WEST AFRICAN MONETARY AGENCY (WAMA)

ECOWAS MONETARY COOPERATION PROGRAMME

MACROECONOMIC CONVERGENCE REPORT 2008

Freetown, May 2009

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INTRODUCTION

This report sets out to analyse the international economic and financial situation and that of the entire Economic Community of West African States (ECOWAS) for 2008. It also reviews developments in the macro-economic situation of member States during 2008, on the basis of which some provisional indications for 2009 have been provided. This analysis results in the assessment of convergence and compliance with the major economic policy thrusts and Community discipline. In application of the provisions of Decision A/DEC.7/12/99 adopting the ECOWAS macro-economic convergence criteria, the reference values of the Community's convergence criteria have been set as follows:

- **Primary Criteria :**

  1. Budget Deficit/GDP Ratio ≤ 4%
  2. Inflation Rate ≤ 5%
  3. Central Bank Financing of Budget Deficit/Previous Year's Tax Revenue ≤ 10%.
  4. Gross External Reserves ≥ 6 months of imports cover

- **Secondary Criteria**

  5. Domestic Arrears (prohibition of accumulation of new arrears and liquidation of existing arrears)
  6. Tax Revenue/GDP Ratio ≥ 20%
  7. Wage Bill/Tax Revenue ≤ 30%
  8. Public Investment/Tax Revenue ≥ 20%
  9. Positive Real Interest Rates
  10. Real Exchange Rate Stability ±5%

However, it is important to note that the organisational difficulties persisting at national level continue to delay the production of the pluri-annual convergence programmes. The statistical data used for this document are those provided by ECOWAS Central Banks, UEMOA and IMF. Section one of this report presents the international environment during year 2008 and the economic and financial situation for the Community. Section two examines the status of convergence in the Community and each country's position in respect of the convergence criteria. Section Three focuses on the economic and financial situation of each Member State. Finally, section four which contains economic policy recommendations, concludes the report. The appendices provide economic statistics on the Community and each of the member States.

Executive Summary

The 2008 Macroeconomic Convergence Report and prospects for 2009 is divided into four main sections as follows: Section one deals with international developments, section two contains an overview of the situation of macroeconomic convergence in ECOWAS member states, Section three highlights the country-specific macroeconomic developments and status of convergence and the last section (section four) deals with general conclusions and policy recommendations as detailed below.

Section one presents the world economic developments and their implications for ECOWAS member states. The review shows that the world economy experienced significant challenges during 2008. These challenges mainly related to the housing crises in the United States, the credit crunch and the overall financial crises which contributed to a decline in world Gross Domestic Product (GDP) from 5.0 percent in 2007 to 3.3 percent in 2008. This slowdown is expected to continue in the outlook period and beyond, with an expected further decline in GDP growth rate to 2.2 percent in 2009.

Even though efforts at economic recovery were generally satisfactory at the level of ECOWAS, they fell short of the expected targets. While economic activity in UEMOA slightly increased from 3.3 percent in 2007 to 3.9 percent in 2008, economic growth in the WAMZ remained unchanged at 6.4 percent over the same period.

Inflationary pressures in ECOWAS worsened during 2008 as a result of both domestic and external factors, particularly the hike in prices of basic commodities as well as the world economic slowdown. Inflationary pressures in ECOWAS increased from 5.8 percent in 2007 to 12.7 percent in 2008. In UEMOA, some of the explanatory factors behind the increase in prices were mainly drought in some member countries as well as increase in petroleum prices at beginning of the year, culminating in an upsurge in inflation rate from 2.9 percent in 2007 to 8.5 percent in 2008. The rise in inflationary pressures was more pronounced in the WAMZ, with inflation increasing from 7.3 percent to 14.9 percent in 2007 and 2008 respectively. Similarly, ECOWAS Member countries also experienced fiscal challenges as well as deterioration of the external sector.

Section two gives an overview of the situation of macroeconomic convergence in 2008. The review shows that movement towards macroeconomic convergence remained mixed as there was no significant improvement in overall performance. Performance under inflation was poor during the period, with only one country meeting this criterion, compared to 7 in 2007. Performance with respect to the budget deficit criterion also deteriorated from 8 to 6 countries in December 2007 and December 2008 respectively. Fourteen countries met the required target for central bank financing of the budget deficit during the period under review, compared to 15 in 2007. Regarding gross external reserves, nine countries (Nigeria and the eight UEMOA countries) were able to meet the target during the period, thus maintaining the same level of achievement since 2006. The review also shows that performance in terms of the secondary criteria generally fell short of the prescribed benchmarks under the ECOWAS Monetary Cooperation Programme.

Section two also highlights the number of criteria achieved by each member state. This review indicates that none of the countries has yet been able to meet all the primary and secondary convergence criteria. As at end-2008, the best performance of 7 targets was recorded by Senegal, which was closely followed by Benin with 6 targets. Burkina Faso, Mali, Niger and Nigeria met 5 targets each, while Cote d'Ivoire, The Gambia and Guinea attained 4 benchmarks each. Cape Verde, Liberia and Togo met 3 targets each, while Ghana and Guinea Bissau achieved 2 targets. Sierra Leone met one criterion during the period. The details in country analyses in section three epitomise the key macroeconomic developments that accounted for the non-observance of the criteria and policy recommendations that may be considered by member countries to improve their performance.

In the area of policy harmonisation and institutional arrangements highlighted in section two and section three (country analyses section) of the report, there still remain some major challenges. Formation and effective functioning of National Coordinating Committees in WAMZ member countries remain a formidable challenge that needs to be addressed to facilitate multilateral surveillance especially at the level of the WAMA-ECOWAS Joint Secretariat. In addition, there is still the need to deepen the level of payments system development and interconnectivity, capital account liberalisation, implementation of the ECOWAS Common External Tariff, Statistical Harmonisation as well as to eliminate all other barriers to free movement of people, capital and goods within the community.

The report ends with a general conclusion in section four, which highlights the major issues.

1.0 WORLD AND ECOWAS ECONOMIC SITUATION IN 2008

1.1 WORLD ECONOMIC ENVIRONMENT

The international economy has been going through a very difficult period from the economic view point, caused by a massive financial crisis and sharp erosion of confidence. In the last two years, the international community has been facing serious challenges particularly in maintaining the pace of expansion observed in recent years. The housing crisis in the United States, the credit crunch, the decline in the value of the American dollar in relation to other currencies, the persistently high imbalances and the financial crisis, have endangered the sustainability of world economic growth. The growth rate in the world economic activity dropped to 3.3% in 2008 from 5.0% in 2007. This slowdown is expected to continue in 2009, with a maximum growth rate of 2.2%.

1.1.1 Recent Economic and Financial Developments

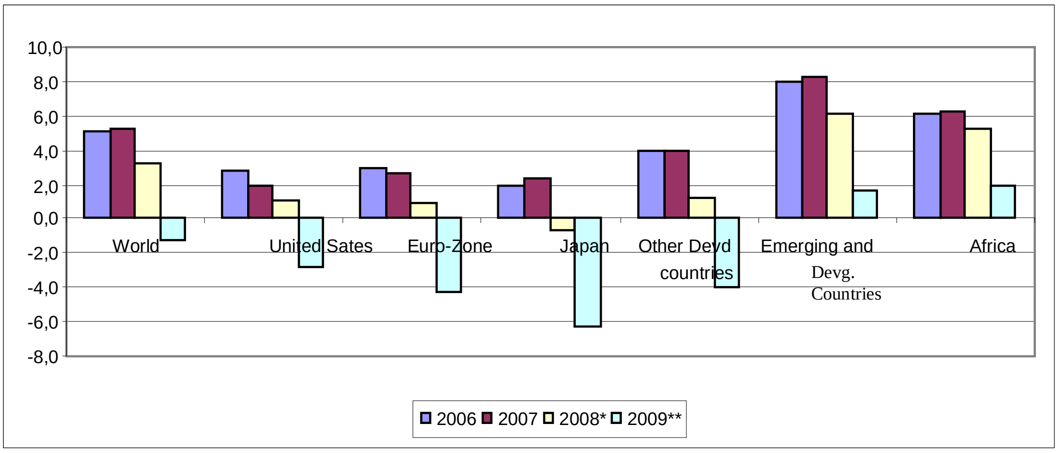
1.1.1.1 World Economic Growth

According to IMF data, the financial crisis and the decline in activity have seriously affected the world economy. The advanced countries recorded an unprecedented setback of 7.5% in real GDP in the third quarter of 2008 and it is estimated that output would continue to drop almost as fast during the first 3 months of 2009. While the American economy certainly suffered the most from the financial difficulties and the continued decline in the housing sector, Western Europe and advanced countries in Asia were seriously affected by the decline in international trade as well as the commencement of their own financial problems and corrections in housing prices on certain domestic markets. The emerging countries have also been seriously affected, with a 4% overall decline in economic activities in the third quarter.

In sub-Saharan Africa, economic growth slowed down in 2008 to 5.4% as against 6.8% in 2007. This development is attributable to the hike in the prices of food stuff and fuels as well as the slowdown in world economic growth. The growth rate of oil exporting countries dropped particularly because of the lower than projected level of oil production in Nigeria

For countries in West Africa, remarkable progress has been recorded in the last ten (10) years with regards to economic growth and stability. Growth attained an average rate of over 5% during the last 5 years, inflation dropped to less than 10% before the price hike of fuels and foodstuff in 2008, and reserves were built. These positive developments were based on solid economic policies, a favourable external economic situation particularly resulting in price increases of essential commodities as well as debt relief and aid granted by the International Community. This economic progress, achieved through tremendous efforts, may now be threatened. Like the rest of the world, Africa is feeling the impact of the international financial crisis. The demand for African exports has reduced, the prices of basic commodities has dropped, and possibly fund remittances from immigrant workers may also decline. The drop in credit (credit crunch) and the reluctance of investors to take risks have trigged an inverse flow of portfolio investments, discouraged foreign direct investment (FDI) and rendered trade financing more costly. The slowdown in economic activity is also expected to increase credit risk and unproductive lending, which would eventually weaken the balance sheet of financial institutions and firms.

Graph 1.1 World Economic Growth (annual variation in percentage)

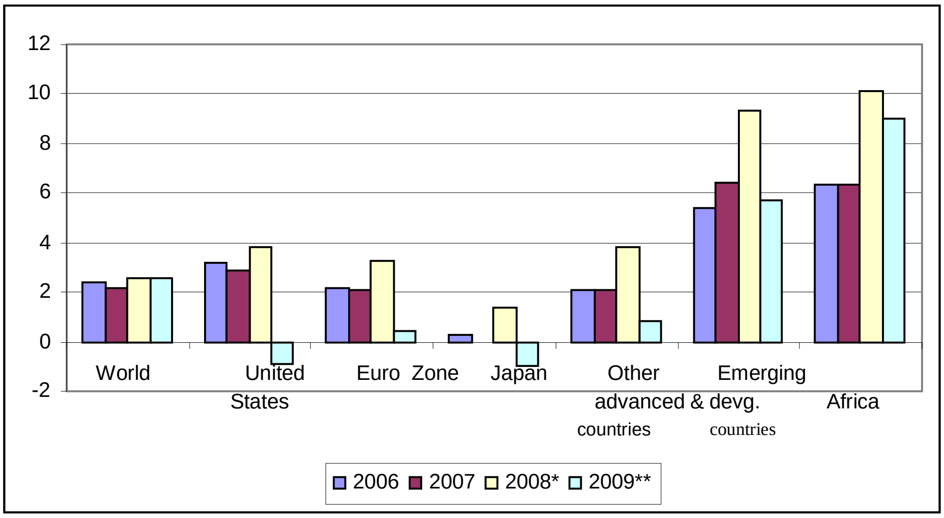


Data Source: ***World economic prospect, April 2008***

1.1.1.2 Inflation and Prices

While the world economic activity was swiftly declining, inflationary tensions were diminishing. The prices of raw materials dropped sharply and reached their peak in the middle of the year, leading to particularly substantial revenue loss not only for the Middle East but also for several raw material exporting countries in Latin America and Africa. At the same time, the increase in unutilised capacity restricted salary growth and reduced beneficiary margins. Because of this, overall inflation over the twelve months dropped to 1% in advanced countries in February 2009, whilst inflationary trends stood at around 1.5 to 2%, with the notable exception of Japan. Inflation also declined sharply in all emerging countries, with certain cases of currency depreciation helping to abate the downward trends.

