

FUNDAMENTALS

WAEMU MPC UPDATE:

TIME FOR A PAUSE

A large orange circle with a diagonal line pattern is positioned in the bottom left. To its right, two smaller orange circles are stacked vertically, each with a grey shadow cast to its right.

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IN BRIEF

- The Monetary Policy Committee (MPC) of the Central Bank of West African Economic and Monetary Union (WAEMU) maintained its key interest rate at 3.0% on 7th June 2023. The MPC's decision was supported by the gradual easing of inflationary pressures following cumulative hike of 100bps from June 2022 to March 2023.
- While the ongoing disinflation in the WAEMU since 4Q2022 provided a strong basis for the MPC's decision, the recently commenced IMF-supported fiscal reforms programme in Côte d'Ivoire and Senegal could revive inflationary pressures in 3Q2023.
- Expectedly, the MPC emphasized its continued vigilance over the evolution of inflation and the financing conditions within the Union, and would take appropriate measures to ensure the monetary stability of the WAEMU zone.
- The Monetary Policy Committee expects inflation to fall below 3.0%, in line with the Central Bank's target by 4Q2023. However, we foresee elevated inflation rate around 6.0% in 2H2023 due to the higher price effects of expected fiscal reforms under the IMF programme. Despite a potential reforms-induced spike in inflation, we do not anticipate any change in the monetary policy stance as long as inflation does not overshoot its recent peak

The Monetary Policy Committee takes a break

The Monetary Policy Committee (MPC) of the Central Bank of West African Economic and Monetary Union (WAEMU) maintained its key interest rate at 3.0% on 7th June 2023. The MPC's decision was supported by the gradual easing of inflationary pressures following cumulative hike of 100bps from June 2022 to March 2023.

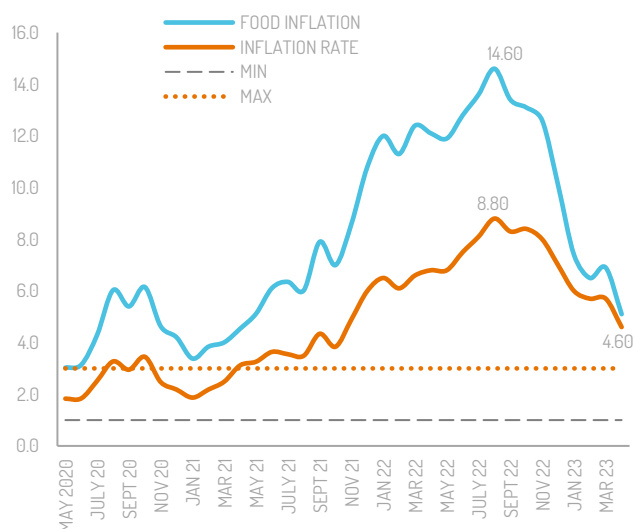
Policy Rate Path since 2020

	Minimum Rate of Submission to Liquidity Injections	Marginal Lending Rate
24 June 2020	2.00	4.00
16 June 2022	2.25	4.25
16 September 2022	2.50	4.50
16 December 2022	2.75	4.75
16 March 2023	3.00	5.00
07 June 2023	3.00	5.00

Source: Central Bank & National Bureau of Statistics

After peaking at 8.8% in August 2022 headline inflation in the WAEMU zone assumed a downward trend to 4.6% as of April 2023. The downturn in CPI inflation was supported by a good agricultural campaign during the 2022/23 crop season, a decline in energy costs as well as fiscal measures implemented by member states to cap the cost pressures.

Inflation Rate (%) since 2020



Source: Central Bank & National Bureau of Statistics

The continued decline in inflation provided an opportunity for the MPC to hit the pause on the policy rate hikes. The MPC's decision also left the marginal lending window's interest rate at 5.0%.

In view of the tighter monetary stance, we observed a 33.0% decline in the surplus liquidity within the banking sector. In our view, the decline in excess liquidity helped to contain demand-side pressures and re-anchored inflation expectations.

Expectedly, the MPC opened a window for future rate hikes with indication of its continued vigilance of the evolution of inflation and financing conditions, and would take appropriate measures to ensure the monetary stability of the WAEMU zone.

IMF Programmes could cause a new wave of inflation.

In light of the recently commenced IMF-supported reform programmes in Côte d'Ivoire and Senegal, we anticipate a second wave of inflation in 2H2023. We expect the removal of fuel subsidies and higher taxes under the IMF programmes to trigger price pressure in the two heavily-weighted economies within the WAEMU zone. In Côte d'Ivoire, the authorities have announced a 10.0% increase in electricity prices which will take effect in July 2023. We foresee similar decisions in the other economies within the WAEMU zone, potentially pushing up inflationary pressures in late 2023.

..... but we foresee an extended pause

The MPC expects inflation to fall below 3.0%, in line with the Central Bank's target, by 4Q2023. However, we foresee elevated inflation rate around 6.0% in 2H2023 due to the higher price effects of expected fiscal reforms under the IMF programmes. Despite a potential reforms-induced spike in inflation, we do not anticipate any change in the monetary policy stance as long as inflation does not overshoot its recent peak.



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