INITIATION OF COVERAGE | WAEMU | MACROECONOMIC UPDATE | INSIGHTS

FUNDAMENTALS

THE SAME STORM, DIFFERENT BOATS

WEST AFRICAN ECONOMIC & MONETARY UNION (WAEMU)

23 MARCH 2023

Economist, WAEMU & Nigeria
based in Abidjan
Charles Levy
+225 0707921303
Charles.levy@ic.africa

IN BRIEF

- The political situation in the WAEMU region is diverse, with elevated security risks underpinned by militant centres in the Sahelian zone of the region.
- Amidst global and regional shocks, WAEMU exhibited relatively robust growth, averaging 5.1% over 2018 - 2022.
- Inflation, traditionally below 3%, is at over 2x the medium-term target limit (FY2022: 7.4%) due to external shocks amidst internal security issues.
- Fiscal deficit, initially driven by public investment, has deviated from its convergence path, rising from 3.3% of GDP in 2018 to 6% in 2022, due to the measures implemented by the States to curb the consequences of the external and domestic shocks.
- However, the region's growth prospects remain favourable, with support from emerging hydrocarbon production and potential IMF-supported reforms in key economies such as Cote d'Ivoire and Senegal.

OUR TOP COUNTRY PICKS

Senegal

Ba3 (stable) Moody's	8.0% FY2023 IMF growth forecast	6.3% FY2022 Fiscal Deficit (% of GDP)

Cote d'Ivoire

Ba3 (Positive) Moody's	6.8% FY2023 IMF growth forecast	6.1% FY2022 Fiscal Deficit (% of GDP)

Political situation

Diverse political situations amidst elevated security risks in the WAEMU.

In the last decade, the West African Economic and Monetary Union (WAEMU) has experienced heightened security risks, particularly in Burkina Faso and Mali, which resulted in coups d'état. The political instability in the WAEMU is underpinned by the terrorist centres in the Sahelian zone of the region, which also affected Niger, and Benin during the last two years. With sporadic attacks in Cote d'Ivoire and Togo, the fragile security situation in the region is a major threat to political stability, policy continuity and investment flows.

Political situation in the WAEMU

Country	Current President	Political System
Benin	Patrice Talon (Since 2016)	A multi-party democracy, which began in 1991 under the 1990 constitution. The President is elected for a 5-year term and can serve for only two terms, whether successive or separated. The 2022 Democracy Index published by the Economist Intelligence Unit (EIU) rated Benin as hybrid democracy. That is, worse than a "flawed democracy" but better than an authoritarian system. The EIU ranks Benin's political system at 104 out of 167 countries on the 2022 Democracy Index.
Burkina Faso	Captain Ibrahim Traore (Since 2022)	During Democratic regimes, governance is practiced in a semi-presidential system where the Prime Minister is the Head of Government and the President is the Head of State. However, Burkina Faso has experienced political instability since 2014 following a 2014 Burkinabe uprising. The country experienced double coup d'état in 2022 with the second coup on 30 September 2022, ousting the interim President and installing Captain Ibrahim Traore as President. The security situation appears fragile due to the multiplicity of terrorist attacks and internal population displacement. The EIU 2022 Democracy Index rated Burkina Faso's governance system as authoritarian which ranks at 127 out of 167 global political systems.
Cote d'Ivoire	Alassane Ouattara (Since 2011)	The governance system is based on a presidential system where the President is both the Head of State and Head of Government. Democratically elected President serves for a 5-year term and a maximum of two terms. The ruling party has a majority in the National Assembly and the Senate. The main opposition party is relatively weakened by the defection of some of its influential members to the ruling party. The EIU 2022 Democracy Index rated Cote d'Ivoire as hybrid democracy with a ranking of 106 out of 167 countries.
Guinea Bissau	Umaro Sissoco Embaló (Since 2020)	Democratic framework is based on semi-presidential system where the Prime Minister is the Head of Government with executive power and the President is the Head of State. The President is elected for a term of 5-years. Guinea-Bissau is vulnerable to political instability with a failed coup attempt on 02 February 2022 after two successful coups d'état in the past 16 years. The EIU rates Guinea-Bissau's governance system as authoritarian with a ranking of 140 out of 167 global political systems in 2022.
Mali	Colonel Assimi Goïta (Since 2021)	Mali is currently under an extended transitional military administration following a coup d'état which ousted the President and Prime Minister in 2020. In 2022, the transitional government postponed the planned presidential election to 2026 but was forced to revise the timeline to February 2024 following a raft of sanctions by ECOWAS. Legislative election is planned for Oct/Nov-2023. In the 2022 Democracy Index, the EIU rated Mali's governance system as authoritarian with a ranking of 119 out of 167 global political systems.

