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WEST AFRICAN ECONOMIC AND MONETARY UNION

March 2021

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

This staff report on discussions with regional institutions of the West African Economic and Monetary Union (WAEMU) was prepared by a staff team of the International Monetary Fund in the context of the periodic regional surveillance of the WAEMU. The regional perspective of such discussions is intended to strengthen the bilateral 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:

- A **Press Release** summarizing the views of the Executive Board as expressed during its February 8, 2021 consideration of the staff report.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on February 8, 2021, following discussions that ended on November 20, 2020. Based on information available at the time of these discussions, the staff report was completed on January 21, 2021.
- A **Statement by the Executive Director** for the WAEMU member countries.

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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International Monetary Fund
Washington, D.C.

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

FOR IMMEDIATE RELEASE

- *After almost a decade of strong growth, the WAEMU region is facing a triple crisis impacting health, the economy, and security.*
- *For 2021, growth is projected at 5.4 percent, mostly driven by a rebound in private consumption and private investment, reflecting the relaxation of lockdown constraints and the return of foreign direct investment, but the economic outlook remains uncertain.*
- *A gradual fiscal consolidation is expected to start this year and bring back the regional fiscal deficit toward the 3 percent of GDP regional ceiling by 2023.*

Washington, DC – March 2, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the regional consultation[1] with the West African Economic and Monetary Union on February 8, 2021.

After almost a decade of strong growth, the West African Economic and Monetary Union (WAEMU) region is facing severe challenges from a triple crisis impacting health, the economy and security. In part, because of drastic measures taken early on, the Covid-19 virus seems to have spread at a slower pace and with a lower fatality rate in WAEMU countries than on average in Sub-Saharan Africa. Economic activity decelerated sharply in March-June 2020, particularly in the commerce, construction, transportation and hospitality sectors. But a rebound was observed in the third quarter. Both fiscal and monetary policies were relaxed significantly in 2020 to contain the pandemic and support the economy.

For 2021, growth is projected at 5.4 percent, mostly driven by a rebound in private consumption and private investment, reflecting the relaxation of lockdown constraints and the return of foreign direct investment. A gradual fiscal consolidation is expected to start this year and bring the aggregate fiscal deficit to 3 percent of GDP by 2023. There are however significant downside risks to the outlook, and new virus outbreaks or security shocks could derail the recovery and create additional fiscal pressures.

Executive Board Assessment[2]

Following the Executive Board discussion, Mr. Mitsuhiro Furusawa, Acting Chair and Deputy Managing Director, made the following statement:

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[1] Staff reports on the annual consultations with regional institutions of currency unions and the ensuing Board discussion are both considered an integral part of the Article IV consultations with individual member countries. 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.

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

Executive Directors agreed with the thrust of the staff appraisal. They noted the triple crises facing the region (health, economic, and security) and commended the authorities for measures taken early on to contain the spread of the COVID-19 virus, as well as for the monetary and fiscal measures to support the region's economies. Looking ahead, in view of the high uncertainty and constrained fiscal space, being prepared to respond to a deterioration in the economic outlook and further propagation of the virus will be important.

Directors concurred that a gradual return of the region to the aggregate fiscal deficit ceiling of 3 percent of GDP by 2023 would support internal and external stability. Converging toward the fiscal deficit anchor is essential to maintain an adequate level of external reserves, limit the risk of pressures on the regional financial market, and ensure debt sustainability. A number of Directors saw merit in granting some flexibility to countries facing security risks. Directors cautioned that consolidation should not harm inclusive growth by protecting priority social and infrastructure spending and shifting to targeted policies. Enhancing revenue mobilization, public financial management, and fiscal transparency will also be crucial. Against this background, Directors noted that the upcoming reform of the regional fiscal governance framework would provide an opportunity to anchor the consolidation path.

Directors welcomed the measures taken by the BCEAO in response to the pandemic, which have prevented a tightening of financial conditions. Monetary policy could be relaxed further if the economic outlook deteriorates, provided that an adequate buffer of foreign exchange reserves is maintained.

Directors agreed that the loan forbearance framework set up in March 2020 has provided relief to solvent firms and households impacted by the crisis, but stressed that banks should not relax the monitoring of customers in difficulty. Capital shortfalls in the banking system that could emerge from the crisis would call for targeted and proactive actions from the supervisor. Making the bank resolution framework fully operational in 2021, as planned by the authorities, would be essential to ensure that nonviable banks can be promptly intervened and resolved. Directors urged close monitoring of the microfinance sector and strengthening AML/CFT supervision.

Directors supported the authorities' intention to push ahead with structural reforms and regional infrastructure investment to enhance competitiveness. They also highlighted the need to continue to support the development of regional financial markets.

Table 1. WAEMU: Selected Economic and Social Indicators, 2017-2025

Social Indicators

GDP		**Poverty (2015 or latest available)**	
Nominal GDP (2019, millions of US Dollars)	151,154	Headcount ratio at $1.90 a day (2011 PPP)	46.3
GDP per capita (2019, US Dollars)	1,190	Undernourishment (percent of population)	15.9
Populations characteristics		**Inequality (2015 or latest available)**	
Total (2019, millions)	127	Income share held by highest 10 percent of population	32.1
Urban Population (2018, percent of total)	40.3	Income share held by lowest 20 percent of population	6.1
Life expectancy at birth (2017, years)	60.9	Gini index	40.8

Economic Indicators

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			SM/19/44 [1]	Est.	SM/19/44 [1]	Proj.			Projected		
					(Annual percentage change)						
National income and prices											
GDP at constant prices	6.4	6.5	6.6	5.9	6.5	0.3	5.4	6.6	7.4	6.5	6.1
GDP per capita at constant prices	3.5	3.5	3.7	3.0	3.7	-2.5	2.5	3.7	4.4	3.6	3.2
Consumer prices (average)	0.8	0.9	1.6	-0.1	1.9	1.7	1.6	1.9	1.9	1.9	1.9
Terms of trade	-7.6	-2.2	2.5	1.7	-0.6	18.4	2.3	-5.6	-5.3	-1.8	-1.2
Nominal effective exchange rate	2.0	4.1	...	-0.5	...	...	...	...	...	...	...
Real effective exchange rate	-0.1	2.0	...	-3.9	...	...	...	...	...	...	...
					(Percent of GDP)						
National accounts											
Gross national savings	18.0	18.6	14.9	19.1	15.2	18.6	19.4	19.8	21.3	21.3	21.4
Gross domestic investment	23.0	24.3	20.1	23.7	20.9	24.0	25.1	24.9	25.3	25.1	25.4
Of which: public investment	6.6	6.4	7.3	6.3	7.4	7.1	7.1	6.8	6.6	6.6	6.6
					(Annual changes in percent of beginning-of-period broad money)						
Money and credit [2]											
Net foreign assets	1.7	4.5	2.6	6.6	1.3	0.3	-0.5	0.3	2.0	2.1	0.9
Net domestic assets	6.8	8.0	7.6	3.8	9.7	10.1	7.4	8.1	7.2	6.4	7.1
Broad money	8.5	12.5	10.2	10.3	11.0	10.4	6.9	8.4	9.2	8.5	8.0
Credit to the economy	7.6	5.9	8.3	4.2	7.1	5.6	3.3	3.3	3.5	3.0	3.4
					(Percent of GDP, unless otherwise indicated)						
Government financial operations											
Government total revenue, excl. grants	15.0	14.6	15.4	15.6	15.8	14.7	15.5	15.8	16.3	16.5	16.8
Government expenditure	20.3	19.6	19.8	19.7	19.9	23.1	22.3	21.4	21.0	20.9	21.1
Overall fiscal balance, excl. grants	-5.3	-5.0	-4.4	-4.1	-4.2	-8.4	-6.9	-5.6	-4.8	-4.4	-4.3
Overall fiscal balance, incl. grants (commitment basis)	-3.6	-3.3	-2.5	-2.3	-2.4	-5.9	-4.9	-3.8	-3.1	-2.9	-2.8
External sector											
Exports of goods and services [3]	19.3	19.0	18.8	19.1	18.5	17.0	18.1	18.7	20.2	20.3	20.2
Imports of goods and services [3]	25.1	25.5	26.4	24.6	26.5	23.4	24.3	24.4	24.7	24.9	25.1
Current account, excl. grants	-5.8	-6.5	-8.3	-6.0	-8.7	-6.9	-6.8	-6.3	-5.0	-4.7	-4.7
Current account, incl. grants	-4.7	-5.4	-6.3	-4.8	-6.8	-5.4	-5.7	-5.2	-4.0	-3.9	-4.0
External public debt	23.1	27.7	28.2	30.2	27.0	32.9	33.3	32.7	31.5	30.5	29.4
Total public debt	40.4	43.0	42.6	44.8	41.7	48.5	49.6	49.5	48.4	47.6	46.8
Broad money	23.9	33.0	27.7	34.3	28.1	37.1	37.1	...	...	...	...
Memorandum items:											
Nominal GDP (billions of CFA francs)	77,736	83,391	90,359.6	88,561	98,154.8	90,231	96,476	104,539	114,189	123,865	133,761
Nominal GDP per capita (US dollars)	1,118	1,218	1,279.4	1,190	1,365.5	1,198	1,322	1,403	1,494	1,576	1,652
CFA franc per US dollars, average	581	555	...	585.9	...	...	...	...	...	...	...
Foreign exchange cover ratio [4]	73.5	85.3	...	88.4	...	...	...	...	...	...	...
Gross international reserves											
In months of imports of goods and services [3]	4.1	4.7	4.4	5.9	4.3	5.5	5.0	4.6	4.5	4.3	3.9
In millions of US dollars	12,963	14,858	16,514.2	17,547	17,360.5	19,275	19,497	19,801	21,135	22,276	22,555
In percent of broad money	29.4	31.1	32.2	34.1	30.2	31.9	...	...	...	...	...

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

[1] The GDP series of the 2019 regional consultation (SM/19/44) was adjusted to account for the National Accounts rebasing of Côte d'Ivoire, Niger and Togo, and facilitate the comparison of GDP ratios with current projections; the other components of GDP could not be recomputed in the new bases.

[2] Year on year change, end December.

[3] Excluding intraregional trade.

[4] Gross official reserves divided by short-term domestic liabilities (IMF definition).

WEST AFRICAN ECONOMIC AND MONETARY UNION

STAFF REPORT ON COMMON POLICIES OF MEMBER COUNTRIES

January 21, 2021

KEY ISSUES

Context. After almost a decade of strong growth, the WAEMU region is facing severe challenges from a triple crisis impacting the health, economic and security situations. Both fiscal and monetary policies were relaxed significantly in 2020 to contain the pandemic and support the economy. A gradual fiscal consolidation is expected to start in 2021 and bring back the aggregate fiscal deficit towards the 3 percent of GDP regional ceiling within three years. Growth is expected to recover swiftly in 2021–22 to pre-crisis levels, but the economic outlook is still uncertain.

Policy Recommendations

- **Fiscal policy**. Returning collectively to a regional fiscal deficit of 3 percent of GDP by 2023 is essential to preserve sufficient external reserves, mitigate the risk of pressures on the regional bond market, and prevent further deterioration of countries' debt servicing capacity. Some flexibility could be granted to countries affected by security shocks. Fiscal consolidation plans should be designed in a way that is least harmful to inclusive growth.

- **Monetary policy**. The monetary policy stance is currently appropriate, but the BCEAO should stand ready to tighten it if external buffers fall significantly this year. The current level of reserves is adequate.

- **Policy mix under an adverse scenario**. Monetary policy would have to play a central role if the economic recovery were slower than expected, since there is limited room to raise fiscal deficits further.

- **Bank supervision**. Banks with capital ratios compromised by the crisis should implement credible medium-term capital restoration plans. The bank resolution framework should be made fully operational in 2021 to ensure that nonviable banks can be promptly intervened and resolved.

- **Financial markets**. The regional sovereign securities' market could come under pressure in coming years, as a result of difficulties to access external financing and still-high fiscal deficits. Increasing the depth and liquidity of this market is a near-term priority.

Approved By
Annalisa Fedelino and Bjorn Rother

Discussions on the 2020 regional consultation were held virtually through video conferences during November 2-20, 2020. The staff team comprised Mr. Eyraud (head), Ms. Selim, Messrs. Amidzic and Féler (all AFR), Mr. Abidi (MCM) and Mr. Lisi (SPR). The mission was assisted by Messrs. Jenkinson, Koulet-Vickot, and Kalonji (resident representatives in Burkina Faso, Senegal, and Côte d'Ivoire). Mr. Purcell (LEG), Ms. Silvia Iorgva, Mr. Romain Veryune (both from MCM), and Messrs. Leduc and Nguenang (both from FAD) participated in some meetings. The concluding meetings were held on November 20, 2020, with WAEMU Commission President Boureima and BCEAO Governor Kone (with the participation of Mr. Selassie and Ms. Fedelino, both from AFR; and Mr. Diakite from OED). Ms. Bentum provided research support and Mr. Borman provided assistance in the preparation of this report.
The West African Economic and Monetary Union (WAEMU) and the West African Monetary Union (WAMU) cover the same eight countries: Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal, and Togo.

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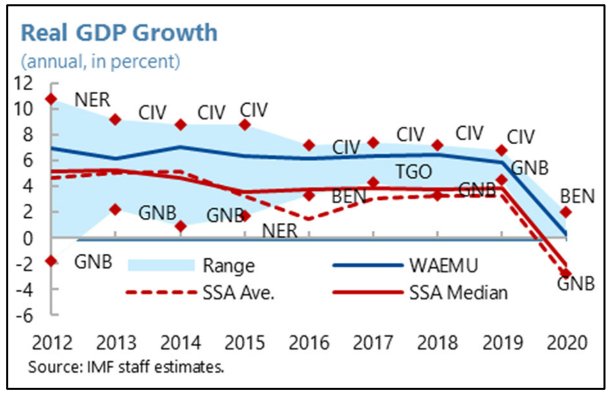
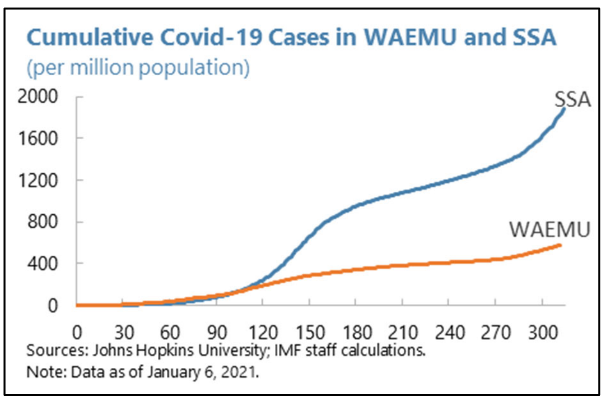
ANNEXES

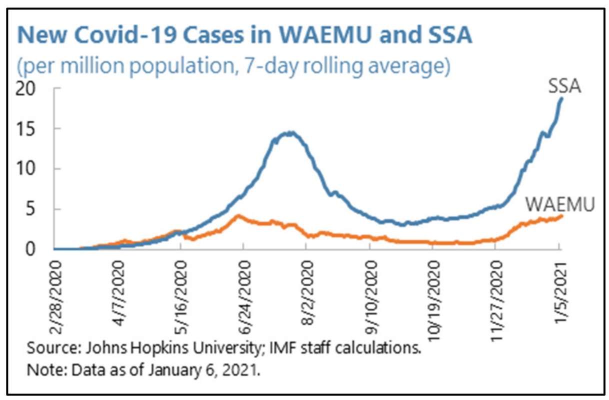
BACKGROUND: A TRIPLE CRISIS

1. **The near-decade long period of high growth in the WAEMU has come to an abrupt end with the Covid-19 pandemic.** After exceeding 6 percent every year over 2012–19, real GDP growth is expected to have collapsed in 2020 to less than 0.5 percent. The growth deceleration is broadly in line with that observed in other Sub-Saharan Africa (SSA) countries, although the WAEMU started from a higher growth level.



2. **The health crisis has, so far, been less severe than in other parts of Africa**. In part because of drastic measures taken early on, the Covid-19 virus seems to have spread at a slower pace and with a lower fatality rate in WAEMU countries than in the SSA average. As of end-December 2020, the number of cumulative cases represented less than 0.1 percent of the total WAEMU population.[1]





3. **The security situation has deteriorated sharply in the Sahel region**. Fatalities from terrorism surged by 90 percent in 2019 in Burkina Faso, Mali and Niger, and another 40 percent (on an annualized basis) in the first 10 months of 2020. The violence is exerting significant budget pressures and taking a heavy humanitarian toll, which is compounded by the Covid pandemic.

4. **The triple crisis (economic, health, security) unfolds against a background of important political and economic transitions**. Between Fall 2020 and Spring 2021, presidential and parliamentary elections took or are expected to take place in four countries of the Union. In Mali, President Keita was overthrown by a military coup in August 2020, triggering ECOWAS sanctions. These were lifted in October following the formation of a transitional government, which has committed to organize elections in early 2022. Another important transition relates to the monetary cooperation and currency reform announced at end-2019. (Box 1).

[1] Due to constraints on testing capacity, many active cases may remain undetected.

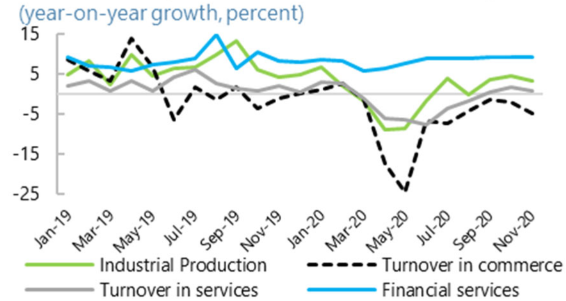
Box 1. The Monetary Cooperation and Currency Reform

In December 2019, the WAEMU authorities announced a reform of the underlying arrangements with France. While maintaining the peg to the euro at its current parity and France's convertibility guarantee, the reform will introduce three main changes: (i) the BCEAO will manage all its reserves instead of having to deposit half of them with the French Treasury in a current account called the "Compte d'opérations"; (ii) France will cease to be represented on the BCEAO's main decision-making bodies; and (iii) the WAEMU's CFAF will be renamed ECO. The first two changes are already in place, although some practical or legal modalities are still sorted out at the time of drafting of the staff report. However, the ECO launch, initially envisaged in 2020, has been postponed, because of the pandemic and the need to articulate the reform with the roadmap for the introduction of the ECOWAS single flexible currency with the same name. President Ouattara announced in September 2020 that the ECO would not be introduced before, at least, three to five years.

RECENT DEVELOPMENTS

5. **After recording its eighth year of strong growth in 2019, the WAEMU experienced a severe economic deceleration in 2020.** In 2019, real GDP growth stood at 5.9 percent (almost twice the SSA average), thanks to robust domestic demand. Conjunctural indicators point to a sharp deceleration in March-June 2020, particularly in the commerce, construction, transportation and hospitality sectors. But a rebound was observed in the third quarter. Inflation averaged 2.1 percent over January-November 2020 compared to the same period the previous year, due to food supply shortages.

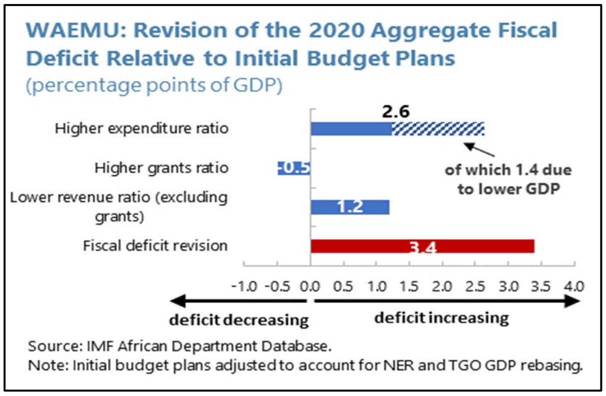
WAEMU: Conjunctural Indicators of Activity
(year-on-year growth, percent)

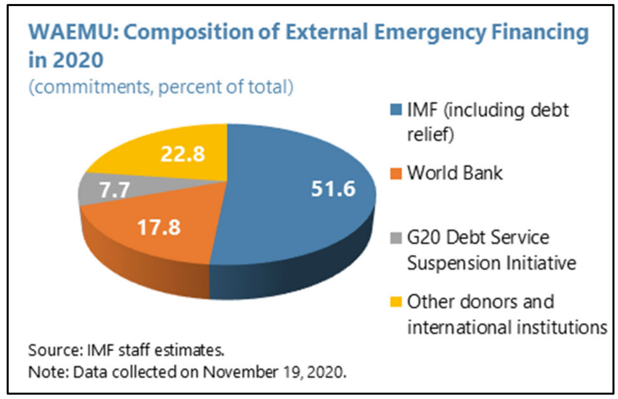


Source: BCEAO; and IMF staff calculations.

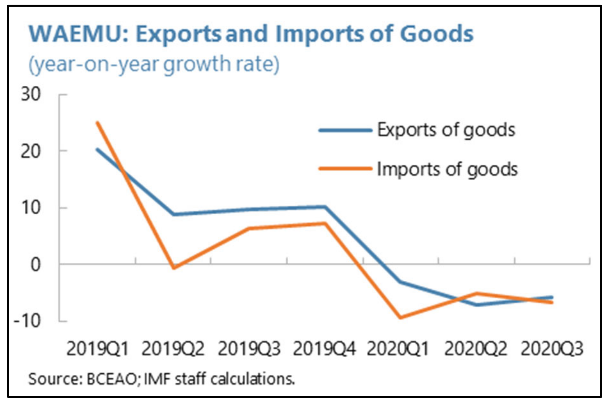
6. **While fiscal convergence was broadly achieved in 2019, the fiscal stance was relaxed significantly in 2020 in response to the crisis.** The aggregate fiscal deficit fell below the 3 percent of GDP regional ceiling in 2019, due to better revenue mobilization. For 2020, the deficit was initially expected to remain below the ceiling. However, the Covid crisis led countries to enact supplementary budgets to accommodate the revenue shortfall and the budgetary cost of response packages. The fiscal stance is now estimated to loosen by about 3½ percent of GDP.[2] The additional financing needs have been mostly covered by international emergency support. The Union's Macroeconomic Convergence Pact was suspended in April 2020 in response to the sudden deterioration of the fiscal outlook.

[2] See Selected Issues Paper (SIP) on the policy response to the Covid crisis.



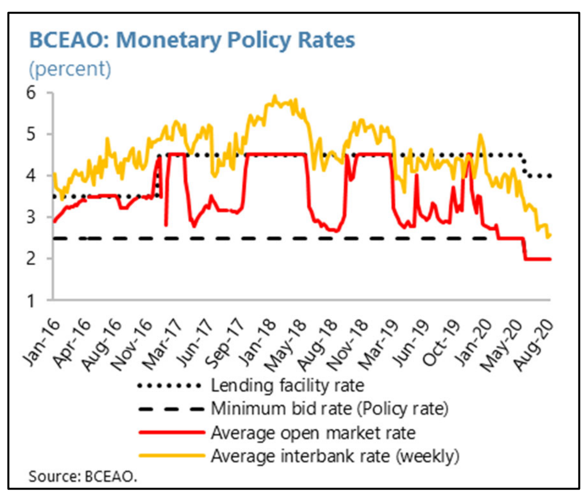


7. **External reserves rose in 2019 and the first half of 2020.** The nominal amount of reserves increased steadily in 2019 and the first half of 2020, mainly due to the contraction of the current account deficit in 2019 on the back of fiscal consolidation, and the large donor support received in 2020. Combined with some import compression during the pandemic, this pushed the coverage ratio in months of prospective imports from 4.7 at end-2018 to around 6.0 in April-June 2020 before receding to 5.4 months in November 2020.



8. **Export receipt repatriation continued to improve in 2019.** The repatriation rate (measured as the share of FX export proceeds surrendered to the central bank) increased steadily from 13 percent in 2012 to 70 percent in 2019. This resulted from a better enforcement of the regulatory requirement that 80 percent of export proceeds above CFAF 10 million should be repatriated and surrendered to the central bank. In the first three quarters of 2020, the repatriation ratio receded to about 60 percent, mainly reflecting the temporary granting of payment deferrals by exporters to foreign clients during the crisis. The BCEAO expects the ratio to revert to its pre-crisis level once the economic conditions normalize.

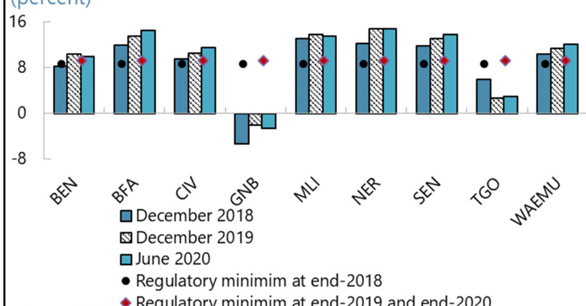
9. **Liquidity conditions eased further during the Covid crisis.** Both the open-market and interbank rates have been on a downward trend since early 2019, with the latter entering durably the interest rate corridor for the first time in several years. The easing of liquidity conditions in 2020 reflects mostly a more accommodative stance of the BCEAO, which shifted to an auction system of "fixed-rate full allotment" (FRFA) in March and reduced its policy rate by 50 bps in June. On the regional public security market, interest rates declined as well over the period. Sovereigns had no difficulty placing larger



volumes of securities (Côte d'Ivoire and Senegal returned to the regional market in 2019 after issuing large Eurobonds in 2017–18). In November 2020, Côte d'Ivoire issued a 12-year eurobond of EUR 1 billion at a historically low rate of 5 percent, of which one fourth to prefinance its 2021 borrowing needs and one half to refinance future debt repayments.

10. Most banks have made significant progress in strengthening their balance sheets, as part of the Basel II/III transition process. The aggregate capital adequacy ratio (CAR) improved from 10.5 to 11.5 percent between December 2018 and December 2019—above the 9.5 percent regulatory threshold. Over the first six months of 2020, the CAR increased further to 12.1 percent.[3] The share of NPLs to total loans declined from 12.4 percent at end-2018 to 11.4 percent at end-2019 and remained at this level at end-June 2020. Given favorable liquidity conditions, bank credit to the private sector grew rapidly by 8.2 percent in 2019 and remained robust at 5.8 percent over January-September 2020 relative to the same period in the previous year. Overall, the banking sector seems to show some resilience during the crisis, although available data should be interpreted with caution, since the impact of the crisis can only be reliably quantified once exceptional relief measures are lifted, the economic situation stabilizes, and a thorough diagnostic of banks' loan portfolios is conducted.