Graph 1.2 World Inflation Rates (annual variation in percentage)



Data Source: ***World economic prospect, April 2009***

1.1.1.3 International Finance

The very diverse and often unorthodox reactions of economic decision-makers have barely succeeded in stabilising financial markets or containing the drop in output, due to their inability to halt the linking of damaging retroactions between the decline in activities and the intense financial difficulties. Several initiatives have been taken in order to stop the haemorrhage, particularly through the injection of public funds and the creation of a whole lot of liquidity, monetary relaxation facilities and budget revamping schedules. Although there have been some encouraging signs of improvement, opinion indices after the Group of Twenty Meeting (G20) in early April indicate that the level of confidence on the financial market is still very low, which is negatively affecting prospects for rapid recovery. Banks worldwide are restricting access to credit (and may continue to do so), because of the weight of unproductive assets and uncertainty with regards to the solvency of institutions holding private capital outside circulation. Financing problems have been propagated far beyond the short term banking refinancing markets in advanced countries.

Many non financial firms are incapable of obtaining operating funds and have difficulties in securing longer term loans. The massive disengagement of investors and foreign banking institutions in emerging countries and the problems of financing resulting therefrom are particularly worrisome. Bond issuances are almost at a dead point, bank flows have slowed down, debenture margins have increased sharply, stock shares have declined and stock markets and have been extremely tense. In addition to the generally increasing aversion against risks, this is due to various adverse factors including damage caused to banks and investment funds in advanced countries, the concern to disinvest matured funds and put them under the "umbrella" of an increasing number of guarantee arrangements used on the market as well as increasing concerns about the future prospect and levels of vulnerability of emerging countries.

1.1.1.4 Money and Exchange Rates

The most important secondary effect of the financial crisis is the creation of a premium for the security and repatriation of capital, not without implications for international currencies. Since September 2008, the US dollar, euro and yen have all increased in a real terms. The Chinese renminbi and currencies pegged to the dollar, including those in the Middle East, have also been appreciating. On the contrary, those of most of the emerging countries have been declining drastically, although they have been using their foreign exchange reserves to sustain them.

1.1.2 Prospects

In the light of the foregoing, all projections on the prospects for the world economy are based on the fundamental assumption that the establishment of the financial market will take a longer time than initially projected, even if backed by vigorous efforts from decision-makers. Such uncertain prospects characterised by several snags, call for an energetic reaction both on the financial front and the macroeconomic front. The lesson to be drawn from the previous financial crises is that if the major problem is not addressed on time, the economic decline will persist for a much longer time and at a much higher cost, for both the tax payer and the economic activity. Hence decision-makers should think of the transnational ramifications of their policies.

1.2 ECONOMIC, FINANCIAL AND MONETARY SITUATION IN ECOWAS

Like in 2007, economic activity in most member States of the Economic Community of West African States (ECOWAS) in 2008 evolved in a relatively adverse international context, particularly characterised by the financial crisis and increasing uncertainties about economic prospects. On the domestic front, the economic and financial situation of most ECOWAS member States was characterised by favourable yields during the 2008/2009 agricultural year and lowering tensions on the prices of basic commodities. However, the persistent slowdown in the implementation of structural reforms impacted negatively on requirements for productive investment recovery. Furthermore, progress recorded in the resolution of the socio-political crisis in Cote d'Ivoire and Togo helped re-establish their relationship with the Bretton-Woods institutions, even though the cases of Guinea-Bissau and Guinea-Conakry still give cause for concern.

1.2.1 Real sector

Generally, efforts at economic recovery were satisfactory, but performance was below target because of the persistent series of constraints, including the financial crisis.

a) **Output**

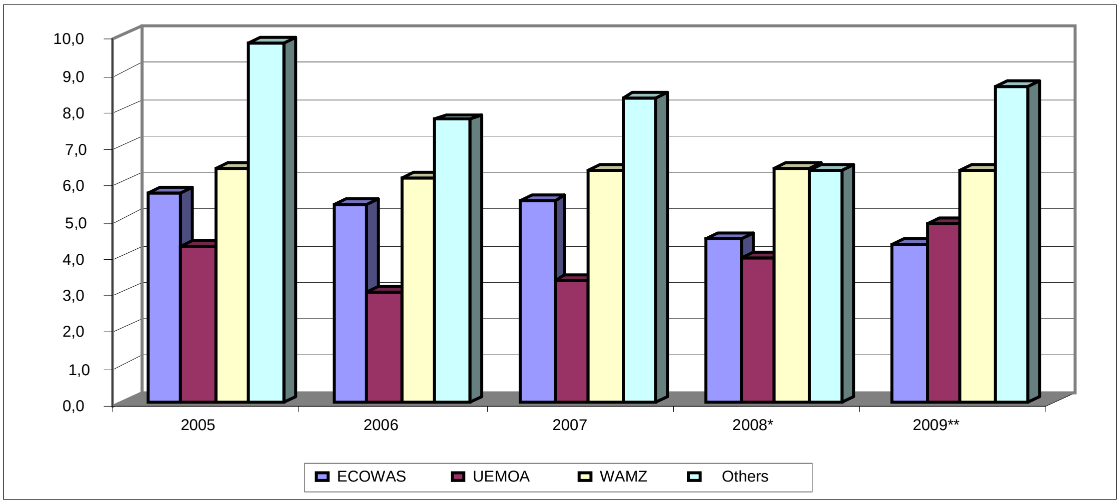
In spite of the financial crisis, the economic growth of the Economic Community of West African States improved in 2008 from 5.7 % in 2007 to 5.8% in 2008. Within the West African Economic and Monetary Union (UEMOA) – Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, economic activities recorded a growth rate of 3.9% as against 3.3% in 2007. This improvement was due to the increased growth in practically all the member States. The improvement observed concerned particularly the primary sector which enjoyed the best climatic conditions. The five WAMZ member countries in the region (The Gambia, Ghana, Guinea, Nigeria and Sierra Leone) - with Nigeria being by far the largest economic – posted a constant GDP growth rate of 6.4% between 2007 and 2008 as a result of the drop in the price of petroleum and also the increase in production for Nigeria. Performance levels in Guinea recovered in 2008, rising from 1.8% in 2007 to 4.9% in 2008), whilst for other countries growth declined.

For year 2009, prospects indicate a growth rate of 5.8%, under the assumption of favourable climatic conditions and reduced socio-political tensions. Furthermore, ongoing negotiations with the Bretton Woods institutions could also result in the conclusion of Poverty Reduction and Growth Facility (PRGF) programmes in Cote d'Ivoire and Togo. In most member States, initial higher growth rate is expected. However some uncertainties are impacting negatively on prospects because of the effect of the financial crisis.

Table 1.1 Real GDP growth rate in ECOWAS member States

	2002	2003	2004	2005	2006	2007	2008*	2009**
CEDEAO	3,7	6,8	5,1	5,7	5,4	5,7	5,8	5,8
UEMOA	1,3	3,1	2,8	4,2	3,0	3,3	3,9	4,9
BENIN	4,4	3,9	3,1	2,9	3,7	4,6	5,3	6,1
BURKINA FASO	4,6	8,0	4,6	7,1	5,5	3,6	4,5	5,5
COTE D'IVOIRE	-1,6	-1,7	1,6	1,8	1,2	1,5	2,9	4,3
GUINEE BISSAU	-7,1	0,6	3,2	3,5	2,0	2,7	3,1	3,2
MALI	4,3	7,6	2,3	6,1	5,3	4,3	4,7	5,1
NIGER	5,8	3,8	-0,8	8,4	5,8	3,3	5,9	4,5
SENEGAL	1,2	6,7	5,6	5,6	2,3	4,8	3,9	5,2
TOGO	-0,2	4,8	2,5	1,2	3,9	1,9	0,8	3,3
ZMAO	4,6	8,8	6,3	6.4	6,0	6,4	6,4	6,0
GAMBIE	1,3	7,4	6,6	6,9	7,7	6,9	6,1	6,0
GHANA	4,5	5,2	5,6	5.9	6,2	6,3	6,2	5,8
GUINEE	4,2	1,2	2,3	3,0	2.4	1.8	4,9	3,9
NIGERIA	4,6	9,6	6,6	6.5	6,0	6,5	6,4	6,1
SIERRA LEONE	6,5	10,7	9,6	7,6	7,2	6,4	5,6	5,9
Autres	6,1	2,4	1,9	4,2	8,1	7,7	6,3	8,6
CAP-VERT	5,3	4,7	4,3	5,6	8,2	6,7	5,9	6,5
LIBERIA	7,8	-1,9	-2,8	1,4	7,8	9,5	7,1	12,7

Graph 1.3 : ***Real GDP Growth Rate in ECOWAS Member States***



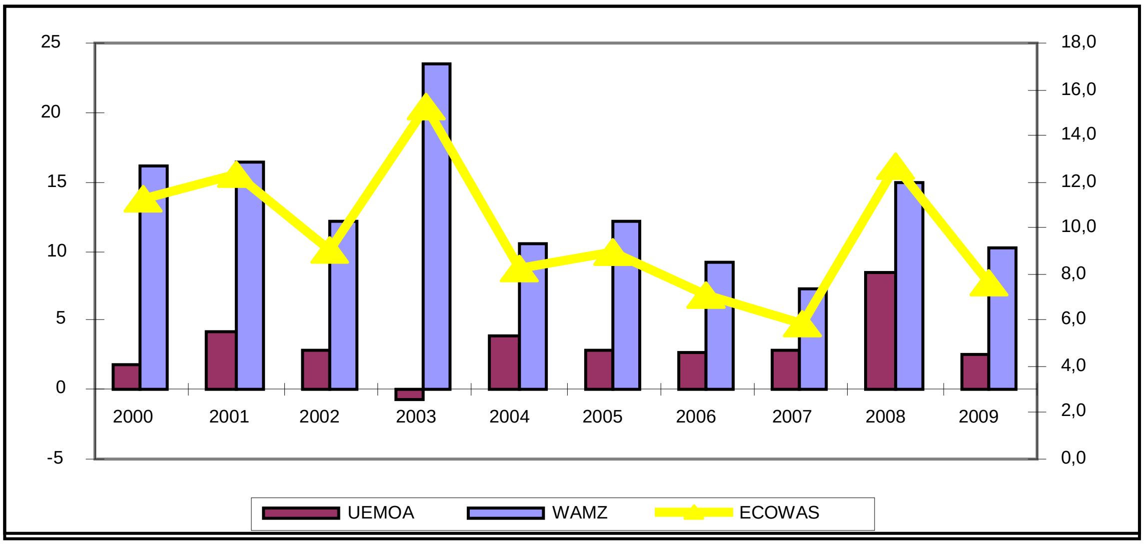
Data Source: BCEAO, WAMZ and IMF ****= estimated*** *****=provisional***

b) Inflation

Inflation increased substantially in the whole of West Africa as a result of the hike in the prices of basic commodities during the first half of 2008, and the world economic slowdown that ensued. This situation was observed in all countries of the region regardless of their exchange rates regime, economic structures and level of financial development. The average inflation rate for the region increased from 5.8% in 2007 to 12.7% in 2008. In many UEMOA countries, the increase in the prices of food stuff – as a result of the drought which led to food crisis in the region – and that of fuel, increased inflationary pressures. It increased from 2.9 to 8.5% in 2008. However, UEMOA countries whose currencies are pegged to the euro continue to benefit from an average inflation rate far lower than that of WAMZ (West African Monetary Zone) countries which all (except The Gambia) posted rates above a single digit. Inflation for WAMZ countries also rose substantially when compared to the previous years.

Persistent inflationary pressures were apparently due to the late manifestation of the direct effect of price developments for foodstuff and fuel in 2008; secondary effects have been controlled and the underlying inflation has reduced in several countries. Several countries which have not totally reflected the rise in the prices of fuel were late in reducing the retail prices after the decline in wholesale import prices, to determine the profit margins of local distributors. In Ghana and Nigeria, additional factors that contributed to inflationary pressures were expansionary fiscal policies and expansionary monetary policies respectively. The world financial crisis and the decline in the prices of petroleum and foodstuffs in the second half of the year called for re-evaluation of monetary policies. Most of the central banks in West Africa tightened their targets in the face of rising world prices of foodstuffs and fuel, although half of those who had taken that decision in the first half of 2008 changed their minds during the other half.

