31.0	30.9	30.7
Senegal	29.2	29.2	28.2	29.1	28.6	27.9	27.9	27.6	27.1
Togo	23.8	26.4	25.5	25.7	25.3	27.6	26.6	26.1	25.7
WAEMU	22.7	23.5	24.7	25.8	25.8	25.8	26.0	26.1	25.9
Government current expenditure									
Benin	15.0	15.4	15.4	15.5	16.2	15.9	16.0	16.0	16.0
Burkina Faso	12.7	14.7	13.8	13.8	14.2	14.2	14.5	14.6	14.5
Côte d'Ivoire	16.1	17.6	16.0	15.9	16.6	16.9	17.1	17.1	17.2
Guinea-Bissau	11.0	12.7	10.5	12.7	14.1	13.9	14.1	14.1	14.0
Mali	14.2	13.5	14.6	14.8	14.3	14.2	14.3	14.3	14.3
Niger	12.6	11.9	14.0	15.4	14.7	14.3	14.1	14.0	13.9
Senegal	18.2	17.5	17.3	17.2	16.8	16.2	16.0	16.0	16.0
Togo	15.7	17.6	17.3	15.6	16.4	16.7	16.6	16.7	16.4
WAEMU	15.3	16.0	15.5	15.6	15.8	15.8	15.8	15.9	15.9
Government capital expenditure ²									
Benin	6.6	5.6	7.0	6.1	9.8	9.9	9.9	9.9	8.0
Burkina Faso	9.9	11.1	14.4	8.8	9.3	11.5	12.0	12.4	12.9
Côte d'Ivoire	2.4	4.5	6.1	6.0	7.4	7.3	7.3	7.2	7.3
Guinea-Bissau	7.1	1.5	3.9	6.8	7.2	7.1	7.1	7.0	6.9
Mali	8.9	3.2	7.4	11.6	9.8	8.8	9.2	9.7	9.3
Niger	6.8	11.5	14.2	17.3	17.7	16.7	16.9	16.9	16.8
Senegal	10.6	11.4	11.0	11.8	11.7	11.7	11.9	11.6	11.1
Togo	8.1	8.8	8.3	10.1	8.9	10.9	10.1	9.4	9.4
WAEMU	6.8	7.2	9.0	9.2	9.8	9.9	10.0	10.0	9.8

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

¹ 2014 data for Niger reflect the impact of a new project in the hydrocarbon sector which is reflected in net lending (included in the government total expenditure in this table).² Excludes net lending.

Table 4. WAEMU: Government Debt, 2011–2019

	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Est.			Proj.		
	(Percent of GDP)								
External Debt									
Benin	17.8	16.6	18.4	19.2	20.3	21.6	22.8	23.8	23.6
Burkina Faso	24.6	22.9	21.8	21.5	21.3	22.2	22.7	23.1	23.8
Côte d'Ivoire	52.3	28.0	26.4	27.0	29.3	28.4	27.4	26.2	24.9
Guinea-Bissau	25.8	27.6	27.1	30.5	30.8	30.4	29.8	29.1	28.5
Mali	24.4	25.5	25.7	31.7	32.9	34.3	34.8	35.3	35.7
Niger	16.4	17.4	18.2	35.9	39.6	39.9	39.8	39.8	39.1
Senegal	29.4	31.0	32.7	35.3	36.3	36.9	36.9	36.3	35.4
Togo	16.2	18.0	19.3	23.1	23.6	24.5	25.0	25.3	25.7
WAEMU	30.9	25.6	25.8	26.2	29.7	30.0	29.9	29.5	29.0
Domestic Debt									
Benin	14.0	12.6	11.4	11.7	12.0	12.7	13.4	13.7	13.3
Burkina Faso	5.9	5.8	7.4	7.6	5.9	7.1	9.0	10.4	10.7
Côte d'Ivoire	17.6	16.5	17.3	14.3	12.7	12.6	12.5	12.4	12.2
Guinea-Bissau	23.8	26.5	29.7	30.4	28.0	25.8	24.7	22.7	21.0
Mali	4.7	4.3	5.8	3.9	3.6	3.3	3.1	2.9	2.7
Niger	6.1	4.4	3.5	5.1	7.1	6.9	5.4	3.8	2.4
Senegal	11.3	12.4	14.4	14.7	15.1	15.3	15.4	15.7	15.3
Togo	28.4	28.6	29.9	31.6	31.1	29.5	29.0	28.2	26.8
WAEMU	12.6	12.2	13.1	12.2	11.6	11.7	11.8	11.8	11.4
Total Debt									
Benin	31.9	29.2	29.8	30.9	32.3	34.4	36.1	37.5	37.0
Burkina Faso	30.5	28.7	29.1	29.1	27.2	29.3	31.7	33.5	34.5
Côte d'Ivoire	69.9	44.5	43.7	41.3	42.0	41.0	39.9	38.6	37.1
Guinea-Bissau	49.6	54.1	56.8	61.0	58.8	56.2	54.4	51.8	49.5
Mali	29.2	29.8	31.5	35.6	36.4	37.6	37.9	38.1	38.3
Niger	22.5	21.8	21.7	41.0	46.7	46.9	45.3	43.7	41.5
Senegal	40.7	43.4	47.1	50.0	51.5	52.1	52.3	52.0	50.7
Togo	44.6	46.6	49.2	54.7	54.7	54.1	54.0	53.5	52.5
WAEMU	43.5	37.8	38.9	38.4	41.3	41.7	41.6	41.2	40.4

Source: IMF, African Department database.