WAEMU: Bank Capital Adequacy Ratio
(percent)



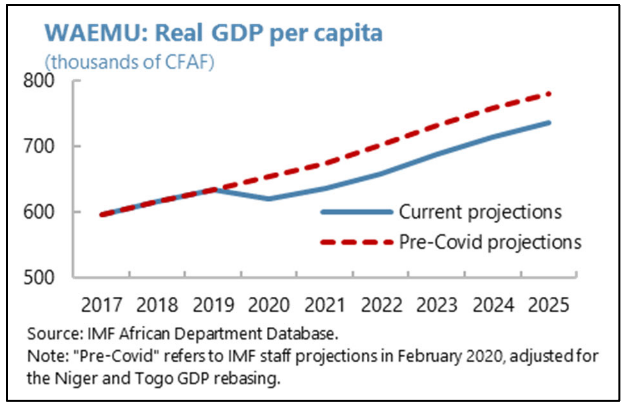
Source: BCEAO.

11. The situation of Microfinance Institutions (MFIs) has deteriorated substantially in 2020, although more information is needed to assess the full impact of the crisis on the sector. The MFI sector, which plays an important role for poverty reduction and social inclusiveness, is relatively small, with its end-2019 credit outstanding representing only 1.3 percent of GDP and 6 percent of bank credit. Preliminary data suggests that the stock of NPLs soared by 33.4 percent between end-December 2019 and end-June 2020, while the stock of credit edged up by 0.6 percent over the same period. However, shortcomings of the MFI information systems (which may record some forborne claims as nonperforming) could explain part of this evolution. Staff notes that the BCEAO is collecting more information to correct the statistics, if needed, and refine the assessment.

[3] At end-June 2020, 17 banks accounting for 15.7 percent of system assets did not meet the regulatory minimum, of which eight banks representing 3 percent of system assets continued to record negative equity.

OUTLOOK AND RISKS

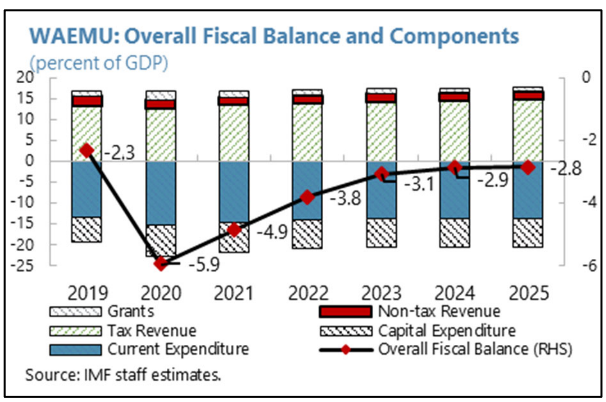
12. **The baseline projections assume a prompt economic recovery, although some output losses are likely to be permanent**. Growth is projected at 5.4 percent in 2021, mostly driven by a rebound in private consumption and private investment, reflecting the relaxation of lockdown constraints and the return of FDIs. The recovery is projected to be strongest in member-countries where the growth slowdown was more pronounced in 2020. On average, the speed and size of the recovery are broadly similar to those anticipated in other SSA countries. However, GDP per capita is projected to remain 6 percent lower than before the crisis in coming years.



WAEMU: Real GDP per capita

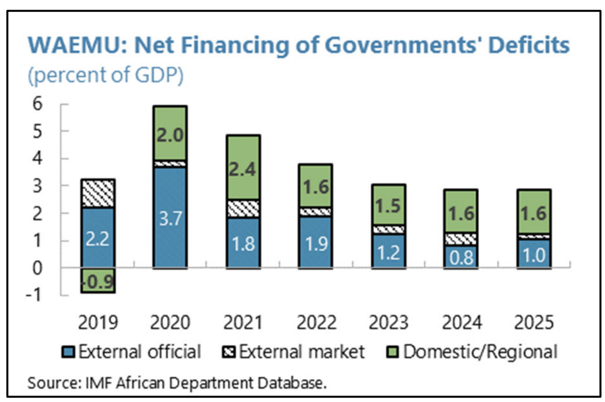
Source: IMF African Department Database.
Note: "Pre-Covid" refers to IMF staff projections in February 2020, adjusted for the Niger and Togo GDP rebasing.

13. **The return to the 3 percent of GDP regional deficit ceiling is expected to take 3 years, on average.** In the baseline scenario, medium-term consolidation is mostly based on the withdrawal of the current expenditure measures introduced during the crisis. The moderate increase in the revenue ratio reflects the expected lifting of Nigeria's border closure (which should improve customs collection in Benin and Niger), and some tax measures taken in other countries (e.g. digitalization and base broadening in Senegal). Financing would come predominantly from the regional market, with less than 40 percent of the fiscal deficit covered by official flows in coming years, compared to about two-thirds in 2020 and 54 percent over 2015–19.



WAEMU: Overall Fiscal Balance and Components

Source: IMF staff estimates.



WAEMU: Net Financing of Governments' Deficits

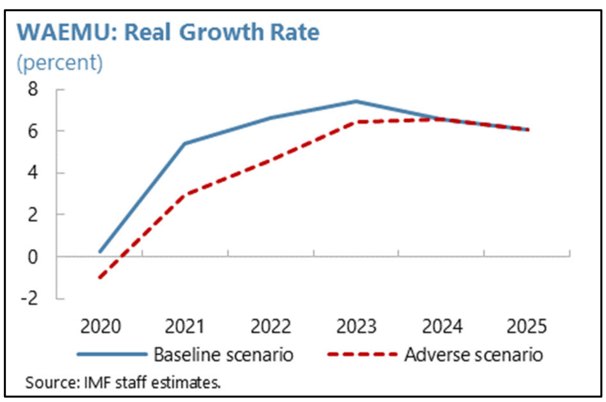
Source: IMF African Department Database.

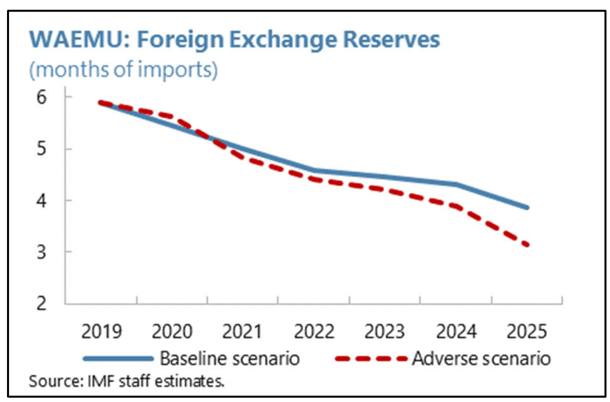
14. **The external position is projected to strengthen in the medium term**. After a significant deterioration in 2020, the current account is expected to narrow to around 4 percent of GDP on the back of stronger exports and stable imports (as a share of GDP)—assuming sustained fiscal consolidation, effective implementation of structural reforms to improve competitiveness, and the

coming on stream of hydrocarbon exports from Niger and Senegal from 2022 onwards.[4] Reserves should gradually stabilize at 4 months of imports by the end of the forecast horizon.[5]

15. There are however significant downside risks to the outlook. The forecasts are subject to greater-than-usual uncertainty, since new virus outbreaks or security shocks could derail the recovery and create additional fiscal pressures (Annex I). At the national level, presidential elections taking place in member-countries aggravate policy implementation risks, in particular on the fiscal front. Budget pressures could also stem from an intensification or contagion of the terrorism surge in Burkina Faso, Mali and Niger. In addition, the Covid crisis is likely to worsen the financial position of banks with pre-existing weaknesses, which could pose fiscal risks (Annex II). At the regional level, uncertainties about the timeline and modalities of the move to the ECO may impact investors' confidence. On the external side, the ongoing global second wave of the pandemic poses significant downside risks to the incipient recovery, as weaker-than-expected global growth and spillovers from the pandemic could adversely affect WAEMU's outlook through trade, remittances and external financing channels.

16. In an adverse scenario with a slower economic recovery, fiscal deficits would be higher by about 1 percent of GDP in the medium term and reserves would fall to 3 months of imports by the end of the forecast horizon. The downside scenario assumes a growth path lower by 1½ percent, on average, over 2020–23—bringing the WAEMU trajectory closer to the median growth rates projected in SSA.[6] Annex III describes the effect of this severe adverse scenario. The fiscal deficit would converge towards 4 percent of GDP, assuming that no offsetting fiscal measures are taken. Reserves would drop to about 3 months of imports by 2025.





[4] The import-to-GDP ratio remains broadly stable over the projection period, since import volume growth is set to recover to pre-crisis levels, but import prices remain constant.

[5] Despite the strengthening of the trade balance, the decline in the FX reserve ratio over the medium term reflects (i) a drop in foreign grants in 2021; (ii) lower FDIs after the completion of Niger's pipeline construction project in 2022–23; and (iii) DSSI-related and Eurobonds repayments by some member countries over 2022-25. See Annex III.

[6] The downside scenario lowers growth, relative to baseline, by 1.25 percent in 2020, 2.5 percent in 2021, 2 percent in 2022 and 1 percent in 2023.

Authorities' Views

17. Regional authorities broadly agreed with IMF staff views on the economic outlook and risks. Their growth and fiscal projections are very close to those prepared by staff. The WAEMU Commission has recently developed its capacity to conduct its own macroeconomic projections using a new model, which was applied to two pilot countries in 2020 and will be extended to other member states this year. The WAEMU Commission predicts a return to the 3 percent of GDP deficit ceiling in 2023 or 2024 depending on the country. Regarding the regional balance of payments, the BCEAO foresees higher capital inflows than IMF staff, resulting in a higher reserve coverage in coming years (which, in their baseline scenario, would stabilize at about 6 months of imports by 2022).

POLICY DISCUSSIONS

A. Navigating the Fiscal Response within Multiple Constraints

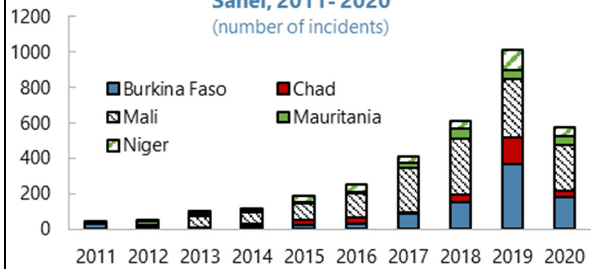
18. With a regional fiscal deficit close to 6 percent of GDP in 2020, the transition towards the 3 percent of GDP regional anchor is likely to take several years. The ability of WAEMU countries to pursue a gradual consolidation is constrained by three main factors: (i) the need to maintain sufficient reserves to protect the peg; (ii) possible financing difficulties in coming years due to lower donor support, uncertainties about the appetite of international investors for Eurobonds, and the regional market's limited absorption capacity; and (iii) the deterioration in member-countries' debt servicing capacity in the past decade. With regard to the latter, the average ratio of interest-to-revenue (excluding grants) more than doubled from 4.7 percent to 12.3 percent between 2012 and 2019. It is expected to increase further to 15.1 percent in 2020, reflecting the build-up of debt over the past decade, persistently weak revenue mobilization, and the drop in revenues in 2020. The latest DSAs show that risks of external debt distress are moderate for all member-countries, but two of them are at high risk for overall debt.[7]

19. At the aggregate level, a return to the fiscal deficit ceiling of 3 percent of GDP by 2023 would strike the right balance between feasibility of the adjustment and preservation of internal and external stability. The deficit anchor is essential to maintain an adequate level of reserves, prevent pressures on the regional financial market, and ensure debt sustainability. Regarding the speed of adjustment, the current projections assume a gradual consolidation that does not jeopardize the economic recovery and supports reserves in the medium term. The 2023 deadline seems within reach for most countries, even if it will require significant efforts.

[7] Seven WAEMU countries have rebased their national accounts since 2018, resulting in significant downward revisions of the debt-to-GDP ratios (Annex V).

20. The ongoing surge in violence in Sahel countries may call for a differentiated approach to fiscal consolidation.[8] A slower fiscal convergence for countries facing large security shocks could prevent rising security spending from crowding out investment and social expenditure.[9] To be consistent with regional stability, this more gradual adjustment should be supported by (i) additional grants from donors; (ii) full adherence to agreed fiscal consolidation efforts in other member-countries in order to prevent external reserve erosion; and (iii) improvements in fiscal transparency and PFM to ensure that the additional fiscal space is effectively used to address security challenges.

WAEMU: Terrorism Incidents and Social Unrest in the Sahel, 2011- 2020
(number of incidents)



1/ Annualized based on data until October 2020.
Sources: Control Risks; and IMF and WBG staff calculations.

21. The upcoming revision of the regional fiscal framework will provide an opportunity to anchor the revised convergence path. Fiscal rules have been put on hold in response to the crisis. The WAEMU Commission will undertake a review of the regional surveillance framework and discuss changes with national governments in 2021. Staff advises to maintain the 3 percent of GDP fiscal deficit ceiling, and support it with stronger enforcement mechanisms, including better defined escape clauses.[10] Replacing this rule with a deficit ceiling adjusted for the economic cycle ("structural balance rule") could create measurement, implementation and communication problems, and lead to spending slippages. The ceiling of the debt rule—currently at 70 percent of GDP—could be lowered to better preserve debt sustainability and more credibly guide medium-term fiscal policy. Regional PFM directives should be more effectively implemented to limit the occurrence of below-the-line operations.

22. Turning to the composition of the adjustment, fiscal consolidation plans should be designed in a way that is least harmful to inclusive growth. Emergency measures introduced during the Covid crisis should be gradually withdrawn, while protecting social spending and priority investment in public infrastructure (Box 2). Countries should shift from broad fiscal support to more affordable, efficient, and targeted policies—both on revenue and spending sides. For instance, targeted social programs relying on effective identification systems of beneficiaries should be developed or strengthened. Inefficient tax incentives, such as broad VAT exemptions, should be replaced with focused tax breaks with a stronger impact on redistribution, such as income tax relief for lower-income households.

[8] The pace of adjustment should also take into account country-specific circumstances, including the impact of the Covid pandemic.

[9] See SIP on the security situation. Security spending in Burkina Faso, Mali and Niger doubled to almost 4 percent of these countries' GDP from 2010 to 2019.

[10] See SIP on the reform of the fiscal framework.

Box 2. Size and Composition of Fiscal Adjustment in 2021

The 2021 budgets that were approved at the time of the drafting of the staff report are incorporated in the projections. They point to a discretionary fiscal consolidation of around 1 percent of GDP for the WAEMU region this year. Given the small size of automatic stabilizers in the region, the cyclically-adjusted numbers are close to headline values.

At the regional level, the fiscal adjustment is projected to be equally divided between retrenchment of current expenditure (down by 0.7 percent of GDP) and tax-enhancing measures (an increase of 0.8 percent of GDP). This will be, in part, compensated by a decline in grants of around 0.5 percent of GDP.

The projected decline in the expenditure-to-GDP ratio reflects, to a large extent, the unwinding of crisis-related measures. For example, in Côte d'Ivoire crisis-related expenditure is projected to be reduced by half a percent of GDP in 2021. On the revenue side, the adjustment relies on a combination of tax policy measures, tax administration reforms, and withdrawal of COVID-related relief, depending on the country. These include, among others, a reduction in VAT exemptions and increase in registration fees for cocoa exports in Côte d'Ivoire as well as the introduction of a tax on textiles and several base-broadening measures in Senegal. In Mali, adjustment will rely mostly on revenue administration measures, including color tracing fuel to control for exemptions and enhancing digitalization and data exchange between revenue agencies.

23. **In the medium term, revenue mobilization efforts should be scaled up significantly**. WAEMU countries must raise markedly their low tax-to-GDP ratios to make room for development spending and enhance the debt-servicing capacity. The average tax-to-GDP ratio has barely increased over the past decade, and, at 13.4 percent in 2019, falls short of the 20 percent regional target. Regarding tax policy, regional tax directives should be revised, in particular the VAT directive, which is partly outdated, unevenly implemented, and allows large exemptions. There is also room to raise excises, including by bringing the rates closer to ceilings set by regional directives and better applying the regulation on petroleum products. Regarding revenue administration, the priorities include improving the harmonization of custom procedures and practices; and enhancing collaboration and exchange of information between revenue administrations of member states.

Authorities' Views

24. **Regional authorities acknowledged the importance of reducing gradually the fiscal deficits starting from 2021 to preserve debt sustainability**. The time horizon proposed by IMF staff to return to the 3 percent of GDP deficit ceiling seemed reasonable to the authorities. The WAEMU Commission noted that the room for further indebtedness has become increasingly thin, with the debt service accounting for more than a third of revenues (excluding grants) in five member states at end-2019. All regional institutions felt that it was critical to increase fiscal space through domestic revenue mobilization and better expenditure efficiency.

25. **The discussions also showed a convergence of views on the need to update the regional fiscal governance framework**. The proposals made by IMF staff were well received by regional authorities. The WAEMU Commission highlighted the need to revise the escape clauses to make them more specific and relevant, while creating policy flexibility. The authorities also saw benefits in the creation of a regional fiscal council composed of independent experts, which would provide analysis and recommendations on fiscal policy, and enhance the enforcement of

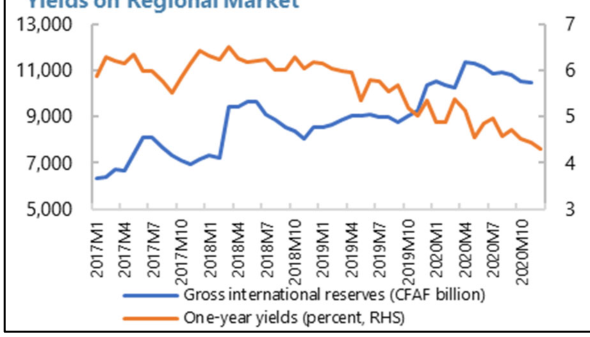
convergence criteria. To limit below-the-line operations, the Commission underlined the importance of extending the coverage of government debt statistics, including in IMF programs, to include extrabudgetary entities and state-owned enterprises.

26. Although agreeing on the principle of solidarity, regional authorities were skeptical about the possibility of implementing a differentiated pace of convergence depending on countries' exposure to security risks. This differentiated approach could take the form of a slower pace of convergence towards the regional fiscal deficit ceiling or the introduction of an escape clause for security shocks. In the authorities' views, the first option could create adverse incentives for countries called to converge at a faster pace. And the second option would be very difficult to implement in the absence of reliable data on government spending in functional classification, and because security shocks affect both government spending and revenue.

B. Monetary Policy: Balancing Supporting the Economy with Protecting the Peg

27. The current monetary stance appears appropriate in the context of the Covid-19 crisis. With the measures taken during the pandemic, the BCEAO has prevented a tightening of financial conditions, both on the money and sovereign security markets (Box 3). Discussions with the banking sector show that these measures have been well received.

WAEMU: Gross International Reserves and Sovereign Yields on Regional Market



28. Foreign exchange reserves are currently adequate. The import coverage of reserves was estimated at 5.4 months in November 2020, which is within the range recommended by the External Sector Assessment (ESA) of 5 to 7 months of imports (Annex IV). The ESA also shows that the real effective exchange rate was in line with fundamentals in 2019. In the medium term, reserves are projected to gradually stabilize at 4 months of imports—below the optimal ESA range—calling for renewed efforts to improve the competitiveness of the zone. At the regional level, these efforts could focus on promoting economic integration, particularly by better coordinating regional infrastructure investments, enhancing the regional competition framework, and eliminating non-tariff barriers (Annex IV).

Box 3. The BCEAO's Monetary Policy Response to the Covid-19 Crisis

The BCEAO has taken important measures in 2020 to mitigate the negative impact of the pandemic on financial conditions and economic activity:

- Since March 2020, the BCEAO has been meeting all banks' demand for liquidity at a fixed rate, against adequate collateral. This shift to FRFA auctions for refinancing operations has proven a very efficient way of offsetting liquidity risk in the market and avoiding a credit crunch by ensuring banks' continued access to BCEAO liquidity. The FRFA is also a very flexible tool, as counterparties can themselves control the amount of liquidity they demand (at a rate determined by the BCEAO), on conditions of financial soundness and provision of adequate collateral. By contrast, before the Covid crisis, the BCEAO used to allot capped overall amounts of liquidity among banks through multiple interest rate auctions; thus, each bank with a successful bid was charged the interest rate of that particular bid, even if above the marginal market clearing rate.

- In May 2020, the BCEAO launched a special 3-month refinancing window at a fixed low rate for limited amounts of 3-month "Covid-19 T-Bills" issued by WAEMU sovereigns to help meet short-term funding needs related to the pandemic. The "Covid-19 T-Bills" are not subject to the limit of 35 percent of past tax revenue that applies to other government securities that can be accepted as collateral for BCEAO refinancing. This temporary measure has provided a source of additional liquidity in order to smooth WAEMU governments' cashflows and support the orderly functioning of markets. The Covid-19 T-Bills program, which has been partly rolled over, expired at end-December 2020.

- In June 2020, the Monetary Policy Committee lowered by 50 basis points the interest rate corridor to 2–4 percent.

- The BCEAO has also extended its collateral framework for refinancing to include bank loans to selected private companies. As of end-December 2020, private sector claims accounted for 4.3 percent of the collateral portfolio held by the BCEAO.

29. **The BCEAO should stand ready to tighten its stance in case of FX reserves pressures this year.**[11] Monetary policy decisions should be evidence-based, guided by the primary objective of ensuring price and external stability but also taking into account effects on growth. The reserve-to-import ratio, which is temporarily inflated by the large inflows of emergency financing, is likely to decline in 2021 because of the greater reliance of sovereigns on domestic financing and the recovery in imports. The BCEAO should tighten monetary policy if external buffers fall significantly or too rapidly.[12]

30. **The BCEAO should continue to satisfy banks' demand for liquidity at a set rate.** The FRFA strategy adopted since March is in line with international best practices and can improve the effectiveness of monetary policy. During the crisis, the FRFA has proven a very efficient way of mitigating the risk of liquidity shortages for banks and preventing an excessive contraction of credit. The FRFA system is particularly useful in an environment where the interbank market is segmented and illiquid. Finally, it can contribute to reducing the liquidity premium on sovereign bond yields. Overall, staff recommends making this a permanent feature of the monetary policy framework.

[11] According to its statutes, the BCEAO should take remedial actions if the monthly average of foreign exchange reserves falls below 20 percent of its sight liabilities for three consecutive months, which is broadly equivalent to 1½ month of imports in 2020. At end-2016, the BCEAO tightened monetary policy when this ratio, called "*le taux de couverture de l'émission monétaire*", dropped below 70 percent. Today, a floor of 70 percent of sight liabilities would correspond to about 5 months of 2020 imports.

[12] Concerning the recommended policy stance under an adverse economic scenario, see paragraph 47.

31. The ongoing reform of monetary arrangements with France calls for an adaptation of the BCEAO's foreign exchange management. The mission noted that some operational modalities of the new arrangements, including the transfer of the funds previously kept in the "*compte d'opérations*", were still under discussion. The end of the centralization of half of the reserves at the French Treasury will have important implications on the management of foreign exchanges by the BCEAO, because of larger amounts to invest and the loss of the minimum guaranteed return on funds previously deposited at the French Treasury. IMF Staff encouraged the BCEAO to continue adapting its investment strategies and risk management tools to handle well this transition.

32. The 2018 safeguards assessment of the BCEAO found that the central bank has maintained a strong control environment and a transparent financial reporting framework. The BCEAO has only one outstanding recommendation related to the strengthening of the risk management function, which is under way.

Authorities' Views

33. The BCEAO concurred with IMF staff assessment of the monetary policy stance. The BCEAO noted that the measures taken during the crisis have been very effective at mitigating the impact on credit flows and economic activity and that it has communicated to banks its intention to continue to provide ample liquidity and maintain an accommodative stance as long as warranted. Regarding the ESA, the BCEAO agreed that the current level of reserves was adequate, and the exchange rate was in line with fundamentals. They acknowledged staff recommendation to make the FRFA a permanent feature of the framework but noted that more work was needed to assess this measure, which is currently viewed as temporary and crisis related.

34. The BCEAO emphasized its readiness to manage efficiently all of its foreign exchange reserves. The BCEAO assured the mission that it has fully assessed the impact of the reform of monetary arrangements and has been reviewing all related processes and investment strategies. It also emphasized that its reserve management followed best practices by cautiously controlling liquidity, market, and credit risks, generating reasonable returns, and making adequate reserves available when needed.

C. Financial Sector Reforms

35. The loan forbearance framework has provided much-needed relief to firms and households impacted by the crisis, but banks should not relax the monitoring of their customers in difficulty. In response to the crisis, the BCEAO set up in March 2020 a framework encouraging banks and MFIs to postpone the debt repayments of distressed customers that they assess to be solvent, without reclassifying these claims as non-performing. The moratorium has been a useful tool to alleviate temporary difficulties faced by solvent borrowers, with the claims benefiting from deferred payments amounting to 5 percent of bank credit outstanding at end-August 2020. In line with best practices, the BCEAO's loan moratorium was designed as time-bound (expiring at end-2020) and targeted—focusing on solvent borrowers affected by the crisis. The mission advised the bank supervisor to ensure that banks continue to monitor and assess regularly the credit quality of customers benefiting from the scheme.

36. Once the forbearance measures expire and the situation stabilizes, the impact of the crisis on banks' loan books and the related capitalization needs will become more apparent. The BCEAO has extended by one year the five-year transition period to Basel II/III bank prudential requirements and the banking sector has been resilient so far. Nonetheless, capital shortfalls are likely to emerge from the crisis. Annex II shows that the 2020 negative growth shock could have a lasting adverse impact on credit quality. In the central scenario, the WAEMU's average NPL ratio would increase by one third in the next five years relative to its 2019 level, generating recapitalization needs of about half a percent of GDP to comply with the targeted regulatory CAR of 11.5 percent in the medium term. These crisis-related needs seem feasible and would range from 0.1 to 0.9 percent of GDP depending on the country. This would add to existing recapitalization needs of about half a percent of GDP at end-2019 based on a regulatory CAR of 9.5 percent.[13] These preliminary estimates will be completed by full-fledged stress tests during the FSAP, to be conducted in 2021.