Graph 1.4: ECOWAS Inflation Rates (end of period)

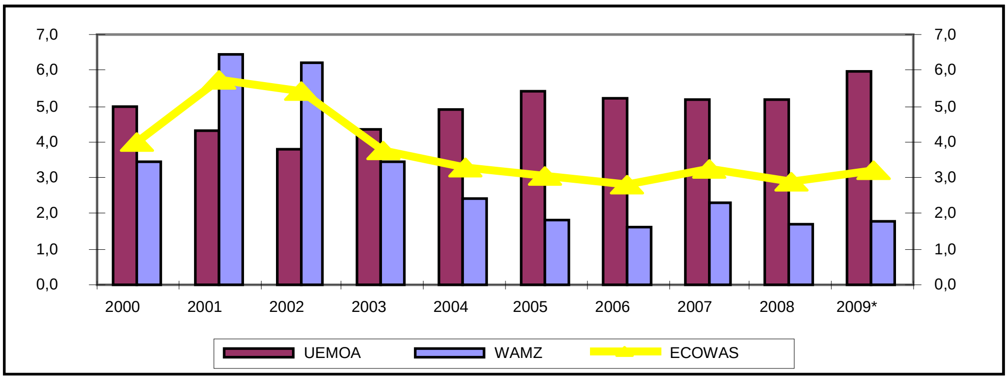


Sources : BCEAO, WAMZ and IMF

1.2.2 Public Finance

Developments in the overall budget balance in 2008 reflected the difficulties which the world economic development had imposed on West Africa as well as the opportunities they offered to the region. As at end September, the Authorities had adapted their budget policies to trends in the prices of food commodities and fuels. While the public finance situation of oil importing countries was ill at ease, that of exporting countries improved substantially because of the hike in petroleum prices. The overall budget deficit of the region (excluding grants) thus improved from 3.2% in 2007 to 2.9% in 2009. In the UEMOA zone, deficit stagnated at 5.2% whilst in WAMZ, it improved from 2.3 to 1.7% in 2008. In 2009, it is expected to decline at all levels to 6.0% at Community level. (See graph below).

Graph 1.5 : Budget Deficit – ECOWAS



Sources : BCEAO, WAMZ and IMF

1.2.3. External Sector

In 2008, the Community's current account balance stood at 10.1% of GDP as against 5.8% in 2007. This surplus was due to the improvement in the trade balance and net revenue. The surplus in the capital and financial operations account particularly diminished because of the decline in direct foreign investment, portfolio investments and other investments. In effect, when compared to year 2007, direct investments mainly meant for the petroleum, mining and telecommunication sectors, diminished in 2008.

Table 1.2. ECOWAS Current Account Balance (as percentage of GDP)

	2002	2003	2004	2005	2006	2007*	2008*	2009
CEDEAO	-0.7	4.8	11.6	16.3	14.2	5,8	10,1	10,0
UEMOA	-1.2	-3.5	-4,5	-5,8	-4,1	-6,4	-6,0	-5,9
BENIN	-2.8	-6.5	-7,1	-5,2	-4,6	-9,0	-8,7	-9,1
BURKINA FASO	-9.2	-8.5	-10,4	-11,7	-9,6	-8,3	-9,5	-8,2
COTE D'IVOIRE	6.7	2.1	1,6	0,2	2,6	-0,7	2,1	1,0
GUINEA BISSAU	10.7	24.3	4,8	-3,5	-12,8	-8,0	-5,3	-3,9
MALI	-4.1	-6.4	-8,2	-8,0	-3,6	-8,1	-7,9	-7,2
NIGER	-8.2	-7.9	-8,0	-9,4	-8,6	-8,3	-12,6	-13,1
SENEGAL	-6.4	-6.4	-6,4	-7,8	-9,3	-11,7	-12,0	-9,7
TOGO	-9.5	-9.2	-10,6	-21,8	-15,3	-8,6	-8,4	-13,0
ZMAO	-0.4	9.2	20.1	28.0	19.6	9,7	15,2	15,0
NIGERIA	-4.0	5.7	18,0	32,0	24,1	12,4	19,0	18,1
GHANA	-0.5	4.0	-3.6	-7,2	-6,4	-13,4	-19,7	-13,2
GUINEE	-4.3	-2,5	-4.8	-5,7	-7,7	-10,1	-6,1	-2,9
SLEONE	-13,4	-4,9	-5,8	-7,0	-6,2	-9,8	-8,6	-4,2
GAMBIE	-3.3	-4.4	-8.6	-16,9	-14,2	-9,9	-14,3	-12,7
Autres	-7,5	-19,9	-17,8	-11,0	-17,2	-16,7	-14,4	-12,2
CAP VERT	-11,1	-11,1	-14,4	-4,0	-6,9	-13,6	-12,4	-10,9
LIBERIA	-0,5	-36,6	-24,3	-24,4	-36,9	-22,5	-18,4	-14,8

Sources : BCEAO, WAMZ and IMF

Like the prices of basic commodities, the terms of trade fluctuated substantially in West Africa in 2008. Although petroleum prices declined in the second half, exporting countries recorded considerably gains as a result of developments in the terms of trade over the rest of the year. The external position of several countries in West Africa somehow worsened as a result of the increase in the current payments deficit of importing countries and dwindling reserves. Their current external deficit widened by the end of 2008. This outcome was explained by the persistently high level of their food import bills, the collapse in the prices of non-petroleum basic commodities, the reduction in the volume of exports and, sometimes, the decline in foreign remittances and earnings from tourism. Cape Verde and The Gambia indicated a decline in earnings from tourism in the third quarter. Most of the oil exporting countries succeeded in maintaining their current payments surpluses in 2008, although the magnitude was less than projected previously because of the sharp drop in the prices of petroleum and reduction in production as decided by OPEC.

External debt was estimated at 14.8% of GDP in 2008 as against 13.6% in 2007 for all ECOWAS countries. This decline was particularly due to the reduction in Nigeria's debt to 4.1% in 2007 and 4.0% in 2008. At zonal level the volume of UEMOA's external debt stood at 32.7% of GDP whilst that of WAMZ stood at 7.4% in 2008.

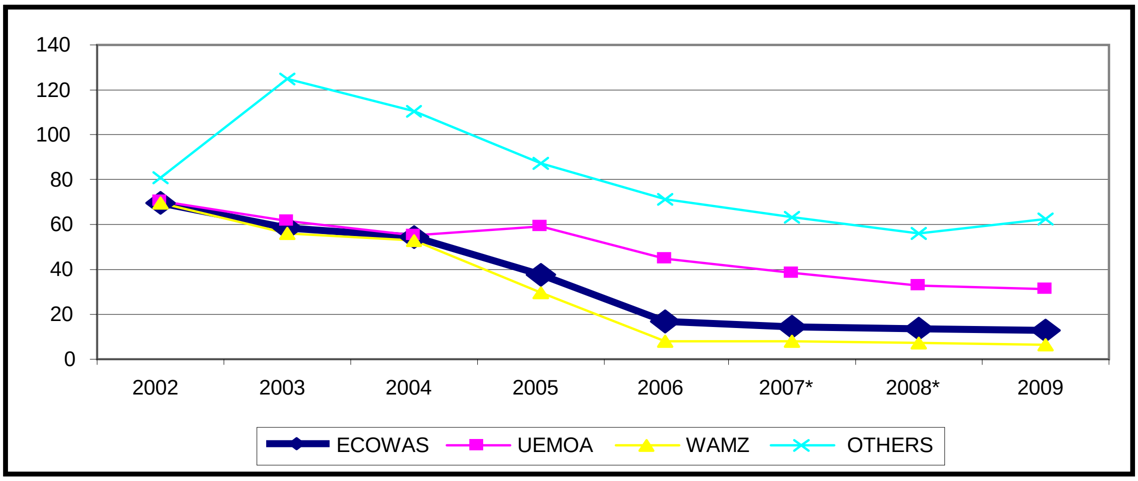
The heavily externally indebted countries were Guinea-Bissau (198.1%), The Gambia (85.7%), Liberia (84.2%) and Guinea (68.6%). On the whole, four out of the fifteen (15) ECOWAS countries were considered as heavily indebted. However, the total external debt of ECOWAS countries seemed to sustainable and this was due to the accelerated impact of the Heavily Indebted Poor Countries (HIPC) Initiative, and the Multilateral Debt Relief Initiative (MDRI) which has brought about the cancellation of a substantial portion of the external debt stock of several countries in the Community.

Table 1.3: ECOWAS External Debts (as % of GDP)

	2002	2003	2004	2005	2006	2007*	2008*	2009
CEDEAO	**69,9**	**58,4**	**54,3**	**37,8**	**17,0**	**14,8**	**13,6**	**12,6**
UEMOA	**70,4**	**61,3**	**55,5**	**58,9**	**44,6**	**38,0**	**32,7**	**31,0**
BENIN	48,1	40,3	38,6	40,3	21,1	11,3	15,9	16,9
BURKINA FASO	42,3	37,2	37	40,9	20,0	18,5	23,4	25,6
COTE D'IVOIRE	76,9	68,7	60,8	72,1	70,0	67,4	57,3	52,6
GUINEA BISSAU	344,4	352,4	324,7	333,9	304,5	235,9	198,1	201,1
MALI	79,3	67,1	64,5	60,0	20,5	20,1	17,9	18,2
NIGER	78,5	63,7	58	53,9	14,7	15,8	10,4	9,5
SENEGAL	61,7	50,9	44	42,4	37,3	16,8	14,6	13,0
TOGO	87,1	89,4	76,3	73,7	67,5	70,5	46,8	42,7
ZMAO	**69,5**	**55,9**	**52,8**	**29,8**	**8,1**	**8,4**	**7,4**	**6,5**
NIGERIA	60,5	53,1	49,9	21,7	3,4	4,1	4,0	4,0
GHANA	117,7	72,2	72,2	63,5	17,5	24,6	28,1	16,2
GUINEE	94,9	97,7	91,1	109,4	109,6	74,7	68,6	67,9
SLEONE	183,8	150,2	138,6	129,7	8,3	7,1	5,9	5,1
GAMBIE	147,3	159,3	139,9	130,2	127,5	90,3	85,7	106,5
Autres	**81,1**	**125,1**	**110,3**	**87,3**	**71,2**	**63,2**	**56,4**	**62,2**
CAP - VERT	61,8	61,8	51,1	48,5	45,1	42,1	42	44,3
LIBERIA	100,4	188,4	163,5	126,1	97,3	84,2	84	96,5

Sources : BCEAO, WAMZ and IMF

Graph 1.5 ***: Evolution of External Debt***



1.2.4. Monetary Sector

Like in 2007, the monetary situation of the Community as at end December 2008 was characterized by increased growth in money supply, induced both by an increase in domestic credit and a consolidation of the Net Foreign Assets of Monetary institutions. This growth stood at 44.9% in 2008 as against 36.2% in 2007.

In UEMOA in 2008, the net external assets of the union were expected to grow by 155.5 billion to 4,821.3 billion by end December 2008. Based on this target, domestic credit and money supply were expected to grow by 10.3% and 8.6% respectively by end December 2008. Domestic credit was expected to improve by 557.1 billion or 10.3% to 5,943.2 billion by end December 2008 based on the increase in credits to the economy, accentuated by the worsening net position of member States vis-a-vis the banking system. The volume of credit to the economy recorded an improvement of 441.4 billion or 4.0% from year to year, to 5,345.8 billion by end December 2008, in line with the increase in ordinary credits and the 0.4 billion decline in agricultural credits. The increase in ordinary credits resulted mainly from loans granted to firms operating in the energy and telecommunication sections, as well as the consolidation of short term claims held by banks over certain firms under restructuring. The net debit position of Governments stood at 597.4 billion by end

December 2008, worsening by 115.8 billion when compared to the level attained by end December 2007. This situation was linked to the settlement of several expenditures incurred by the States. In line with its counterpart developments, money supply recorded a growth rate of 8.6% to 9,245.5 billion by end December 2008. This growth in overall liquidity was accounted for by a 10% increase in deposits (592.0 billion) and fiduciary circulation which grew by 5.6% (141.2 billion).