Table 5. WAEMU: Monetary Survey, 2011-2014

	2011	2012	2013	2014	2014	2014
	Dec.	Dec.	Dec.	Jun.	Sep.	Nov.
	(Billions of CFA francs)					
Net foreign assets	5,501	5,219	4,448	4,146	4,439	4,103
<i>of which:</i>						
BCEAO	5,573	5,169	4,569	4,496	4,843	4,674
Commercial Banks	-72	51	-120	-349	-404	-570
Net domestic assets	7,751	9,328	11,620	12,674	12,640	13,277
Domestic credit	10,065	11,597	13,798	14,994	15,070	15,669
Net credit to government	2,251	2,777	3,529	4,122	4,092	4,420
Net credit to the economy	7,814	8,820	10,269	10,871	10,978	11,250
Claims on private sector	7,813	8,815	10,266	10,868	10,974	11,246
Claims on other financial institutions	1	5	2	3	5	4
Other items, net	-2,313	-2,269	-2,178	-2,320	-2,430	-2,393
Broad Money	13,252	14,547	16,068	16,820	17,079	17,380
Money	8,714	9,440	10,488	10,784	10,827	11,005
of which: Currency in circulation	3,676	3,893	4,235	4,172	4,192	4,304
Quasi-money	4,539	5,108	5,581	6,036	6,252	6,376
	(Factors affecting liquidity, in percent of previous period's broad money)					
Net foreign assets	1.0	-2.1	-5.3	-3.7	1.0	-1.4
Net domestic assets	9.7	11.9	15.8	16.5	13.6	14.5
Domestic credit	11.9	11.6	15.1	17.1	15.2	14.6
Net credit to government	3.4	4.0	5.2	5.6	5.0	5.6
Net credit to the economy	8.5	7.6	10.0	11.5	10.2	9.0
Claims on private sector	8.5	7.6	10.0	11.5	10.2	9.0
Claims on other financial institutions	0.0	0.0	0.0	0.0	0.0	0.0
Other items, net	-2.2	0.3	0.6	-0.7	-1.7	-0.2
Broad Money	10.7	9.8	10.5	12.7	14.6	13.1
	(Year on year percent change)					
Net foreign assets	2.2	-5.1	-14.8	-11.9	3.7	-4.9
Net domestic assets	17.7	20.3	24.6	24.0	19.0	20.1
Domestic credit	16.5	15.2	19.0	20.5	17.7	16.8
Net credit to government	22.2	23.4	27.1	25.5	22.3	24.2
Net credit to the economy	14.9	12.9	16.4	18.7	16.1	14.1
Claims on private sector	15.0	12.8	16.5	18.8	16.1	14.1
Claims on other financial institutions	-74.7	329.0	-45.7	-48.4	-11.5	336.7
Other items, net	12.5	-1.9	-4.0	4.4	11.3	1.1
Broad Money	10.7	9.8	10.5	12.7	14.6	13.1

Source: IMF, International Financial Statistics.

Table 6. WAEMU: Balance of Payments, 2011–2019

	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Est.			Proj.		
	(Percent of GDP)								
Balance on current account	-2.0	-5.7	-8.1	-7.3	-7.3	-6.9	-6.8	-6.8	-6.3
excluding official transfers:	-3.4	-7.0	-11.2	-10.4	-9.9	-9.1	-8.7	-8.7	-8.1
Balance on goods and services	-4.5	-7.6	-11.6	-10.7	-10.0	-9.0	-8.7	-9.0	-8.4
Exports of goods	29.6	29.2	27.7	26.8	25.6	26.1	26.2	26.5	26.7
Exports of services	5.2	5.0	5.3	5.1	5.1	5.1	5.0	4.9	4.9
Imports of goods	-28.9	-31.5	-32.5	-30.4	-29.2	-29.1	-29.1	-29.4	-29.2
Imports of services	-10.5	-10.4	-12.1	-12.1	-11.6	-11.1	-10.9	-11.0	-10.7
Income, net	-2.0	-2.4	-2.4	-2.4	-2.5	-2.6	-2.5	-2.2	-2.1
Income credits	1.5	1.3	1.4	1.3	1.3	1.3	1.3	1.3	1.3
Income debits	-3.5	-3.6	-3.8	-3.8	-3.8	-3.9	-3.9	-3.5	-3.4
<i>Of which</i>									
Investment income, debit: interest	-0.6	-0.6	-0.6	-0.6	-0.6	-0.8	-0.9	-0.9	-0.8
Current transfers, net	4.5	4.3	6.0	5.9	5.3	4.8	4.4	4.3	4.2
Private current transfers, net	3.1	3.0	2.9	2.7	2.7	2.6	2.5	2.5	2.4
Official current transfers, net	1.4	1.4	3.1	3.2	2.6	2.2	1.9	1.9	1.7
Balance on capital and financial account	3.2	4.6	7.5	7.5	7.6	7.1	7.3	7.4	6.9
Balance on capital account	1.3	1.7	2.3	2.1	2.0	2.0	1.9	1.9	1.8
Balance on financial account	1.9	2.9	5.3	5.4	5.5	5.1	5.4	5.5	5.0
Direct investment, net	3.6	2.9	3.2	2.2	3.8	3.7	3.8	3.5	2.8
Portfolio investment, net	1.5	0.4	0.3	0.8	0.5	0.5	0.5	0.6	0.5
Other investment, net	-3.2	-0.3	1.8	2.3	1.3	0.8	1.0	1.4	1.8
Errors and omissions, net	-1.0	-0.2	0.2	0.3	0.0	0.0	0.0	0.0	0.0
Overall balance¹	0.2	-1.3	-0.3	0.5	0.3	0.2	0.5	0.6	0.5
Change in official NFA ("-" increase)	-0.7	1.0	1.3	-0.5	...	...	...	...	...

¹Excludes revaluation differences for 2011-2013.