37. Capital shortfalls would call for targeted and proactive actions from the supervisor. In case banks' capital positions are durably compromised by losses incurred during the crisis, the Banking Commission should take remedial measures, including asking affected banks to submit credible capital restoration plans and monitoring their gradual, timely and transparent execution. A particular focus should be put on state-owned banks, for which performance indicators have been significantly worse than those of private banks, and capital shortfalls would widen further as NPL rise due to the Covid shock (Annex II).

38. The bank resolution framework should be made fully operational to tackle unviable financial institutions. The Banking Commission's Charter was amended in 2017 to allow for resolution options such as P&A transactions and bridge banks. Making these amendments fully operational is a key priority to resolve nonviable banks, especially systemic ones. The publication of the list of systemic banks and the adoption of templates for restructuring and resolution plans in March 2020 constitute important steps in this direction. These measures should be complemented in 2021 by the issuance of all necessary legal texts and guidelines related to the implementation of the framework.

39. The restructuring of the MFI sector needs to continue during the crisis. IMF Staff shares the BCEAO's assessment that the MFI sector does not present a systemic risk. But its fragility could aggravate the impact of the Covid crisis on poverty and social inclusion. The BCEAO has made great efforts in the past five years to tighten authorization conditions, close unauthorized and nonviable MFIs, formalize viable ones, and reform the regulatory framework. The current situation should lead the supervisor to strengthen its monitoring mechanism, pursue the dialogue with the weakest MFIs to identify sources of vulnerability, and continue to facilitate the restructuring of MFIs in difficulty and the exit of nonviable ones, either though liquidation or merger.

40. Risk-based supervision of banks in the area of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) has an essential role to play during the Covid crisis. AML/CFT and anti-corruption efforts have become even more critical, given their potential to help

[13] Excluding unmet provisioning needs (see Annex II).

prevent the misuse of the large amounts of external financing received or domestic financing reassigned to fight the Covid pandemic. A number of specific measures could be considered to mitigate this risk, including : (i) reminding banks of those existing AML/CFT and related obligations that may facilitate the prevention and detection of cases of corruption or the diversion of public funds; and (ii) developing the capacity to carry out all aspects of the AML/CFT onsite inspection program virtually, given the logistical constraints generated by the pandemic and the possibility of a second wave.

41. Another medium-term priority is to continue to support the development of regional financial markets. A more active secondary market for public debt, through better coordination and fungibility between adjudication and syndication modes of issuance, a more proactive communication of member states about their annual borrowing plans, and more transparency on banks' bilateral sovereign loans, is essential to prevent pressures on the regional market and enhance monetary policy transmission (Box 4). It is also important to transform the role of primary dealers in sovereign securities (*Spécialistes en Valeurs du Trésor* or SVT) into true market makers. To this end, staff advises to make SVTs the sole distributors of government securities on the primary market. SVTs should also be granted special access to BCEAO liquidity to prompt them to activate the secondary market, including by producing continuous price quotations, which should be centralized in a platform accessible to all market participants.

Box 4. WAEMU's Government Securities Market

The WAEMU sovereign securities market, in its current form, was launched in 2001, following the prohibition of direct central bank funding to governments. Governments can issue T-bills with maturities of 1 to 24 months or bonds with maturities ranging from 3 to 10 years. T-bills are issued exclusively through auctions while bonds, including Sukuks consistent with Islamic finance principles, may be issued either through auctions or syndications. Auctions are organized by the Agence UMOA Titres (AUT) with securities cleared and deposited at the regional central bank (BCEAO). By contrast, syndicated issues are facilitated and supervised by the financial market regulator (CREPMF), with securities listed on the regional stock exchange (BRVM) and cleared and deposited at DC/BR, which is the central securities depositor associated with the BRVM. Differences in the product characteristics, including the fact that auctioned instruments increasingly require a bullet repayment while syndicated ones are amortizing, add to the segmentation between the two forms of issuances.

At end-2019, the outstanding stock of government securities issued within the WAEMU amounted to 12.5 percent of regional GDP and 84.4 percent of governments' domestic debt, of which 61 percent issued on the auction segment of the regional market and the remainder through syndication. Banks have been the primary buyers of the sovereign issues, holding 81.2 percent of the outstanding stock at end-2019, with the rest held by mutual funds or institutional investors, almost all from within the WAEMU.

The WAEMU's secondary market for government securities is relatively shallow lacking both depth and liquidity. Buy and hold remains the dominant strategy for banks in the context of the narrow investor base. In addition, suboptimal practices and the fragmented infrastructure impede market liquidity.

Authorities' Views

42. The authorities agreed with the thrust of staff views on financial stability. They underscored the near-term banking sector's resilience based on their stress tests, provided that the economy recovers as projected in the central scenario. Going forward, the authorities felt that all supervisory and regulatory mechanisms were in place to encourage and assist banks in restoring their capital position if needed. They also highlighted the significant progress achieved on the bank resolution framework, assuring that it would become fully operational in 2021. Regarding the MFI sector, they restated their commitment to continue to clean up the sector and enhance monitoring.

43. The authorities recognized the importance of improving the depth and liquidity of the regional bond market. Regional institutions concurred that SVTs should be given sufficient incentives to become true market makers, although detailed arrangements have yet to be spelled out. They also noted the practical difficulties in achieving full fungibility between the adjudication and syndication types of issuance. To widen the investor base for public securities, they emphasized the need for more proactive and timely communication of governments with the market, better dissemination of information with new technologies, and harmonization of income taxation from securities across member states.

44. On AML/CFT, the authorities have adapted certain supervisory procedures during the crisis. The Banking Commission noted that its AML/CFT supervision normally relies on both on-site inspections (either general inspections with an AML/CFT component or more focused, thematic inspections) and off-site inspections, based on the annual reports prepared by banks and MFIs. While standard on-site inspections were not conducted during the first seven months of the pandemic due to the lockdown measures, the Banking Commission established a mechanism ("SCAN-R") for obtaining additional information and documentation from banks and engaging with them virtually, both to follow-up on those inputs and to communicate its findings, with eight such engagements being conducted in 2020.

D. Contingency Planning in Case of Adverse Scenario

45. Given the high macroeconomic uncertainty created by the pandemic, contingency planning is more important than ever. The baseline scenario assumes a rapid economic rebound, with growth exceeding 6½ percent from 2022. A slower recovery, possibly due to a less supportive global economy and difficulties to control the pandemic, could translate into higher fiscal deficits and a slower consolidation path. Annex III simulates a scenario with growth lower by 1½ percent, on average, over 2020-23 relative to the baseline. The macroeconomic policy mix would need to be adjusted.

46. There is limited room to raise fiscal deficits further in case of adverse shocks. Higher fiscal deficits could have adverse consequences, including losses of external reserves, possible pressures on the regional financial market, and risks to debt sustainability (Annex III). Therefore, in case of cyclical revenue shortfalls, the first line of defense should be to curtail non-priority expenditures and better target support to firms and households. If investment cuts are unavoidable, they should be based on transparent criteria and target lower-efficiency projects. There is also scope for revenue-enhancing measures, including repealing inefficient tax incentives and rationalizing VAT exemptions and reduced rates.

47. Monetary policy could be relaxed further if the economic outlook continues to deteriorate, provided that external buffers remain sufficient. Staff estimates that the BCEAO would have room for further monetary easing using its available instruments if the economic and financial conditions warranted it. The mission presented to the BCEAO some measures implemented in other countries, including emerging markets, related to the maturity of operations and the forward-looking orientation of monetary policy.

48. Finally, some regulatory measures could be necessary to accompany, support and possibly restructure impacted financial institutions. In case of a prolonged economic crisis, proactive supervision would have an important role to play in order to support economic activity without compromising regional financial stability. The capital conservation buffer could be used to allow banks to absorb some cyclical losses and give them time to comply with capital requirement norms. The supervisor should closely engage with banks whose capital ratios would be compromised, by requesting medium-term capital restoration plans and closely monitoring their implementation. It could also be prudent to consider some restrictions on dividend distribution by banks. Finally, another loan forbearance scheme could be contemplated, provided that relief measures are targeted towards viable customers and sectors most hit by the crisis.

Authorities' Views

49. The authorities found the downside scenario exercise quite useful, although they saw it as a tail risk. Their baseline projections foresee a strong recovery after 2020—a scenario supported by the most recent economic indicators. Staff's adverse scenario seemed to them excessively pessimistic and unlikely. There was broad agreement that there is little room on the fiscal policy side to respond to adverse shocks, but that monetary policy has still margins of maneuver using conventional instruments. The BCEAO was interested in hearing about measures introduced in other countries during the crisis but felt it would be preferable to remain agile and flexible without committing ex-ante to specific contingency measures. On the regulatory side, the authorities saw the activation of the capital conservation buffer as a last resort option.

STAFF APPRAISAL

50. After almost a decade of growth above 6 percent, the WAEMU is facing severe challenges from a triple crisis impacting the health, economic and security situations. Growth is expected to have collapsed to near zero in 2020 before recovering swiftly in 2021–22 to pre-crisis levels. The conjunctural indicators and discussions with the private sector support the scenario of a rebound starting in the third quarter of 2020.

51. The medium-term outlook remains uncertain. The forecasts of this year's report are subject to greater-than-usual uncertainty, since new virus outbreaks or security shocks could derail the recovery and create additional fiscal pressures. Weaker global growth and spillovers from the pandemic could adversely affect WAEMU's outlook through trade, remittances, and external financing channels.

52. A gradual return of the region to the fiscal deficit ceiling of 3 percent of GDP by 2023 would strike the right balance between feasibility of the adjustment and preservation of internal and external stability. The three-year fiscal consolidation trajectory is essential to preserve sufficient external reserves, mitigate the risk of pressures on the regional financial market, and prevent further deterioration of countries' debt servicing capacity, which could endanger debt sustainability. Fiscal policy should place strong emphasis on revenue mobilization. Some differentiation in the pace of convergence could be envisaged for countries more exposed to security risks.

53. The reform of the regional fiscal governance framework will provide an opportunity to anchor the new convergence path. A new set of rules is expected to be adopted in 2021. Staff recommends maintaining the 3 percent of GDP deficit ceiling, supported by more specific escape clauses, and lowering the ceiling of the debt ratio to make it more credible and amenable to guide fiscal policy. The introduction of a fiscal deficit ceiling adjusted for the business cycle could create implementation and communication challenges, and lead to expenditure slippages.

54. The monetary policy stance seems appropriate. With the measures taken during the pandemic, the BCEAO has prevented a tightening of financial conditions and too strong a slowdown of credit to the private sector. The 2019 and 2020 WAEMU's external positions are assessed as broadly consistent with fundamentals and desirable policy settings. In case of adverse scenario, further monetary policy relaxation would be advisable, assuming external buffers remain sufficient, since there is very limited room to raise fiscal deficits further.

55. While the banking sector seems to have been resilient so far, supervision needs to remain proactive to anticipate the protracted impact of the Covid crisis on credit quality. Preliminary data do not point to a significant deterioration in banks' financial soundness indicators in the first six months of 2020, although the effect of the crisis will only start to materialize after the termination of the forbearance measures. The supervision authorities are encouraged to engage with banks whose capital ratios would be compromised, by requesting and closely monitoring medium-term capital restoration plans. The bank resolution framework should also be made fully operational in 2021 to ensure prompt intervention on nonviable banks.

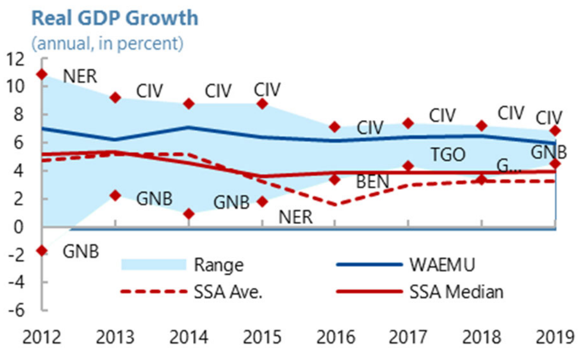
56. Deepening the regional sovereign bond market, which will come under pressure in the coming years, is a priority. Member states are likely to rely heavily on regional borrowing during the convergence phase, given the relatively high levels of fiscal deficits and possible difficulties in accessing external financing. Several measures could be introduced in the near term to increase the depth and liquidity of the sovereign security market, including enhancing the role of primary dealers and improving governments' communication about their borrowing plans.

57. To foster a stronger economic recovery and strengthen the growth potential, structural impediments to competitiveness should be lifted. Regional policies have an important role to play to promote economic integration, by better coordinating regional infrastructure investments, enhancing the regional competition framework, and eliminating non-tariff barriers.

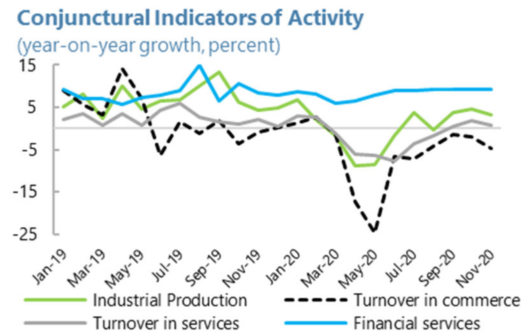
58. The discussions with the WAEMU authorities will be on the 12-month cycle in accordance with Decision No. 13656-(06/1), as amended.

Figure 1. WAEMU: Recent Economic Developments

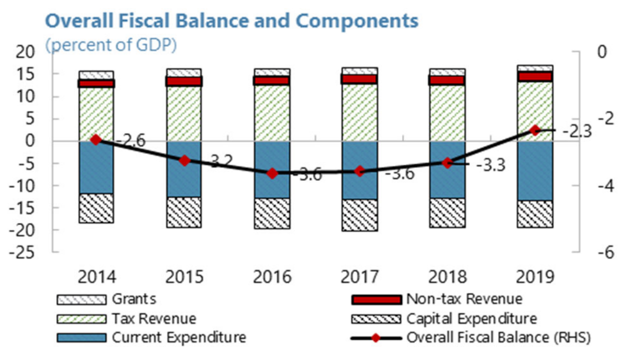
After nearly a decade of strong economic growth…



…the economy decelerated sharply in the first half of 2020 but rebounded in Q3.

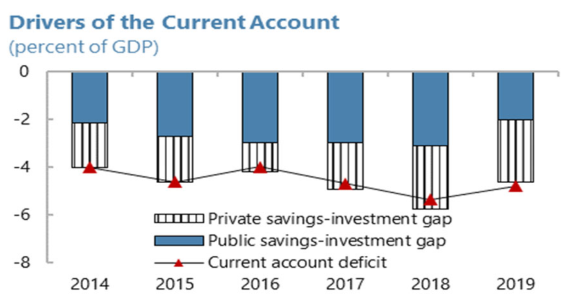


Broad fiscal convergence was achieved in 2019 mainly due to revenue mobilization efforts…

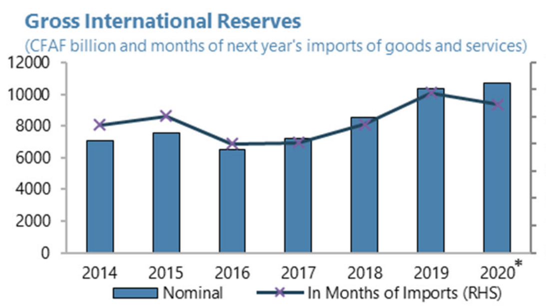


… but the public debt ratio kept increasing.

The external position improved in 2019 …



… and external buffers rose in nominal terms.

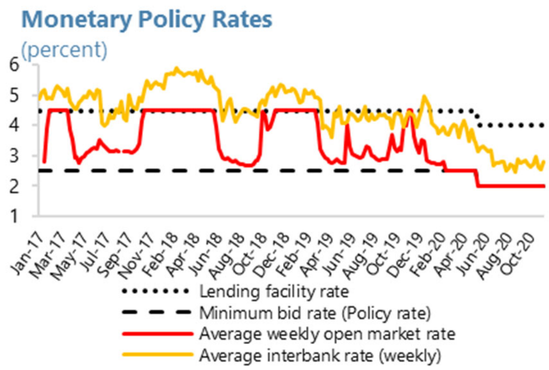


Note: end-year stocks except 2020 which shows November stocks.

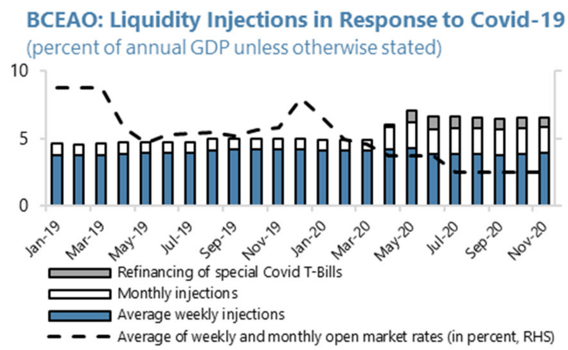
Sources: BCEAO, World Economic Outlook and IMF staff calculations.

Figure 2. WAEMU: Recent Financial Sector Developments

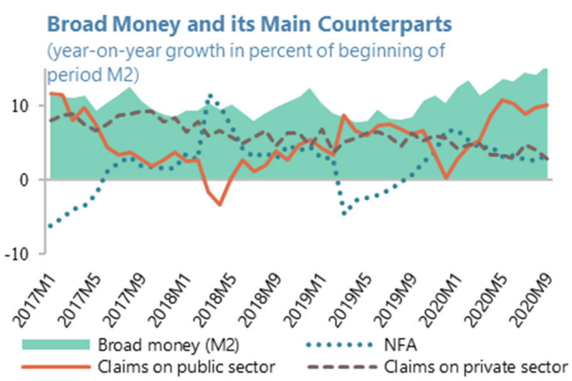
The money market and interbank rates have declined since early 2019…



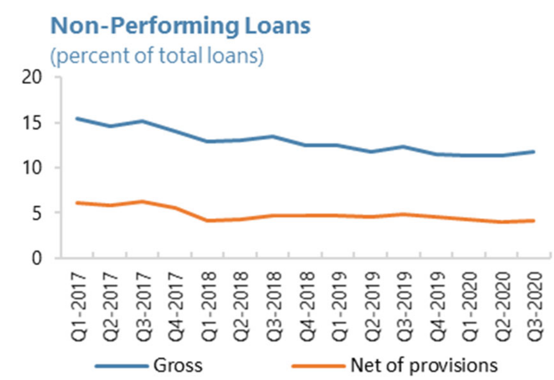
…partly due to higher liquidity supplied by the BCEAO, notably during the pandemic.



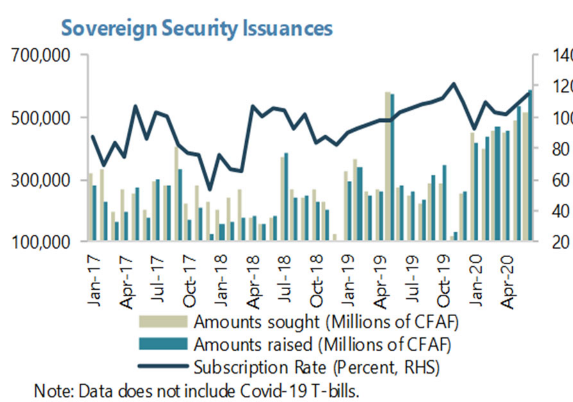
Bank credit to the private sector was dynamic in 2019 and remained robust in 2020…



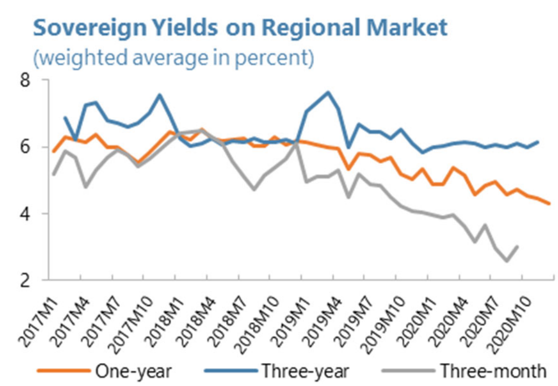
…without apparent asset quality deterioration so far.



Subscription rates for sovereign securities auctions increased in 2020…



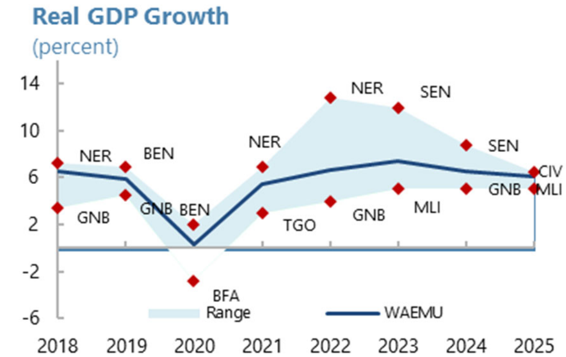
…while domestic borrowing rates have remained moderate or even declined despite the pandemic.



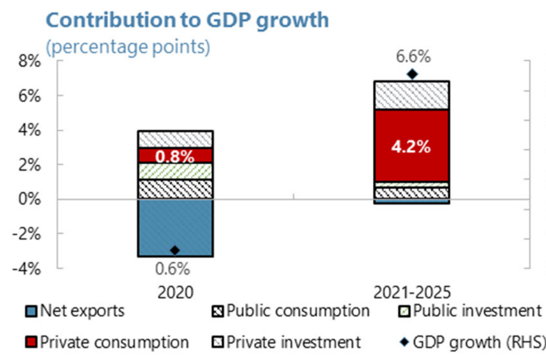
Sources: BCEAO; Agence UMOA-Titres; and IMF staff calculations.

Figure 3. WAEMU: Medium-Term Prospects

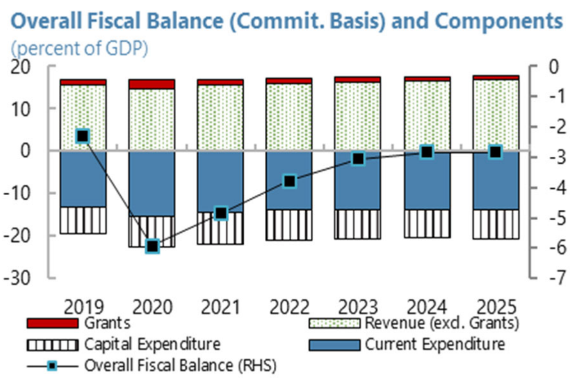
After the severe downturn in 2020, the economy is expected to recover starting from 2021…



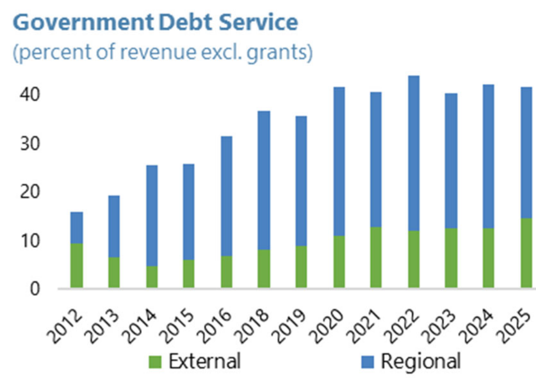
…mostly driven by a rebound of private demand.