At 56.6 percent, growth in money supply in WAMZ countries remained high. It was 42.6% in 2007. Like in 2007, the expansion in broad money supply in 2008 was induced by increases in both net domestic assets and net foreign assets. These developments could be attributable to the rapid growth in credit granted to the private sector in Nigeria and Ghana. Generally, credit granted to the State declined in most member countries, reflecting elimination of credit to the government due to implementation of prudent fiscal policies. The improvement in fiscal performance and a more effective cash management also led to the increase in credit granted to the private sector.

Table 1.4: ECOWAS Money Supply Variation

	2002	2003	2004	2005	2006	2007*	2008*
CEDEAO	**18.31**	**18.51**	**13.40**	**14,4**	**39,6**	**32,6**	**42,8**
UEMOA	**16**	**2,9**	**5,8**	**7,6**	**11,4%**	**18,7%**	**10,1%**
BENIN	-6,5	10,1	-9,4	22,4	18	19,8	12,7
BURKINA FASO	2,9	16,4	0,2	18	10,1	22,9	12
COTE D'IVOIRE	30,6	-6,6	1,7	-9,1	10,3	23,6	5,6
GUINEA BISSAU	22,8	14,4	19,2	-55,5	5,3	24,8	29,4
MALI	28,5	21,9	11,9	-16,2	8,8	9,2	0,2
NIGER	-0,4	-13,3	19,1	6,6	16,2	23,2	11,9
SENEGAL	7,6	14,6	12,8	8,2	11,9	26,1	4,8
TOGO	-2,5	6,2	16,6	2	22,7	16,8	18,1
Economies de la ZMAO	**19,35**	**26,47**	**16,95**	**16,4**	**51,7**	**42,6**	**56,0**
NIGERIA	15,8	24,1	14	16	53	44,2	58,2
GHANA	50	37,8	25,9	14,3	38,8	36,3	40,2
GUINEE	18,4	34,7	35,9	37,2	59,4	4,8	38,3
SLEONE	29,6	21,9	20,1	31,3	21,5	21,5	22,4
GAMBIE	27,7	43	18,3	13,1	26,2	26,2	18,4
Autres économies de la CEDEAO	25,8	8,45	29,9	23,1	24,1	20,1	19,4
CAP VERT	14,8	8,6	10,5	15,6	18,7	9,7	7,9
LIBERIA	36,8	8,3	49,3	35,7	34,4	40,1	41,4

Sources : BCEAO, WAMZ and IMF

On the other hand, interest rates evolved differently according to zones and the nature of the rates. In the CFA Franc zone, bank requirements are liberal. Thus, debit rates are liberally fixed between the parties within the limit of the commercial rates. The commercial rate is fixed at 18.00% per annum for loans granted by banks and 27.00% per annum for loans granted by other financial institution, private institutions or savings and credit co-operatives, other decentralized financing systems as well as for all economic operators. Credit rates are also liberal with the exception of the small savings remuneration which is fixed at 3.50% for booklet accounts. The interest rates for fixed deposit and cash bonds of 5.0 million maximum and for a period not exceeding one year is fixed at 2.95%, representing the monthly rate of the money market less 2 points. With the exception of the Naira, for small savings, all the other countries enjoy interest rates higher than those of the CFA zones, in spite of the downward trends. The rate for small savings ranges from 2% (Naira) to 14.7% (GNF). Remuneration for treasury bills ranges from 4.5% (CFA) to 21.4% (GNF). Remuneration for commercial loans is higher in Ghana. In effect, apart from a few exceptions, this trend in rates follows the inflation rates logic.

Table 1.5: ECOWAS – Developments in Interest Rates

ZONES	TAUX D'INTERET	2002	2003	2004	2005	2006	2007	2008
CFA	**Epargne**	3.50	3.50	3.50	3.50	3.50	3.50	3.50
	Prêts commerciaux	Libre	Libre	Libre	Libre	Libre	Libre	Libre
	Bon du Trésor	4.1	3.4	3.1	3.7	4.5	4.5	4.5
Escudo	**Epargne**	7.9	6.4	6.3	6.3	6.3	6.3	6.3
	Prêts commerciaux	13.9	13.5	13.5	13.5	13.5	13.5	13.5
	Bon du Trésor	6.5	7.6	5.6	5.6	5.6	5.6	5.6
Dalasi	**Epargne**	8.0	8.0	10.0	5.0	5.0	5.0	5.0
	Prêts commerciaux	20.5	28.8	28.8	21.8	14.0	13.3	13.3
	Bon du Trésor	20.0	31.0	34.0	16.0	12.8	12.8	12.8
cedi	**Epargne**	13.00	9.75	9.5	6.4	4.8	4.8	4.8
	Prêts commerciaux	38.50	32.75	28.8	26.0	24.3	24.3	24.3
	Bon du Trésor	26.28	18.1	16.4	11.4	9.9	9.9	9.9
GNF	**Epargne**	7.40	6.50	8.4	14.7	14.7	14.7	14
	Prêts commerciaux	Libre	Libre	Libre	Libre	Libre	Libre	Libre
	Bon du Trésor	13.36	13.36	12.2	23.9	22.3	21.4	21.4
Dollars Lib	**Epargne**	5.0	3.55	3.4	2.80	2.70	2.70	2.70
	Prêts commerciaux	15.0	17.0	18.4	15.9	15.3	15.3	15.3
	Bon du Trésor	nd	nd	nd	nd	nd	nd	nd
Naira	**Epargne**	2.5	3	2.0	1.5	2	2	2
	Prêts commerciaux	25.70	19.58	18.9	17.8	17.3	17.3	17.3
	Bon du Trésor	13.8	14.5	14.4	10.8	7.5	7.8	7.8
Leone	**Epargne**	4.0	4.0	6.0	5.5	5.5	5.5	5.5
	Prêts commerciaux	25.0	25.0	27.0	27.0	27.0	27.0	27.0
	Bon du Trésor	14.7	20.20	27.3	20.4	14.2	14.2	14.2

Sources: BCEAO, WAMZ and IMF

2.0 SITUATION OF MACROECONOMIC CONVERGENCE

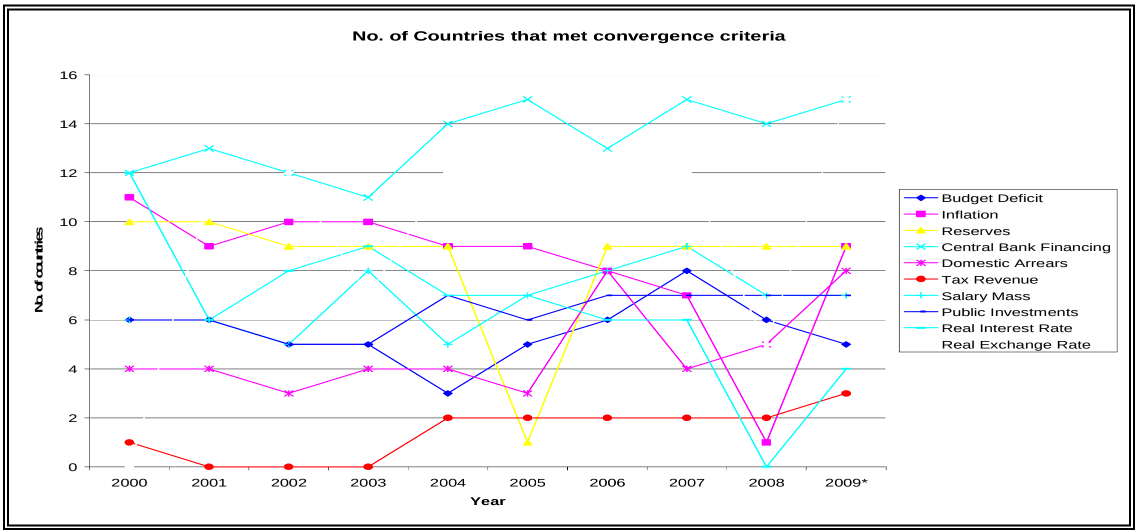
This section describes the performance of various ECOWAS member States with regard to the convergence criteria as at end-2008 and the projections for 2009.

2.1 Overview

Movement towards macroeconomic convergence in recent years remained mixed as there was no significant improvement in overall performance. Some member countries found it difficult to sustain their performance in respect of targets realized in preceding years. Table 1.1 below provides an overview of the number of countries (out of the fifteen ECOWAS Member States) that complied with the ECOWAS convergence criteria.

Table 2.1: Number of Countries that Met the Convergence Criteria in ECOWAS

Criteria/Year	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
Budget Deficit	6	6	5	5	3	5	6	8	6	5
Inflation	11	9	10	10	9	9	8	7	1	9
Reserves	10	10	9	9	9	1	9	9	9	9
Central Bank Financing	12	13	12	11	14	15	13	15	14	15
Domestic Arrears	4	4	3	4	4	3	8	4	5	8
Tax Revenues	1	0	0	0	2	2	2	2	2	3
Salary Mass	6	6	5	8	5	7	8	9	7	7
Domestic Investments	6	6	5	5	7	6	7	7	7	7
Real Interest Rate	12	6	8	9	7	7	6	6	0	4
Real Exchange Rate	-	11	12	7	12	12	12	12	5	15



Source: WAMA *** Projections**

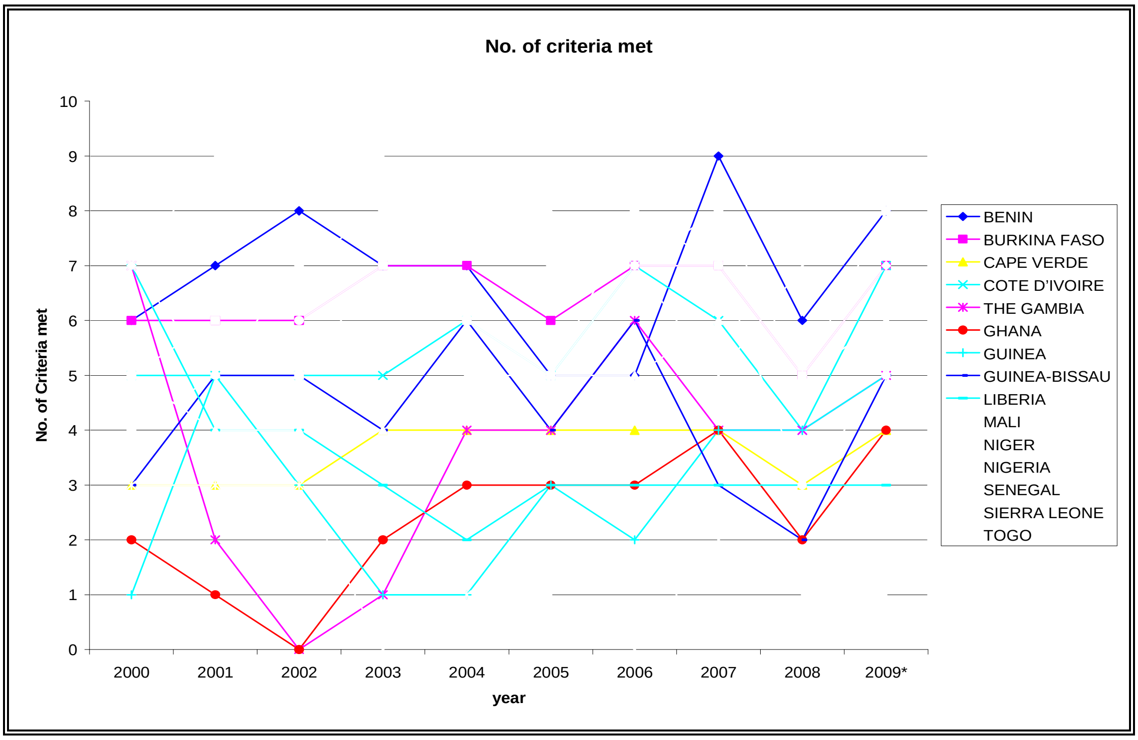
Performance under inflation was poor during the period, with only one country meeting this criterion, compared to 7 in 2007. Performance with respect to the budget deficit criterion also deteriorated from 8 to 6 countries in December 2007 and December 2008 respectively. Fourteen countries met the required target for central bank financing of the budget deficit during the period under review, compared to 15 in 2007. Regarding gross external reserves, nine countries (Nigeria and the eight UEMOA countries) were able to meet the target during the period, thus maintaining the same level of achievement since 2006. The above graph shows the number of countries that met the criteria.