Niger	Mohamed Bazoum (Since 2021)	Niger has experienced numerous coups and only witnessed two elected presidents succeed each other once in 2021, since independence in 1960. The current democracy is termed the 7th Republic with a semi-presidential system where the President is the Head of State and the Prime Minister is the Head of Government. The President is elected to serve a 5-year term, with a limit of two terms. The security environment has shown signs of stabilization, albeit still fragile. The EIU rates Niger's governance system as authoritarian with a ranking of 112 out of 167 global political systems.
Togo	Faure Gnassingbé (Since 2005)	Togo is a presidential democracy where the President is both the Head of State and Head of Government. Elections are held every 5-years without an official presidential term limit. The current elected President is in his fourth term after re-election in 2020. Since November 2021, the country has been the target of at least five terrorist attacks in the far north. The EIU rates Togo's governance system as authoritarian with a ranking of 130 out of 167 global political systems.
Senegal	Macky Sall (Since 2012)	Senegal is the most stable democracy in the WAEMU region. A multi-party presidential democracy where the President is both the Head of State and Head of Government. In a 2016 amendment to the country's constitution, the presidential term was limited to 5-years of two terms. This means that the next election will be held in 2024 with a possibility for the incumbent president to contest on the back of the revised constitution. The EIU rates Senegal's governance system as hybrid democracy with a ranking of 79 out of 167 global political systems.

Macroeconomic Review

The IMF estimates the GDP of the WAEMU zone at USD 178.72 billion in 2021. With a population of 130.9 million inhabitants, 40.9% of whom are urban, the region has a per capita income of USD 1,364.

Amidst global and regional shocks, WAEMU exhibited relatively robust real GDP growth at 5.1% on average over the 2018 - 2022 period. Inflation, traditionally below 3%, increased to 7.4% at FY2022 due to external and domestic shocks. Fiscal deficit, initially driven by public investment, has deviated from its convergence path, widening from 3.3% of GDP in 2018 to 6% in 2022 due to the measures undertaken by the States to curb the consequences of the global and domestic crises.

However, the region's medium-term growth prospects remain favourable with expected support from emerging hydrocarbon industry and the potential IMF-supported reform programmes in Senegal and Cote d'Ivoire.

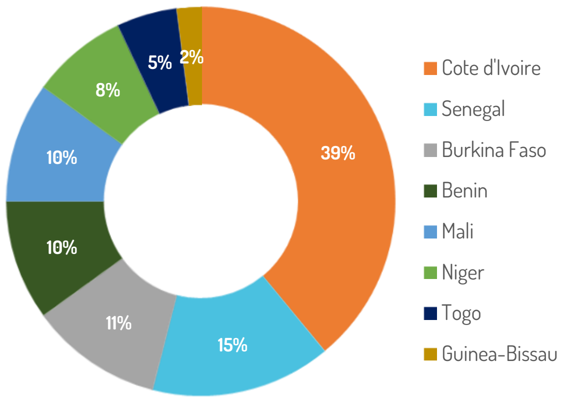
Real Sector Developments

The WAEMU zone shows a strong capacity for resilient growth, thanks to the good performance of the Ivorian economy.

Although the health impact of the COVID-19 epidemic was muted in the Union compared to other regions of the world, its economic impact was substantial in 2020. The COVID containment measures, such as the closure of land borders and the suspension of air traffic implemented by member states significantly weakened economic activity in the region. Nevertheless, the WAEMU zone posted a better growth of 1.8% in 2020 compared to the 1.6% average contraction in Sub-Saharan Africa. After enjoying a strong recovery to 6.0% in 2021, real GDP growth in the WAEMU region slowed to 5.6% in 2022, reflecting the spill overs from the Russia-Ukraine war, security concerns in Burkina Faso as well as economic sanctions imposed on Mali's military government by the ECOWAS.

The top three (3) growth drivers in the WAEMU region include Cote d'Ivoire, Senegal, and Burkina Faso. We thus believe the region's growth performance will be hinged on the economic outcomes in these three countries. Benin could, however, replace Burkina Faso on this list based on recent economic performance and the pursuit of major structural reforms.

Distribution of WAEMU GDP by Country in 2022



Source: BCEAO

Prior to 2019, real GDP growth rate of the WEAMU zone was above the 6% mark, driven by economic recovery in Cote d'Ivoire after 10 years of political instability. Cote d'Ivoire accounts for 39% of the region's GDP, making it the largest economy in the WAEMU region. Thus, the return to growth, with an average growth rate of 8.3% between 2012 and 2018, provided a strong support for the region's real GDP growth which topped 5.7% in 2019. Cote d'Ivoire's growth was fuelled by an increase in public investment, which has had a knock-on effect on private investment.

Real GDP Growth rate in the WAEMU (2018-2022)

	2018	2019	2020	2021	2022
Benin	6.7	6.9	3.9	7.2	5.7
Burkina Faso	6.6	5.8	1.9	6.9	4.3
Côte d'Ivoire	6.9	6.2	2.0	7.4	5.7
Guinea-Bissau	3.4	4.5	1.5	6.4	3.5
Mali	4.8	4.8	-1.2	3.1	1.8
Niger	7.2	5.9	3.6	1.4	5.0
Senegal	6.2	4.6	1.3	6.1	4.8
Togo	4.8	4.9	2.0	6.0	4.8
WAEMU	6.4	5.7	1.8	6.1	5.6

Source: BCEAO

In the WAEMU region, Mali was the only country that recorded a recession (-1.24%) in 2020, due to the consequences of the health crisis, the impact of the country's security situation and the politico-institutional crisis.