Table 7. WAEMU: Financial Soundness Indicators, 2010-2014

	2010	2011	2012	2013	2013	2014
	Dec.	Dec.	Dec.	Jun.	Dec.	Jun.
(in percent, unless otherwise indicated)						
Solvency ratios						
Regulatory capital to risk weighted assets	11.1	10.7	10.7	10.7	10.1	9.3
Tier I capital to risk-weighted assets	10.6	10.1	9.9	10.0	9.3	8.3
Provisions to risk-weighted assets	12.1	10.4	10.5	11.0	10.5	10.4
Capital to total assets	6.4	6.5	6.3	6.2	5.6	5.1
Composition and quality of assets						
Total loans to total assets	55.3	55.2	55.0	55.1	55.9	55.7
Gross NPLs to total loans	17.6	15.9	16.0	17.0	15.4	15.7
Provisioning rate	63.7	64.2	63.4	60.7	61.0	59.3
Net NPLs to total loans	7.2	6.3	6.5	7.4	6.6	7.1
Net NPLs to capital	62.0	54.1	56.5	66.2	66.6	76.7
Earnings and profitability						
Average cost of borrowed funds	2.9	2.4	2.4	...	2.8	
Average interest rate on loans	10.9	9.7	9.8	...	10.7	
Average interest margin ¹	8.0	7.3	7.3	...	7.9	
After-tax return on average assets (ROA)	1.1	1.2	0.9	...	1.2	
After-tax return on average equity (ROE)	12.6	13.7	10.1	...	14.6	
Noninterest expenses/net banking income	64.8	61.6	61.0	...	60.2	
Salaries and wages/net banking income	27.1	26.4	25.7	...	26.2	
Liquidity						
Liquid assets to total assets	33.3	33.6	32.5	31.9	32.2	31.2
Liquid assets to total deposits	45.1	46.1	45.8	44.7	47.1	45.3
Total loans to total deposits	84.0	84.3	86.2	86.1	90.0	89.2
Total deposits to total liabilities	74.1	72.9	71.1	71.3	68.5	68.9
Sight deposits to total liabilities ²	36.7	37.8	36.5	36.8	35.5	35.6
Term deposits to total liabilities	37.5	35.1	34.6	34.5	33.0	33.3

Source: BCEAO.

¹ Excluding tax on bank operations.² Including saving accounts.

Table 8. WAEMU: Compliance with Key Prudential Norms by Country, June 2014¹

Countries	Solvency Ratios		Other Prudential Limits				
	Share Capital	Capital Adequacy Ratio	Single Exposure Limit	Total Exposure Limit	Related Party Lending	Transformation Ratio	Liquidity Ratio
Benin (12)	7	3	1	7	7	8	9
Burkina Faso (13)	11	9	6	10	10	12	10
Côte D'Ivoire (25)	14	16	14	18	15	16	17
Guinea-Bissau (3)	2	2	1	3	2	2	2
Mali (13)	12	10	9	12	10	11	11
Niger (10)	8	8	7	7	9	8	7
Senegal (19)	17	17	12	18	15	16	9
Togo (13)	9	10	7	10	10	8	5
UMOA (108)	80	75	57	85	78	81	70
Percent of Compliant Banks	74	69	53	79	72	75	65

Source: BCEAO.

¹Notes: *Share Capital*: minimum share capital of FCFA 5 billion. *Capital Adequacy Ratio*: minimum ratio of regulatory capital to risk-weighted assets of 8%. *Single Exposure Limit*: exposure to a single borrower or a group of connected borrowers not to exceed 75 percent of regulatory capital. *Total Exposure Limit*: sum of all risk-weighted exposures, each of which exceeds 25 percent of regulatory capital, not to exceed 8 times regulatory capital.

Related Party Lending: Total lending to related parties not to exceed 20 percent of regulatory capital.

Transformation ratio: Ratio of long-term funds (capital and long-term deposits and liabilities) to long-term uses of funds (investments in real estate assets, equities, and participations in addition to long-term loans and assets) at a minimum of 50 percent. *Liquidity ratio*: Ratio of short-term assets to short-term liabilities of minimum 75 percent.

Table 9. WAEMU: Authorities' Responses to 2014 Policy Recommendations

	2014 Article IV Recommendations	Authorities' Response
Policy Mix	<ul style="list-style-type: none"> - Maintain the current macroeconomic policy mix. - Pause the loosening in monetary policy. - Strengthen fiscal sustainability while maintaining public investment. 	<p>Fully/broadly consistent</p> <ul style="list-style-type: none"> - Monetary policy loosening has been paused. - Macroeconomic policies at the country level have been broadly consistent with Fund advice in the context of Fund-supported programs.
Fiscal Policy Coordination	<ul style="list-style-type: none"> - Complete review of the regional surveillance framework. - Design rules with the ultimate goal to preserve fiscal and external sustainability by redesigning fiscal convergence criteria. - Improve regional surveillance; strengthen fiscal rules. 	<p>Broadly/partially consistent</p> <ul style="list-style-type: none"> - Surveillance framework has been reviewed with main goal to preserve fiscal sustainability, adoption by heads of states expected shortly. - Number/selection of criteria partially in line with advice. - Proposal includes measures to strengthen application, but not the transposition of rules into domestic laws or the introduction of fiscal councils at the national level.
Monetary/ Financial sector Development	<ul style="list-style-type: none"> - Accelerate financial sector reforms - Accelerate the development of the interbank and government debt markets. 	<p>Broadly consistent</p> <ul style="list-style-type: none"> - Training and analysis is ongoing in the regional debt agency; TA support is being provided. - Reforms to the debt and interbank market are ongoing.
Financial Regulation and Supervision	<ul style="list-style-type: none"> - Substantially strengthen transparency, bank supervision, and crisis management resolution framework. - Develop macro-prudential analyses, with regular stress testing and early warning indicators. 	<p>Partially consistent</p> <ul style="list-style-type: none"> - Compliance to key prudential ratios remains weak. - Many prudential limits remain lax. - Efforts on enhancing crisis management and resolution frameworks have just started. - A roadmap to Basel II/III is being implemented with complete implementation envisaged by 2017-2018
Growth/ Regional Integration	<ul style="list-style-type: none"> - Reinforce the regional growth agenda by concrete and coordinated actions to improve structural competitiveness, accelerate regional integration, and strengthen economic resilience. 	<p>Partially consistent</p> <ul style="list-style-type: none"> - On an individual country level, reforms have helped to improve the business environment in some countries, but not much has happened at the regional level. <p>Adoption of ECOWAS tariff in 2015 may foster trade within ECOWAS, but increases external tariff protection.</p>