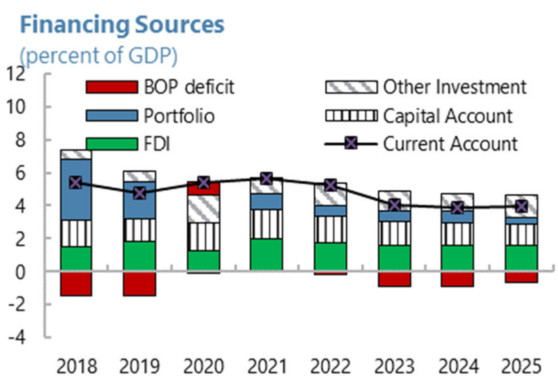
A gradual consolidation towards the regional deficit ceiling should start in 2021…



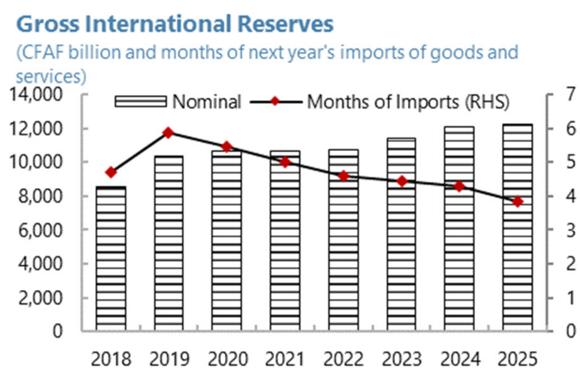
…eventually reducing the high debt service



The current account deficit is expected to widen in 2020 before converging to 4 percent of GDP…



…and reserves would eventually stabilize at around 4 months of imports



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

Table 1. WAEMU: Selected Economic and Social Indicators, 2017–25

Social Indicators

GDP		**Poverty (2015 or latest available)**	
Nominal GDP (2019, millions of US Dollars)	151,154	Headcount ratio at $1.90 a day (2011 PPP)	46.3
GDP per capita (2019, US Dollars)	1,190	Undernourishment (percent of population)	15.9
Populations charateristics		**Inequality (2015 or latest available)**	
Total (2019, millions)	127	Income share held by highest 10 percent of population	32.1
Urban Population (2018, percent of total)	40.3	Income share held by lowest 20 percent of population	6.1
Life expectancy at birth (2017, years)	60.9	Gini index	40.8

Economic Indicators

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			SM/19/44 [1]	Est.	SM/19/44 [1]	Proj.	Projected				
	(Annual percentage change)										
National income and prices											
GDP at constant prices	6.4	6.5	6.6	5.9	6.5	0.3	5.4	6.6	7.4	6.5	6.1
GDP per capita at constant prices	3.5	3.5	3.7	3.0	3.7	-2.5	2.5	3.7	4.4	3.6	3.2
Consumer prices (average)	0.8	0.9	1.6	-0.1	1.9	1.7	1.6	1.9	1.9	1.9	1.9
Terms of trade	-7.6	-2.2	2.5	1.7	-0.6	18.4	2.3	-5.6	-5.3	-1.8	-1.2
Nominal effective exchange rate	2.0	4.1	...	-0.5	...	...	...	...	...	...	...
Real effective exchange rate	-0.1	2.0	...	-3.9	...	...	...	...	...	...	...
	(Percent of GDP)										
National accounts											
Gross national savings	18.0	18.6	14.9	19.1	15.2	18.6	19.4	19.8	21.3	21.3	21.4
Gross domestic investment	23.0	24.3	20.1	23.7	20.9	24.0	25.1	24.9	25.3	25.1	25.4
Of which: public investment	6.6	6.4	7.3	6.3	7.4	7.1	7.1	6.8	6.6	6.6	6.6
	(Annual changes in percent of beginning-of-period broad money)										
Money and credit [2]											
Net foreign assets	1.7	4.5	2.6	6.6	1.3	0.3	-0.5	0.3	2.0	2.1	0.9
Net domestic assets	6.8	8.0	7.6	3.8	9.7	10.1	7.4	8.1	7.2	6.4	7.1
Broad money	8.5	12.5	10.2	10.3	11.0	10.4	6.9	8.4	9.2	8.5	8.0
Credit to the economy	7.6	5.9	8.3	4.2	7.1	5.6	3.3	3.3	3.5	3.0	3.4
	(Percent of GDP, unless otherwise indicated)										
Government financial operations											
Government total revenue, excl. grants	15.0	14.6	15.4	15.6	15.8	14.7	15.5	15.8	16.3	16.5	16.8
Government expenditure	20.3	19.6	19.8	19.7	19.9	23.1	22.3	21.4	21.0	20.9	21.1
Overall fiscal balance, excl. grants	-5.3	-5.0	-4.4	-4.1	-4.2	-8.4	-6.9	-5.6	-4.8	-4.4	-4.3
Overall fiscal balance, incl. grants (commitment basis)	-3.6	-3.3	-2.5	-2.3	-2.4	-5.9	-4.9	-3.8	-3.1	-2.9	-2.8
External sector											
Exports of goods and services [3]	19.3	19.0	18.8	19.1	18.5	17.0	18.1	18.7	20.2	20.3	20.2
Imports of goods and services [3]	25.1	25.5	26.4	24.6	26.5	23.4	24.3	24.4	24.7	24.9	25.1
Current account, excl. grants	-5.8	-6.5	-8.3	-6.0	-8.7	-6.9	-6.8	-6.3	-5.0	-4.7	-4.7
Current account, incl. grants	-4.7	-5.4	-6.3	-4.8	-6.8	-5.4	-5.7	-5.2	-4.0	-3.9	-4.0
External public debt	23.1	27.7	28.2	30.2	27.0	32.9	33.3	32.7	31.5	30.5	29.4
Total public debt	40.4	43.0	42.6	44.8	41.7	48.5	49.6	49.5	48.4	47.6	46.8
Broad money	23.9	33.0	27.7	34.3	28.1	37.1	37.1	...	...	...	...
Memorandum items:											
Nominal GDP (billions of CFA francs)	77,736	83,391	90,359.6	88,561	98,154.8	90,231	96,476	104,539	114,189	123,865	133,761
Nominal GDP per capita (US dollars)	1,118	1,218	1,279.4	1,190	1,365.5	1,198	1,322	1,403	1,494	1,576	1,652
CFA franc per US dollars, average	581	555	...	585.9	...	...	...	...	...	...	...
Foreign exchange cover ratio [4]	73.5	85.3	...	88.4	...	...	...	...	...	...	...
Gross international reserves											
In months of imports of goods and services [3]	4.1	4.7	4.4	5.9	4.3	5.5	5.0	4.6	4.5	4.3	3.9
In millions of US dollars	12,963	14,858	16,514.2	17,547	17,360.5	19,275	19,497	19,801	21,135	22,276	22,555
In percent of broad money	29.4	31.1	32.2	34.1	30.2	31.9	...	...	...	...	...

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

[1] The GDP series of the 2019 Article IV (SM/19/44) was adjusted to account for the National Accounts rebasing of Côte d'Ivoire, Niger and Togo, and facilitate the comparison of GDP ratios with current projections; the other components of GDP could not be recomputed in the new bases.

[2] Year on year change, end December.

[3] Excluding intraregional trade.

[4] Gross official reserves divided by short-term domestic liabilities (IMF definition).

Table 2. WAEMU: Selected National Accounts and Inflation Statistics, 2017–25

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			SM/19/44 [1]	Est.	SM/19/44 [1]	Proj.	Proj.				
	(Annual percentage change)										
Real GDP											
Benin	5.7	6.7	6.5	6.9	6.5	2.0	5.0	6.0	6.5	6.5	6.5
Burkina Faso	6.2	6.8	6.0	5.7	6.0	-2.8	4.1	5.6	5.6	5.6	5.6
Côte d'Ivoire	7.4	6.9	7.5	6.2	7.2	1.8	6.5	6.5	6.5	6.5	6.5
Guinea-Bissau	4.8	3.4	5.0	4.5	5.0	-2.4	3.0	4.0	5.0	5.0	5.0
Mali	5.0	5.2	5.0	5.1	4.9	-2.0	4.0	6.0	5.0	5.0	5.0
Niger [2]	5.0	7.2	6.5	5.9	6.0	1.2	6.9	12.8	11.1	6.7	6.3
Senegal [2]	7.4	6.4	6.9	5.3	7.5	-0.7	5.2	6.0	11.9	8.7	6.0
Togo	4.3	5.0	5.0	5.5	5.3	0.0	3.0	4.5	5.0	5.5	5.5
WAEMU	6.4	6.5	6.6	5.9	6.5	0.3	5.4	6.6	7.4	6.5	6.1
Real GDP per capita											
Benin	2.8	3.8	3.7	3.9	3.8	-0.8	2.1	3.1	3.6	3.6	3.6
Burkina Faso	3.1	3.8	3.1	2.7	3.2	-5.6	1.2	2.6	2.6	2.6	2.6
Côte d'Ivoire	4.6	4.2	4.8	3.5	4.5	-0.8	3.8	3.8	3.8	3.8	3.8
Guinea-Bissau	2.5	1.1	2.7	2.3	2.7	-4.5	0.8	1.7	2.8	2.8	2.9
Mali	2.0	2.1	2.0	2.0	1.9	-4.8	1.0	2.9	1.9	1.9	1.9
Niger	1.0	3.2	3.3	2.0	2.8	-2.5	3.0	8.6	7.1	2.8	2.5
Senegal	4.4	3.4	3.9	2.4	4.5	-3.4	2.3	3.1	8.8	5.7	3.0
Togo	1.8	2.4	2.5	2.9	2.7	-2.4	0.5	2.0	2.5	3.0	3.0
WAEMU	3.5	3.5	3.7	3.0	3.7	-2.5	2.5	3.7	4.4	3.6	3.2
Inflation											
Benin	1.8	0.8	2.1	-0.9	2.1	3.0	2.0	2.0	2.0	2.0	2.0
Burkina Faso	0.4	2.0	2.0	-3.2	2.0	2.2	2.5	2.5	2.5	2.5	2.5
Côte d'Ivoire	0.7	0.4	2.0	0.8	2.0	1.2	1.4	1.6	1.8	2.0	2.0
Guinea-Bissau	-0.2	0.4	2.0	0.3	2.1	1.5	2.0	2.0	2.0	2.0	2.0
Mali	1.8	1.7	1.5	-2.9	2.0	0.5	1.5	2.0	2.0	2.0	2.0
Niger	0.2	2.8	2.4	-2.5	2.1	2.8	0.4	2.0	2.0	2.0	2.0
Senegal	1.1	0.5	0.1	1.0	1.5	2.0	2.0	1.9	1.5	1.5	1.5
Togo	-0.2	0.9	1.4	0.7	2.0	1.4	1.5	2.2	2.0	2.0	2.0
WAEMU	0.8	0.9	1.6	-0.1	1.9	1.7	1.6	1.9	1.9	1.9	1.9
	(Percent of GDP)										
Gross national savings											
Benin	19.8	21.8	13.0	22.6	14.1	23.5	22.4	22.2	22.9	22.6	22.7
Burkina Faso	18.9	22.1	9.2	21.2	10.3	18.3	18.3	17.8	17.1	16.7	16.7
Côte d'Ivoire	17.4	16.7	13.3	17.8	14.0	18.3	19.7	20.7	21.2	22.1	22.9
Guinea-Bissau	18.4	11.1	6.5	5.9	7.3	13.9	12.8	12.4	13.2	13.6	13.8
Mali	14.3	15.7	16.1	14.3	16.0	16.6	16.8	16.1	13.9	11.8	10.8
Niger	14.9	16.3	17.0	18.0	17.1	17.7	13.9	14.3	16.6	17.2	16.7
Senegal	22.5	23.4	21.5	24.1	19.4	19.8	22.9	23.2	30.6	29.4	28.9
Togo	17.1	16.2	17.9	18.0	19.8	15.4	19.4	21.2	24.2	24.9	25.7
WAEMU	18.0	18.6	14.9	19.1	15.2	18.6	19.4	19.8	21.3	21.3	21.4
Gross domestic investment											
Benin	24.0	26.4	19.2	25.6	19.8	27.2	26.3	26.2	26.7	26.5	26.5
Burkina Faso	23.9	26.2	14.3	25.9	14.5	21.8	21.9	21.7	21.8	21.8	21.9
Côte d'Ivoire	20.1	21.2	15.6	20.1	16.1	22.0	23.0	23.7	23.9	24.5	25.2
Guinea-Bissau	18.1	14.7	10.2	14.5	10.5	23.7	18.9	17.3	17.8	18.0	18.0
Mali	21.6	20.6	21.2	19.1	21.8	18.2	19.0	18.2	17.4	16.9	17.0
Niger	26.2	28.9	32.7	30.2	34.4	30.7	30.3	25.1	23.8	23.6	22.8
Senegal	29.8	32.2	28.6	31.7	29.7	30.7	33.9	34.3	35.7	33.5	33.6
Togo	18.3	18.1	21.6	20.5	22.8	19.0	23.1	25.0	28.3	28.8	29.1
WAEMU	23.0	24.3	20.1	23.7	20.9	24.0	25.1	24.9	25.3	25.1	25.4

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

[1] The GDP series of the 2019 Article IV (SM/19/44) was adjusted to account for the National Accounts rebasing of Côte d'Ivoire, Niger and Togo, and facilitate the comparison of GDP ratios with current projections; the other components of GDP could not be recomputed in the new bases.

[2] Higher growth rates in 2022 (Niger) and 2023 (Niger and Senegal) reflect coming on stream of hyrdrocarbon production.

Table 3. Sub-Saharan Africa: Cross-Group Comparison, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.			Proj.			
				(Annual percentage change)					
Real GDP									
WAEMU	6.4	6.5	5.9	0.3	5.4	6.6	7.4	6.5	6.1
CEMAC [1]	0.2	0.9	2.0	-3.2	3.0	3.1	3.7	4.0	4.1
Sub-Saharan Africa [2]	3.1	3.3	3.3	-3.0	3.1	4.0	4.4	4.4	4.3
Inflation (annual averages)									
WAEMU	0.8	0.9	-0.1	1.7	1.6	1.9	1.9	1.9	1.9
CEMAC [1]	0.8	2.1	1.8	2.8	2.5	2.3	2.3	2.3	2.3
Sub-Saharan Africa [2]	10.8	8.4	7.2	8.6	8.0	6.9	6.5	6.3	6.1
Terms of trade									
WAEMU	-7.6	-2.2	1.7	18.4	2.3	-5.6	-5.3	-1.8	-1.2
CEMAC [1]	11.3	9.8	5.4	-18.8	5.7	-1.0	0.9	2.0	-1.3
Sub-Saharan Africa [2]	5.2	1.8	-1.5	-1.7	3.1	-0.1	-0.2	-0.2	-0.7
				(Percent of GDP, unless otherwise indicated)					
Gross national investment									
WAEMU	23.0	24.3	23.7	24.0	25.1	24.9	25.3	25.1	25.4
CEMAC [1]	26.4	25.2	25.9	24.9	25.8	26.0	26.2	26.6	28.7
Sub-Saharan Africa [2]	21.2	22.7	24.5	23.2	23.3	23.6	23.9	24.3	24.7
Overall fiscal balance, incl. grants									
WAEMU	-3.6	-3.3	-2.3	-5.9	-4.9	-3.8	-3.1	-2.9	-2.8
CEMAC [1]	-3.5	0.0	0.0	-3.6	-2.3	-1.1	-0.2	-0.2	0.2
Sub-Saharan Africa [2]	-4.4	-3.5	-4.3	-7.6	-5.9	-4.8	-4.0	-3.7	-3.4
External current account, incl. grants									
WAEMU	-4.7	-5.4	-4.8	-5.4	-5.7	-5.2	-4.0	-3.9	-4.0
CEMAC [1]	-4.6	-3.0	-2.8	-7.5	-5.3	-3.8	-2.9	-2.3	-2.9
Sub-Saharan Africa [2]	-2.3	-2.6	-3.7	-4.8	-4.1	-3.7	-3.1	-2.7	-2.5
External public debt									
WAEMU	23.1	27.7	30.2	32.9	33.3	32.7	31.5	30.5	
CEMAC [1]	27.2	27.2	29.1	36.1	33.9	33.7	32.6	31.6	30.1
Sub-Saharan Africa [2]	21.6	22.0	23.2	27.9	27.6	26.9	25.9	24.6	23.4

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

[1] Central African Economic and Monetary Community (CEMAC).

[2] Including Nigeria and South Africa.

Table 4. WAEMU: Selected Fiscal Indicators, 2017–25

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			SM/19/44 [1]	Est.	SM/19/44 [1]	Proj.			Proj.		
					(Percent of GDP)						
Primary fiscal balance											
Benin	-2.8	-1.3	-0.2	1.1	0.2	-3.0	-2.1	-1.0	-0.5	-0.1	-0.2
Burkina Faso	-6.0	-3.2	-1.5	-1.9	-1.5	-4.0	-3.8	-3.1	-2.1	-1.1	-1.1
Côte d'Ivoire	-2.1	-1.6	-0.8	-0.8	-0.5	-4.0	-2.6	-1.8	-1.3	-1.2	-1.3
Guinea-Bissau	-1.1	-5.1	-2.3	-3.5	-2.6	-8.2	-3.1	-1.0	-1.0	-0.4	-0.5
Mali	-2.0	-3.9	-2.1	-0.7	-1.9	-5.0	-4.2	-2.7	-1.5	-1.0	-1.0
Niger	-3.4	-2.1	-2.3	-2.6	-1.3	-4.7	-3.3	-2.3	-1.3	-1.3	-1.4
Senegal	-1.1	-1.7	-1.1	-1.9	-1.1	-4.3	-2.7	-1.8	-0.9	-0.9	-0.8
Togo	1.1	1.2	0.4	3.6	0.3	-3.3	-2.5	-1.8	-0.7	-0.7	-0.8
WAEMU	-2.3	-1.9	-1.1	-0.8	-0.8	-4.1	-2.9	-2.0	-1.2	-1.0	-1.0
Overall fiscal balance (including grants), commitment basis											
Benin	-4.3	-2.9	-2.0	-0.5	-1.4	-5.1	-4.5	-3.0	-2.5	-2.0	-2.0
Burkina Faso	-6.8	-4.2	-2.7	-3.2	-2.7	-5.3	-5.5	-4.8	-4.0	-3.0	-3.0
Côte d'Ivoire	-3.3	-2.9	-2.3	-2.3	-2.2	-5.9	-4.6	-3.5	-3.0	-3.0	-3.0
Guinea-Bissau	-1.3	-4.9	-2.8	-3.9	-2.9	-8.8	-5.1	-3.5	-3.5	-2.9	-2.9
Mali	-2.9	-4.8	-3.1	-1.7	-2.8	-6.2	-5.5	-4.5	-3.5	-3.0	-3.0
Niger	-4.1	-3.0	-3.2	-3.6	-2.2	-5.8	-4.4	-3.5	-2.5	-2.5	-2.5
Senegal	-3.0	-3.6	-3.1	-3.8	-3.1	-6.5	-4.9	-4.0	-3.0	-3.0	-3.0
Togo	-0.2	-0.6	-1.5	1.6	-1.4	-6.2	-5.0	-3.9	-3.0	-3.0	-3.0
WAEMU	-3.6	-3.3	-2.5	-2.3	-2.4	-5.9	-4.9	-3.8	-3.1	-2.9	-2.8
Government revenue (excluding grants)											
Benin	12.8	13.0	13.0	12.9	13.2	11.3	11.6	12.1	12.7	12.9	13.1
Burkina Faso	16.9	17.0	17.4	18.9	17.8	18.0	18.5	19.0	19.2	19.5	19.8
Côte d'Ivoire	14.2	14.0	14.4	14.2	14.5	13.7	14.5	14.8	14.9	15.0	15.1
Guinea-Bissau	11.8	11.6	12.8	12.5	13.2	11.3	13.1	13.3	13.3	13.4	13.5
Mali	18.4	14.4	18.8	19.5	19.6	17.8	18.8	19.2	19.5	19.8	19.9
Niger	10.5	12.1	11.4	11.2	12.2	10.4	11.9	12.6	13.6	13.9	14.2
Senegal	17.3	16.8	18.2	18.6	18.7	17.9	18.4	18.6	19.8	20.2	20.9
Togo	13.7	15.3	15.1	14.8	15.2	13.7	14.3	14.8	15.3	15.8	16.2
WAEMU	15.0	14.6	15.4	15.6	15.8	14.7	15.5	15.8	16.3	16.5	16.8
Government expenditure											
Benin	17.9	16.5	16.0	14.6	15.5	19.0	17.2	16.1	16.2	15.9	15.9
Burkina Faso	26.1	23.6	22.6	23.6	22.8	27.7	27.0	26.8	26.2	25.4	25.7
Côte d'Ivoire	18.4	17.7	17.5	17.3	17.6	20.4	20.0	18.9	18.4	18.2	18.2
Guinea-Bissau	18.1	18.2	19.6	18.7	21.5	23.0	22.4	21.1	20.8	20.3	20.3
Mali	22.9	20.4	23.9	23.1	24.5	25.4	25.9	25.3	24.6	24.2	24.2
Niger	19.5	21.1	20.5	21.6	20.1	23.4	22.8	21.5	20.8	21.0	21.3
Senegal	22.5	22.4	22.8	24.0	23.2	27.6	25.5	24.9	24.7	24.9	25.6
Togo	16.3	18.6	19.6	16.0	19.6	23.2	22.4	21.8	21.4	21.9	22.3
WAEMU	20.3	19.6	19.8	19.7	19.9	23.1	22.3	21.4	21.0	20.9	21.1
Government current expenditure											
Benin	11.1	10.8	10.8	10.7	10.6	12.9	12.3	11.1	10.8	10.7	10.6
Burkina Faso	16.0	15.4	16.4	17.8	15.4	18.2	18.0	17.3	17.0	16.8	16.8
Côte d'Ivoire	13.3	12.9	12.6	13.0	12.6	15.2	14.6	13.6	13.7	13.7	13.8
Guinea-Bissau	11.5	12.6	12.5	14.8	13.2	16.4	15.8	15.3	14.7	14.1	14.1
Mali	12.4	12.1	12.9	12.6	12.7	16.0	15.6	15.8	15.9	15.9	15.9
Niger	10.3	9.9	9.7	9.6	9.4	10.5	10.6	10.1	10.5	10.7	10.9
Senegal	13.8	14.5	14.0	15.6	14.1	17.5	14.9	15.4	14.5	14.1	14.2
Togo	11.6	13.5	12.5	13.0	12.4	14.8	13.7	13.1	12.9	12.5	12.3
WAEMU	13.0	12.9	12.8	13.4	12.7	15.3	14.5	13.9	13.8	13.7	13.8
Government capital expenditure											
Benin	6.7	5.6	5.3	3.9	4.9	6.0	4.9	5.0	5.4	5.2	5.3
Burkina Faso	10.1	8.4	6.2	6.0	7.4	9.6	9.2	9.5	9.2	8.6	8.9
Côte d'Ivoire	5.1	4.8	4.9	4.4	5.0	5.3	5.3	5.3	4.7	4.5	4.4
Guinea-Bissau	6.6	7.5	8.1	4.5	8.3	9.3	6.6	5.8	6.1	6.2	6.2
Mali	8.8	6.5	9.0	6.5	9.7	5.6	6.4	5.6	4.8	4.3	4.4
Niger	9.2	11.2	10.7	12.0	10.7	12.3	11.7	10.5	10.3	10.3	10.3
Senegal	8.7	8.0	8.7	8.4	9.1	10.2	10.6	9.5	10.2	10.8	11.3
Togo	4.7	5.1	7.2	3.1	7.3	8.4	8.7	8.7	8.6	9.4	10.0
WAEMU	7.1	6.5	6.8	6.0	7.0	7.4	7.3	7.0	6.8	6.8	6.9

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

[1] The GDP series of the 2019 Article IV (SM/19/44) was adjusted to account for the National Accounts rebasing of Côte d'Ivoire, Niger and Togo, and facilitate the comparison of GDP ratios with current projections; the other components of GDP could not be recomputed in the new bases.

Table 5. WAEMU: Balance of Payment, 2017–25

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			SM/19/44 [1]	Est.	SM/19/44 [1]	Proj.			Proj.		
					(Percent of GDP)						
Balance on current account	-4.7	-5.4	-5.2	-4.8	-5.7	-5.4	-5.7	-5.2	-4.0	-3.9	-4.0
Excluding official transfers	-5.8	-6.5	-6.9	-6.0	-7.3	-6.9	-6.8	-6.3	-5.0	-4.7	-4.7
Balance on goods and services	-5.6	-6.2	-6.9	-5.7	-7.3	-6.6	-6.3	-5.6	-4.1	-3.8	-3.9
Exports of goods and services [2]	23.6	23.0	22.8	23.0	22.5	20.8	21.9	22.6	24.0	24.2	24.0
Exports of goods	20.2	19.6	19.7	19.7	19.5	18.3	19.0	19.5	21.0	21.1	21.0
Exports of services	3.3	3.4	3.1	3.3	3.1	2.5	2.9	3.1	3.1	3.1	3.0
Imports of goods and services [2]	-29.2	-29.2	-29.7	-28.7	-29.8	-27.4	-28.3	-28.2	-28.1	-28.0	-27.9
Imports of goods	-21.4	-21.8	-21.8	-21.2	-21.8	-19.9	-20.6	-20.5	-20.6	-20.5	-20.4
Imports of services	-7.8	-7.5	-7.9	-7.5	-8.0	-7.5	-7.7	-7.7	-7.5	-7.5	-7.6
			0.0								
Income, net	-2.4	-2.3	-2.0	-2.2	-1.9	-2.3	-2.4	-2.6	-2.8	-2.9	-2.8
Income credits	1.1	1.2	1.2	1.1	1.1	1.1	1.2	1.2	1.2	1.2	1.2
Income debits	-3.5	-3.5	-3.1	-3.3	-3.0	-3.4	-3.5	-3.8	-4.0	-4.1	-4.0
Of which											
Investment income, debit: interest	-0.7	-1.3	-0.7	-1.1	-0.7	-3.1	-3.6	-3.0	-2.9	-2.8	-2.7
Current transfers, net	3.3	3.2	3.6	3.1	3.5	3.4	3.0	3.0	2.9	2.8	2.8
Private current transfers, net	2.2	2.1	2.0	1.9	1.7	1.9	1.9	1.9	1.9	2.0	2.0
Official current transfers, net	1.1	1.1	1.7	1.2	1.6	1.5	1.1	1.1	1.0	0.8	0.8
Balance on capital and financial account	5.7	7.2	6.2	6.1	6.1	4.9	5.7	5.4	4.8	4.7	4.3
Balance on capital account	1.6	1.6	1.6	1.4	1.5	1.7	1.7	1.6	1.5	1.4	1.3
Balance on financial account	4.1	5.7	4.6	4.7	4.6	3.2	4.0	3.8	3.3	3.3	2.9
Direct investment, net	1.5	1.5	2.1	1.8	2.4	1.3	2.0	1.8	1.6	1.6	1.6
Portfolio and other investments, net	2.6	4.1	2.6	2.9	2.1	1.9	2.0	2.1	1.7	1.7	1.4
Errors and omissions, net	-0.3	-0.6	0.0	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance	0.7	1.3	1.0	1.5	0.4	-0.6	0.1	0.2	0.8	0.8	0.3
Change in official NFA ("-" increase)	-0.7	-1.3	-1.0	-1.5	-0.4	0.6	-0.1	-0.2	-0.8	-0.8	-0.3

Source: IMF, African Department database.

[1] The GDP series of the 2019 Article IV (SM/19/44) was adjusted to account for the National Accounts rebasing of Côte d'Ivoire, Niger and Togo, and facilitate the comparison of GDP ratios with current projections; the other components of GDP could not be recomputed in the new bases.

[2] Including intraregional trade.