On the positive extreme, Benin showed strong economic resilience against the COVID pandemic in 2020, positing a 3.9% growth rate despite the border closure with Nigeria. This performance was supported by a good agricultural harvest, the commissioning of a new power plant in August 2019, as well as the resilience of service activities to the effects of the pandemic and the Nigerian borders closure.

Niger's economy has also been on a strong upturn in the past 5-years, despite internal political instability and the spill overs from the Ukrainian crisis. The impressive growth momentum was supported by improved agricultural season, a gradual improvement in the security situation, and various ongoing infrastructure and energy-related projects in the country.

Overall, we expect all the countries within the WAEMU zone to continue on the path of strong growth in 2023 in line with the World Bank's expectation for the region with the start of oil and gas production in Senegal and Niger.

However, we perceive downside risks from a potential slowdown in external demand, linked to the hawkish monetary policy stance of external Central Banks and elevated risk to banking sector stability in the advanced markets. We also believe the elevated security risk in Mali and Burkina Faso will pose a headwind to growth in these countries, adversely impacting the region's growth.

Outlook for Real GDP Growth

	2023F*	2024F*
Benin	6.2	6.0
Burkina Faso	5.0	5.3
Cote d'Ivoire	6.8	6.6
Guinea-Bissau	4.5	4.5
Mali	4.0	4.0
Niger	7.1	10.1
Senegal	8.0	10.5
Togo	5.6	6.4
WAEMU	6.2	7.3

Source: IMF *Forecast

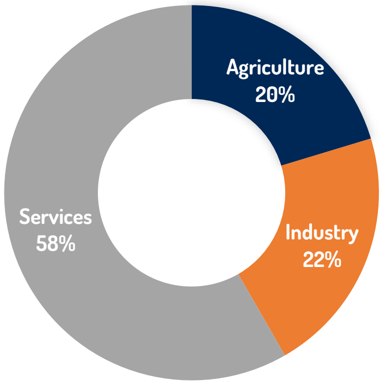
Reviewing the top three (3) growth drivers

Cote d'Ivoire

An IMF-supported reforms programme will anchor the medium-term prospects

The Ivorian economy is dominated by the service sector, which is the main contributor to growth, representing 58% of GDP, followed by industry and agriculture sectors with 22% and 20% share, respectively.

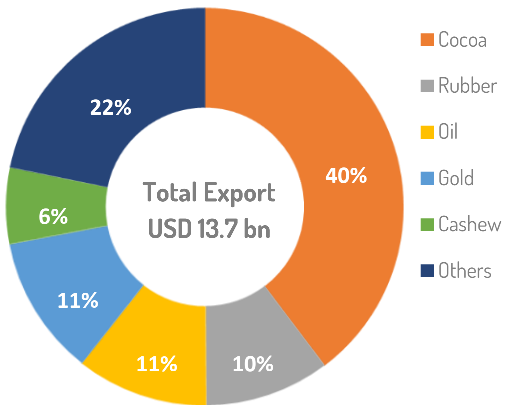
Structure of Cote d'Ivoire's economy in 2022



Source: BCEAO

The agricultural sector is dominated by diverse crops production with cash crops such as cocoa (top producer in the world), cashew, and rubber. Consequently, Ivorian exports are driven by agricultural products representing about 56% of total exports earnings.

Share of main products exported in 2021, Cote d'Ivoire



Source: BCEAO

Since 2015, the Ivorian government has undertaken structural transformation in the economy through the National Development Plans by strengthening the participation of the secondary sector in GDP with an emphasis on the mining sector and the development of agro-industry, as well as the development of other growth drivers such as tourism and the creative industries. However, the reforms are yet to yield the desired outcomes.

In the short term, the Ivorian economy should benefit from the public investments in infrastructure, and the good performance of the trade, transport and hospitality sectors as the country hosts the next African Cup of Nations football competition in 2024.

In the medium-to-long term, climate change and volatile commodity prices pose the main risk to the country's agricultural and economic performance. The slow implementation of ongoing reforms and piecemeal execution of public investment could also weigh on Cote d'Ivoire's economic performance.

In March 2023, The Ivorian authorities and the IMF staff reached broad agreement on the authorities' economic reform programme to be supported by an IMF financial arrangement worth US$2.6 billion. The programme will aim to preserve fiscal and debt sustainability and anchor the 2021 - 2025 National Development Plan (NDP) in key structural priorities. This will promote a private sector-led inclusive growth, and facilitate Côte d'Ivoire's transition towards a middle-income country. During the last IMF Programme (2017 – 2020), Côte d'Ivoire implemented policies to improve the business environment. A government directive was issued in January 2022 to operationalize the single-stop shop while the government also established several agencies including a ministry to design, implement, and oversee the national anti-corruption strategy.