Table 10. WAEMU: Selected Policy Recommendations for Member States

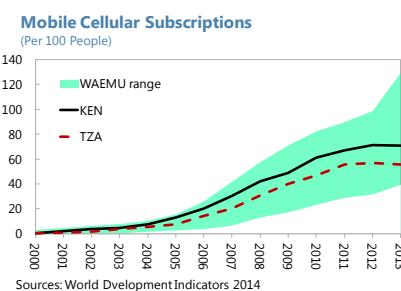
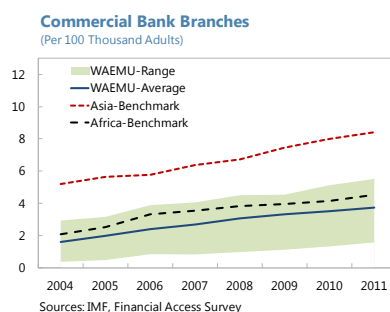
	Fiscal and Debt Policies	Financial Sector and Structural Reforms
BEN	<ul style="list-style-type: none"> - Boost domestic revenue, mainly through better tax administration. - Preserve debt stability by predominantly relying on concessional financing, prioritizing investments, and enhancing debt management. 	<ul style="list-style-type: none"> - Improve PFM and government capacity to support efficient spending. - Improve the business environment, including through financial sector reforms.
BFA	<ul style="list-style-type: none"> - Improve coherence of budget planning and execution. Improve debt and cash management. - Attend to pace and quality of public investment spending. 	<ul style="list-style-type: none"> - Boost energy supply; implement reforms to put income support schemes in the cotton sector on a more sustainable basis. - Implement a more systematic approach to transfer schemes to protect the vulnerable.
CIV	<ul style="list-style-type: none"> - Contain spending pressures to preserve conditions for sustainable growth. - Accommodate adequate financing to continue closing an infrastructure gap while maintaining a prudent borrowing policy. 	<ul style="list-style-type: none"> - Strengthen the financial situation of the energy sector. - Crowd in private sector investment through improved public expenditure management, banking sector reform, and clearing fiscal liabilities.
GNB	<ul style="list-style-type: none"> - Restore fiscal discipline normalize government operations - Streamline tax exemptions; strengthen tax and customs administration procedures. 	<ul style="list-style-type: none"> - Prepare a medium-term strategy, including measures to improve the business environment, increase financial deepening, and promote the development of the cashew sector.
MLI	<ul style="list-style-type: none"> - Tighten the implementation of budget and procurement rules. - Keep the basic fiscal balance close to zero and the overall fiscal balance in line with overall public debt sustainability. 	<ul style="list-style-type: none"> - Strengthen PFM by improving tax administration, expenditure control and cash management. - Improve the business environment: strengthen financial sector stability and development, reform the electricity sector, simplify the tax system, and tackle corruption.
NER	<ul style="list-style-type: none"> - Maintain fiscal sustainability and strengthen budgetary oversight, while anchoring envisaged investments in a multiyear plan - Implement a prudent debt policy, using concessional resources and channel loans to high return projects. 	<ul style="list-style-type: none"> - Strengthen long-term resilience to weather related shocks by enhancing food security and facilitating movement of goods. - Promote economic diversification and private sector led-growth: scale-up investment on key infrastructure (health, education) and financial inclusion.
SEN	<ul style="list-style-type: none"> - Anchor fiscal policy on an agreed debt path, with corrective action mandated in case of deviations. - Control public consumption as envisaged in the PSE resist any pressure to relax the deficit target. 	<ul style="list-style-type: none"> - Further improve public financial management. - Accelerate structural reforms, particularly in the electricity sector.
TGO	<ul style="list-style-type: none"> - Gradually increase the primary balance to stabilize debt levels; - Enhance the monitoring of public investment financing and improving public debt management. 	<ul style="list-style-type: none"> - Develop targeted measures to promote inclusive growth and reduce poverty.

Appendix I. Financial Inclusion in the WAEMU¹

Access to the financial system is relatively low in the WAEMU, in particular for the most vulnerable parts of the population. With high mobile phone penetration, promoting mobile payments offers one way to reach out to large parts of the WAEMU's population. Policies to reduce participation costs, such as improvements to the business and legal environment, and lower collateral requirements could increase access to financing for firms.

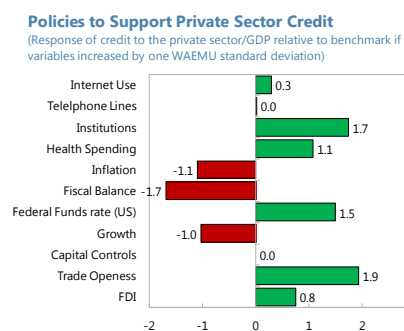
Encouraging mobile payments to compensate for a relatively weak financial infrastructure. WAEMU

countries on average lag behind benchmark groups in the provision of basic financial infrastructure, such as the density of ATMs and the number of bank branches.² Young adults and the bottom 40 percent of the income distributions are the groups with the lowest relative number of bank accounts. However, mobile phone penetration has increased rapidly in the WAEMU over the last decade, and the market for cross-border payments is large. The development of mobile financial services could thus serve as a means to increase financial inclusion.