Table 6. WAEMU: Government Public Debt and Debt Service, 2017–25

	2017	2018	2019		2020		2021	2022	2023	2024	2025
			SM/19/44 [1]	Est.	SM/19/44 [1]	Proj.			Proj.		
					(Percent of GDP)						
External Debt											
Benin	16.1	19.4	20.1	24.0	19.6	25.1	24.7	24.5	24.3	23.1	22.0
Burkina Faso	21.1	21.5	20.9	23.7	20.0	25.0	24.3	24.1	24.1	24.2	24.4
Côte d'Ivoire	18.8	24.7	27.3	27.6	25.2	32.0	32.5	32.2	31.6	30.8	29.4
Guinea-Bissau	17.3	21.8	14.4	25.2	14.8	27.6	28.6	27.0	25.4	24.1	23.0
Mali	25.0	24.9	25.1	26.4	24.9	25.9	25.8	25.1	24.8	24.6	24.9
Niger	25.7	25.3	25.1	26.5	26.0	29.9	29.8	27.7	26.1	25.9	25.7
Senegal	39.1	51.8	48.7	53.2	46.5	55.3	55.4	54.1	49.4	45.6	43.2
Togo	15.1	15.4	16.8	17.9	16.5	24.1	26.6	27.0	26.7	26.2	25.2
WAEMU	23.1	27.7	28.2	30.2	27.0	32.9	33.3	32.7	31.5	30.5	29.4
Domestic Debt											
Benin	23.5	21.7	18.5	17.3	17.4	19.9	20.7	20.0	18.8	18.2	17.6
Burkina Faso	12.4	16.2	16.3	19.0	16.8	21.2	24.0	25.3	25.5	24.7	23.9
Côte d'Ivoire	14.7	12.8	10.5	11.6	11.6	12.3	12.6	13.5	14.0	14.6	15.5
Guinea-Bissau	33.4	38.3	36.2	42.2	35.1	50.6	49.5	49.4	48.8	47.5	46.2
Mali	11.0	12.5	13.5	13.3	14.3	14.1	14.9	15.5	15.8	16.1	16.1
Niger	10.8	11.6	11.4	13.3	9.8	12.3	13.2	13.1	12.5	12.2	12.2
Senegal	22.1	11.4	15.2	10.9	15.8	12.2	12.8	14.0	14.4	15.3	16.5
Togo	41.9	41.9	34.4	35.6	31.9	36.0	35.0	34.2	33.0	31.9	31.2
WAEMU	17.2	15.3	14.4	14.6	14.7	15.6	16.3	16.9	16.9	17.1	17.4
Total Debt											
Benin	39.6	41.1	38.6	41.2	37.1	45.0	45.4	44.5	43.0	41.3	39.6
Burkina Faso	33.5	37.7	37.2	42.7	36.9	46.2	48.3	49.4	49.7	49.0	48.3
Côte d'Ivoire	33.5	37.5	37.8	39.1	36.8	44.3	45.1	45.7	45.6	45.4	44.9
Guinea-Bissau	50.7	60.2	50.6	67.4	49.9	78.2	78.1	76.4	74.2	71.6	69.2
Mali	36.0	37.4	38.5	39.7	39.2	40.0	40.6	40.6	40.6	40.7	40.9
Niger	36.5	36.9	36.5	39.8	35.8	42.2	42.9	40.8	38.6	38.1	37.9
Senegal	61.1	63.2	63.9	64.1	62.2	67.6	68.2	68.1	63.7	61.0	59.7
Togo	57.0	57.3	51.2	53.6	48.3	60.1	61.6	61.2	59.7	58.1	56.4
WAEMU	40.4	43.0	42.6	44.8	41.7	48.5	49.6	49.5	48.4	47.6	46.8
					(Percent of Government revenue excluding grants)						
Total debt service											
Benin	25.5	52.2	56.5	47.8	46.2	54.5	59.3	61.4	58.7	64.4	59.5
Burkina Faso	25.5	31.9	42.9	34.1	42.9	47.1	52.9	59.1	59.8	61.0	57.7
Côte d'Ivoire	39.1	32.5	20.3	38.1	18.5	37.0	35.1	36.0	35.5	36.4	37.3
Guinea-Bissau[2]	59.0	44.4	39.0	69.6	34.4	117.8	82.6	98.3	118.4	109.1	114.5
Mali	11.5	15.4	13.8	13.0	12.6	16.4	18.4	20.9	20.8	20.4	18.6
Niger	29.9	46.2	30.8	60.1	32.5	76.7	64.9	73.3	70.5	64.7	62.9
Senegal	34.2	42.9	31.6	29.0	24.3	35.0	33.7	37.2	26.3	30.9	32.8
Togo	61.4	62.1	60.7	57.3	65.0	88.7	74.3	79.3	48.6	58.4	53.2
WAEMU	32.2	36.6	30.2	35.5	27.5	41.7	40.6	44.0	40.4	42.0	41.5
Debt service, interest											
Benin	11.3	12.2	13.8	13.2	12.3	14.6	17.3	16.7	15.5	14.5	13.7
Burkina Faso	3.2	4.1	5.8	5.7	5.8	6.9	9.7	9.0	9.7	9.8	9.6
Côte d'Ivoire	9.3	9.9	10.2	11.2	9.2	13.2	10.8	10.4	9.9	9.5	8.7
Guinea-Bissau	4.0	5.6	5.1	8.7	4.9	13.7	19.3	19.2	18.7	18.4	17.7
Mali	4.5	6.2	5.3	5.3	4.8	6.7	6.8	9.6	10.0	9.9	9.9
Niger	23.9	39.2	8.4	53.2	7.2	66.9	49.1	58.5	56.8	53.5	53.1
Senegal	11.1	11.8	11.0	10.2	10.3	12.2	11.9	11.4	10.6	10.3	10.1
Togo	10.7	12.7	12.3	14.5	11.6	20.9	16.5	12.9	13.7	12.5	11.1
WAEMU	9.2	11.5	9.4	12.3	8.6	15.1	13.7	14.5	14.5	13.9	13.5

Source: IMF, African Department database.

[1] The GDP series of the 2019 Article IV (SM/19/44) was adjusted to account for the National Accounts rebasing of Côte d'Ivoire, Niger and Togo, and facilitate the comparison of GDP ratios with current projections; the other components of GDP could not be recomputed in the new bases.

[2] Debt service payments for 2017 reflect debt relief on Guinea-Bissau's arrears with Taiwan.

Table 7. WAEMU: Monetary Survey, 2017–25

	2017	2018	2019	2020	2021	2022	2023	2024	2025
			Est.			Proj.			
					(Billions of CFA francs)				
Net foreign assets	**4,037**	**5,137**	**6,945**	**7,044**	**6,864**	**6,966**	**7,752**	**8,649**	**9,053**
of which:									
BCEAO	5,169	6,347	7,927	8,247	8,217	8,318	9,105	10,002	10,406
Commercial Banks	-1,132	-1,209	-981	-1,203	-1,353	-1,353	-1,353	-1,353	-1,353
Net domestic assets	**20,406**	**22,353**	**23,387**	**26,443**	**28,934**	**31,824**	**34,618**	**37,312**	**40,580**
Domestic credit	27,161	29,434	30,586	34,461	37,102	40,093	42,786	45,480	48,748
Net credit to government	7,308	8,143	8,147	10,327	11,879	13,694	15,026	16,453	18,169
Net credit to the economy	19,853	21,291	22,439	24,134	25,223	26,398	27,761	29,026	30,579
Of which private sector	17,816	18,944	20,492	21,481	22,450	23,497	24,709	25,836	27,218
Other items, net	-6,755	-7,081	-7,198	-8,018	-8,168	-8,268	-8,168	-8,168	-8,168
Broad Money	**24,442**	**27,490**	**30,333**	**33,487**	**35,798**	**38,790**	**42,370**	**45,961**	**49,633**
Money	16,231	18,228	19,902	...	...	...	...	...	...
of which: Currency in circulation	5,810	6,308	6,971	...	...	...	...	...	...
Quasi-money	8,211	9,262	10,431	...	...	...	...	...	...
					(Annual changes in beginning of period broad money)				
Net foreign assets	**1.7**	**4.5**	**6.6**	**0.3**	**-0.5**	**0.3**	**2.0**	**2.1**	**0.9**
Net domestic assets	**6.8**	**8.0**	**3.8**	**10.1**	**7.4**	**8.1**	**7.2**	**6.4**	**7.1**
Domestic credit	11.5	9.3	4.2	12.8	7.9	8.4	6.9	6.4	7.1
Net credit to government	3.9	3.4	0.0	7.2	4.6	5.1	3.4	3.4	3.7
Net credit to the economy	7.6	5.9	4.2	5.6	3.3	3.3	3.5	3.0	3.4
Of which private sector	8.4	4.6	5.6	3.3	...	...	...	...	...
Other items, net	-4.8	-1.3	-0.4	-2.7	-0.4	-0.3	0.3	0.0	0.0
Broad Money	**8.5**	**12.5**	**10.3**	**10.4**	**6.9**	**8.4**	**9.2**	**8.5**	**8.0**
					(Year on year percent change)				
Net foreign assets	**10.3**	**27.3**	**35.2**	**1.4**	**-2.6**	**1.5**	**11.3**	**11.6**	**4.7**
Net domestic assets	**8.1**	**9.5**	**4.6**	**13.1**	**9.4**	**10.0**	**8.8**	**7.8**	**8.8**
Domestic credit	10.6	8.4	3.9	12.7	7.7	8.1	6.7	6.3	7.2
Net credit to government	13.8	11.4	0.1	26.8	15.0	15.3	9.7	9.5	10.4
Net credit to the economy	9.4	7.2	5.4	7.6	4.5	4.7	5.2	4.6	5.3
Of which private sector	11.9	6.3	8.2	4.8	4.5	4.7	5.2	4.6	5.3
Other items, net	18.8	4.8	1.7	11.4	1.9	1.2	-1.2	0.0	0.0
Broad Money	**8.5**	**12.5**	**10.3**	**10.4**	**6.9**	**8.4**	**9.2**	**8.5**	**8.0**
Memorandum items:									
Change in net credit to government									
In CFAF billion	889	835	4	2,180	1,552	1,815	1,331	1,428	1,716
In percentage of GDP	1.1	1.0	0.0	2.4	1.6	1.7	1.2	1.2	1.3

Sources: BCEAO and IMF staff calculations.

Table 8. WAEMU: Financial Soundness Indicators, 2016–20

	2016	2017	2018 [1]	2019	2020
	December				June
	(Percent, unless otherwise indicated)				
Solvency ratios					
Regulatory capital to risk weighted assets	11.3	11.7	10.5	11.5	12.1
Tier I capital to risk-weighted assets	10.3	10.8	9.7	10.6	11.2
Provisions to risk-weighted assets	10.1	9.8	7.5	7.6	7.5
Capital to total assets	5.8	6.3	6.8	6.6	6.9
Composition and quality of assets					
Total loans to total assets	52.2	54.1	55.7	56.2	52.1
Concentration: loans to 5 largest borrowers to capital[2]	101.9	89.8	82.6	86.1	78.1
Sectoral distribution of loans					
Agriculture	3.2	3.9	4.6	3.0	3.4
Extractive industries	1.6	1.5	1.7	1.7	1.7
Manufacturing	15.5	16.2	15.1	14.3	14.1
Electricity, water and gas	4.9	5.6	5.6	4.6	4.7
Construction	10.8	9.8	10.6	11.2	11.5
Retail and wholesale trade, restaurants and hotels	26.7	26.8	27.7	25.9	26.7
Transportation and communication	9.9	11.6	10.5	11.3	11.3
Insurance, real estate and services	7.2	7.2	6.8	7.2	7.9
Other services	20.1	17.4	17.5	20.8	18.6
Gross NPLs to total loans	13.8	13.9	12.4	11.4	11.4
Provisioning rate	65.5	63.6	65.3	63.3	67.1
Net NPLs to total loans	5.2	5.5	4.7	4.5	4.0
Net NPLs to capital	47.2	48.0	38.2	38.3	30.5
Earnings and profitability					
Average cost of borrowed funds	2.9	2.5	2.4	0.7	...
Average interest rate on loans	9.8	8.4	7.6	7.1	...
Average interest margin[3]	6.9	5.9	5.2	6.4	...
After-tax return on average assets (ROA)	1.3	1.3	1.2	1.3	...
After-tax return on average equity (ROE)	20.2	17.6	14.6	15.3	...
Noninterest expenses/net banking income	58.5	58.3	60.5	58.9	...
Salaries and wages/net banking income	25.6	25.0	25.9	24.8	...
Liquidity					
Liquid assets to total assets	27.1	27.3	27.8	26.0	23.8
Liquid assets to total deposits	42.3	42.3	42.4	38.7	35.8
Total loans to total deposits	89.5	92.0	92.2	90.2	84.7
Total deposits to total liabilities	64.1	64.5	65.7	67.1	66.6
Sight deposits to total liabilities[4]	34.4	34.7	35.1	35.8	35.9
Term deposits to total liabilities	29.7	29.8	30.6	31.4	30.7

Source: BCEAO.

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

[2] Indicators do not account for the additional provisions required by the WAEMU Banking Commission.

[3] Excluding tax on bank operations.

[4] Including saving accounts.

Annex I. Risk Assessment Matrix[1]

Source of Risks	Relative Likelihood/ Time Horizon	Excepted Impact if Realized	Recommended Policy Response
Unexpected (adverse) shift in the Covid-19 pandemic	**High** **Short to Medium Term**	**High** More severe or protracted domestic outbreak and spillovers from the ongoing global second wave of the pandemic could further reduce growth, worsen external and fiscal positions, increase debt vulnerabilities, and poverty. Impact could be large given health system weaknesses in WAEMU countries.	Reintroduce containment and mitigation measures. Better prioritize spending and target support to affected firms and households. Provide adequate liquidity to banks. Mobilize greater donor support.
Intensified security risks, including due to regional spillovers	**Medium** **Short to Medium Term**	**High** Intensification or contagion of security shocks could potentially have large adverse effects on activity and public finances, and complicate policy implementation. Fiscal slippages could crowd out credit to private sector and/or lead external reserves losses.	Countries facing security shocks should improve public spending efficiency while enjoying more gradualism in the pace of medium-term consolidation. This would need to be supported by appropriate fiscal discipline by other WAEMU member countries and greater assistance from the international community.
Higher reliance on domestic financing	**High** **Short to Medium Term**	**Medium** Pressures on regional market due to higher fiscal deficits and/or lower-than-expected external financing would increase debt service costs, and crowd-out the private sector.	Maintain agreed fiscal deficit path; accelerate reforms to deepen regional market; loosen further monetary policy if growth does not recover as planned.
Policy and reform implementation delays linked to elections or political instability	**High** **Short Term**	**High** Presidential elections in four WAEMU countries and the political transition following the coup in Mali could increase risks of fiscal slippages and delays in the implementation of reforms, which in turn could undermine macroeconomic stability and external viability.	Build coalition of stakeholders to support reforms. Improve governance, inclusiveness of government policies and the social safety net system to foster buy-in. Educate the population about the risks of policy slippages (e.g., risk to stability of currency; crowding out of private sector).
Accelerating de-globalization	**High** **Short to Medium Term**	**High** Increasing recourse to protectionist measures could lead to further fragmentation and less trade, FDI, aid and potential growth.	Promote regional integration, including regional bond markets and trade; pursue export diversification across products and trading partners.
Oversupply and volatility in the oil market	**Medium** **Short to Medium Term**	**Medium** Large energy price swings can have significant fiscal implications under unchanged retail prices Lower oil price would benefit balance of payments, inflation, and economic activity, as the WAEMU is net oil importer.	Adjust domestic energy prices to reflect changes in international prices. If domestic prices increase, mitigate adverse impacts on the most vulnerable through targeted fiscal transfers.
Adverse or more severe weather conditions, partly due to climate change	**Medium** **Short to Medium Term**	**High** Could adversely affect agricultural output and exports; increase subsidy needs; and reduce the population's living standards.	Develop further food security strategy; strengthen resilience through irrigation and productivity in agriculture. Mitigate the impact on the poor through targeted fiscal transfers and other types of public spending.
Delays in the realization of oil and gas projects in Niger or Senegal	**Medium** **Medium Term**	**Medium** Delays in hydrocarbon projects or revised reserve estimations relative to baseline would weaken the current account and external buffers.	Adjust fiscal plans, improve spending quality and step up structural reforms to improve competitiveness and foster private sector development in non-extractive sectors.

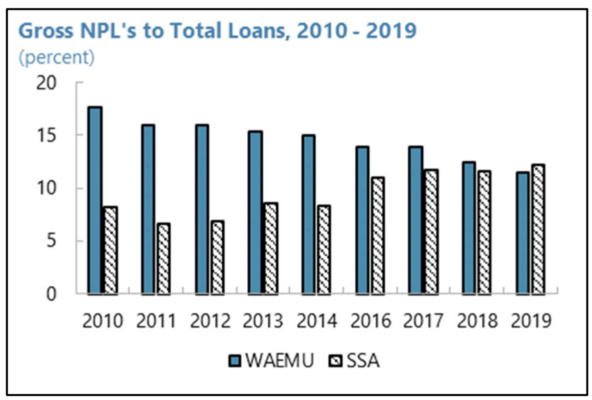
[1]The Risk Assessment Matrix (RAM) shows events that could materially alter the baseline path (the scenario most likely to materialize in the view of IMF staff). The relative likelihood is the staff's subjective assessment of the risks surrounding the baseline ("low" is meant to indicate a probability below 10 percent, "medium" a probability between 10 and 30 percent, and "high" a probability between 30 and 50 percent). The RAM reflects staff views on the source of risks and overall level of concern as of the time of discussions with the authorities. Non-mutually exclusive risks may interact and materialize jointly. "Short term (ST)" and "medium term (MT)" are meant to indicate that the risk could materialize within 1 and 3 years, respectively

Annex II. Potential Impact of the Covid-19 Crisis on WAEMU Banks' Asset Quality and Capital Adequacy

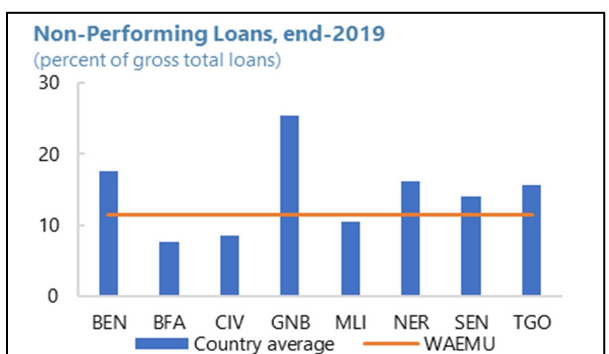
Sensitivity analysis based on end-2019 bank data suggests that, under our baseline macroframework, the economic fallout from the Covid-19 pandemic would add to banks' capital needs in the medium term, in the context of the phased transition to Basel II/III prudential standards. This underscores the need to make bank supervision more proactive, address potential capital shortages that would emerge from the crisis, and operationalize the WAEMU's bank resolution framework.

A. Banks' Credit Portfolio Quality and Capital Adequacy pre-Covid

1. In the decade prior to the Covid crisis, average asset quality in the WAEMU banking system had improved, although from a weak initial position. Partly as a legacy of past crises, non-performing loans (NPLs) in the WAEMU banking system amounted to close to 18 percent of gross total loans at the beginning of last decade, more than double the average for Sub-Saharan Africa (SSA). The gross NPL ratio in the WAEMU declined from 2012 onwards, as the union enjoyed an 8-year real GDP growth spurt, to reach 11.4 percent at end-2019, below the SSA average. At-end 2019, close to two-thirds (63.3 percent) of NPLs were provisioned implying a net NPL ratio of 4.5 percent, less than half the SSA average. Most banks however did not fully meet provisioning requirements leaving an aggregate gap of 0.9 percent of GDP at end-2019. The decline in the WAEMU's average gross NPL ratio was more pronounced in the last two years, following the introduction of a new requirement under Basel II/III to write off legacy NPLs of more than five years. Some progress was also achieved in reducing the still high degree of credit concentration risk in the WAEMU, with the share of the five largest borrowers in outstanding bank credit declining by 3.7 percentage points to 86.1 percent, between end-2017 and end-2019.

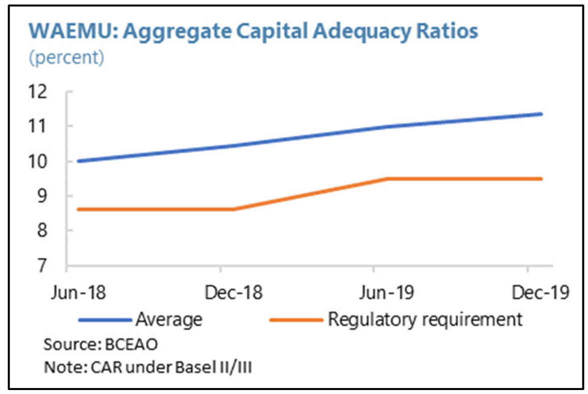


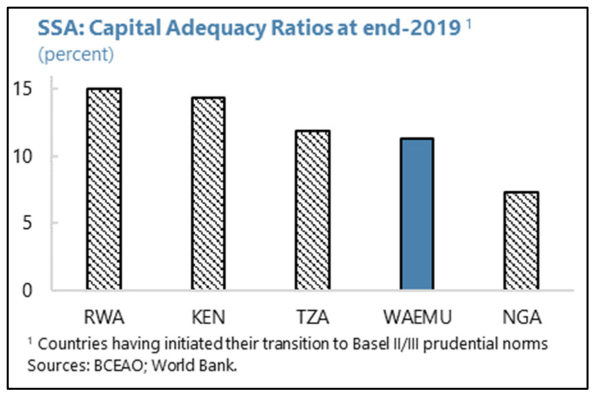
2. The incidence of bad loans exhibits significant heterogeneity among WAEMU member-countries and financial institutions. The gross NPL ratio at end-2019 was particularly elevated in Guinea-Bissau and Benin. It was also above the WAEMU average for Niger, Senegal and Togo. And the median NPL ratio for government-owned banks was 17.9 percent compared to 9.9 percent for private banks.



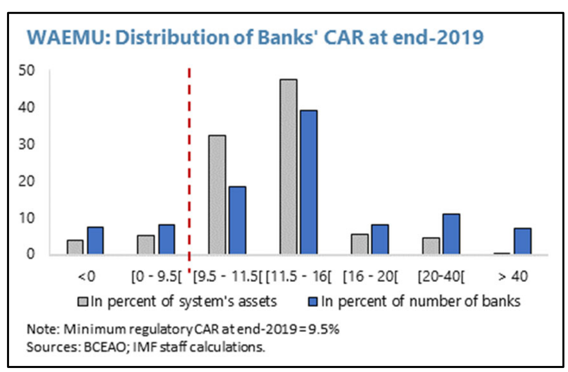
Source: BCEAO; IMF staff calculations.

3. Most WAEMU banks have started to strengthen their capital base in the context of a phased transition to Basel II/III standards. On average, while meeting prevailing regulatory requirements, banks in the WAEMU have been relatively less capitalized than their SSA peers. During 2010–17, the average CAR for WAEMU banks remained broadly stable at around 12 percent, well above the Basel I regulatory requirement of 8 percent but significantly below the average CAR for SSA (17.5 percent). Most WAEMU banks strengthened their capital base during the first two years of the transition to Basel II/III standards, initiated in 2018 and aimed at raising the capital requirements gradually from 8.6 percent to 11.5 percent by 2023.[1] Thus, the WAEMU's average CAR (with a more stringent weighting of asset risk under Basel II/III than previously under Basel I) increased from 10.0 percent at end-June 2018 (first test date under the new transitional regulatory regime) to 11.5 percent at end-2019. Nonetheless, the average CAR remained still significantly lower in the WAEMU than in some other SSA jurisdictions such as Rwanda or Kenya having also begun to move towards Basel II/III capital requirements. Also, banks accounting for about a third of the system's assets have capital buffers (the difference between the aggregate CAR and regulatory minimum) of less than 2 percentage points.





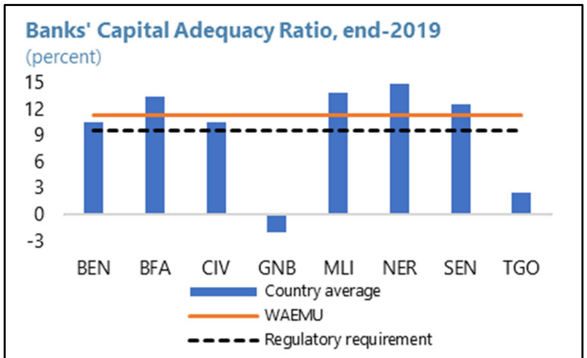
4. The WAEMU's banking system includes some persistently under-capitalized institutions. At end-2019, 15.1 percent of banks accounting for 9.4 percent of the banking system's total assets did not meet the regulatory CAR requirement of 9.5 percent.[2] Almost half of these undercapitalized banks had exhibited negative equity for some time, including some public banks in Benin, Côte d'Ivoire and Togo, as well as a nationally systemic private bank in Guinea Bissau. In addition, the share capital of 3 banks, accounting for less than 1 percent system's assets, was still falling short of the CFAF 10 billion minimum requirement 2.5 years after the June 2017 deadline.



[1] In response to the Covid crisis, the path was recently pushed forward by one year starting in 2020, with the convergence to a regulatory CAR of 11.5 percent expected in 2023 instead of 2022 as initially planned.

[2] Recapitalization needs to bring these banks to regulatory CAR compliance amounted to 0.5 percent of GDP at end-2019.

5. At the national level, the average CAR in Guinea Bissau and Togo at end-2019 fell substantially short of the WAEMU regulatory level of 9.5 percent. In Guinea Bissau, the CAR continued to be negative in 2019 due to a large private bank representing close to one-third of the total assets of the country's banking system. Excluding this bank with negative equity, the CAR for Guinea Bissau was 33.4 percent at end-2019. In Togo, the CAR stood at only 2.4 percent, due to two banks with persistently negative equity accounting for close to one fifth of the national system's assets. Excluding these two problem banks, the average CAR for Togo at end-2019 was 12.5 percent.

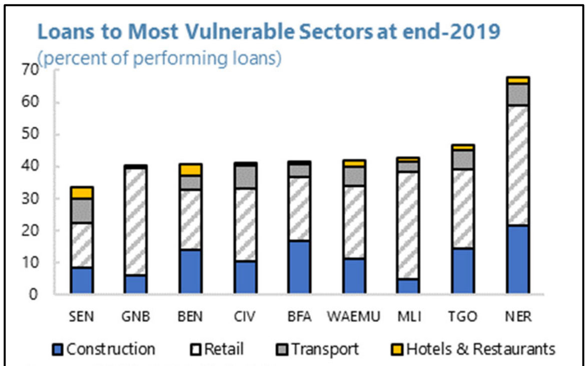


Sources: BCEAO; IMF staff calculations.

B. Potential Impact of the Covid-19 Crisis on Bank Credit Quality

6. The Covid pandemic abruptly ended an 8-year spurt of real GDP growth averaging about 6 ½ percent in the WAEMU. Containment measures, lower global growth, and the sudden stop of travel have taken a toll on the regional economy, despite a terms-of-trade improvement due to lower global oil prices and supportive monetary and fiscal policies. The latest economic indicators point to a growth slowdown in the first quarter and a contraction in the second quarter of 2020. Against this background and assuming some recovery in the second half of the year allowed by the easing of containment measures, the baseline macroframework projects real GDP growth at 0.4 percent for 2020 (almost 6 percentage points below the pre-Covid projection), converging back to pre-Covid levels thereafter. This outlook carries however significant downside risks.