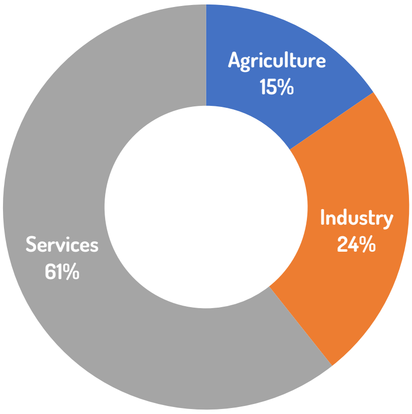
In the area of administration, new technologies, including the use of drones, are being introduced to enhance land property registration in Côte d'Ivoire. We believe these structural reforms brighten the growth prospects for Côte d'Ivoire in the short to medium term.

Senegal

The emergence of hydrocarbon industry will power growth amidst reforms in the medium-term

The Senegalese economy is driven by the service sector, which represents 61% of GDP as of 2022, followed by industry (24%) and agriculture (15%).

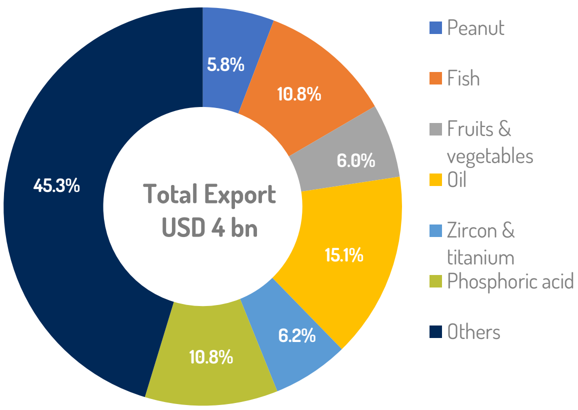
Structure of Senegal's economy



Source: BCEAO

Senegal's export earnings rely on the industry sector with relatively diversified exports of processed products in the value chain of fish, groundnuts, phosphates and oil.

Share of main products exported in 2021, Senegal



Source: BCEAO

In 2014, Senegalese authorities adopted a reference framework for its development policy. The framework is known as the Emerging Senegal Plan (PSE) for the period 2014 – 2023, divided into two five-year phases, 2014-2018 and 2019 - 2023. The authorities' evaluation of the first five (5) years of the Plan revealed an overall achievement of the set objectives. At the macroeconomic level, Senegal was one of the fastest growing economies in Sub-Saharan Africa with an average annual growth rate of 6.6% over the period 2014 – 2018, a low inflation rate of less than 3% and a budget deficit of 3.7% in 2018.

However, implementation of the second phase was disrupted by external shock, which triggered a revision to the government's priority action plan to mitigate the negative effects of the shocks.

Nevertheless, we believe Senegal's medium-term outlook remains favourable, thanks to the imminent start of oil and gas production and the implementation of structural reforms aimed at strengthening private sector participation in economic activity. However, we emphasize that delay in the implementation of oil and natural gas production projects would weaken this outlook.

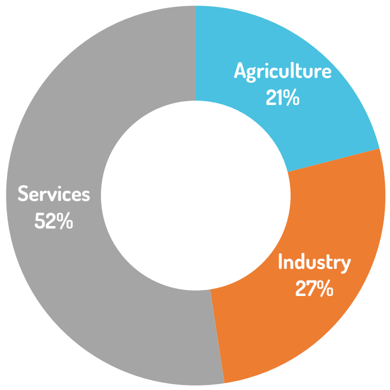
To sustain the ongoing reforms and safeguard the medium-term outlook, the Senegalese authorities hope to begin negotiation with the IMF in 2Q2023 for a Fund-supported reforms programme.

Burkina Faso

A fragile security condition amidst unstable political climate clouds investment possibilities

The Burkinabe economy is driven by the services sector, which represents 52% of GDP, followed by the industry (27%) and the agriculture (21%) sectors.

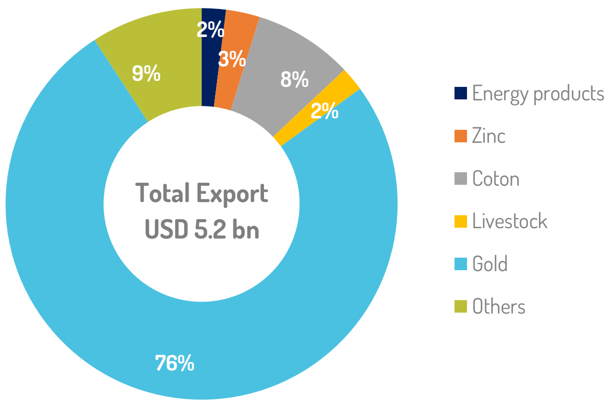
Structure of the Burkinabe economy



Source: BCEAO

The main levers of economic growth in the Burkinabe economy include gold mining, cotton, and livestock production with export capacity. However, the volatile security situation, the non-compliance with political transition roadmaps, and government interference in the management of gold mines are major risks that weigh on private investment and the outlook for the Burkinabe economy.