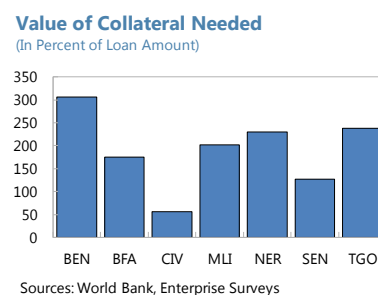


Improving the institutional environment to boost private sector credit growth. On average, the

WAEMU's private sector credit to GDP ratios are broadly in line with the levels implied by their macroeconomic fundamentals, but the ratios are lower for half on the member countries. A regression of the financial gap (actual private sector credit-to-GDP minus its benchmark) on macroeconomic, institutional and policy variables for 2004–2013 helps identifying policies which increase private sector credit relative to the benchmark. In particular, it suggests that one cross-WAEMU standard deviation increase in trade openness, institutional environment or social spending can increase credit to the private sector by 1.9, 1.7 and 1.1 percent of GDP, respectively.



Lowering collateral requirements to unlock firm's access to finance. Enterprise surveys indicate that less than 30 percent of firms may have access to a loan or line of credit in WAEMU countries. Most loans require collateral whose value on average exceeds the value of the loan. The calibration of a micro-founded general equilibrium model to the WAEMU indicates that decreasing these collateral requirements could yield significant gains for income and productivity with insignificant effects on financial stability, as measured by the ratio of non-performing loans, which, admittedly, is high to start with.



¹ This annex summarizes the analysis in Section 3 and 4 of the accompanying Selected Issues Paper.

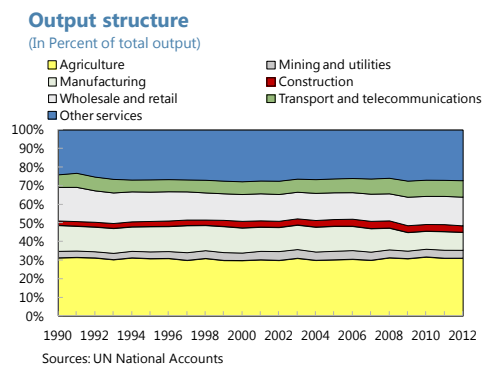
² Compared to benchmarks: African benchmark group: Ghana, Kenya, Lesotho, Rwanda, Tanzania, Uganda, and Zambia; Asian benchmark group: Bangladesh, Cambodia, India, Laos, Nepal, and Vietnam.

Appendix II. WAEMU: Growth, Structural Transformation and Diversification¹

Growth per capita in the WAEMU in the past two decades has been relatively low and highly volatile, and the structure of the economy has changed little. Further structural transformation and diversification of output and exports could yield significant growth dividends. Policies could focus on easing the constraints to structural transformation in key areas such as education and the business climate, as well on productivity improvements in agriculture.

The WAEMU countries have grown more slowly over the past two decades relative to the rest of Sub-Saharan Africa. One possible explanation is the lack of structural transformation. Over the past decades, the sectoral composition of output has remained remarkably stable and the level of diversification low. Similarly for exports, progress has been minimal in terms of diversification (both products and partners) and quality.

The growth benefits from further structural transformation and diversification could be substantial. The reallocation of resources from low productivity sectors such as agriculture, to higher productivity sectors such as manufacturing can boost overall productivity and growth. For example, increasing output diversification to the level of other benchmark countries could increase average growth by 0.6 to 0.9 percent. Structural transformation can also occur ‘within sectors’ creating productivity gains through, for example, implementing quality improvements to existing products and services. “Within” sector productivity increase in agriculture will be particularly important to increase growth and employment in light of the relatively low level of agricultural productivity, the high population growth, and the speed limits observed in the capacity of other sectors to create jobs.



¹ This annex summarizes the analysis in Section 5 of the accompanying Selected Issues Paper.



INTERNATIONAL MONETARY FUND



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March, 26, 2015

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

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

On March 20, 2015, 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).¹²

Despite a still fragile political and security situation in some member countries, growth reached 6.1 percent in 2014, driven by continued high growth in Côte d'Ivoire and a favorable agricultural season in many countries. Rising public infrastructure investment also stimulated economic activity. The impact of Ebola on growth, although important in Guinea, Liberia and Sierra Leone, was small in WAEMU. Consumer price and underlying inflation were close to zero in 2014. In the medium term, growth should remain above 6 percent, owing to continued buoyant public and private sector investment, and be supported by the weakening of the Euro (€), to which the CFAF is pegged, and the decline in international oil prices.

The overall budget deficit (including grants) increased to 4.6 percent of GDP in 2014, up from 3.1 percent in 2013, due to rising public investment to address the infrastructure gap, especially in Burkina Faso, Côte d'Ivoire, Mali and Niger. With tax revenue remaining broadly unchanged

¹² 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 16 percent of GDP, countries increasingly tapped the regional market for financing. Meanwhile, the total public debt declined slightly to 38.1 percent of GDP. Though fiscal pressures persisted, the current account deficit (including grants) declined to 7.3 percent of GDP in 2014, mainly reflecting the drop in international oil prices. As a result, after declining for three consecutive years, the international reserves of the Central Bank of West African States (BCEAO) rose slightly in 2014, covering 4.6 months of imports. This increase was broadly offset by the decline in the net foreign asset position of commercial banks.

The BCEAO has kept its key interest rate unchanged since September 2013. Credit to the economy has continued to grow at robust rates (14 percent in 2014) and credit to governments at even higher rates (24 percent). Refinancing operations by the BCEAO almost doubled over the past year, and banks' position with the central bank turned from a net creditor to a net debtor position. Commercial banks' borrowing from the central bank and governments' borrowing from commercial banks have risen in synch: the former has reached 9 percent of banks' liabilities and the latter about 20 percent of their assets.

The average capital adequacy ratio of banks (9.3 percent) was above the minimum required (8 percent) at the end of June 2014 but lower than the minimum required in half of the countries. The level of nonperforming loans reached 15.7 percent of total loans.

Executive Board Assessment¹³

Executive Directors generally agreed with the thrust of the staff appraisal. They welcomed the region's strong economic performance and moderate inflation, and prospects for continued strong growth in 2015. Looking ahead, they emphasized that strengthening fiscal positions, ensuring a sound financial system, and promoting structural transformation will be key to safeguarding external stability and bolstering medium-term growth prospects.