Table 2.1 further shows that performance under the secondary criteria was generally also less than satisfactory. Only 2 countries met the tax receipts/GDP target during the period under consideration. With the wage bill constituting a large proportion of domestically generated tax revenue in most countries, meeting this benchmark was also difficult. There was prevalence of negative real interest rates in a majority of countries as at end-2008, with none of the countries meeting this target. In general real exchange rates remained unstable in member countries and the criterion was satisfied by only countries in 2008, compared to 12 in 2007.

Table 2.2 gives a summary of the total number of criteria (primary and secondary) satisfied by each country. It should be noted that table 1.2 does not take into account the domestic arrears criterion due to the lack of responses from several countries. The table indicates that none of the countries has yet been able to meet all the primary and secondary convergence criteria. As at end-2008, the best performance of 7 targets was recorded by Senegal, which was closely followed by Benin with 6 targets. Burkina Faso, Mali, Niger and Nigeria met 5 targets each, while Cote d'Ivoire, The Gambia and Guinea attained 4 benchmarks each. Cape Verde, Liberia and Togo met 3 targets each, while Ghana and Guinea Bissau achieved 2 targets. Sierra Leone met one criterion during the period. Table 2.2 and the following graph depict the number of criteria met by each of the countries.

Table 2.2: Total Number of Convergence Criteria Met

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009*
BÉNIN	6	7	8	7	7	5	5	9	6	8
BURKINA FASO	6	6	6	7	7	6	7	7	5	7
CAP-VERT	3	3	3	4	4	4	4	4	3	4
COTE D'IVOIRE	5	5	5	5	6	5	7	6	4	7
GAMBIA	7	2	0	1	4	4	6	4	4	5
GHANA	2	1	0	2	3	3	3	4	2	4
GUINEA	1	5	3	1	1	3	2	4	4	5
GUINEA-BISSAU	3	5	5	4	6	4	6	3	2	5
LIBERIA	7	4	4	3	2	3	3	3	3	3
MALI	7	5	7	8	8	7	7	8	5	7
NIGER	5	6	5	7	6	5	8	7	5	8
NIGERIA	5	4	4	4	5	5	5	6	5	6
SENEGAL	7	9	9	9	8	8	7	5	7	8
SIERRA LEONE	3	3	3	0	1	1	0	2	1	1
TOGO	4	5	6	7	6	5	7	7	3	5



Source: WAMA

2.2 Performance Analyses by Criteria

2.2.1 Primary Criteria

2.2.1.1 Budget Deficit/GDP Ratio ≤ 4%

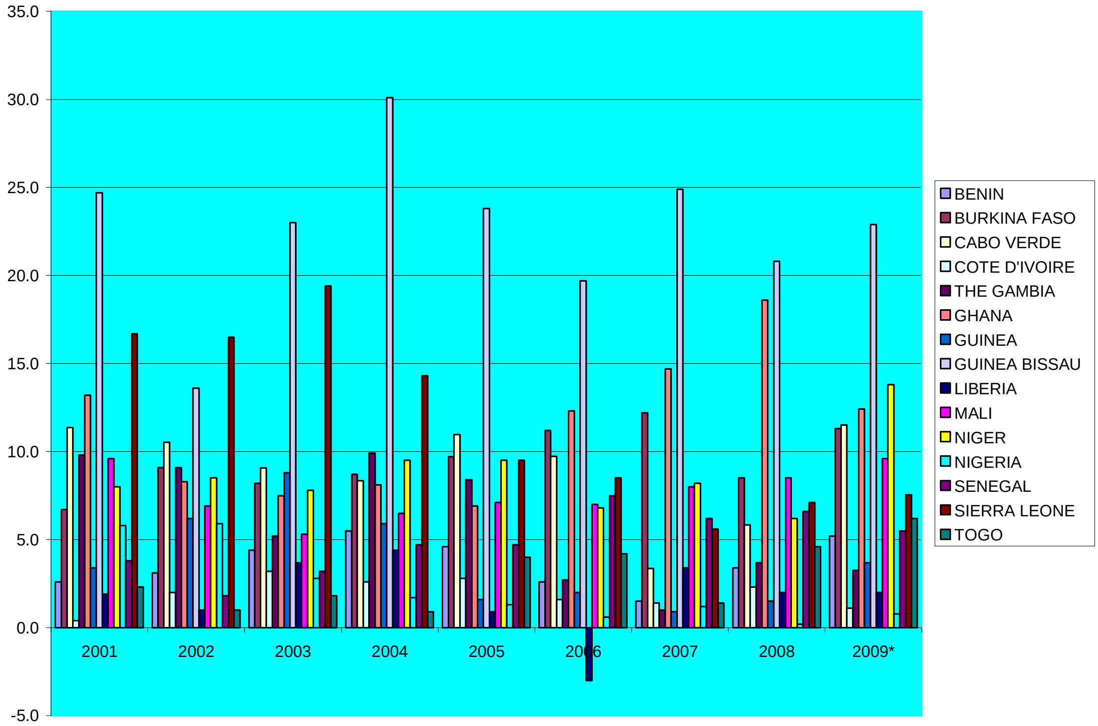
Fiscal performance deteriorated during 2008. Six (6) countries, namely: Benin, Côte d'lvoire, The Gambia, Guinea, Liberia and Nigeria met the target during the year under review.

On the other hand, nine (09) countries of ECOWAS (Burkina Faso, Cape Verde, Ghana, Guinea-Bissau, Mali, Niger, Senegal, Sierra Leone and Togo) missed this criterion during the period under review. This poor performance is expected to further deteriorate by the end of 2009 when ten countries would miss the target.

UEMOA zonal deficit remained above the target (5.2) while WAMZ (1.7) and ECOWAS (2.9) fiscal deficits remained within the target. It should be noted that both ECOWAS and WAMZ missed that target when Nigeria was isolated as shown in the table below.

Table 2.3: ECOWAS Countries – Budget Deficit / GDP Ratio

Country/Period	2001	2002	2003	2004	2005	2006	2007	2008	2009*
BENIN	2.6	3.1	4.4	5.5	4.6	2.6	1.5	3.4	5.2
BURKINA FASO	6.7	9.1	8.2	8.7	9.7	11.2	12.2	8.5	11.3
CABO VERDE	11.4	10.5	9.1	8.4	11.0	9.7	3.4	5.8	11.5
COTE D'IVOIRE	0.4	2.0	3.2	2.6	2.8	1.6	1.4	2.3	1.1
THE GAMBIA	9.8	9.1	5.2	9.9	8.4	2.7	1.0	3.7	3.3
GHANA	13.2	8.3	7.5	8.1	6.9	12.3	14.7	18.6	12.4
GUINEA	3.4	6.2	8.8	5.9	1.6	2.0	0.9	1.5	3.7
GUINEA BISSAU	24.7	13.6	23.0	30.1	23.8	19.7	24.9	20.8	22.9
LIBERIA	1.9	1.0	3.7	4.4	0.9	-3.0	3.4	2.0	2.0
MALI	9.6	6.9	5.3	6.5	7.1	7.0	8.0	8.5	9.6
NIGER	8.0	8.5	7.8	9.5	9.5	6.8	8.2	6.2	13.8
NIGERIA	5.8	5.9	2.8	1.7	1.3	0.6	1.2	0.2	0.8
SENEGAL	3.8	1.8	3.2	4.7	4.7	7.5	6.2	6.6	5.5
SIERRA LEONE	16.7	16.5	19.4	14.3	9.5	8.5	5.6	7.1	7.5
TOGO	2.3	1.0	1.8	0.9	4.0	4.2	1.4	4.6	6.2
No. of countries that met criterion	**6**	**5**	**5**	**3**	**5**	**6**	**8**	**6**	**5**
UEMOA	**4.3**	**3.8**	**4.4**	**4.9**	**5.4**	**5.2**	**5.2**	**5.2**	**6.0**
WAMZ	**6.4**	**6.2**	**3.4**	**2.4**	**1.8**	**1.6**	**2.3**	**1.7**	**1.8**
WAMZ less Nigeria	**10.3**	**8.3**	**8.7**	**8.0**	**5.5**	**8.5**	**9.2**	**11.9**	**9.0**
ECOWAS	**5.7**	**5.4**	**3.8**	**3.3**	**3.1**	**2.8**	**3.2**	**2.9**	**3.2**
ECOWAS Less Nigeria	**5.9**	**5.0**	**5.6**	**5.7**	**5.5**	**6.1**	**6.2**	**6.9**	**6.8**



Sources: WAMA and Central Banks

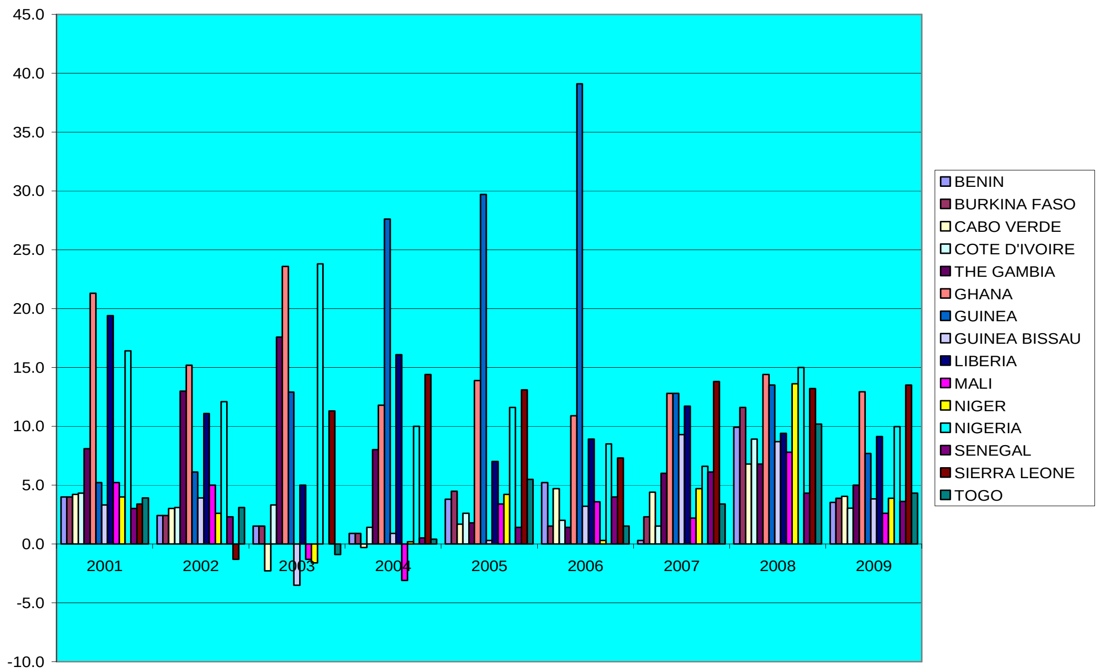
2.2.1.2 Inflation Rate ≤ 5 %

Inflationary pressures accelerated during 2008, thus all the countries missed the target with the exception of Senegal compared to 7 countries as at end 2007. This performance is expected to improve significantly in 2009 when nine countries are expected to meet the target, as the effect of the food and energy crises subside.

Regarding the zonal performance, UEMOA experienced lower inflationary pressures (8.5%) than the WAMZ (14.9%), although none of the zonal figures remained within the target of 5%. Inflationary pressures at the level of ECOWAS were also high at 12.7 percent during the period under review.