Share of main products exported in 2021, Burkina Faso



Source: BCEAO

On security, we view Burkina Faso as a high-risk zone for private sector investment amidst the fragile political situation. Sporadic internal and external shocks have weakened general economic activity, displaced potential labour and destroyed agricultural productivity. As noted by the National Steering Committee for Growth Poles (CNPPC), the socio-political crisis in Burkina Faso resulted in the internal displacement of 1.9 million people with over 23,000 tons of agricultural output lost.

In February 2023, the IMF staff and the Burkinabe authorities reached a staff-level agreement for USD 80 million in emergency financing through the IMF's Food Shock Window of the Rapid Credit Facility. This will support measures to provide urgent assistance to households in acute food insecurity conditions.

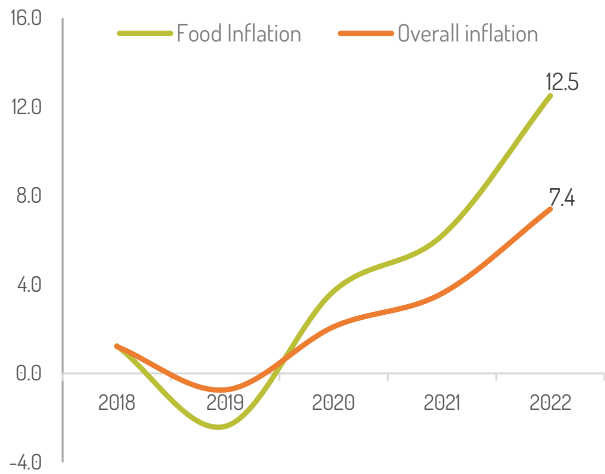
Overall, we are bearish on Burkina Faso as an investment option despite the country's high share of the WAEMU economy.

Price Developments in the region

Food price pressures amidst external shocks fuel a surge in the region's headline inflation.

Price pressures in the Union have intensified in recent years with inflation rising from 1.2% in 2018 to 7.4% in 2022, mainly driven by the food component. This upward trend resulted from both internal and external factors. Internally, inflationary pressures were underpinned by the impact of poor cereal production as well as the adverse impact of the regional insecurity on market supply routes. Externally, the increase in global food and oil prices as well as the surge in freight costs have spilled over to higher price levels in the WAEMU region.

Evolution of the Harmonized Consumer Price Index in WAEMU (%)



Source: BCEAO, National Statistics Institute

We observed elevated price pressures in all countries within the Union in 2022, with the exception of Benin. The re-opening of Benin's land border with Nigeria in December 2020, after almost two years closure, led to improved supply of petroleum products from Nigeria with a resultant decline in fuel prices and road transport cost. Furthermore, an improved food harvest and the state subsidies for the prices of some imported products, especially fuel, fertilizers and foods, have contributed to limiting the increase in prices in Benin.

The IMF expects a deceleration in the WAEMU's consumer price inflation to 3.3% in 2023 (vs 7.4% in 2022) as food inflation normalizes in line with the lagged effect of declining global food and energy prices as well as stronger regional food production. While we also hold a downside view on inflation in the WAEMU, we expect inflation to decline more sluggishly than anticipated by the IMF as security conditions remain volatile in Burkina Faso.

Evolution of the Harmonized Consumer Price Index by country (%)

	2018	2019	2020	2021	2022	2023F
Benin	0.8	-0.9	3.0	1.7	1.4	3.0
Burkina Faso	1.9	-3.2	1.9	3.9	14.1	0.9
Cote d'Ivoire	0.6	0.8	2.4	4.2	5.2	4.1
Guinea-Bissau	0.3	0.2	1.5	3.3	7.9	5.0
Mali	1.9	-3.0	0.5	3.9	9.7	3.0
Niger	2.8	-2.5	2.9	3.8	4.2	3.0
Senegal	0.4	1.0	2.5	2.2	9.7	3.5
Togo	0.9	0.7	1.8	4.5	7.6	4.6
UEMOA	1.2	-0.7	2.1	3.6	7.4	3.3

Source: BCEAO, National Statistics Institute, IMF

Fiscal development in the region

Inflationary pressures will weaken fiscal positions if national fiscal policies do not adjust in the medium term

Prior to 2020, fiscal policies within the Union had become expansionary in recent years as member states initiate development policies based on large-scale public investment programmes with the aim of reducing the infrastructure deficit, and promoting inclusive economic growth. This fiscal stance contributed to an upward trend in public expenditure as well as pushed up public debt in the region.