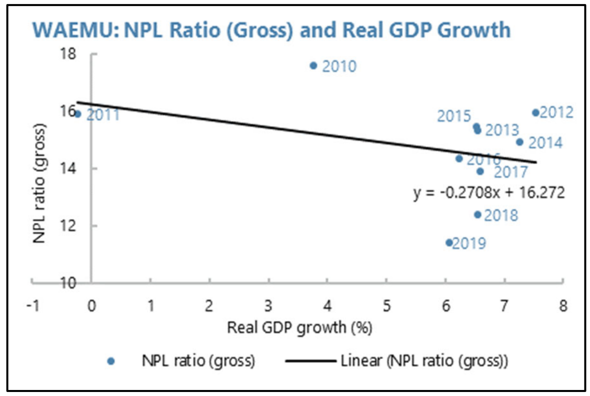
7. The sectors that have suffered the most from the economic downturn account for a significant share of banks' performing loan portfolios. As anticipated by credit institutions in an April 2020 BCEAO survey, the downturn is mostly affecting the construction and public work, retail, transportation and hospitality sectors. These accounted for 41.7 percent of banks' performing loan portfolios in the WAEMU at end-2019.



Sources: BCEAO; IMF staff calculations.

8. The impact of the economic downturn on bank credit quality has been limited so far by timely policy responses to the Covid crisis. To limit the fallouts of the pandemic, the BCEAO has satisfied all liquidity needs of banks at its minimum policy rate, now 50 basis point lower than before the Covid outbreak. The BCEAO has also encouraged banks to accommodate demands from customers with Covid-related repayment difficulties by deferring debt service falling due up to end-2020, without the need to classify such deferred claims as non-performing. These measures contributed to the stability of the NPL ratio at 11.4 percent in the first half of 2020.

9. However, NPLs will likely increase significantly beyond the current forbearance period, even if GDP growth recovers from 2021. There is ample empirical evidence that lower real GDP growth negatively affects banks' asset quality. A simple scatter plot can help illustrate the negative correlation between real GDP growth and the NPL ratio in the WAEMU during the last decade. A recent analysis by IMF staff estimates that on average in sub-Saharan Africa, a 1 percentage point drop in real GDP growth would lead to an increase in the gross NPL ratio by 0.70 percentage point cumulatively by 2025.[3] On this basis, the drop in real GDP growth rate from 6.0 percent in 2019 to 0.4 percent in 2020 as projected in the WAEMU baseline macroframework would imply a durable increase in the NPL ratio by 4 percentage points in the medium term. In other words, under our baseline macroframework, and abstracting from the effect of any regulatory forbearance measure and possible non-linear effects, the Covid-related economic slowdown projected for 2020 under the baseline could potentially contribute to an increase of the WAEMU's average NPL ratio by a third by end-2025, relative to its end-2019 level.



10. The rise in NPLs would be magnified in an adverse GDP growth scenario. The baseline scenario is subject to significant downside risks, as new virus outbreaks, within WAEMU as well as more globally, or security shocks could derail the nascent recovery. To capture these risks, an adverse scenario (presented in paragraph 16 of the report) assumes a deeper slowdown in 2020 followed by a more protracted recovery characterized by GDP growth rates lower by 1½ percent on average between 2020 and 2023. Under this adverse scenario, using the same elasticity as above, NPLs would increase by two-thirds relative to the baseline in the medium term.[4]

C. Potential Impact of the Covid-19 Crisis on Bank Capital Adequacy

11. The potential impact of the Covid crisis on capital adequacy is estimated by simulating the adverse credit shock on end-2019 bank data. The data sample covers 83.1 percent of WAEMU banks, accounting for 90.1 percent of the banking system's assets. Banks are classified as large, medium or small if they account respectively for more than 10 percent, between 5 and 10 percent, or less than 5 percent of the banking system's assets in their country of operation. Banks in each member-country are also classified as national (private or public) or foreign, based on their majority owership structure. Consistent with the above estimates of the impact of the 2020

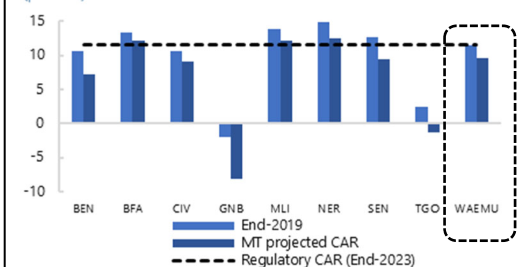
[3] See forthcoming departmental paper by Tarak, J. entitled "Understanding and Resolving Non-Performing Loans in Sub-Saharan Africa" which finds that a 1 percentage point growth slowdown would cause NPL to increase first by 0.21 percentage points, with this impact rising over time up to 0.70 after 5 years due to persistent effect. A similar estimate for the contemporaneous average impact of GDP growth on NPL was found by Fofack, H. 2005. "Non-performing Loans in Sub-Saharan Africa: Causal Analysis and Macroeconomic Implications." World Bank Policy Research Working Paper No. 3769.

[4] This higher two-third estimate could also be interpreted, at least in part, as capturing non-linearities in the impact of adverse shocks to economic activity on the quality of banks' assets that could be due, for instance, to the feedback effect from the banking system to economic activity.

economic downturn on average bank credit quality in the WAEMU, the analysis first considers the CAR impact of an adverse credit shock leading to an increase in the average NPL ratio by one third in the medium term. A similar exercise is then conducted for a two-third NPLs increase in the medium term corresponding to a more adverse growth scenario.

12. The results suggest that, under the baseline macroframework, the Covid crisis would have a significant impact on bank capital adequacy in the WAEMU in the medium term. The persistent impact of the growth downturn on banks' balance sheets increasing NPLs by one-third relative to 2019 levels would cause the average CAR for the WAEMU to decline from 11.6 at end-2019 to an estimated 9.5 percent by end-2025.[5] The average CAR would thus fall significantly below the regulatory minimum of 11.5 percent that is expected to prevail from end-2023 onwards. Under this baseline scenario, the majority of WAEMU member-countries would have average CAR below the level required at the end of the Basel II/III transition period, with the exception of Burkina Faso, Mali and Niger. If one were to also take into account the effect of covering legacy provisioning shortalls at end-2019, the average CAR would fall further to 6.2 percent and only a third of banks accounting for 35 percent of the banking system's assets would comply with the 11.5 percent regulatory CAR required in the medium term, while more than one fifth of banks accounting for 15 percent of the system's assets would have negative equity.

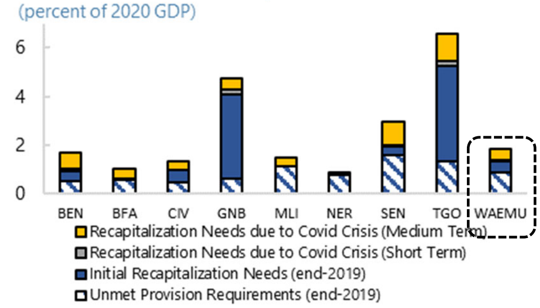
Simulated CAR in the Medium Term after Covid Shock
(percent)



Sources: BCEAO; IMF staff calculations.

13. Under the baseline, overall bank recapitalization needs for the WAEMU would rise by the equivalent of half a percent of 2020 GDP over the medium term, on top of existing (pre-Covid) needs. Medium-term recapitalization needs are estimated to average about 2 percent of GDP in the Union. This comprises two main components. First, as a result of the Covid crisis and the increase in NPL ratios, the additional capital required to bring all WAEMU banks' CAR to the 11.5 percent regulatory level over the medium term would be equivalent to 0.5 percentage points of 2020 GDP.[6] Second, these crisis-related needs would exacerbate existing needs (estimated at 1.4 percent of GDP), that include (i) capital injections needed to make all banks' CAR compliant at end-2019 (0.5 percent of GDP) and (ii) currently unmet provisioning requirements (0.9 percent of GDP). Overall recapitalization needs would become particularly onerous for the national banking systems that are currently the weakest within WAEMU, reaching the equivalent of 4.7 percent and

Medium-Term Bank Recapitalization Needs
(percent of 2020 GDP)



Sources: BCEAO; IMF staff estimates.

[5] This CAR estimate does not take into account the additional provisioning needs that would be necessary to meet the unmet provisioning requirements at end-2019.

[6] This estimate of 0.5 percentage points reflects the depletion of banks' capital due to the surge in NPL ratios during the crisis as well as the increase in capital requirements over the medium term from 9.5 to 11.5 percent.

6.5 percent of national GDP over the medium term for Guinea-Bissau and Togo respectively. Focusing on the capitalization needs related to the crisis (first component), these would range from 0.1 to 0.9 percent of national GDP.

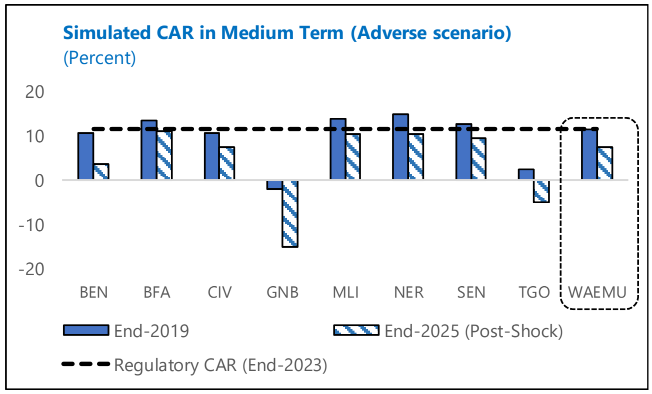
Table 1. WAEMU: Medium-Term Bank CAR Impact of Covid Credit Shock under Baseline
(in percent unless otherwise indicated)

	Large	Medium	Small	Total	National		Foreign [1]
					Private	Public	
Non Performing Loans (NPL) / Total Loans							
Gross ratio							
End-2019	10.5	13.3	10.7	11.4	9.6	13.0	12.0
Post Covid Shock (Baseline) [2]	15.3	19.3	15.5	16.6	14.0	18.8	17.4
Ratio Net of Provisions [3]							
End-2019	2.9	5.5	5.1	4.2	3.8	3.0	4.4
Post Covid Shock (Baseline) [2]	3.8	6.7	6.0	5.1	4.6	4.3	5.4
Capital Adequacy Ratio (CAR) [4]							
End-2019 [3]	11.5	9.6	13.9	11.5	11.4	-3.1	12.6
Post Covid Shock (Baseline) [2, 3, 5]	9.7	7.0	12.2	9.5	9.8	-5.8	10.5
Recapitalization needs (percent of 2020 GDP)	0.3	0.4	0.2	0.9	0.2	0.2	0.5
Needs to make all banks CAR compliant at end-2019 [3]	0.1	0.2	0.2	0.5	0.1	0.2	0.2
Post Covid Shock (Baseline) [2, 3]	0.2	0.2	0.1	0.5	0.1	0.0	0.3
Memo items							
Unmet provisioning requirements at end-2019	0.3	0.4	0.2	0.9	0.2	0.0	0.6
Number of banks (in units)	28	27	53	108	24	5	78
Share in Banking System's Assets	49.2	29.5	21.4	100.0	25.3	4.9	69.6

Sources: BCEAO and Fund Staff estimates

[1] Including banks from other WAEMU member-countries.
[2] Shock : Real GDP growth slowdown in 2020 leads to rise in NPL ratio by 33% over the medium-term.
[3] Excluding unmet proviosioning requirements at end-2019.
[4] Regulatory threshold : 9.5 at end-2019 and 2020 and 11.5 starting at end-2023, with capital conservation buffer of 1.25 and 2.50 repectively.
CAR color legend =========> Compliant CAR : Non compliant but positive CAR : Negative CAR :
[5] Compliance assessed on the basis of a regulatory threshold of 11.5 percent.

14. Under the adverse scenario, compliance with the new Basel II/III CAR standards would be compromised in the medium term. A two-third increase in the NPL ratio relative to 2019 levels would cause the average CAR for the WAEMU to fall from 11.4 at end-2019 to an estimated 7.5 percent by end-2025. Under this baseline scenario, all WAEMU member-countries would have average CAR below the level required at the end of the Basel II/III transition period.



15. Under the adverse scenario, overall bank recapitalization needs for the WAEMU in the medium term would rise further than under the baseline by the equivalent of half a percentage point of 2020 GDP. Additional recapitalization needs would mostly arise in medium and large banks, and would amount to a greater share of national GDP in Togo (0.9 percent), Benin (0.7 percent), and Guinea-Bissau (0.6 percent).

Table 2. WAEMU: Medium-Term Bank CAR Impact of Covid Credit Shock under Adverse Scenario (in percent unless otherwise indicated)

	Large	Medium	Small	Total	National		Foreign [1]
					Private	Public	
Non Performing Loans (NPL) / Total Loans							
Gross ratio							
End-2019	10.5	13.3	10.7	11.4	9.6	13.0	12.0
Post Covid Shock (Adverse) [2]	19.2	24.3	19.5	20.8	17.6	23.7	21.8
Ratio Net of Provisions [3]							
End-2019	2.9	5.5	5.1	4.2	3.8	3.0	4.4
Post Covid Shock (Adverse) [2]	4.7	7.9	6.8	6.1	5.4	5.5	6.4
Capital Adequacy Ratio (CAR) [4]							
End-2019 [3]	11.5	9.6	13.9	11.5	11.4	-3.1	12.6
Post Covid Shock (Adverse) [2, 3, 5]	7.9	4.3	10.6	7.5	8.2	-8.6	8.4
Medium-term recapitalization needs (percent of 2020 GDP)	0.8	1.0	0.5	1.4	0.5	0.3	1.4
Needs to make all banks CAR compliant at end-2019	0.4	0.6	0.4	0.5	0.3	0.2	0.8
Post Covid Shock (Adverse) [2]	0.4	0.4	0.1	1.0	0.2	0.1	0.6

Sources: BCEAO and Fund Staff estimates

[1] Including banks from other WAEMU member-countries.
[2] Shock : Adverse scenario with real GDP growth lower by 2 percent in 2020-2022 relative to baseline, implying a rise in NPL ratio by 10% in the shor
[3] Excluding unmet proviosioning requirements at end-2019.
[4] Regulatory threshold : 9.5 at end-2019 and 2020 and 11.5 starting at end-2023, with capital conservation buffer of 1.25 and 2.50 repectively.
CAR color legend =========> Compliant CAR : Non compliant but positive CAR : Negative CAR :
[5] Compliance assessed on the basis of a regulatory threshold of 11.5 percent.

Annex III. Macroeconomic Impacts of a Looser Fiscal Consolidation Path Under an Adverse Scenario

1. **There are significant downside risks to the economic and fiscal baselines.** The medium-term growth outlook remains very uncertain. The forecasts of this year's report are subject to greater-than-usual uncertainty, since new virus outbreaks or security shocks could derail the recovery and create additional fiscal pressures. The materialization of downside risks could lead to higher fiscal deficits and a slower pace of fiscal convergence.

2. **This annex analyzes the regional implications of an adverse growth scenario resulting in a looser fiscal consolidation path *at the union level*.**[1] The scenario assumes a more protracted economic recovery characterized by GDP growth rates, on average, lower by 1½ percent between 2020 and 2023 (see Table).[2] To assess the impact of lower economic growth on the fiscal deficit ratios, we assume an elasticity of 1 of revenue to GDP and keep nominal spending unchanged from the baseline. It is further assumed that, after 2020, three quarters of the additional fiscal deficits beyond baseline projections are financed on the regional market (through domestic banks), while the remaining quarter would be financed externally.[3]

Table 1. WAEMU: Fiscal deficits under the baseline and adverse scenarios

	2018	2019	2020	2021	2022	2023	2024	2025
GDP growth (in percent)								
Baseline scenario	6.5	5.9	0.3	5.4	6.6	7.4	6.5	6.1
Adverse scenario	6.5	5.9	-1.0	2.9	4.6	6.4	6.5	6.1
Aggregate fiscal deficit (in percent of GDP)								
Baseline scenario	3.3	2.3	5.9	4.9	3.8	3.1	2.9	2.8
Adverse scenario	3.3	2.3	6.2	5.7	5.0	4.4	4.2	4.2

3. **The annex simulates the potential impact of higher fiscal deficits on foreign exchange reserves, debt service, and domestic financial conditions.** To simulate the *impact on reserves*, we estimate various econometric models using different identification strategies to analyze the impact of the fiscal deficit on reserve accumulation in a sample of 126 emerging and low-income countries over the period 1970-2016. The results show the elasticity of reserves to the increase in the fiscal deficit is in the range of 0.2-0.5, with the lower bound of the range corresponding to cases when deficits are externally-financed and the upper bound to cases when they are domestically-financed. In the adverse scenario, an elasticity of 1 of imports to GDP is used to simulate the revised path of imports. To simulate the *impact on the debt service,* we assume that the terms of the additional financing (interest and debt maturity) are identical to the terms observed in 2020 for each country—

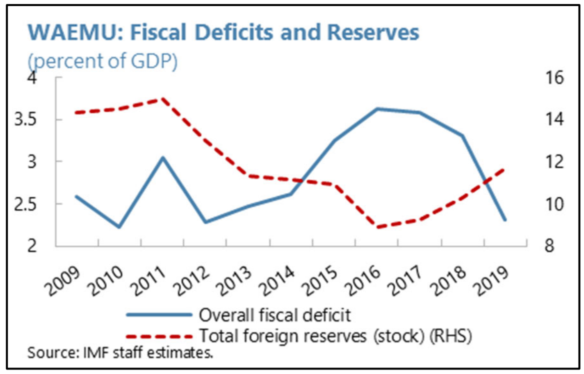
[1] The annex does not discuss the implications of the adverse scenario for individual countries.

[2] GDP growth is also reduced in 2020 relative to the baseline, since GDP figures were still forecasts at the time of the drafting of this report.

[3] For 2020, all the additional financing is assumed to come from the regional market.

both for domestic and external forms of financing.[4] This second exercise undertakes simulations for both the interest-to-revenue ratio as well as the ratio of debt service (interest plus principal) to revenue.[5] In the adverse scenario, an elasticity of 1 of revenue to GDP is used to simulate the revised path of revenue. Finally, to gauge the *impact on private credit*, we assume an elasticity of 0.5 for the crowding-out effect, which is due to the extra financing provided by domestic banks to governments.[6]

4. The analysis shows that, without correcting measures, the adverse scenario could result in a marked decline in the reserve coverage and pose risks to WAEMU's external viability. Past experience in the WAEMU suggests a negative association between deficits and reserves. The simulations presented in the panel figures at the end of the present Annex show that the fiscal deficit path under the adverse scenario could lead the external reserves cover to fall from the 6 months of prospective imports at end-2019 towards about 3 months by 2025. The threshold of 3 months of reserves is a standard reserve adequacy metric in the literature, which is monitored by international investors**.**



5. The simulations also show that a more elevated fiscal path would worsen debt-servicing capacity indicators. Under the adverse scenario, the impact on *interest payments* is relatively limited. The WAEMU interest bill (both domestic and external) would, on average, be 1.2 percentage points of revenue higher every year relative to baseline (and 0.2 percentage points when comparing the respective interest-to-GDP shares) over 2020-25. The impact of higher deficits on *total debt service* would be more important. If the deficits followed the path of the adverse scenario, annual debt service (domestic and external) would average 46.8 percent of revenue over 2020-25, compared to 41.7 percent of revenue over the same period in the baseline. In other words, debt service would be, on average, 5.1 percentage points of revenue higher relative to baseline, which is equivalent to 0.8 percentage point of GDP when comparing the respective GDP shares (or 5 percentage points of GDP on a cumulative basis over the six years).

6. Greater domestic financing under more expansionary fiscal scenarios could create financial tensions on regional markets. Financing of higher fiscal deficits in the WAEMU may be challenging in coming years: donors' contributions are likely to decline after this year's jump in emergency support; and access to the international market for Eurobond issuers may be difficult, if the recovery from the crisis is protracted and/or debt sustainability indicators continue to

[4] This assumption may be considered as optimistic, since the terms of financing may deteriorate when fiscal deficits are higher.

[5] In the rest of the annex, revenues exclude grants when computing the debt service to revenue ratios.

[6] This means that an increase in the government's *domestic* financing of 1 percent of GDP translates into a contraction of 0.5 percent of GDP of bank credit to the private sector.

deteriorate. This suggests that the WAEMU's sovereign security market is likely to be the primary source of deficit financing in the coming years, as anticipated under the baseline. Given the market's lack of depth (being limited to short-term maturities offered by sovereigns, relatively inadequate liquidity and an inactive secondary market), additional domestic borrowing could generate some market pressures. Under the adverse scenario, domestic borrowing requirements to finance higher deficits could reach as much as 2.9 percent of GDP in 2021—compared to 2.0 percent in 2020 and 2.4 percent in 2021 in the baseline. This amount would exceed that raised in 2016 (2.3 percent of GDP) when sovereigns turned largely to the regional market to finance their deficits in the absence of external financing, prompting the central bank to run a very accommodative monetary policy, which created strong pressures on foreign reserves.[7] Several macroeconomic indicators show that the regional market's absorption capacity would be tested (Table 2).

Table 2. WAEMU: Indicators of Regional Market Absorption Capacity, 2015–21

	2015	2016	2017	2018	2019	2020		2021	
						Baseline	Adverse Scenario [2]	Baseline	Adverse Scenario [2]
Domestic Financing of fiscal deficits (CFAF billion)	519	1,674	70	-870	-806	1,818	2,009	2,291	2,738
In percent of :									
Total fiscal deficit financing	23.3	63.2	2.5	-31.6	-39.2	34.0	36.3	48.9	51.9
GDP	0.8	2.3	0.1	-1.0	-0.9	2.0	2.3	2.4	2.9
M2 (e.o.p.)[1]	2.6	7.4	0.3	-3.2	-2.7	5.4	6.1	6.4	7.9
Banks' claims on governments (e.o.p.)	8.0	19.6	0.7	-8.6	-7.3	14.5	15.8	15.9	18.3
Net banks' claim on Governments (e.o.p. CFAF billion)	3,817	5,858	6,807	7,850	8,103	9,594	9,751	11,473	11,996
In percent of :									
Banks' capital (e.o.p.)	165.7	235.1	229.1	252.5	228.9	260.8	265.0	346.3	362.1
Banks' total assets (e.o.p.) [1]	13.0	17.4	18.6	20.1	19.1	22.2	22.8	24.8	26.9
Memo item									
Aggregate fiscal balance in percent of GDP	-3.2	-3.6	-3.6	-3.3	-2.3	-5.9	-6.2	-4.9	-5.7

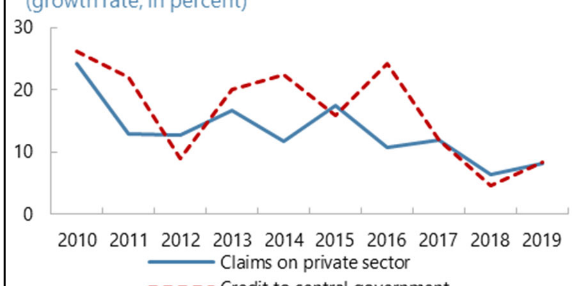
Source: IMF WAEMU country teams projections.

[1] Projections assume constant income velocity of money.

[2] All (3/4) of the additional fiscal deficit relative to baseline is assumed to be financed within WAEMU in 2020 (2021).

7. Relatedly, the higher fiscal deficit path under the adverse scenario may lead to a crowding-out of private sector credit. Commercial banks in the WAEMU hold more than 80 percent of sovereign securities. Simulations suggest that higher domestically-financed deficits could cause some crowding-out effect, with private sector credit growth dipping relative to the baseline by about 1.5 percentage points, on

WAEMU: Bank Credit and Private Sector Credit
(growth rate, in percent)

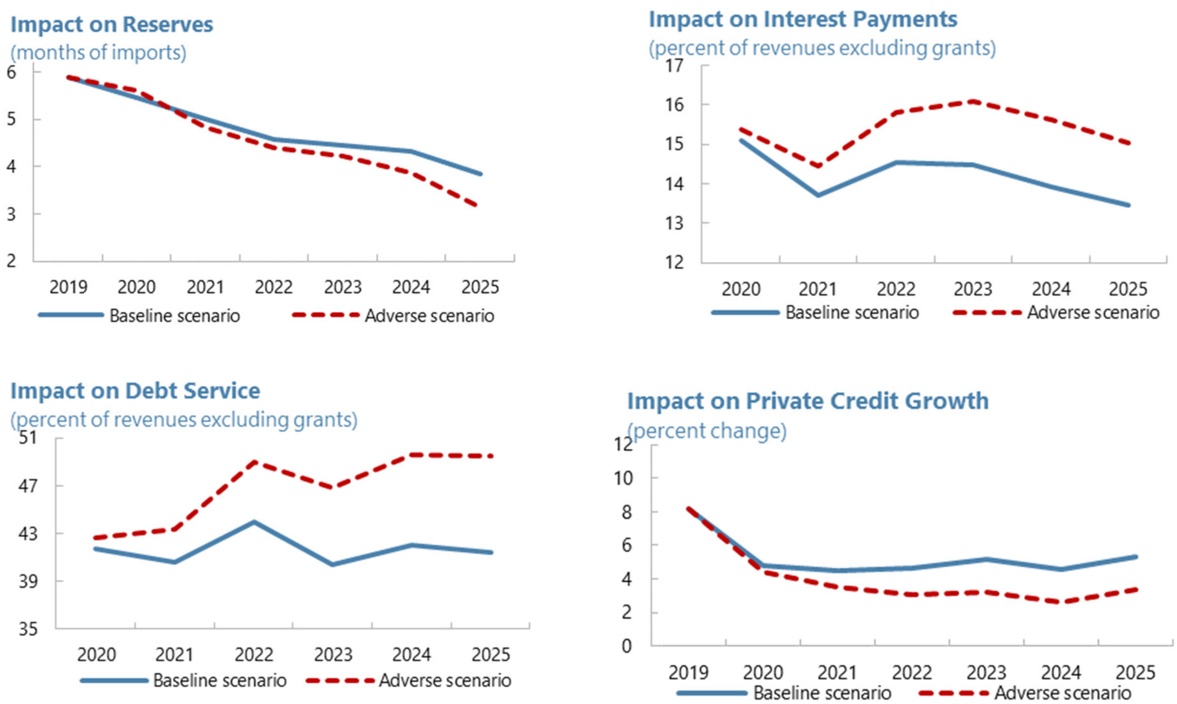


Source: IMF staff estimates.