¹³ At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Directors noted that the external position remains sustainable and the exchange rate appears broadly in line with the region's fundamentals. Nonetheless, fiscal deficits are exerting increasing pressures on the balance of payments, and Directors generally agreed that fiscal consolidation will be needed in coming years. They welcomed the intention of member countries to bring down fiscal deficits to below 3 percent of GDP by 2019, consistent with the newly adopted convergence criteria, while encouraging additional steps to increase national ownership of these criteria. Directors agreed that consolidation efforts should focus on increasing tax revenue and containing current expenditure to maintain much-needed infrastructure investment and priority social spending. They also encouraged the authorities to improve public financial management and to underpin their debt management with a broader view of debt sustainability than a single debt level.

Directors agreed that the current monetary stance remains appropriate in the absence of inflation or external stability risks. However, should the planned fiscal consolidation in member countries fail to materialize, the BCEAO may need to consider a tighter monetary stance. Directors recommended that the BCEAO closely monitor the evolution of macroprudential risks from the sharp increase in commercial bank refinancing. They highlighted in this context the importance of developing a liquid government bond market and an active interbank market.

To safeguard financial sector stability, Directors encouraged the authorities to step up ongoing efforts to enforce existing prudential regulations and raise standards to international best practices. They noted that the current economic environment is favorable to strengthening the regulatory framework and building buffers in the financial system. They encouraged the authorities to proceed with plans to raise banks' capital requirements, make the deposit insurance and financial stability funds operational, subject bank holding companies to appropriate banking regulation and consolidated supervision, and establish a single and independent administrative resolution authority. Further financial deepening will be crucial to boost economic activity and improve monetary transmission.

Directors stressed the importance of sustained structural reforms aimed at raising economic growth, making it more inclusive, and increasing the region's resilience to shocks. They supported the authorities' agenda to make further progress in regional integration, notably by

improving regional infrastructure and ensuring a more reliable and affordable energy supply, and to improve access to financial services, develop human capital, and enhance governance. Directors welcomed the WAEMU Commission's intention to safeguard the common market through a uniform application of the common external tariff across member countries and non-application of additional tariff protection.

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, 2011–2019

	2011	2012	2013	2014	2015	2016	2017	2018	2019
				Est.			Proj.		
	(Annual percentage change)								
National income and prices									
GDP at constant prices	0.8	7.0	5.8	6.1	6.0	6.2	6.5	6.4	6.6
GDP per capita at constant prices	-2.1	3.9	2.7	3.1	3.0	3.2	3.5	3.4	3.6
Broad money to GDP	7.5	-3.1	3.5	...	...	...	...	...	...
Consumer prices (average)	3.9	2.4	1.4	0.0	1.5	1.8	1.9	2.0	2.1
Terms of trade	9.3	1.9	-6.4	2.5	2.8	-0.1	-1.4	-1.2	-2.6
Nominal effective exchange rates	1.6	-2.3	4.4	...	...	...	...	...	...
Real effective exchange rates	1.0	-2.7	2.8	...	...	...	...	...	...
	(Percent of GDP)								
National accounts									
Gross national savings	17.8	15.8	14.0	14.4	15.5	16.4	16.5	16.8	16.6
Gross domestic investment	19.8	21.4	22.0	21.6	22.8	23.3	23.3	23.6	22.9
<i>Of which:</i> public investment	5.5	5.9	7.7	8.0	8.6	8.6	8.7	8.7	8.5
	(Annual changes in percent of beginning-of-period broad money)								
Money and credit ¹									
Net foreign assets	1.0	-2.1	-5.3	-1.4	...	...	...	...	...
Net domestic assets	9.7	11.9	15.8	14.5	...	...	...	...	...
Broad money	10.7	9.8	10.5	13.1	...	...	...	...	...
	(Percent of GDP, unless otherwise indicated)								
Government financial operations ²									
Government total revenue, excl. grants	16.3	18.3	18.8	18.5	18.9	19.2	19.6	19.9	20.2
Government expenditure	22.7	23.5	24.7	25.8	25.8	25.8	26.0	26.1	25.9
Official grants	2.5	2.6	2.9	2.7	2.8	2.8	2.9	2.9	2.7
Overall fiscal balance, incl. grants (cash basis)	-3.9	-2.6	-3.1	-4.6	-4.1	-3.8	-3.5	-3.3	-2.9
Basic fiscal balance, incl. grants & HIPC	-2.2	-1.7	-1.4	-1.3	-1.2	-0.8	-0.7	-0.7	-0.5
External sector									
Exports of goods and services ³	28.2	28.1	26.0	25.6	26.0	25.3	24.9	24.6	24.3
Imports of goods and services ³	32.4	35.7	37.1	36.9	35.3	34.4	33.6	33.6	32.7
Current account, excl. grants ⁴	-3.2	-7.0	-11.2	-10.4	-9.9	-9.1	-8.7	-8.7	-8.1
Current account, incl. grants ⁴	-2.0	-5.7	-8.1	-7.3	-7.3	-6.9	-6.8	-6.8	-6.3
External public debt	30.9	25.6	25.8	26.2	29.7	30.0	29.9	29.5	29.0
Total public debt	43.5	37.8	38.9	38.4	41.3	41.7	41.6	41.2	40.4
Broad money	29.8	28.9	29.9	31.4	...	...	...	...	...
<i>Memorandum items:</i>									
Nominal GDP (billions of CFA francs)	37,791	41,709	44,473	47,569	51,573	55,874	60,773	66,023	71,847
Nominal GDP per capita (US dollars)	795	795	851	884	843	892	952	1,017	1,085
CFA franc per US dollars, average	472	511	494	...	...	...	...	...	...
Euro per US dollars, average	0.72	0.78	0.75	...	...	...	...	...	...
Foreign exchange cover ratio ⁵	97.2	98.4	84.0	80.4	...	...	...	...	...
Reserves in months of imports (excl. intra-WAEMU imports)	5.7	5.1	4.5	4.6	4.3	4.2	4.1	4.2	...