Table 2.4: ECOWAS: End of Period Inflation Rate

Country/Period	2001	2002	2003	2004	2005	2006	2007	2008	2009
BENIN	4.0	2.4	1.5	0.9	3.8	5.2	0.3	9.9	3.5
BURKINA FASO	4.0	2.4	1.5	0.9	4.5	1.5	2.3	11.6	3.9
CABO VERDE	4.2	3.0	-2.3	-0.3	1.7	4.7	4.4	6.8	4.0
COTE D'IVOIRE	4.3	3.1	3.3	1.4	2.6	2.0	1.5	8.9	3.0
THE GAMBIA	8.1	13.0	17.6	8.0	1.8	1.4	6.0	6.8	5.0
GHANA	21.3	15.2	23.6	11.8	13.9	10.9	12.8	14.4	12.9
GUINEA	5.2	6.1	12.9	27.6	29.7	39.1	12.8	13.5	7.7
GUINEA BISSAU	3.3	3.9	-3.5	0.9	0.3	3.2	9.3	8.7	3.8
LIBERIA	19.4	11.1	5.0	16.1	7.0	8.9	11.7	9.4	9.1
MALI	5.2	5.0	-1.3	-3.1	3.4	3.6	2.2	7.8	2.6
NIGER	4.0	2.6	-1.6	0.2	4.2	0.3	4.7	13.6	3.9
NIGERIA	16.4	12.1	23.8	10.0	11.6	8.5	6.6	15.0	10.0
SENEGAL	3.0	2.3	0.0	0.5	1.4	4.0	6.1	4.3	3.6
SIERRA LEONE	3.4	-1.3	11.3	14.4	13.1	7.3	13.8	13.2	13.5
TOGO	3.9	3.1	-0.9	0.4	5.5	1.5	3.4	10.2	4.3
No. of countries that met criterion	**9**	**10**	**10**	**9**	**9**	**8**	**7**	**1**	**9**
UEMOA	4.1	2.9	-0.7	3.8	2.9	2.7	2.9	8.5	2.5
WAMZ	16.4	12.1	23.4	10.5	12.1	9.2	7.3	14.9	10.2
WAMZ less Nigeria	14.5	11.0	19.1	16.8	18.3	19.0	12.6	13.8	11.1
ECOWAS	12.3	9.0	15.3	8.3	9.0	7.1	5.8	12.7	7.6
ECOWAS less Nigeria	6.9	5.1	4.4	7.2	6.9	7.0	5.5	9.8	4.8



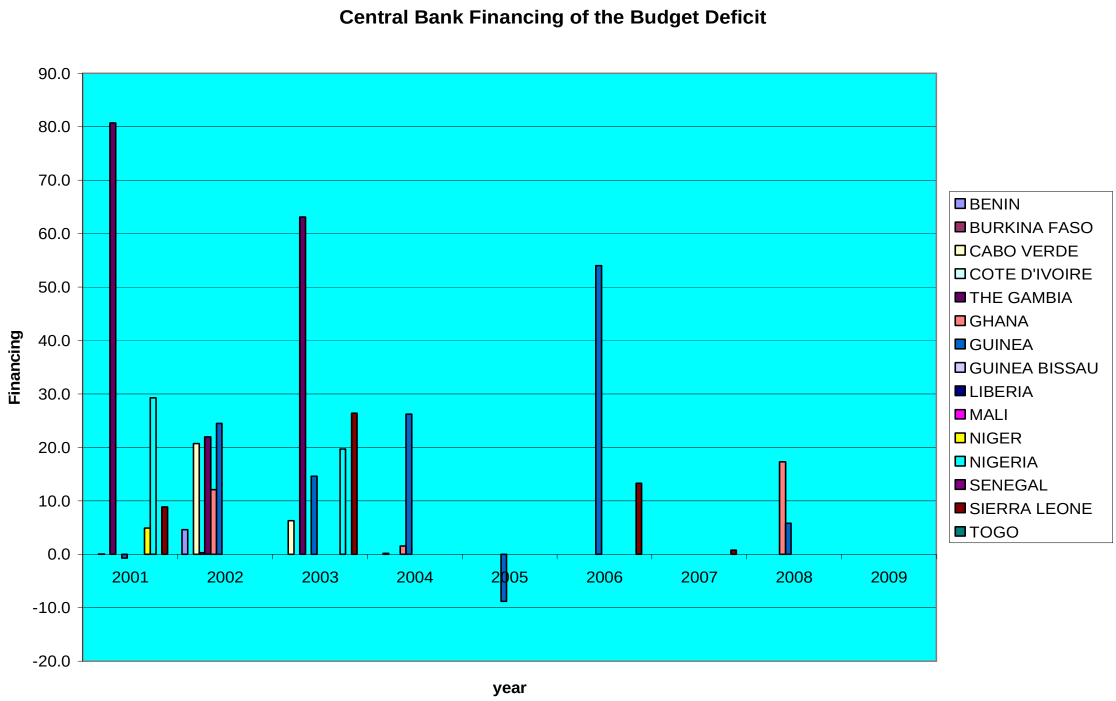
Sources: WAMA and Central Banks

2.2.1.3 Central Bank Financing of Budget Deficit/Previous Year's Tax Revenue ≤ 10%.

Performance in terms of budget deficit financing by the Central Bank remained impressive during the period as 14 countries met the target in 2008. This performance is expected to improve by the end of 2009 when all the countries are expected to satisfy the target. The UEMOA zone maintained its zero-financing policy stance during the period while WAMZ zonal deficit financing (1.4%) was also within the prescribed target. However, when Nigeria was removed from the WAMZ, the target was slightly missed as shown below (11.8%). This was due to the high level of deficit financing in Ghana. The ECOWAS sub-region remained within the target, with or without Nigeria.

Table 2.5: ECOWAS – Budget Deficit Financing by Central Banks

Country/ Period	2001	2002	2003	2004	2005	2006	2007	2008	2009
BENIN	0.0	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
BURKINA FASO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
CABO VERDE	0.1	20.7	6.3	0.2	0.0	0.0	0.0	0.0	0.0
COTE D'IVOIRE	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
THE GAMBIA	80.7	22.0	63.1	0.0	0.0	0.0	0.0	0.0	0.0
GHANA	0.0	12.1	0.0	1.6	0.0	0.0	0.0	17.3	0.0
GUINEA	-0.7	24.5	14.6	26.2	-8.8	54.0	0.0	5.8	0.0
GUINEA BISSAU	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
LIBERIA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
MALI	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NIGER	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
NIGERIA	29.3	0.0	19.7	0.0	0.0	0.0	0.0	0.0	0.0
SENEGAL	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SIERRA LEONE	8.9	0.0	26.4	0.0	0.0	13.3	0.8	0.0	0.0
TOGO	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
No. of countries that met criterion	**13**	**12**	**11**	**14**	**15**	**13**	**15**	**14**	**15**
UEMOA	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
WAMZ	26.4	1.5	18.3	0.6	-0.2	1.1	0.0	1.4	0.0
WAMZ less Nigeria	3.3	15.3	8.8	9.0	-2.7	17.8	0.1	11.8	0.0
ECOWAS	17.5	1.1	12.1	0.4	-0.1	0.8	0.0	1.0	0.0
ECOWAS less Nigeria	0.8	4.3	2.4	2.3	-0.7	4.5	0.0	3.0	0.0



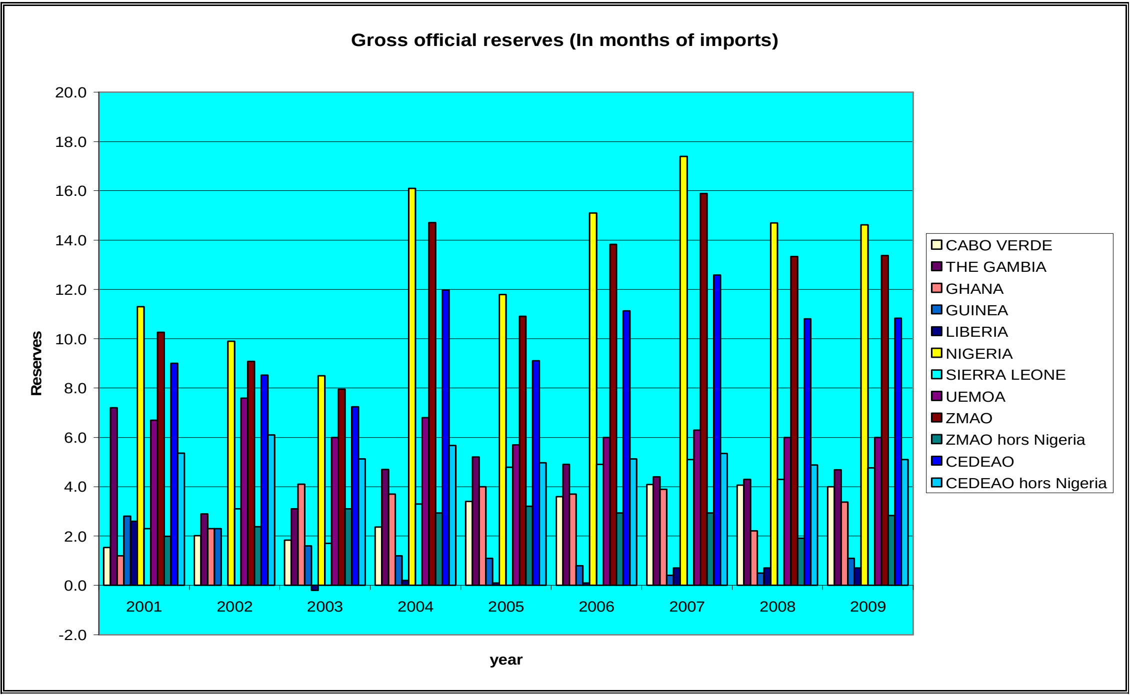
Sources: WAMA and Central Banks

2.2.1.4 Gross External Reserves ≥6 Months of Imports Cover

The performance with regard to the accumulation of gross external reserves as at end 2008 within ECOWAS remained virtually the same with the eight UEMOA countries and Nigeria meeting the target as in previous years. This scenario is expected to be maintained towards the end of 2009.The low reserves positions of Guinea and Liberia remains a cause of concern. Regarding the zonal performance, the UEMOA zone just attained the target (6.0 months) while the WAMZ performance remained high at 13.3 months of import cover. However, WAMZ less Nigeria registered a very low level of international reserves accumulation at 1.9 months of imports. ECOWAS-wide performance also remained high at 10.8 months, which also fell short of the target when Nigeria was isolated.

Table 2.6: ECOWAS - Gross External Reserves in Months of Imports

Country/ Period	2001	2002	2003	2004	2005	2006	2007	2008	2009
CABO VERDE	1.5	2.0	1.8	2.4	3.4	3.6	4.1	4.1	4.0
THE GAMBIA	7.2	2.9	3.1	4.7	5.2	4.9	4.4	4.3	4.7
GHANA	1.2	2.3	4.1	3.7	4.0	3.7	3.9	2.2	3.4
GUINEA	2.8	2.3	1.6	1.2	1.1	0.8	0.4	0.5	1.1
LIBERIA	2.6	0.0	-0.2	0.2	0.1	0.1	0.7	0.7	0.7
NIGERIA	11.3	9.9	8.5	16.1	11.8	15.1	17.4	14.7	14.6
SIERRA LEONE	2.3	3.1	1.7	3.3	4.8	4.9	5.1	4.3	4.8
UEMOA	**6.7**	**7.6**	**6.0**	**6.8**	**5.7**	**6.0**	**6.3**	**6.0**	**6.0**
No. of countries that met criterion	**10**	**9**	**9**	**9**	**1**	**9**	**9**	**9**	**9**
WAMZ	10.3	9.1	8.0	14.7	10.9	13.8	15.9	13.3	13.4
WAMZ less Nigeria	2.0	2.4	3.1	2.9	3.2	2.9	2.9	1.9	2.8
ECOWAS	9.0	8.5	7.2	12.0	9.1	11.1	12.6	10.8	10.8
ECOWAS less Nigeria	5.4	6.1	5.1	5.7	5.0	5.1	5.3	4.9	5.1



Sources: WAMA and Central Banks * Projections

2.2.2 Secondary Criteria

2.2.2.1 Domestic Arrears (prohibition of accumulation of new arrears and liquidation of existing arrears)

Due to the low level of responses, performance under this criterion was not analyzed during the period under review. In general responses are received from the UEMOA countries, while the non-UEMOA countries hardly provide responses for this criterion. It is hoped that the other countries would endeavour to provide responses which would further enrich the analyses of domestic arrears accumulation in member countries.