[7] In response, the BCEAO tightened monetary policy at end-2016, including through the capping of each bank's refinancing to twice its capital. As a result, significant pressures emerged on the regional market in early 2017.

average, every year under the adverse scenario. Indeed, credit growth would drop from an average 4.8 percent over 2020-2025 to 3.5 percent. These estimates should nonetheless be treated with caution, since it is unclear how the central bank would respond to the potential pressures.[8]

Figure 1. WAEMU: Impact of Adverse Scenario with Higher Fiscal Deficits on Reserves, Debt Sustainability and Private Credit



Source: IMF staff estimates.

[8] Past experience in the WAEMU shows that the BCEAO tended to accommodate banks' demand for liquidity and allowed them to lend more to governments without reducing credit to households and enterprises. It is uncertain that this could still occur especially if higher deficits start putting pressure on reserves, compelling the central bank to tighten monetary policy to limit pressure on the peg.

Annex IV. External Sector Assessment

Overall Assessment*: The 2019 and 2020 WAEMU's external positions are being assessed as broadly consistent with fundamentals and desirable policy settings. The current level of reserves is within the range suggested by reserve adequacy metrics using end-2019 or preliminary 2020 data. The current account deficit is projected to expand temporarily in 2020, reflecting the weaker external demand and the looser fiscal policy in the context of the Covid shock.*

Potential Policy Responses*: In the near term, policies should balance the need to support the economy during the pandemic, while monitoring external buffers in the context of uncertain access to financing. In the medium term, a gradual and growth-friendly fiscal consolidation towards the regional deficit ceiling of 3 percent of GDP by 2023 is essential to stabilize reserves, along with structural reforms that boost non-price competitiveness and enhance the region's export performance.*

A. Current Account

1. Background. The WAEMU's external current account deficit (including grants) is estimated to have improved in 2019 to 4.8 percent of GDP (from 5.4 percent in 2018), reflecting member countries' fiscal consolidation efforts and better terms of trade. With the Covid-19 outbreak in 2020, the current account (CA) deficit is projected to expand to 5.4 percent of GDP, mainly due to a contraction of exports. Over the medium term, the resumption of fiscal consolidation from 2021 onwards and higher hydrocarbon exports from Niger and Senegal are projected to narrow down the current account deficit to around 4.0 percent of GDP by 2025.[1]

2. Assessment. Given considerable uncertainty surrounding the projections for 2020, the EBA-lite Current Account (CA) model is applied to both 2019 and 2020 data. When applied to 2019 data, the model estimates a multilaterally consistent, cyclically-adjusted CA norm of -5.1 percent of GDP against a cyclically-adjusted CA of -4.5 percent of GDP. This implies a very small gap of 0.6 percent of GDP under current policies. Applying the model on preliminary 2020 data, the CA gap turns negative to -0.4 percent, which is still

EBA-Lite Results

Implied over (+)/ under (-) valuation	2019	2020 (prelim.)
REER Model	-0.2%	1.8%
CA Model	-2.9%* or -1.9%**	2.3%* or 1.5%**
Memorandum items (percent of GDP)		
CA-Actual	-4.8%	-5.4%
Cyclically adjusted CA	-4.5%	-5.5%
CA Norm	-5.8%	-5.5%
Cyclically adjusted CA Norm	-5.6%	-5.6%
Multilaterally consistent cyclically adjusted CA Norm	-5.1%	-5.1%
CA gap	0.6%	-0.4%
o/w Policy gap	1.0%	3.0%

(*) Fund model's assumptions (**) Authorities' assumptions

[1] The WAEMU's net international investment position (NIIP) was –49 percent of GDP at end-2018 (the most recent data available), broadly stable compared to the 2017 ratio. The narrowing of the current account in 2019 and large nominal GDP growth are expected to contribute to an improvement of the NIIP ratio. Public external debt accounted for about 27.5 percent of GDP at end-2018 and increased to 29.0 percent at end-2019, equivalent to 162.9 percent of exports. The expected deterioration of the current account in 2020-21 combined with the sharp economic deceleration suggest that the NIIP ratio could worsen further in the near term.

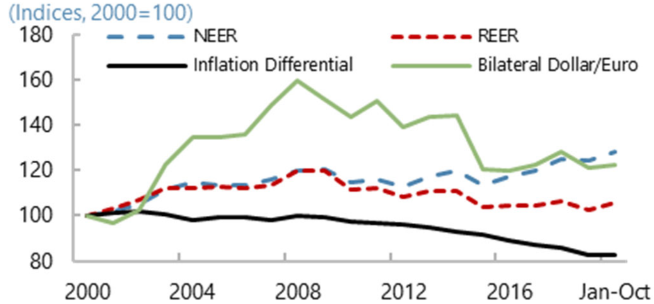
marginal. The difference between the two assessments reflects the deterioration in the CA deficit in the context of the pandemic. Overall, these results suggest that the external position is broadly consistent with fundamentals and desirable policy settings. Going forward, the CA is projected to decline towards 4 percent of GDP in the medium term, passing under the CA norm.

B. Real Exchange Rate

3. Background. The CFA Franc[2] (CFAF), in real effective terms, has depreciated by 14 percent over 2009-19 due to the Euro nominal depreciation against the US dollar combined with persistently low inflation of the WAEMU compared to trading partners. In the year 2019 alone, the real effective exchange rate (REER) depreciated by about 4.0 percent. Between March and October 2020, the depreciation trend of 2019 was reversed, with the REER appreciating by 6.4 percent compared to the same months of 2019, reflecting the nominal appreciation of the Euro vis-à-vis the USD.

WAEMU: Evolution of the REER and its Components, 2000-2020

(Indices, 2000=100)



Note: 2020 refers to the average for Jan-Oct 2020.
Source: IMF IFS Database; IMF INS Database.

4. Assessment. The EBA's Lite Index Real Effective Exchange Rate (IREER) model finds a marginal misalignment of the CFAF in 2019, with an undervaluation of -0.2 percent. When applied to preliminary 2020 data,[3] the model estimates a small overvaluation of 1.8 percent, reflecting the recent real appreciation of the CFAF. These results are broadly in line with the REER gap estimated from the CA model. When applied to 2020 data, this model points to a small overvaluation of 2.3 or 1.5 percent based on either an elasticity of the CA to the REER of -0.17 (Fund model's assumption) or -0.24 (authorities' assumption), confirming that the exchange rate position remains broadly consistent with economic fundamentals and desirable policy settings.

C. Capital Flows

5. Background. In 2019, net capital inflows declined by close to 1 percentage point of GDP from the high level of 2018, which was inflated by the large Eurobond issuances of Côte d'Ivoire and Senegal. Most of the decline was concentrated in portfolio inflows, which dropped from 3.7 percent of GDP in 2018 to 2.2 percent of GDP in 2019, while FDI inflows increased marginally in percent of GDP. Nonetheless, the financial account still posted a surplus of 4.7 percent of GDP last year. In 2020, this surplus is projected to narrow further due to the rise in international investors' risk

[2] The CFA Franc has been pegged to the Euro since its launch in 1999 at a fixed rate, and previously to the French Franc. The REER used in the annex is based on CPI prices.

[3] The assessment is conducted for both 2019 and 2020. Estimates for the 2020 EBA Lite's IREER model use the average REER over January to October 2020, which is the latest month available at the time of drafting this annex.

aversion and higher global uncertainty (despite more donor's support). In the medium term, under baseline projections, the outlook for net financial inflows is expected to remain subdued, with net inflows projected at 3.5 percent of GDP, on average, over 2021-25 compared to 4.8 percent of GDP over 2017-19. In particular, FDI inflows, which has already been severely impacted by the crisis, are projected to decline further from 2022-23 with the completion of some oil and mining projects in Niger. Also, net portfolio inflows are reduced by some Eurobonds and DSSI-related debt repayments over 2022-25.[4]

6. Assessment. Although a rebound in capital inflows is expected in 2021 during the economic recovery, net inflows could remain durably low in the wake of the Covid crisis. Concerns about debt sustainability and the fragility of the economic recovery may complicate the return of Eurobond issuers to international markets, although Côte d'Ivoire succeeded to issue a EUR 1 billion at favorable terms in November 2020. In addition, there are also risks that donors may not provide as much financing in the coming years as they did during the Covid crisis. Policies to attract more capital inflows in the medium term could focus on: strengthening the fiscal position of member states; advancing revenue mobilization (to improve the debt service capacity); deepening the stock market (to create new opportunities for investors and facilitate exit); further strengthening the monetary policy framework; and improving the business climate.

D. Reserves Adequacy

7. Background. The WAEMU pooled reserves have maintained their upward trend in 2019 and the first half of 2020. International reserves stood at CFAF 10,357 billion (US$17.7 billion) at end-2019, up by 1,796 billion (US$2.7 billion) from end-2018. This corresponds to a reserve cover of 5.9 months of prospective imports at end-2019 compared to 4.7 months at end-2018. In contrast to 2018, when Eurobond issuances buttressed reserves accumulation, the Eurobond contribution to the increase in reserves was more modest in 2019. In addition, stricter enforcement of export proceeds repatriation requirements has also contributed to reserves accumulation. The rate of repatriation of export receipts is estimated to have increased from 62.0 percent in 2018 to 69.0 percent in 2019. For the first 6 months of 2020, the import cover remained broadly stable at 6 months, due to the large financial support received from the international community and despite the pickup in imports projected in 2021 (note that the import cover is measured in percent of *prospective* imports). The import cover then declined to 5.4 months between July and November 2020. In nominal CFAF terms, reserves increased by about 8 percent between end-December 2019 and end-June 2020, amounting to CFAF 11,156 billion at end-June before declining by 6 percent to CFAF 10, 486 billion (US$ 19.1billion) at end-November 2020. Under the WEO baseline, the reserve cover is expected to decline both as a share of GDP and prospective imports over the medium term. This decline results from the moderate pickup in imports during the recovery as well as the subdued outlook for capital inflows (both FDI and official flows). These factors should contribute to a contraction in reserve coverage to about 4 months by 2025; at the same time, a gradual return of the fiscal deficit to the

[4] The baseline projections presented in this report assume cumulative USD 2.5 billion (CFAF 1,358 billion) of Eurobond issuances for Cote d'Ivoire over 2020-22 and USD 400 million (CFAF 213.6 billion) of Eurobond issuance for Senegal in 2024. For Benin, no new issuance is projected in the baseline.

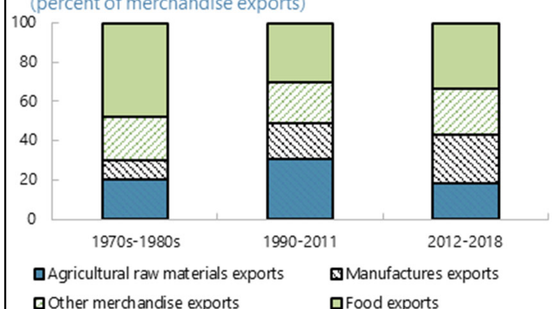
3 percent of GDP regional ceiling should help support the reserve position. These projections are subject to significant risks, partly because imports could recover more quickly than currently projected in the macroeconomic framework. If, at the WAEMU level, the share of imports to GDP recovered to its pre-Covid level (about 1 percentage point higher than in the current baseline at the end of the forecast horizon), the reserve to import ratio would be lower by 0.1–0.2 months of imports.

8. Assessment. The ARA CC approach[5] based on end-2019 data estimates an adequate reserves adequacy in the range of 4.9 to 6.5 months for the WAEMU's reserve import cover (depending on the assumption for the marginal productivity of capital). For 2020, a preliminary assessment sets the adequacy range at 5.4 to 7.1 months of prospective imports.[6] Overall, these results point to an optimal range of approximately 5 to 7 months of imports, suggesting that the current level of reserves is adequate. Although the medium-term projection of 4 months of imports remains below this range, the quantitative assessment does not take into account additional factors which may reduce the need to hold reserves for insurance purposes, including France's unlimited convertibility guarantee of the CFA franc into euro. In staff's view, the projected level of 4 months of import coverage, while lower than the range suggested by the ARA CC results, is broadly sustainable over the medium term.

E. Competitiveness

9. Trade performance. In the past decade, the current account deficit (in percent of GDP) has deteriorated by above 3 percentage points between 2011 and 2019, while the region's global market share has remained broadly stable. The ratio of exports to GDP has kept declining over the same period, passing from 27.0 percent of GDP in 2012 to 23.0 percent of GDP in 2019. In addition, there has been only limited export diversification and sophistication over time. In fact, the export basket remains dominated by low-productivity goods, which account for more than half of total merchandise exports. In recent years, the share of manufacturing exports has increased. While the REER has depreciated in the past decade, a number of non-price competitiveness factors are hindering the region external competitiveness, as highlighted in the next paragraphs.

WAEMU: Composition of Exports
(percent of merchandise exports)



Source: World Bank World Development Indicators.

10. Price competitiveness. Price competitiveness has improved over the past decade due to the combined effect of the euro depreciation against the dollar and persistently low inflation in the

[5] See IMF: "Assessing Reserve Adequacy in Credit-Constrained-Economies," 2013, based on Dabla-Norris (2011).

[6] Given the exceptional shock to global trade represented by the Covid-19 outbreak, the 2020 assessment uses a five-year projection to approximate historical trends in external demand. This approach avoids using the 2020 shock as a benchmark for later years, as it seems unrealistic to assume that reserves should mechanically provide insurance against this historically unprecedented and idiosyncratic shock.

WAEMU. As noted above, the REER seems currently in line with fundamentals using both 2019 and 2020 data. However, the recent appreciation of the euro against the USD may harm price competitiveness going forward.

11. Non price competitiveness. The WAEMU's competitiveness remains hampered by significant structural constraints. Despite remarkable improvements in competitiveness indicators in the past decade, the region still lags behind when benchmarked against key comparators along several dimensions of non-price competition:

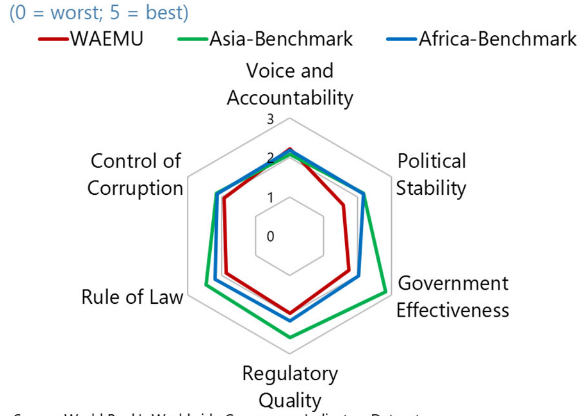
- Survey-based perception indicators from the 2019 Global Competitiveness Report (World Economic Forum) point to structural constraints to competitiveness, particularly in the areas of institutions, infrastructure, and education and labor skills. For instance, WAEMU economies record relatively low scores on indicators capturing the ease of dealing with insolvency regulations and getting electricity. Member countries also appear to lag comparator economies in Africa and Asia with respect to years of schooling and the skillset of graduates.

- The 2018 logistics performance index (LPI) shows a broadly stagnant performance of the WAEMU since 2016 as well as a lagging performance relative to comparator countries in African and Asian on various dimensions of trade including customs performance, infrastructure quality, and timeliness of shipments.

- The 2019 World Bank's Governance indicators continue to reveal some structural weaknesses in government effectiveness, political stability, regulatory quality and rule of law when compared to other African and Asian countries. However, the WAEMU indicators are in line with comparators for voice and accountability and, to a lesser extent, control of corruption.

Governance Indicators, 2019

(0 = worst; 5 = best)



Source: World Bank's Worldwide Governance Indicators Dataset

12. Intraregional trade flows. Trade in local products that takes place within the WAEMU, as well as in the broader ECOWAS community, is, by law, free of customs' duties and import taxes. A common external tariff (CET) regime for the ECOWAS region was adopted by WAEMU member countries in 2015–16. Nevertheless, several non-tariff barriers still hinder intraregional trade. Problems include the lack of a common documentation system for customs' procedures; incomplete harmonization of rules governing the certification of origin for WAEMU products; and illicit and ad hoc charges levied on road transit. These factors have likely contributed to slowing regional economic integration in recent years. According to the latest trade policy review of the World Trade Organization in the WAEMU region (2018),[7] intraregional trade accounted for only about 10 percent of members' trade flows in 2015, while a large part of trade in goods took place with partners outside the WAEMU.

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

13. Policy measures to improve competitiveness. *At the national level*, reforms should focus on addressing the growth bottlenecks by (i) improving infrastructure endowment, particularly road connectivity and energy availability to enterprises; (ii) strengthening human capital, including through universal access to primary and secondary education; (iii) simplifying tax procedures (e.g., through the digitalization of tax documents); (iv) promoting good governance practices by enhancing investment management (e.g., through public procurement reform and better monitoring of SOE operations) and fighting corruption (e.g., with stronger national anti-corruption agencies and by mandating public asset disclosure for high-level officials); and (v) fostering structural transformation to accelerate industrialization and reduce the concentration of exports in non-transformed commodities (e.g., through horizontal measures and a cautious use of targeted tax incentives). *Regional policies* can also play a key role to enhance competitiveness by promoting economic integration, particularly through better coordination of regional infrastructure investments, the enhancement of the regional competition framework, and the elimination of non-tariff barriers. The WAEMU Commission has, for instance, approved a five-year plan to promote investments in transportation (e.g., roads) and energy at the regional level. The plan allows financing of infrastructure projects in individual states, when they are deemed to have positive repercussions at the level of the union. The Commission is also promoting joint efforts between regional authorities and member countries to improve the business environment, particularly with respect to easing procedures to start new businesses. Finally, the authorities are promoting efforts to harmonize customs' regulations in the union, digitalize customs' documents and enhance monitoring of customs' procedures. Such reforms, if fully implemented, are expected to reduce processing time for customs' procedures and boost cross-border activity. This would in turn facilitate movements of factors of production and help countries join global value chains.

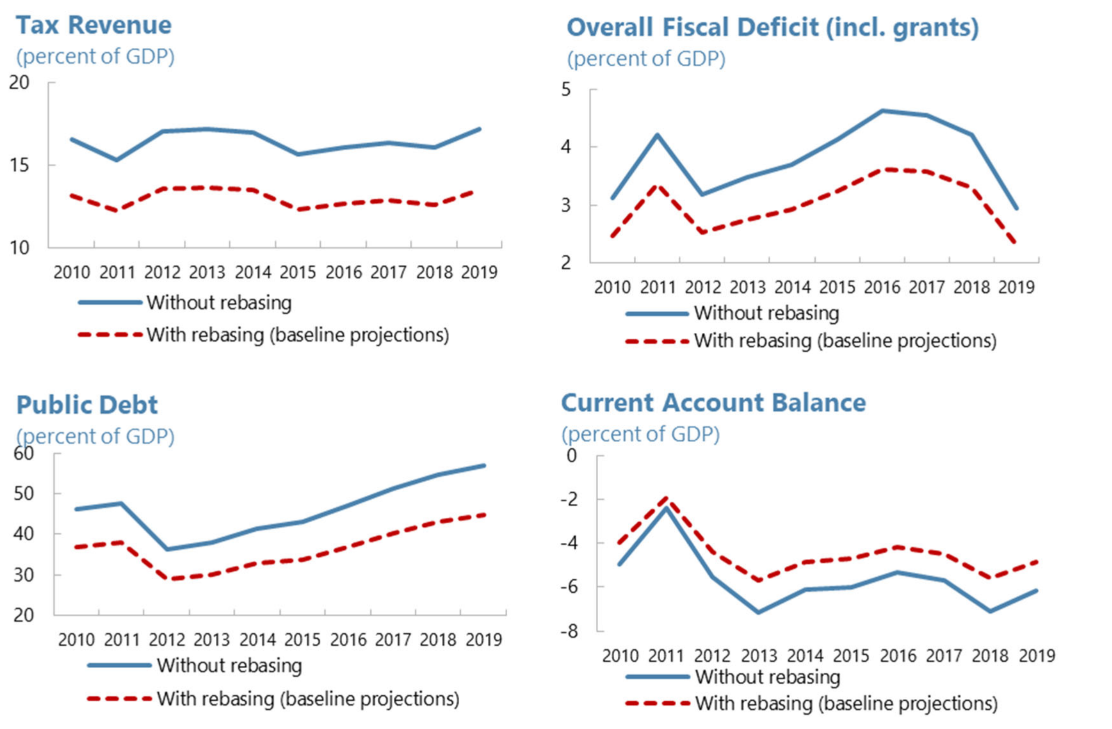
Annex V. Rebasing of National Accounts

1. **Since 2018, seven out of eight WAEMU countries rebased their national accounts.** Following Senegal in 2018, six WAEMU countries (Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Niger, and Togo) have undertaken a rebasing exercise to make GDP estimates more reliable and in line with their current economic realities. The new national account figures for these seven countries are all reflected in the macroeconomic framework. Rebasing resulted in increases in nominal GDP levels ranging from 9.9 percent (Guinea-Bissau) to 38.0 percent (Côte d'Ivoire). Rebasing in Mali is expected in 2021.

2. **The rebasing exercises have reduced the main GDP ratios at the regional level.** All other things being equal, the national rebasing exercises increased the WAEMU nominal GDP by an average of 27 percent between 2015 and 2019. This led to an average decline of: (i) 3.5 percentage points (ppts) of GDP for the aggregate tax revenue ratio, (ii) 0.9 ppt of GDP for the fiscal deficit ratio, (iii) 10.8 ppts for the public debt ratio; and (iv) 1.3 ppt for the current account ratio.

3. **To enhance the credibility of the rebasing exercises, national authorities should publish online their underlying methodology, including main drivers of the revisions and survey results.** Guides to GDP revisions that are understandable by the general public could also be produced. For future revisions, plans and roadmaps could be disseminated in advance to the public.

Figure 1. WAEMU: Main GDP Ratios With and Without Rebasing



Note: The series "without rebasing" were computed by rescaling the GDP on the base year and then applying current growth rates of nominal GDP to recompute the full series. Series "with rebasing" were derived from the current framewrok. Sources: Authorities, World Economic Outlook and IMF staff calculations.

Annex VI. Authorities' Responses to the 2019 Policy Recommendations

	2019 Regional Consultation Recommendations	Authorities' Response
Policy Mix	• While fiscal policy should be the first line of defense, the BCEAO should stand ready to tighten monetary conditions in case of pressures on external reserves.	**Broadly consistent** • Monetary policy rates remained unchanged until the pandemic, while external reserves increased by the equivalent of 1 ¼ month of imports between end-2018 and mid-2020.
Fiscal Policy Coordination	• Governments need to adhere to their budget reduction plans which will require increasing tax revenue and improving quality of spending. • Governments need also to better control and limit below-the-line operations.	**Broadly consistent** • The aggregate fiscal deficit declined by close to 1 percent of GDP in 2019 to come within the regional ceiling of 3 percent of GDP. Four countries however had deficits above this ceiling, and convergence was partly achieved through GDP rebasing. Below-the-line operations are also estimated to have declined in 2018 and 2019.
Monetary/ Financial sector Development	• Enhance monetary policy effectiveness • Consider differentiated haircuts on sovereign securities as collateral for BCEAO refinancing • Accelerate the development of the interbank and government debt markets.	**Partially consistent** • The BCEAO shifted to fixed rate full allocation auction system during the crisis. • The regional debt agency is coordinating bond issuance through auctions, but the regional market remains segmented and under-developed. • Reforms to debt and interbank market still ongoing.
Financial Regulation and Supervision	• Speed up financial sector reform and implement new prudential regulations, consistent with Base II/III. • Strengthen risk-based prudential and AML/CFT supervision, avoid regulatory forbearance. • Make bank resolution framework fully operational.	**Partially consistent** • Based on Basel II/III standards, the aggregate CAR improved from 10.0 to 11.5 percent between June 2018 and December 2019—above the 9.5 percent regulatory threshold. • The June 2017 requirement of CFAF 10 billion minimum capital remains unmet by a few banks. • Eight banks (3 percent of banking system's assets) with increasingly negative equity have not been resolved, as the Banking Commission's new resolution powers have yet to be made operational.
Structural Reforms/Competi tiveness	• Accelerate reforms to raise structural competitiveness, including through improvements in the business climate, logistics performance, governance and public investment efficiency. • Improve implementation of regional guidelines on infrastructure quality.	**Partially consistent** • Ease of doing business has improved in recent years according to several competitiveness indicators. • However, WAEMU countries still lag behind in various areas of non-price competitiveness including the perceived quality of institutions, infrastructure and education and labor market skills.

Annex VII. Technical Assistance Assessment

1. **This annex focuses on the technical assistance provided by the IMF in recent years**. AFRITAC West, as well as the Fiscal Affairs Department (FAD) and the Monetary and Capital Markets Department (MCM), are the main IMF providers of technical assistance (TA) to the WAEMU regional institutions.[1] Their continued engagement aims at improving the design and implementation of economic policies through the provision of TA missions, training activities, peer learning, and seminars. To this end, tailored TA has been provided over the past several years, with the goal of strengthening banking and macroprudential supervision, reinforcing macroeconomic surveillance, fostering capital and financial markets development, advancing domestic resource mobilization efforts, enhancing public financial management, and improving government and external sector data.

2. **Implementation of past TA recommendations has been broadly satisfactory, although some challenges remain.** Overall, the TA provided to regional authorities has broadly achieved its goals, with significant progress made on several important reforms, such as the transition to Basel II/III standards. The uptake of TA has generally been satisfactory, reflecting solid interest and good capacity on the regional authorities' side. Nevertheless, reform implementation efforts are sometimes hindered by several challenges. For instance, adoption of some reforms can be slowed down by the need to build consensus among all eight WAEMU member-countries. Some regional institutions have limited enforcement powers to make regional commitments binding and provide inadequate operational guidance to ensure that regional directives are effectively transposed and implemented at the national level. Reform implementation is also made more difficult by the significant variation in administrative capacity among member-countries, in addition to limited capacity of implementing agencies at the national level and some departments of regional institutions.