We observed that revenue collection (especially grants) also improved over the same period, helping to maintain the level of the fiscal deficit at around 3% prior to 2020. Nevertheless, the average tax-to-GDP ratio of 12.8% remains low relative to its potential outturn and African peers, posing a risk to fiscal and debt sustainability in the region.

Tax revenues (%GDP)

	2018	2019	2020	2021	2022
Benin	10.2	10.6	10.5	11.0	11.5
Burkina Faso	15.3	15.2	13.4	15.1	14.9
Cote d'Ivoire	11.3	11.6	11.8	12.5	12.0
Guinea-Bissau	9.1	8.9	7.4	9.3	9.2
Mali	11.9	14.8	14.4	15.5	14.0
Niger	11.1	10.4	9.6	10.0	10.9
Senegal	15.5	17.6	16.8	16.9	18.1
Togo	14.0	15.3	15.4	16.9	16.1
UEMOA	12.4	13.2	12.8	13.6	13.5

Source: BCEAO

The successive shocks from the COVID pandemic and the geopolitical tensions in Eastern Europe with attendant price effects underpinned the further fiscal expansion. Member States in the Union implemented measures such as recovery policies, increase in public sector salaries, price subsidies for fuel and essential products, to support the vulnerable population. This resulted in a negative deviation of budget deficits from their consolidation trajectory in the Union. During the COVID pandemic, the WAEMU Commission suspended compliance with its convergence standard, linked to the fiscal deficit not exceeding 3% of GDP. However, we believe the resultant loosening of fiscal restraints by member states could undermine long-term fiscal sustainability and macroeconomic stability.

Overall fiscal balance (% of GDP)

	2018	2019	2020	2021	2022
Benin	-2.9	-0.5	-4.7	-5.7	-5.9
Burkina Faso	-4.3	-3.2	-5.1	-5.6	-4.9
Côte d'Ivoire	-2.9	-2.3	-5.6	-5.0	-6.1
Guinea-Bissau	-4.4	-3.6	-9.3	-7.5	-5.4
Mali	-4.7	-1.7	-5.5	-4.9	-5.3
Niger	-3.0	-3.6	-5.3	-6.1	-7.0
Senegal	-3.7	-3.9	-6.4	-6.3	-6.3
Togo	-0.6	1.7	-7.2	-4.7	-8.5
UEMOA	-3.3	-2.3	-5.7	-5.4	-6.0

Source: BCEAO

Given the elevated inflation profile in the WAEMU, we foresee heightened expenditure pressures in addition to security-related spendings that States must maintain. This will intensify the fiscal pressure and public sector borrowing requirement within the zone.

The capacity of member states to mobilize internal resources will be key in the medium term, as international borrowing conditions have tightened. We expect reforms to broaden the tax base, simplify the tax system, and strengthen tax administration and compliance in member States in the medium-term.

Public Debt Dynamics

The public debt ratio of WAEMU member countries will remain on the upward trend.

Although the average debt-to-GDP ratio of 63.3% remains below the 70% threshold stipulated in the framework of the Convergence, Stability, Growth and Solidarity Pact (suspended), its increase has been rapid since 2015. In the absence of any aggressive fiscal consolidation, we foresee heightened risk to debt sustainability with Burkina Faso, Togo, Guinea-Bissau and Senegal showing increasing sign of vulnerability.

Central Government Debt (% of GDP)

	2018	2019	2020	2021	2022
Benin	41.1	41.2	46.1	49.9	54.6
Burkina Faso	37.8	44.7	49.4	53.9	61.6
Cote d'Ivoire	35.6	40.4	49.1	55.3	54.1
Guinea-Bissau	57.9	64.0	76.5	78.5	82.0
Mali	37.5	40.7	47.3	51.9	55.9
Niger	39.4	39.8	45.0	51.3	56.6
Senegal	61.5	63.6	69.2	73.2	75.1
Togo	57.0	52.4	60.3	63.7	66.1

Source: IMF

In the past 12-months, the 10-year US Treasury yield surged above 4.0% before retreating to the 3.0% area in March 2023 as the banking sector crisis in the advanced markets triggered a downward re-pricing of US interest rate outlook. We believe the tighter global financing conditions since 2022, together with the strong appreciation of the US dollar, could worsen the debt service burden and raise concerns of debt sustainability in the WAEMU.

Volatile security conditions will keep credit risk high

The credit rating of countries in the Union have improved in recent years thanks to good economic performance, institutional reforms to reduce budgetary and external imbalances, and strengthening the effectiveness of public policies.

However, the low per capita income amidst a high poverty rate, a low economic diversification, and the significant political and security risks in some member countries remain potential sources of risk to both sovereign and corporate repayment behaviour. The rising level of public indebtedness will elevate the risk of debt distress in some countries with a high possibility of spill over into potential corporate defaults.