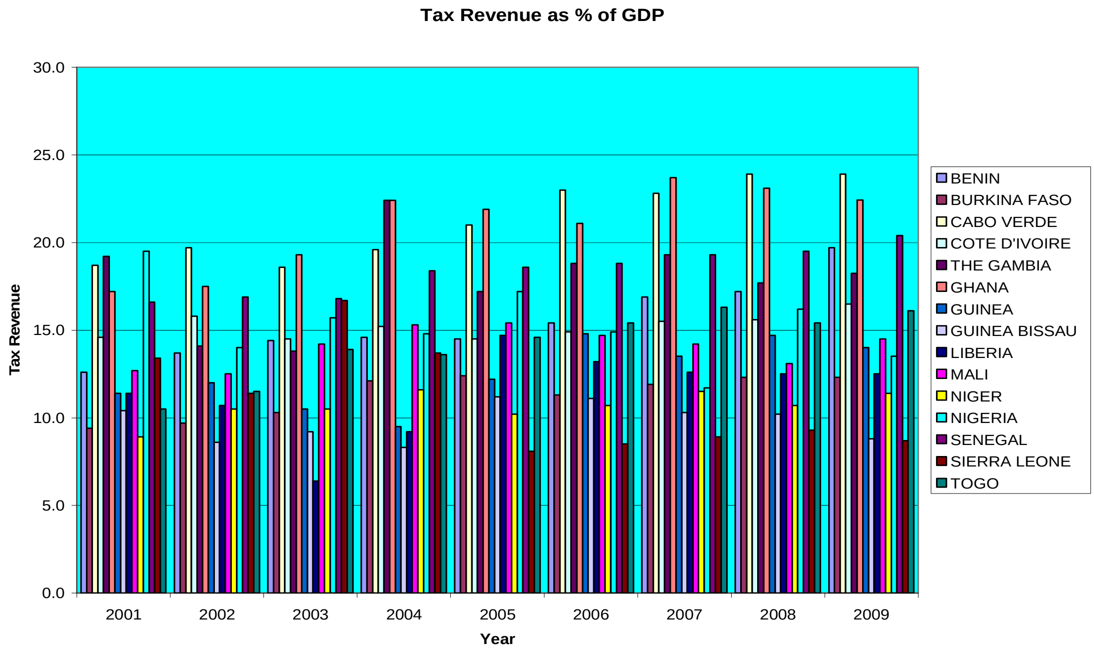
2.2.2.2 Tax Revenue/GDP Ratio ≥ 20 %

Performance in terms of tax receipts remained low during the period under review. Only two countries (Cape Verde and Ghana) fulfilled this criterion in 2008, thus maintaining the same level of achievement in 2007. This calls for a more in-depth reflection on the optimality of average tax rates in member countries. It is believed that with high tax rates within an inefficient tax mobilization structure, it would be virtually impossible to maximize tax revenue. This could give rise to tax evasion and other administrative bottlenecks that would continue to make it difficult to mobilize tax revenue effectively. These same countries are expected to meet the criterion by December 2009.

At the zonal level, the performance is similar to the country scenarios. Performance in the UEMOA zone was 15.4 percent while in the WAMZ it's a bit higher at 16.6 percent. ECOWAS registered 16.3 percent. When Nigeria was isolated from the WAMZ and ECOWAS, both performances improved slightly as detailed in the table below.

Table 2.7: ECOWAS – Tax Revenue/GDP Ratio

Country/Period	2001	2002	2003	2004	2005	2006	2007	2008	2009
BURKINA FASO	9.4	9.7	10.3	12.1	12.4	11.3	11.9	12.3	12.3
CABO VERDE	18.7	19.7	18.6	19.6	21.0	23.0	22.8	23.9	23.9
COTE D'IVOIRE	14.6	15.8	14.5	15.2	14.5	14.9	15.5	15.6	16.5
THE GAMBIA	19.2	14.1	13.8	22.4	17.2	18.8	19.3	17.7	18.2
GHANA	17.2	17.5	19.3	22.4	21.9	21.1	23.7	23.1	22.4
GUINEA	11.4	12.0	10.5	9.5	12.2	14.8	13.5	14.7	14.0
GUINEA BISSAU	10.4	8.6	9.2	8.3	11.2	11.1	10.3	10.2	8.8
LIBERIA	11.4	10.7	6.4	9.2	14.7	13.2	12.6	12.5	12.5
MALI	12.7	12.5	14.2	15.3	15.4	14.7	14.2	13.1	14.5
NIGER	8.9	10.5	10.5	11.6	10.2	10.7	11.5	10.7	11.4
NIGERIA	19.5	14.0	15.7	14.8	17.2	14.9	11.7	16.2	13.5
SENEGAL	16.6	16.9	16.8	18.4	18.6	18.8	19.3	19.5	20.4
SIERRA LEONE	13.4	11.4	16.7	13.7	8.1	8.5	8.9	9.3	8.7
TOGO	10.5	11.5	13.9	13.6	14.6	15.4	16.3	15.4	16.1
No. of countries that met criterion	0	0	0	2	2	2	2	2	3
UEMOA	13.7	14.6	14.4	14.8	14.7	15.1	15.6	15.4	16.4
WAMZ	19.1	14.2	15.9	15.3	17.4	15.3	12.7	16.6	14.2
WAMZ less Nigeria	15.2	15.2	16.2	17.7	17.7	18.1	19.2	19.2	18.6
ECOWAS	17.3	14.3	15.4	15.1	16.5	15.3	13.7	16.3	14.9
ECOWAS less Nigeria	14.1	14.8	14.8	15.6	15.6	16.0	16.6	16.5	17.0



Sources: WAMA and Central Banks * Projections

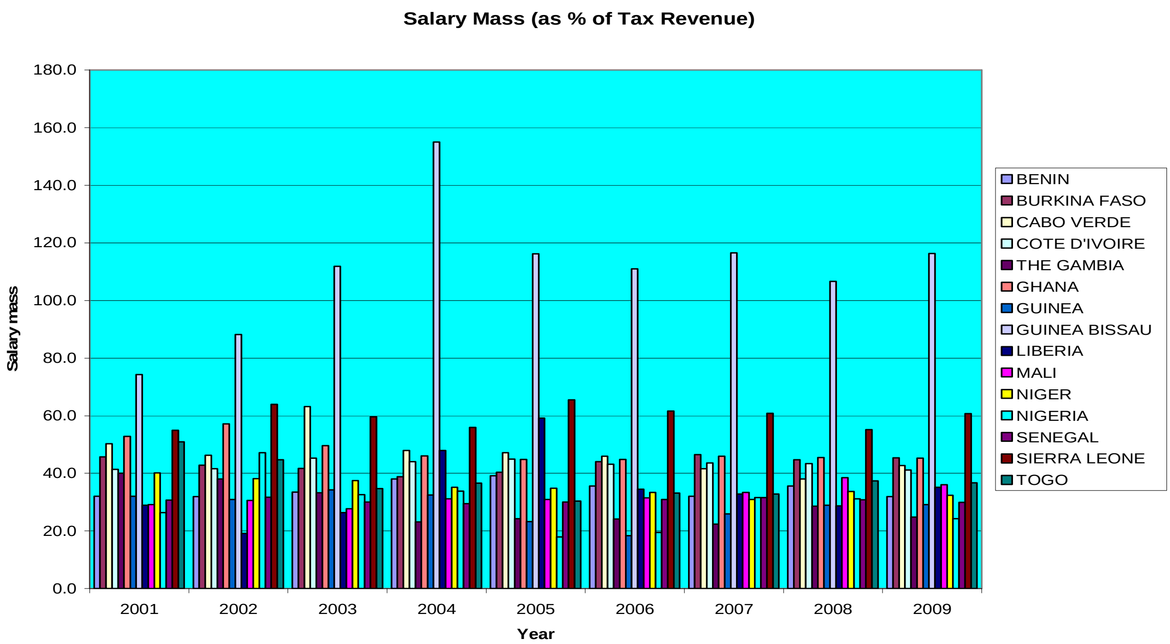
2.2.2.3 Wage Bill /Tax Revenue ≤ 35 %

The wage bill which forms a significant proportion of recurrent expenditure in ECOWAS Member States is also monitored periodically to highlight its impact on the budget. As at end-2008, seven (07) countries (Benin, The Gambia, Guinea, Liberia, Niger, Nigeria and Senegal) met this target, which is expected to be maintained by the end of 2009.

The UEMOA narrowly missed the target at 38.4 while the WAMZ remained within the target (32.5) during the period. ECOWAS sub-region remained within the target (34.4) during 2008. The following table illustrates the performance of the various member countries with respect to the criterion.

Table 2.8: ECOWAS- Wage Bill/Tax Revenue

	2001	2002	2003	2004	2005	2006	2007	2008	2009
BENIN	32.0	31.9	33.5	38.0	39.1	35.6	32.1	35.6	31.9
BURKINA FASO	45.7	42.8	41.7	38.8	40.4	44.1	46.5	44.7	45.4
CABO VERDE	50.3	46.3	63.2	47.9	47.1	46.0	41.6	38.1	42.7
COTE D'IVOIRE	41.4	41.6	45.3	44.0	45.0	43.2	43.6	43.4	41.1
THE GAMBIA	40.1	38.0	33.3	23.1	24.3	24.2	22.4	28.6	24.8
GHANA	52.9	57.2	49.6	46.1	44.8	44.9	46.0	45.5	45.3
GUINEA	32.0	31.0	34.3	32.5	23.2	18.4	25.9	29.0	29.2
GUINEA BISSAU	74.3	88.2	111.9	155.0	116.2	111.0	116.5	106.7	116.4
LIBERIA	29.0	19.1	26.4	48.0	59.2	34.5	32.9	28.7	35.2
MALI	29.1	30.6	27.7	31.2	30.9	31.5	33.4	38.5	36.0
NIGER	40.2	38.2	37.5	35.2	34.8	33.4	31.0	33.7	32.4
NIGERIA	26.4	47.2	32.6	33.8	17.9	19.5	31.6	31.2	24.3
SENEGAL	30.7	31.7	30.1	29.5	30.0	31.0	31.6	30.8	29.9
SIERRA LEONE	55.0	63.9	59.7	56.0	65.5	61.6	60.9	55.2	60.7
TOGO	51.0	44.7	34.7	36.6	30.4	33.1	32.8	37.4	36.7
No. of countries that met criterion	6	5	8	5	7	8	9	7	7
UEMOA	37.7	37.2	38.3	37.5	38.1	37.6	37.7	38.4	36.7
WAMZ	28.8	47.8	34.2	34.9	20.5	21.8	32.8	32.5	26.3
WAMZ less Nigeria	46.1	48.9	45.1	41.9	39.0	37.3	40.1	40.6	40.8
ECOWAS	31.9	44.1	35.6	35.9	26.6	27.2	34.5	34.4	29.9
ECOWAS less Nigeria	40.0	40.2	40.4	38.9	38.7	37.6	38.3	38.9	37.8



Sources: WAMA and Central Banks   * Projections

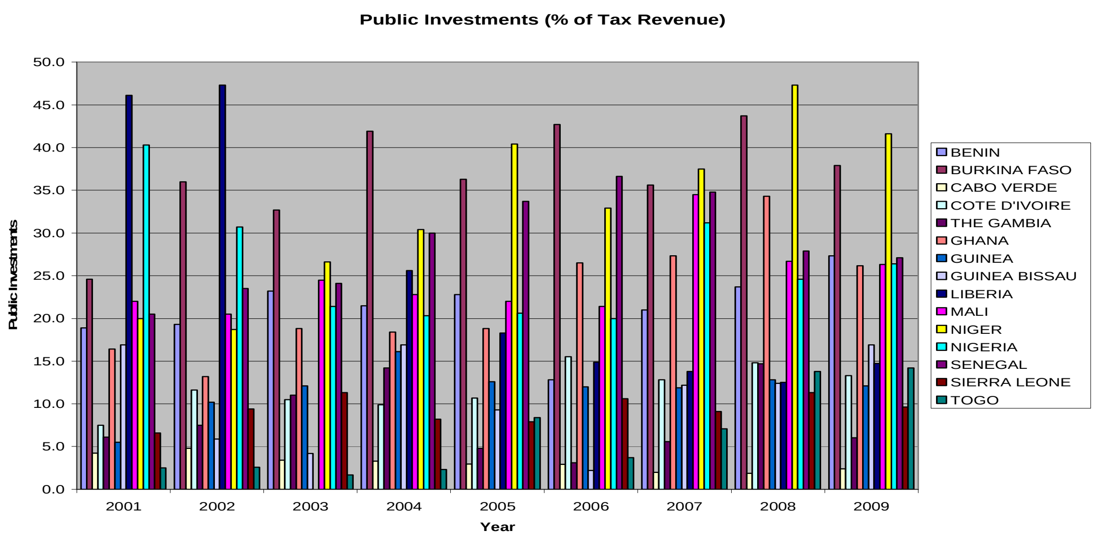
2.2.2.4 Public Investment /Tax Revenue ≥ 20 %

This criterion which monitors utilization of domestic resources for the investment needs of member countries exhibits a similar trend with the tax revenue criterion. Seven (07) countries (Benin, Burkina Faso, Ghana, Mali, Niger, Nigeria and Senegal) achieved the target in 2008. In 2009 it is expected that same level of compliance will be maintained.