Table 1. Overview of TA Provided to Regional Institutions 2017–20

Provider	Description	Objectives	Outputs / Outcomes
MCM / Afritac West	**Assist Transition to New Prudential and Accounting Standards and Enhance Supervision**	• Implement Basel II/III standards (BCEAO, 2018-20)	• Banking legislation and regulations are being aligned with Basel II/III requirements, and liquidity regulations in line with Basel III requirements are being prepared. • Supervisory capacity to drive the implementation process was enhanced through a seminar in 2018 on the implementation of prudential reforms and analysis of prudential statements, particularly those prepared on a consolidated basis.

[1] This annex provides a brief, but not exhaustive, evaluation of capacity development programs provided to five regional institutions of the WAEMU, comprising the Banque Centrale des États de l'Afrique de l'Ouest (BCEAO), the WAEMU Commission, the Agency managing the auction segment of the WAEMU's regional sovereign security market (Agence UMOA-Titres, AUT), the General Secretariat of the WAEMU Banking Commission (SGCB), and the Financial Market Regulator (CREPMF). In addition to reinforcing institutional building and capacity at the regional level, IMF's functional departments and AFRITAC West also support capacity building efforts at the national level of WAEMU member countries. National-level TAs are not covered in this annex.

Table 1. Overview of TA Provided to Regional Institutions 2017–20 (continued)

		• Implement a risk-based prudential supervision system, define a methodology for specialized on-site controls, and improve technical capacity (SGCBU, 2017-20)	• Bank risk assessment frameworks were strengthened by defining and developing appropriate controls on new individual and consolidated reporting received from banks. • Following the TA, supervisors have had adequate infrastructure and capacity to effectively implement credit risk monitoring and risk-based prudential supervision. This was achieved by building capacity to use IT systems, providing training on the Basel II/ III framework in 2018, enhancing capacities on on-site control and IT methodology, in addition to providing training on credit risk control in 2020.
		• Strengthen credit risk analysis and supervision of financial market intermediaries (CREPMF, 2020)	• On-site supervisory processes were improved by reviewing the structure and the content of on-site reports in 2020.
		• Put in place a securities regulation and supervision framework (CREPMF, 2018-19)	• A regulatory framework for market intermediaries, compliant with international standards, was put in place. This was achieved by: i) drafting and approving the revised chart of account (balance sheet and income statement); ii) drafting a regulation on capital requirement; and iii) setting up regulations on internal control, statutory capital investment, propriety trading, and segregation of funds.
	Foster Regional Financial Market Development	• Develop conventions for WAEMU government securities market (Agence UMOA-Titres and CREPMF, 2018)	• Reviewed current conventions and formulas used by market participants on the secondary market for the calculation of prices, interest payments and yields on government securities in the WAEMU; proposed a set of conventions and formulas for the government securities that trade on the over-the counter (OTC) market, which the Agence UMOA-Titres (AUT) should seek market participants to endorse.
		• Develop a framework to assess the absorptive capacity of the WAEMU public securities market (Agence UMOA-Titres, 2018)	• Developed an assessment framework based on three components: i) analysis of market trends over the previous two years; ii) analysis of the implications of BCEAO signals regarding potential monetary policy adjustments and the implications of regulatory standards for banks on the demand for government securities; and iii) consultation with banks and other major investors regarding their investment plans on the government securities market.

Table 1. Overview of TA Provided to Regional Institutions 2017–20 (continued)

		• Strengthen the rules and procedures for carrying out government securities issuances through syndication (CREPMF, 2017-18)	• Improvements were achieved in the current system for carrying out government securities issuance operations through syndication. This was achieved by: i) reviewing the rules and procedures for the execution of the syndication operations (preparation of the operation, referral, investigation of the file, issue, listing, monitoring of events on securities, monitoring of other commitments); ii) identifying the shortcomings of the current rules and procedures; iii) obtaining feedback on the current syndication procedures; iv) identifying improvements (other than those related to market infrastructure) that CREPMF could make to its texts in order to later promote the unification of the two markets; v) making proposals for improvements to current procedures; and vi) providing advice on the implementation strategy for the new procedures.
		• Improve the standardization of auctioned public securities and update WAEMU procedures (Agence UMOA-Titres, 2017)	• A well-defined issuance process for public securities was implemented by i) defining the characteristics of the bonds and proposing formulas for calculating the price and interest of bonds and notes on the market that meet international standards; ii) strengthening the rules relating to the procedure for the exchange of securities; and iii) improving the procedures for managing the regional schedule for the auctioning of public securities.
		• Advance efforts to diversify investor base on the sovereign securities market (Agence UMOA-Titres and CREPMF, 2017)	• Identified the barriers to active participation by non-bank investors in the public securities market and developed an action plan to increase their interest in this market. This was achieved by: i) taking stock of investors' participation in the market; ii) reviewing regulations relating to the participation of each category of investors; iii) discussing with investors the challenges in the management of their public securities portfolios; iv) assessing current government investor relations practices; v) discussing the current and planned public securities promotion activities directed at institutional investors; vi) identifying regulatory, capacity, and other constraints that impede the active participation of non-bank investors; and vii) identifying measures to be implemented to increase the interest of non-bank investors in the government securities market.
FAD / Afritac West	**Advance Public Financial Management**	• Assist in developing a draft practical regional guidance note on the budgeting of public employment ceilings for WAEMU member states (WAEMU Commission, 2020)	• With a view to harmonizing national practices related to employment ceilings, strengthening payroll management and promoting multilateral surveillance, a draft guidance note was prepared and validated by experts, and presented to authorities from the WAEMU Commission and member countries through three webinars in September 2020.

Table 1. Overview of TA Provided to Regional Institutions 2017–20 (continued)			
		• Support the implementation of accrual accounting in WAEMU member states by assisting in the preparation of a guidance not for the preparation of governments' opening balance sheets (WAEMU Commission, 2020)	• The objective was achieved by: i) drafting a guide on the methodology for determining the opening balance sheet, ii) developed methodological sheets for incorporating certain accounts into the opening balance sheet; iii) developing technical appendices to facilitate the implementation of the opening balance sheet, in relation to the cash accounting; iv) setting up a roadmap of the main measures and actions to be taken to integrate reliable elements into the opening balance sheet.
		• Assist member countries in implementing the region's harmonized PFM directives transcribed into organic budget laws and related regulations (WAEMU Commission, 2018-20)	• As a part of the regional Observatory of Public Finance (OPF) seminars, organized by the WAEMU Commission, the objective was achieved by: i) updating the evaluation grid for monitoring the implementation of the regional PFM directives and finalizing a new grid for monitoring, transcription and implementation of the directives on accrual accounting and on the new legal framework of PFM of local governments; ii) strengthening the WAEMU Commission and member states' capacities in cost accounting as prescribed by the PFM directives; iii) providing advice on best practices in program budgeting; iv) examining and validating regional regulations with the goal of harmonizing the definition and coverage of fiscal revenues and wage bill data in all member countries.
	Strengthen Tax Policy Coordination and Assist in Implementation of Regional Tax Directives	• Improve the regional tax coordination framework (WAEMU Commission, 2017-20)	• Despite the presence of a technical assistance project supported by the Revenue Mobilization Trust Fund (RMTF) from May 2017 to April 2020, there has been limited take-up for tax policy technical assistance during this period. Collaboration primarily focused on: i) advising on the design of a new tobacco excise tax directive (May 2017); ii) participating in a regional workshop on national strategies for revenue mobilization (June 2018); and iii) conducting preliminary on the review of the VAT Directive (December 2019). The most notable outcome from this engagement was the adoption of a new excise tax directive in December 2017.
SPR / Afritac West	**Strengthen Macroeconomic Surveillance**	• Enhance expertise on MTDS and DSA (WAEMU Commission, 2019)	• Provided training on the MTDS and DSA in 2019.
STA	**Enhance External Sector Statistics (ESS)**	• Strengthen the compilation and dissemination of ESS according to the latest internationally accepted statistical standards with a view to enhancing evidence-based macroeconomic policies (BCEAO, 2017-19)	• As a result of the JSA-AFR Project on improving external sector statistics in African francophone countries, the BCEAO and member states: i) have significantly improved the quality of their annual balance of payments (BOP) and international investment position (IIP) and have therefore achieved a much closer alignment with the most recent international statistical standard; ii) have improved the timeliness for annual BOP and IIP data, with most recent data available on the website of the BCEAO Headquarters and the IMF's International Financial Statistics (IFS) and Balance of Payments Statistics Yearbook (BOPSY); and iii) have started reporting timely data to the IMF's Coordinated Direct Investment Survey (CDIS).

Table 1. Overview of TA Provided to Regional Institutions 2017–20 (concluded)

			• All WAEMU countries compile quarterly BOP statistics as the BCEAO has adapted its ESS compilation system to allow quarterly BOP compilation. At this stage, the compilation is for internal use only, except for Senegal. The regional authorities have initiated a new version of their International Transactions Reporting System (ITRS), which will enable member countries to further improve the coverage, source data, and regular dissemination of quarterly statistics.
	Develop financial soundness indicators (FSIs)	• Improve macroeconomic statistics for macro-financial surveillance (BCEAO, 2017-18)	• Production of provisional FSIs is completed. However, its dissemination and reporting practices could be strengthened.

Annex VIII. Near-Term Capacity Development Strategy

1. The capacity development strategy (CDS) for the WAEMU is focused on supporting reform plans and capacity building of regional institutions. This annex sets out broad objectives for the CD delivered by the IMF to five regional WAEMU institutions: the Central Bank (BCEAO), the WAEMU Commission, the General Secretariat of the Banking Commission (SGBC), the Financial Market Regulator (CREPMF), and the regional agency in charge of managing the auction segment of the WAEMU market for governments' securities (Agence UMOA-Titres or AUT).[1] While this Annex is forward-looking, Annex VII assesses the technical assistance provided in the past three years.

A. Forward-Looking Priorities

2. The CDS must be well articulated with the broader macroeconomic objectives pursued by WAEMU authorities in the context of the Covid-19 crisis. The CD strategy in the WAEMU should support the regional authorities' goals of ensuring macroeconomic stability, fostering strong and inclusive growth, and building resilience to economic shocks, including by strengthening the region's capacity to mitigate the impact of the Covid pandemic. To that effect, reflecting the economic realities and the TA needs of regional authorities, CD over the near term should continue to support reform plans and capacity building of the regional institutions by focusing on enhancing their core competencies in five main areas:

- *Banking regulation and supervision.* Despite notable success over the past few years in strengthening banking supervision in the context of the transition to Basel II/III prudential regime, the Covid crisis will likely adversely impact banks' asset quality and capital needs. Although developments observed in the first half of 2020 seem to reflect a resilient banking system, the expiration of measures allowing debt repayment deferrals at the end of 2020 may translate into bank losses and possible recapitalization needs. The regional authorities should ensure that all instruments are in place to strengthen the banks' balance sheets, restructure weak institutions, and mitigate risks, including through the sound operationalization of banking resolution procedures. The forthcoming regional FSAP mission, currently planned for 2021, is expected to provide further guidance, in particular by assessing the capacity development needs in areas of macroprudential policy framework, bank supervision and resolution.
- *Financial sector development.* As a result of high fiscal deficits across the region and possibly more difficult access to external financing, the regional government securities market could come under strong pressure in coming years. This heightens the need to take concerted efforts to deepen the regional market, including by assessing options for reducing segmentation of the government security market between auction and syndication modes of issuance. More generally, creating deeper and more liquid financial markets is essential to

[1] This annex focuses on CD provided to regional institutions. CD delivery to individual country authorities is covered in country Article IV reports.

improve the transmission of monetary policy and finance development needs, in particular in infrastructure.

- *PFM and fiscal institutions.* Navigating the fiscal response over the next several years calls for a concerted pursuit of PFM reforms. As WAEMU member-countries gradually transition towards the 3 percent of GDP regional fiscal deficit anchor, the credibility of the multi-year consolidation trajectory as well as its ability to ensure debt sustainability will depend on the quality of budgetary processes, and, in particular, the ability to contain below-the-line operations. Improvements in fiscal transparency are also needed to ensure that the external financing received during the Covid pandemic is well spent. The pandemic has also ushered a temporary suspension of the macroeconomic convergence criteria. The review of the regional fiscal surveillance framework, currently underway, could allow the authorities to strengthen the system of fiscal rules, including by enhancing enforcement and monitoring mechanisms.
- *Tax policy.* Notwithstanding significant efforts devoted to improving tax policy coordination and design in recent years, the impact of the pandemic on public finances has further highlighted the importance of greater advancements in this area. Going forward, priorities for capacity development include revising some regional tax directives, in particular those relating to VAT, and achieving further improvements in harmonization of customs procedures and information exchange among member states' tax and customs administrations.
- *External Sector Statistics.* Further assistance may be needed to ensure the sustainability of accomplishments in improving the compilation and dissemination of external sector statistics (ESS), especially given the impact of the Covid pandemic.[2]

3. Capacity development priorities and challenges for the WAEMU are summarized in the table below. Five main priorities are complemented by their respective strategic goals, more tangible intermediate targets/deliverables, and outstanding challenges.

[2] Although capacity development focused on statistical issues is provided to individual member countries rather than to the regional institutions, the compilation of external sector statistics for member countries has a very strong centralized component, which is managed and handled by the BCEAO.

Table 1. WAEMU: Near-Term Capacity Development Priorities

Priorities	Strategic goals	Intermediate Targets	Challenges
Financial supervision and regulation	• Strengthen banking supervision in the context of completing the transition to Basel II/III prudential regime	• Strengthen bank supervision in the context of completing the transition to Basel II/III prudential regime while addressing impact of the Covid pandemic on banks' asset quality and capital needs • Advance risk-based approach to bank supervision • Enhance financial market prudential regulations and accounting standards	• Transition to Basel II/III prudential regime, which began in January 2018, has been extended by one year to 2023 in response to the Covid crisis • The prudential regulatory system for financial market participants is embryonic and the definition of regulatory requirements awaits data collection and analysis by the CREPMF.
Debt management	• Develop the regional financial market	• Improve procedures for syndicated securities issuance and update financial procedures manual of regional agency in charge of developing auction segment of sovereign security market • Assess options for reducing segmentation of government security market between auction and syndication modes of issuance • Develop a yield curve for syndicated sovereign securities.	• Accounting provisions for market players were defined and must be validated by the CREPMF in consultation with market participants. • Notwithstanding reform ownership by its top management, the staff of the CREPMF should continue to develop its operational capacity on market development. • The CREPMF and the two depository institutions (BCEAO for auctioned securities and WAEMU Central Depository for syndicated securities) should develop a shared vision on actions needed to reduce segmentation between the two market segments. • Limited secondary market trading hampers the construction of yield curves for securities issued on both segments of the WAEMU's sovereign security market.

Table 1. WAEMU: Near-Term Capacity Development Priorities (concluded)			
PFM	• Support the application of the WAEMU's regional PFM directives by member-countries and at regional level	• Ensure that all member countries have fully transposed and implemented the six PFM directives • Improve transparency in budget execution of response to crisis • Extend the coverage of the central government financial operations statistics (TOFE) to include all general government • Adapt the BCEAO's IT environment to facilitate the TSA management with a main account and corresponding sub-accounts attached to it • Review the revisions of regional fiscal rule framework (convergence criteria)	• Currently all member countries have fully transposed the regional PFM directives. However, their implementation varies significantly across member countries. • Progress in implementing regional PFM directives has been hampered by member-countries' varying degrees of administrative capacity. • Insufficient guidance on some operational aspects of the reforms implied by the regional directives. • Low availability of some data, including data on extrabudgetary units, social security agency, and SOEs, presents challenges to expanding the coverage of TOFE. • The BCEAO's computer system does not allow member states to have the TSA with a main account and sub-accounts attached to it.
Tax Policy	• Enhance tax policy coordination and design in the region	• Review regional tax policy directives to update their provisions and support greater revenue mobilization • Strengthen the dialogue between the WAEMU Commission and member countries in setting out regional priorities • Initiate discussions with member countries on options to promote conformity with regional tax commitments	• Implementation by national authorities of regional tax policy directives is sporadic and their revision appears at a stalemate. However, the need to increase domestic revenue has recently been increasingly echoed by national and regional authorities giving possible impetus for renewed collaboration.
External Sector Statistics	• Continue improving the compilation and dissemination of ESS	• Ensure continuity in the production of ESS during the Covid pandemic and its aftermath • Continuously improve ESS source data • Ensure the regularity of quarterly BOP and IIP compilation and dissemination	• The pandemic has significantly hampered the ESS source data. • Progress has been hampered by member-countries' capacity. • The BCEAO ESS compilation system has not been functioning properly to support quarterly BOP/IIP compilation and dissemination.

B. Engagement Strategy

4. Although the CD strategy for the WAEMU and the associated TA delivery are intrinsically interwoven with the policy recommendations of member-countries' UFR or PSI arrangements, some difficulties remain. As highlighted in Annex VII, challenges in reform implementation include: (i) limited enforcement powers of some regional institutions to make regional commitments binding and credible; (ii) insufficient operational guidance in transposition of regional directives; (iii) significant variation in administrative capacity among member-countries; and

(iv) capacity constraints by implementing agencies at the national level and some departments of regional institutions. Against this backdrop, some areas where CD is viewed as critical have been retained in this strategy, even when past traction has been limited. Such is the case for tax policy given the need to improve domestic revenue mobilization; and government securities market development, in view of the importance of regional financial market development in meeting the funding needs of the public and private sectors and in improving monetary policy transmission.

5. These challenges can be mitigated through improved coordination between, on the one hand, CD and surveillance activities at the regional level, and, on the other hand, CD, surveillance and UFR activities at the national level. The fact that a number of WAEMU countries are expected to have IMF arrangements in the near future could help improve the traction of CD delivered at the regional level. In this context, complementarity and synergies should be sought between this regional CD strategy and those for individual WAEMU member-countries. Regional seminars could also be helpful in creating a deeper dialogue between relevant regional authorities with national ones.

Statement by Mr. Aivo Andrianarivelo, Executive Director, and Mr. Marcellin Koffi Alle, Senior Advisor to Executive Director, on West African Economic and Monetary Union Executive Board Meeting
February 8, 2021

1. Our WAEMU authorities thank staff for maintaining a close engagement with the regional institutions amid difficult work conditions. The consultations last November gave the opportunity for candid interactions on a broad range of issues facing the Union, especially since the onset of the COVID-19 pandemic. Our authorities are in broad agreement with staff's analysis and policy recommendations. They also appreciate the quality of the Selected Issues paper (SIP) which provides further insights on macro-critical issues. These analyses and recommendations will serve as valuable inputs in the design of policies and responses to the economic challenges facing the region.

2. The WAEMU region has been recording strong GDP growth of more than 6 percent each year over the 2012-19 period. The COVID-19 shock has abruptly halted this momentum. The health crisis and its economic fallout compounded the effects of the security crisis in the Sahel and compromised the macroeconomic situation in 2020. The early policy responses both at the states and regional level helped dampen the impact of the pandemic and prevent economic aggregates from worsening further. Going forward, the authorities are cognizant of the efforts needed to rebuild buffers, recalibrate the Union's convergence framework and resume the region's high growth momentum.

RECENT DEVELOPMENTS AND OUTLOOK

3. Recent developments in the WAEMU region were marked by the COVID-19 shock. Although the health crisis was less severe than in other parts of Africa, the region suffered its economic fallout. As a result of the global impact of the pandemic and the unintended consequences of internal containment measures in the 8 countries of the Union, GDP is projected to contract in 4 countries, to be flat in one, and moderately positive in the other 3 countries. The overall impact is a decline of the regional GDP growth to 0.3 percent in 2020, compared with 5.9 percent growth in 2019. The hardest-hit economic activities were the construction, commerce, transportation and hospitality sectors. Disruptions in food supply chains and the ensued shortages caused inflation to rise on average by 2.1 percent over January-November 2020, compared to the same period in 2019. Despite this challenging

context, the external position of the Union remains relatively firm with international reserves standing at more than 5 months of prospective imports.

4. The deterioration of the fiscal outlook due to the pandemic led the WAEMU authorities to suspend the Union's Macroeconomic Convergence Pact in April 2020. All member countries then relaxed their fiscal stance to accommodate extra COVID-related spending. Consequently, the regional fiscal deficit is now estimated to have loosened by about 3½ percent of GDP, to stand at close to 6 percent in 2020, after undershooting its target of 3% in 2019.

5. The banking sector has shown resilience in the face of the crisis and has been playing a critical role in the authorities' response to the pandemic across the region. The sector has reaped the dividends of the progress made by banks in strengthening their balance sheets in line with the Basel II/III transition process. The aggregate capital adequacy ratio for example, stood at 12.1 percent in the first half of 2020, well above the 9.5 percent regulatory threshold.

6. Our authorities share staff's assessment regarding the outlook. The resumption of economic activities following the lifting of containment measures and the implementation of support packages should translate into growth recovery starting in 2021. Such prospects are consistent with the authorities' gradual fiscal consolidation aimed at balancing meeting the deficit target against economic recovery. The authorities also keep a close eye on downside risks, including the ongoing global second wave of the pandemic and security shocks, and stand ready to take appropriate actions to minimize their potential impact on the recovery.

MACROECONOMIC POLICIES IN TIMES OF PANDEMIC

7. The response to the pandemic within the WAEMU has consisted in a well-coordinated policy mix between national and regional authorities. Fiscal measures put in place by governments were supplemented by monetary and financial sector policies enacted by the central bank, BCEAO.

Fiscal policy

8. The relaxation of the fiscal stance has been the first line of defense of all WAEMU countries against the pandemic. Most countries adopted supplementary budgets, which prioritized health expenditures, economic support packages for hard-hit sectors and assistance to households. Meanwhile, revenue shortfalls were recorded across the region as activities collapsed and governments differed tax payments. Support from partners, including the IMF emergency assistance, has contributed to close the financing gap.

9. The easing of the fiscal policy has resulted in a regional fiscal deficit close to 6 percent of GDP in 2020. With the prospects of economic recovery starting in 2021, the authorities plan a gradual fiscal consolidation aimed at reverting to the fiscal deficit target of 3 percent of GDP in 2023. At the same time, the WAEMU Commission will undertake this year, a review of the regional surveillance framework in light of recent developments and discuss possible changes with member states.

Monetary and financial policies

10. Alongside governments' fiscal measures, the BCEAO turned to a more accommodative stance and took a series of measures to prevent a tightening of financial conditions, both on the money and sovereign security markets. To maintain an adequate liquidity level in the banking system and ensure the flow of credit to the economy, the central bank shifted to an auction system of "fixed-rate full allotment" in March, reduced its policy rate by 50 bps in June, extended its collateral base for access to refinancing and prepared with banks a framework to help affected firms facing loan repayment difficulties.

11. On the sovereign market, the BCEAO implemented a specific program called "Covid-19 T-Bill", aimed at providing financing to governments to meet their urgent needs in the first months of the pandemic. As well, the central bank increased the resources of the West African Development Bank (BOAD) so it could scale up its concessional lending to member states for urgent pandemic-related outlays. Measures were also taken to lower charges on mobile banking transactions and services.

12. External reserves remained at an adequate level, rising from 4.7 months of prospective imports at end-2018 to around 6.0 months in April-June 2020, before receding to 5.4 months in November 2020. This overall improvement is explained by stronger export receipt repatriation owing to a better enforcement of the foreign exchange regulatory requirement by the BCEAO.

13. The WAEMU authorities take positive note of the conclusions of the External Sector Assessment (ESA), that the import coverage of reserves (5.4 months) falls within the recommended range (of 5 to 7 months of imports). Likewise, they take comfort in the assessment that the real effective exchange rate was in line with fundamentals in 2019. They are committed to pursuing their efforts with the view to protecting the peg.

KEY REFORMS LOOKING AHEAD

14. Our WAEMU authorities are hopeful that their efforts to respond to the three shocks (health, economic, security) will bear fruits for a quick exit. They are committed to resuming their medium-term agenda aimed at spurring **economic transformation** within the region for strong and inclusive growth. In this regard, they intend to bring fiscal policy back to a stance consistent with the overarching goal of significantly boosting **domestic revenue mobilization**. This is a critical objective to ensure a sustainable financing of infrastructure investment across the region while maintaining debt sustainability.

15. As regard the monetary sector, the authorities are working on all aspects of the ongoing **reform of monetary arrangements**. In particular, the BCEAO will continue adapting its strategies and risk management tools to ensure a smooth transition. In parallel, the authorities will pursue their efforts to enhance **non-price competitiveness**, including by removing trade barriers within the region. As well, they are continuing coordination with the ECOWAS (Economic Community of West African States) for the creation of the single

currency of the ECOWAS although the agenda of this monetary reform is being delayed because of the pandemic.

16. On **security issues**, we appreciate staff analysis in the SIP on the macroeconomic implications of rising insecurity in the Sahel. We concur with the view that security-related spending can crowd out key development spending. Given the limited resources facing directly-affected countries, there is a need for solidarity among WAEMU states for a regional response to the security crisis. Moreover, a concerted effort of the international community, alongside the military forces already involved in the region, would help put an end to this protracted insecurity.

17. The WAEMU authorities are also committed to pushing ahead with **structural reforms,** both at the national and regional levels, to advance convergence and promote regional integration. In this regard, member states' efforts will continue in implementing public financial measures enacted by the Union. In the same vein, they will step up efforts to support intra-regional projects, including in the areas of industrial development, energy supply and security.

CONCLUSION

18. In the face of the COVID-19 pandemic and heightened security challenges in the Sahel, the WAEMU governments and regional institutions have managed to keep economies from more significant damage. Growth has slowed considerably, but early policy responses have maintained fundamentals and paved the grounds for a quick recovery. The authorities are committed to continuing their coordination between national and regional institutions to entrench the recovery and revert to high growth while strengthening fiscal sustainability. Our authorities highly value the policy dialogue with the Fund in this effort.

19. As the pandemic recedes, the focus will turn to their medium-term agenda with structural reforms to spur economic transformation within the region. The WAEMU authorities, in concertation with national authorities, are committed to revamping their policy frameworks and instruments towards the achievement of this goal.