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

¹Year on year change, end December; for 2014 year on year change, end November.

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

³Excluding intraregional trade.

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

⁵Gross official reserves divided by short-term domestic liabilities (IMF definition).

**Statement by Mr. Yambaye, Executive Director, Mr. Diallo, Alternative Executive Director, and Mr. Alle, Senior Advisor to Executive Director, on WAEMU
March 20, 2015**

1. Our WAEMU authorities thank staff for their engagement with the regional institutions and the candid interactions on a broad range of issues facing the Union. Our authorities are in general in broad agreement with staff's analysis and policy recommendations, especially as regards the financial sector and structural transformation. They also very much appreciate the quality of the Selected Issues paper which will provide them with important inputs in the design of economic strategies. However, they view staff's assessment on medium term risks and macroeconomic stability as being too negative and not supported by convincing analysis. They firmly believe that the policies in place and those envisaged both at the member state level and at the Union level are supportive of sustainable growth and macroeconomic stability.

RECENT DEVELOPMENTS

2. Over the past years, the WAEMU region has experienced strong average growth despite adverse challenges including security issues in some of the member states. This performance is one of the major developments in the region, and 2014 was no different as growth reached a strong 6.1 percent. The rebound that started in 2012 as Côte d'Ivoire began its post-crisis recovery is still firming up, helped by rising public investment mainly in infrastructure, as well as private investment. Our authorities are of the view that all macroeconomic figures displayed by the region should be read under the lens of the major changes unfolding.

3. Over the medium term, real GDP growth is projected to average at least 6 percent with inflation well under control at around 2 percent, as a result of the policies being pursued. The fiscal deficit is projected to decline to 4.1 percent in 2015 and to below 4 percent over the medium term. Total public debt is also projected to stabilize at moderate levels, about 40 percent of GDP. Moreover, the fall in oil prices and the weakening of the CFAF should also lead to a strengthening of the external current account. Overall, these are positive developments which bode well for the future of the region. Our authorities view these developments and projections as validating their policies which are aimed at maintaining macroeconomic stability and raising the status of the countries to emerging market economies in the coming decades. They, therefore, are more optimistic than staff regarding the outlook which they feel is more on the upside.

PRESERVING MACROECONOMIC STABILITY

4. Our authorities do not share staff's assessment on macroeconomic stability; neither the concerns about macro-prudential risks associated with fiscal policy nor their recommendations regarding the use of the **policy mix**. First, on risks, the authorities are of the view that for a region of strong growth, the present fiscal deficit is comprehensible and should not be overstated. In addition, recent DSAs concluded that sovereign risk is low in the region. Second, should there be any macro-prudential risk posed by the fiscal stance, our authorities are of the view that fiscal policy rather than monetary policy is best suited to address it; especially in a context where staff concurs to the weak transmission mechanisms of monetary policy. In a region facing still low tax revenue to GDP ratio, improving domestic revenue mobilization could be a good candidate to address the root cause of fiscal deficits.

5. Moreover, tightening monetary policy to restrain liquidity injection as recommended by staff would have minor impact on bank refinancing that can be done through alternative windows. To the contrary, such a move will push interest rates up and hence crowd out private sector investment, which has steadily increased to date owing to the catalytic role played by the public sector's capital spending.

6. That been said, **Fiscal policy** and the situation of public finances are the reflection of the planned shifts made by governments towards public investment to support growth. Staff rightly concurs that the overall budget deficit (including grants) of 4.6 percent of GDP in 2014 was due to rising public investment to address the infrastructure gap. Transitioning from the primacy of current expenditures to productive investment outlays was a long overdue endeavor in most of the WAEMU countries. The current momentum therefore goes in the right direction; and coming from very low levels of investment, the sudden rise of the deficit should be seen as temporary and not as a major risk.

7. Our authorities view the present fiscal deficits as fully manageable, but they will step up efforts on the revenue side, within the new convergence framework. The WAEMU Commission is also working closely with the countries' authorities to address the delays in PFM reforms and to agree on a timeline to implement them. The *BOAD* and WAEMU Commission are also working together on developing best practices as regards public investment. These actions altogether should contribute to improve the conduct of fiscal policy and maintain deficits in good territories. At the national level, most of the member countries are implementing IMF-supported programs, whereby they have embarked on fiscal reforms encompassing both

administrative measures and initiatives to broaden the tax base. The WAEMU authorities are of the view that discipline and conditionality under these programs are strong enough safeguards for dampening risks and ensuring macroeconomic stability.

8. **Monetary policy** over the past period has also supported growth through the facilitation of credit to the economy. By keeping a low refinancing rate of 2.5 percent since September 2013, the central bank has helped banks to invest part of their high level of liquidity in sovereign bonds on the regional market. Our authorities view the rise of sovereign issuance as a positive development in the region, to be further enhanced as the secondary bond market takes hold. To date, governments in the region have regularly and correctly managed the debt stemming from these sovereign issuances and the WAEMU authorities do not see major risks in this area.

FINANCIAL SECTOR DEVELOPMENT

9. Staff and the authorities concurred on the assessment of the financial sector, especially on the weaknesses that need to be addressed. **Financial sector development** remains one of the main objectives on the WAEMU authorities' agenda and actions on several fronts are underway accordingly. First, the authorities are cognizant that the deepening of the financial sector will help improve the transmission channels of the monetary policy. The BCEAO, in coordination with national authorities has launched a vast reform program in that regard. This includes the inception of new institutions such as credit bureaus to improve information and boost lending activities, and the development of electronic systems to enhance the interbank market. Second, most governments in the region are implementing financial sector development strategies with the view to boost credit to the economy. Key pillars of these strategies include: (i) attracting new banks - to address the shallowness of the banking sector and associated weaknesses such as low competition, high borrowing costs, and high concentration of credit; (ii) enhancing financial inclusion by lifting bottlenecks and increasing access to banking services and developing microfinance and mobile banking.