Sovereign Credit Ratings

	Agency	Rating	Outlook	Date of last Action
Benin	Fitch	B+	Stable	08 Mar 22
	Moody's	B+	Stable	09 Mar 21
	S&P	B1	Stable	Apr 21
Burkina Faso	S&P	CCC+	Stable	13 May 22
Cote d'Ivoire	Moody's	Ba3	Positive	27 Jun 22
	Fitch	BB-	Positive	21 Apr 22
	S&P	BB-	Stable	06 Jul 22
Mali	Moody's	Caa1	Negative	03 Jun 22
Niger	Moody's	B3	Stable	06 Aug 19
Senegal	Moody's	Ba3	Stable	18 Mar 22
	S&P	B+	Stable	06 Dec 19
Togo	Moody's	B3	Stable	Nov 21
	S&P	B	Stable	05 Jun 19

Source: S&P, Fitch, Moody's

External Account Balances

Official reserves remain below its recent peak for two years in a row.

The current account of the WAEMU zone is structurally in deficit. The IMF estimates the current account deficit at 7.7% of GDP in 2022. The high current account deficit is due to the worsening in the balance of trade, caused by higher food and commodity prices and a deteriorating fiscal position.

Cote d'Ivoire, the main contributor to the Union's trade balance, probably recorded a trade deficit in 2022 despite its structural historical trade surpluses. In the first 9-months of 2022, Cote d'Ivoire posted a trade deficit in excess of USD 796.3 Million, against a surplus of USD 1.4 billion for the same period in 2021. This weighed on the WAEMU trade balance in 2022 amidst trade deficits in the other States.

The stock of foreign currency reserves in the zone worsened to 4.5 months of import cover (USD 18.6 billion) at the end of 2022 from 5.6 months at FY2021. This decline weakens the region's external cushion below the average cover of 5.5 months of imports achieved between 2019 to 2021, sustaining the modest risk of FX pressure in 2023. This could prompt the Central Bank to tighten its foreign currency management in order to avoid further weakening in the reserves position. It could result in a more rigorous control in repatriation[1] of export proceeds requirement to the Central Bank with sanctions for offenders.

External Account (%GDP)

	2019	2020	2021	2022	2023f
Balance of Current account	-4.9	-4	-6.2	-7.7	-6.4
Balance on good and services	-5.7	-5.1	-7	-8.3	-7.1
Income, net	-2.5	-2.5	-2.4	-2.2	-2
Current transfers, net	3.3	3.5	3.3	2.9	2.7
Gross international reserves*	5.6	5.4	5.6	4.5	4.4

* In months of next year's imports (of goods and services)

Source: WAEMU Commission, IMF

Contribution of WAEMU member States to the balance on Good and Services (% of GDP)

	2017	2018	2019	2020	2021
Benin	-0.6	-0.3	-0.2	0	-0.1
Burkina Faso	-0.1	0.2	0.2	0.6	0.9
Cote d'Ivoire	2.9	1.8	2.1	1.9	1.6
Guinea-Bissau	0	0	-0.1	-0.1	-0.1
Mali	-0.6	-0.3	-0.5	0.3	-0.3
Niger	-0.7	-0.9	-0.9	-1	-1
Senegal	-2	-2.3	-1.7	-1.5	-1.7
Togo	-0.5	-0.5	-0.5	-0.4	-0.5
WAEMU	-1.7	-2.3	-1.4	-0.2	-1.2
WAEMU (excluding Cote d'Ivoire)	-4.6	-4.1	-3.5	-2.1	-2.9

Source: WAEMU Commission, IMF

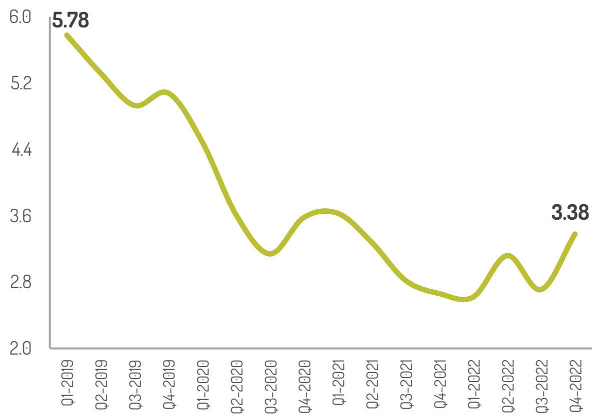
Monetary policy

A return to normal monetary policy will restore inflation between the 1% and 3% target range in the medium-term.

At its first meeting in March 2023, the BCEAO's Monetary Policy Committee (MPC) increased the Central Bank's key interest rate by 25 basis point to 3.0%. This represents the fourth increase in the policy rate since June 2022 as the authorities seek to rein-in the high inflation rate. The Central Bank Governor noted that the consistent rate hikes signal a steady return to normal monetary policy stance after the COVID-induced easing in 2020 to inject liquidity into the economies of the WAEMU zone. The MPC expects the interest rate normalisation to help bring inflation down to the Central Bank's target range of 1.0% to 3.0% over the medium term.

In our view, the impact of this policy rate hikes on inflation would be marginal since the regional inflation is strongly driven by food price shocks outside the scope of monetary policy. The bad weather conditions with a resultant poor harvest as well as security issues in some member states have disrupted the food supply chain, fuelling price pressures in the region.