10. **Sovereign bond** issuance is also an important instrument for the development of the regional financial market. A specific agency – *UEMOA Titres* - has been created with the main task of coordinating the bond issuance among countries, so as to keep yields under control. Alongside this agency, the authorities are stepping efforts to reap the full benefits of sovereign issuance on the regional market, including “licensing primary dealers in government securities to activate the secondary market for government paper.”

11. Regarding the **stability of the banking system**, the authorities are taking steps to restructure problem banks such as in Côte d'Ivoire and Benin, enhance ratios, and strengthen the regulatory and supervisory frameworks. Furthermore, steps to move to Basel II/III are underway. In the meantime, the second phase of reforms to raise the capital requirement for banks to FCFA 10 billion should be submitted to the Council of Ministers of finance before end-March. The ground work for the supervision of AML/CFT is also completed and new legal rules should be submitted to the Council of Ministers this year.

12. As regards the weaknesses in **banking supervision** noted in the staff report, the authorities would like to point out that they are the result of the socio-political crises which have affected some members of the Union since 2000, in particular Côte d'Ivoire which houses the headquarters of the Banking Commission. As a consequence of the disruptions, some financial institutions were not adequately supervised. However, since 2002, with the re-establishment of the supervisory capacity, a better control system has been put in place. The administrative and disciplinary measures taken have translated into an improvement in banks' financial situation.

13. The authorities are also putting a particular emphasis on the **supervision of pan-African banks**, taking stock of the governance issues that recently erupted at ECOBANK. This particular situation is being addressed. All supervisors from countries hosting branches of ECOBANK should meet soon in this regard and the group has been invited to comply with the rules of the Banking Commission. As for the whole banking sector, the BCEAO management has liaised with the supervisory bodies of parent banks to coordinate their efforts and harmonize practices for the supervision of pan-African banks.

DIVERSIFICATION AND STRUCTURAL TRANSFORMATION

14. Our authorities welcome staff's analysis on diversification and structural transformation, with an emphasis in the Selected Issues. This analysis builds in a constructive manner on the work done on the topic by SPR and discussed at the Board. Nonetheless, this analytical work should be followed through with more actionable steps capable of meeting countries' needs. Indeed, embarking on a structural transformation agenda and diversifying the economies of the region are at the forefront of the WAEMU authorities' demand in terms of development programs at this juncture. It is our authorities' belief that the strong growth momentum in the region paired with macroeconomic stability and a set of favorable global conditions should be put to profit by member countries to lay the ground for higher potential growth. The authorities are committed to endeavor in that direction as evidenced by efforts on many fronts.

15. First, **on the development goals**, most countries in the region have designed development plans with the ambition of transitioning to emerging market economies in the coming decades. This is a clear indication of a paradigm shift from fiscal stance-centered plans to ambitious economic transformation plans. This entails bold actions and some short-term costs such as temporary deficits, to achieve long-term goals.

16. **Closing the infrastructure gap** is one of the first steps of this agenda. In this regard, efforts at the country level are being supplemented by regional programs in the areas of energy and roads. Several corridors have been identified and the project preparation is very advanced for some of them, including the highway Abidjan-Lagos. The implementation of the second phase of the Regional Economic Program (PER) also includes the provision of regional infrastructure and access to energy.

17. **Improving the business climate** in other aspects such as enhancing the judicial system, reducing red tape and accelerating the process of setting up a business, is also a task being taken on both at the country and regional levels. The WAEMU Commission is also creating the infrastructure to harmonize and disseminate best practices in World Bank Doing Business related reforms among countries.

18. For our WAEMU authorities, getting those basics right should help boost the development of the private sector. In this regard, the Union implements a **common industrial policy** to supplement national initiatives, with an emphasis on the development of SMEs. The objective is to create a single market for SMEs and establish linkages with bigger companies, especially to sub-contract public procurements across countries.

19. WAEMU countries are exporters of agricultural commodities and intra-sector structural transformation is a major agenda to most of the region's policymakers. To this end, adding value to agricultural products through processing is a step in countries' development plans and a part of the Union's common industrial policy as well. Likewise, governments' efforts to attract foreign investment are aimed at enhancing the share of the manufacturing sector in the domestic output. This inter-sector structural transformation should help transfer resources from the low-productivity agriculture sector towards the manufacturing and service sectors; and help broaden employment opportunities for educated youths.

20. **Promoting regional integration** is also a priority to the authorities, as a way to create a large market of 230 million consumers within the Economic Community of Western African States - ECOWAS. The ECOWAS Common External Tariff became effective in January 2015. By liberalizing trade within the whole region, this provides a greater playing field for the private sector to thrive and reap the growth dividends. To accompany these efforts of integration, the authorities would welcome a joint exercise WAEMU-ECOWAS for future consultations. This will help better capture the dynamics in the region and give more consistency to the policy recommendations.

CONCLUSION

21. Amidst the global slowdown and manifold challenges, the WAEMU region has maintained a strong growth momentum over the past years. Buoyant public investment, especially in infrastructure that has been held back for too long, stood as one of the key drivers of this performance. Recent fiscal figures have reflected these structural changes unfolding in the region. Our authorities value the policy dialogue with the Fund as a contributing factor to these achievements.

22. Going forward, the opportunity for the region to seize the moment and entrench growth lies in the authorities' unwavering commitment and policies aimed at fostering the structural transformation of their economies. Our authorities view this endeavor as the most sustainable way to diversify economies and create the conditions for long-term macroeconomic stability. As we noted above, our authorities are of the view that the outlook for the Union is quite positive, and that the policies envisaged, in most cases with Fund's assistance, are taking the countries in the right direction.