Treasury Bill rates (%)



Source: BCEAO

The tighter monetary policy stance will also exert a strong impact on debt service cost and public investment as financing needs have increased. As global financing conditions tighten, member states have resorted to the regional market to meet their borrowing needs. However, the sustained hike in monetary policy rate, with a resultant uptick in market interest rates will deepen the debt service burden of member states and corporate bond issuers in the region. As a result of the COVID-induced policy support, we observed a downward trend in the cost of financing on the public debt market. However, the ongoing normalisation of monetary policy will elevate the cost of capital and tighten the financing window for the public and private sectors.

We also expect a squeeze in private sector demand for credit, particularly the Small and Medium-scale Enterprises (SMEs) and households. The resultant slowdown in bank credit to the private sector will also pose downside risk to overall real GDP growth in the region.

[1] It is a regulatory obligation for banks to repatriate at least 80% of export earnings by businesses

Conclusion

Facing the same storm but not in the same boat

The economic performance of the WAEMU zone has shown relative resilience to the various shocks suffered in recent years. The region's economy has largely absorbed internal pressures such as security crisis, climate change, and rising inflation as well as external shocks arising from the COVID pandemic, and geopolitical conflicts. Despite the homogeneity of the external shocks to member states, the impact differs across countries due to the varied pre-existing internal conditions of some member states. Countries such as Burkina Faso and Mali, who have endured military takeovers amidst heightened security issues, appear highly vulnerable to prolonged economic stress from the external shocks. While the IMF projects an average real GDP growth of 6.2% for WAEMU in 2023, we note that growth in Burkina Faso (5.0%) and Mali (4.0%) are forecast to fall below the WAEMU average in 2023.

We cannot direct the wind but we can adjust the sail

While we perceive elevated security risk in a region with immense potential, we believe selective picks on countries with stronger fundamentals and resilience to shocks will provide opportunities for medium to long-term gains. Senegal (8.0%), Niger (7.1%), and Cote d'Ivoire (6.8%) are forecast to outperform the WAEMU average growth of 6.2% and the SSA average of 3.7% due to the start of oil and gas production as well as ongoing economic reforms.

We view Cote d'Ivoire as a viable investment option in the WAEMU region. Cote d'Ivoire boasts the largest economy in the WAEMU region, stronger external account balances, a similar sovereign credit rating to Senegal (Ba3), and sustained commitment to economic reforms. The authorities' latest request for an IMF-supported reforms programme will anchor the medium-term outlook, supporting our positive view on the world's largest producer of cocoa.

Based on relatively more stable democratic credentials, the start of hydrocarbon production, and a better sovereign credit rating, we also view Senegal as an emerging option for investment flows. However, we are cautious on the rising uncertainty around the upcoming presidential election in February 2024.

For more information contact your IC representative

Business development & client relations

Derrick Mensah
Head, Business Development
+233 24 415 5765
derrick.mensah@ic.africa

Dora Youri
Head, Wealth Management
+233 23 355 5366
dora.youri@ic.africa

Kelvin Quartey
Analyst, Business Development
+233 57 604 2802
kelvin.quartey@ic.africa

Corporate Access

Joanita Hotor
Corporate access
+233 50 137 6100
Joanita.hotor@ic.africa

Insights

Courage Kingsley Martey
Head, Insights
+233 240 970 832
courage.martey@ic.africa

Churchill Ogutu
Economist
+254 711 796 739
churchill.ogutu@ic.africa

Lydia Adzobu
Senior Analyst, Financial sector
+233 24 656 8669
Lydia.adzobu@ic.africa

Investing

Isaac Adomako Boamah
Chief Investment Officer
030 225 2623
isaac.boamah@ic.africa

Obed Odenteh
Portfolio Manager, Fixed Income
+233 54 707 3464
obed.odenteh@ic.africa

Timothy Schandorf
Portfolio Manager, Risk Assets
+233 24 292 2154
Timothy.schandorf@ic.africa

Herbert Dankyi
Analyst, Rates
+233 55 710 6971
herbert.dankyi@ic.africa

Clevert Boateng
Analyst, Consumer, Technology,
Media & Telecommunication
+233 24 789 0452
clevert.boateng@ic.africa

Operations

Nana Amoa Ofori
Chief Operating Officer
+233 24 220 6265
nanaamoa.ofori@ic.africa

Emmanuel Amoah
Fund Administrator
+233 20 847 2245
emmanuel.amoah@ic.africa

Kelly Addai
Fund Accountant
+233 20 812 0994
kelly.addai@ic.africa

Trading

Randy Ackah-Mensah
Head, Global Markets
+233 24 332 6661
randy.amensah@ic.africa

Allen Anang
Equities,Trader
+233 54 084 8441
allen.anang@ic.africa

Isaac Avedzidah
Trader, Fixed Income
+233 24 507 7382
isaac.avedzidah@ic.africa