UEMOA met the criterion, with a public investment/tax revenue ratio of 24.6, satisfied the target. Similarly, both ECOWAS and WAMZ which registered 24.7 and 25.0 in 2008 satisfied the target. Both WAMZ and ECOWAS still observed the target when their zonal figures were adjusted for Nigeria.

Table 2.9: ECOWAS – Public Investment/Tax Revenue

	2001	2002	2003	2004	2005	2006	2007	2008	2009
BENIN	18.9	19.3	23.2	21.5	22.8	12.8	21.0	23.7	27.3
BURKINA FASO	24.6	36.0	32.7	41.9	36.3	42.7	35.6	43.7	37.9
CABO VERDE	4.2	4.8	3.4	3.3	2.9	2.9	2.0	1.9	2.4
COTE D'IVOIRE	7.5	11.6	10.5	9.9	10.7	15.5	12.8	14.8	13.3
THE GAMBIA	6.1	7.5	11.0	14.2	4.8	3.1	5.6	14.7	6.0
GHANA	16.4	13.2	18.8	18.4	18.8	26.5	27.3	34.3	26.2
GUINEA	5.5	10.2	12.1	16.1	12.6	12.0	11.9	12.8	12.1
GUINEA BISSAU	16.9	5.9	4.2	16.9	9.3	2.2	12.2	12.4	16.9
LIBERIA	46.1	47.3	0.0	25.6	18.3	14.9	13.8	12.5	14.7
MALI	22.0	20.5	24.5	22.8	22.0	21.4	34.5	26.7	26.3
NIGER	20.0	18.7	26.6	30.4	40.4	32.9	37.5	47.3	41.6
NIGERIA	40.3	30.7	21.4	20.3	20.6	20.0	31.2	24.6	26.4
SENEGAL	20.5	23.5	24.1	30.0	33.7	36.6	34.8	27.9	27.1
SIERRA LEONE	6.6	9.4	11.3	8.2	7.9	10.6	9.1	11.3	9.6
TOGO	2.5	2.6	1.7	2.3	8.4	3.7	7.1	13.8	14.2
No. of Countries that met Criterion	6	5	5	7	6	7	7	7	7
UEMOA	14.7	15.3	19.5	21.7	23.2	24.4	24.6	24.6	23.7
WAMZ	37.4	28.7	20.9	19.9	20.1	20.2	30.3	25.0	25.9
WAMZ less Nigeria	11.9	11.8	15.9	16.7	15.5	20.0	20.4	25.2	19.8
ECOWAS	29.8	24.3	20.2	20.5	21.1	21.5	28.2	24.7	25.0
ECOWAS less Nigeria	14.1	14.5	18.1	20.2	20.9	22.8	23.0	24.3	22.3



Sources: WAMA and Central Banks * Projections

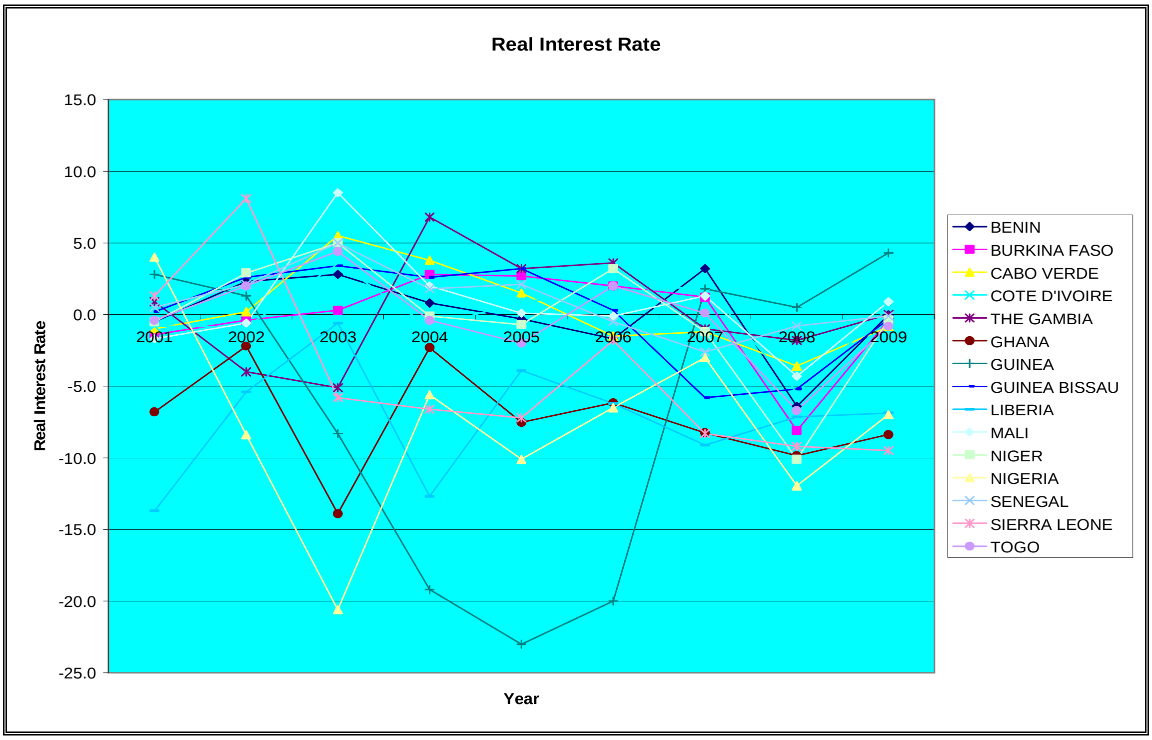
2.2.2.5 Positive Real Interest Rates

In recent years, the real interest rates have been constantly negative in a majority of ECOWAS countries, despite the efforts made with the view to solving the related problem of high inflation rates. Prevalence of negative real interest rates is inimical to domestic savings mobilization and financial intermediation which underscores the importance of the criterion as a key macroeconomic variable. None of the countries fulfilled this criterion in 2008, although four (4) countries are expected to meet this criterion by the end of 2009.

Regarding the zonal and regional levels, UEMOA performance was far better than those of ECOWAS and WAMZ. ECOWAS, UEMOA and WAMZ registered negative real interest rates of 9.3, 5.0, and 11.5 respectively, in 2008.

Table 2.10: ECOWAS – Real Interest Rates

	2001	2002	2003	2004	2005	2006	2007	2008	2009
BENIN	-0.5	2.3	2.8	0.8	-0.3	-1.7	3.2	-6.4	0.0
BURKINA FASO	-1.4	-0.4	0.3	2.8	2.7	2.0	1.2	-8.1	-0.4
CABO VERDE	-1.0	0.2	5.5	3.8	1.5	-1.5	-1.2	-3.6	-0.8
COTE D'IVOIRE	-0.8	-0.9	3.6	-0.9	0.9	1.5	2.0	-5.4	0.5
THE GAMBIA	0.9	-4.0	-5.1	6.8	3.2	3.6	-1.0	-1.8	0.0
GHANA	-6.8	-2.2	-13.9	-2.3	-7.5	-6.2	-8.3	-9.9	-8.4
GUINEA	2.8	1.3	-8.3	-19.2	-23.0	-20.0	1.8	0.5	4.3
GUINEA BISSAU	0.2	2.6	3.4	2.6	3.2	0.3	-5.8	-5.2	-0.3
LIBERIA	-13.7	-5.4	-0.6	-12.7	-3.9	-6.2	-9.1	-7.2	-6.9
MALI	-1.7	-0.6	8.5	2.0	0.1	-0.1	1.3	-4.3	0.9
NIGER	-0.5	2.9	5.0	-0.1	-0.7	3.2	-1.2	-10.1	-0.4
NIGERIA	4.0	-8.4	-20.6	-5.6	-10.1	-6.5	-3.0	-12.0	-7.0
SENEGAL	0.5	2.1	5.0	1.8	2.1	-0.5	-2.6	-0.8	-0.1
SIERRA LEONE	1.3	8.1	-5.8	-6.6	-7.2	-1.8	-8.3	-9.2	-9.5
TOGO	-0.4	2.0	4.4	-0.4	-2.0	2.0	0.1	-6.7	-0.8
No. of countries that met criterion	**6**	**8**	**9**	**7**	**7**	**6**	**6**	**0**	**4**
UEMOA	-0.6	0.6	4.2	-0.3	0.6	0.8	0.6	-5.0	1.0
WAMZ	3.1	-7.6	-19.7	-5.6	-10.1	-6.7	-3.4	-11.5	-6.9
WAMZ less Nigeria	-2.9	-0.4	-11.2	-7.5	-11.9	-9.8	-4.9	-6.3	-4.2
ECOWAS	1.8	-4.8	-11.6	-3.8	-6.5	-4.2	-2.1	-9.3	-4.2



Sources: WAMA and central bank *** Projections**

2.2.2.6 Real Exchange Rate Stability ± 5%

Two major exchange rate regimes exist within ECOWAS: the fixed exchange rate regime for Cape Verde and the eight countries of UEMOA and flexible exchange rate regime for Liberia and the Countries of WAMZ. The co-existence of the two exchange rate regimes make any evaluation based on the movements of the nominal exchange rates of little relevance, which makes analyses based on real exchange rate developments more meaningful/appropriate.

The real exchange rates of most of the countries were unstable during 2008. With a fluctuation margin of ± 5.0 %, only five (5) countries (Benin, Cape Verde, Cote d'ivoire, Liberia and Senegal) met the criterion during the period under review, while all the countries are expected to meet the target by the end of 2009. ECOWAS, UEMOA and WAMZ missed the target during the period.

Table 2.11: ECOWAS – Real Exchange Rates

	2001	2002	2003	2004	2005	2006	2007	2008	2009
BENIN	3.2	4.8	6.5	2.4	2.3	1.1	0.9	4.7	0.6
BURKINA FASO				-0.5	3.4	0.1	-0.6	6.6	0.6
CABO VERDE	-3.9	-0.2	0.8	-3.1	5.4	3.3	3.0	4.3	1.5
[redacted]									
THE GAMBIA	-12.2	-17.5	-28.5	-1.2	6.4	-0.2	9.7	14.4	0.3
GHANA	[redacted]								
GUINEA	-3.2	-2.3	-6.7	-5.8	-22.4	-7.0	32.6	-6.5	-4.8
GUINEA BISSAU		0.7							
LIBERIA	-23.2	-30.1	-7.2	-14.2	-3.1	-4.6	2.5	2.7	2.7
MALI		2.6	0.8	1.3					
NIGER	2.3	2.0	3.7	-0.6	4.4	-3.1	0.9	9.5	0.5
NIGERIA	11.1	-0.5	-5.1	2.7	15.3	7.3	-1.9	10.8	4.6
SENEGAL	[redacted]						5.3		
SIERRA LEONE	10.8	-12.4	-20.0	-10.6	-11.5	6.2	1.2	7.9	0.5
No. of Countries that Met Criterion	11	12	7	12	12	12	12	5	15
WAMZ	**10.0**	**-0.6**	**-4.9**	**2.1**	**13.1**	**7.0**	**-0.9**	**10.3**	**4.2**
WAMZ less Nigeria		**4.5**				**2.4**	**11.4**	**4.4**	**0.2**
ECOWAS	**7.6**	**0.9**	**-1.6**	**1.4**	**9.1**	**4.5**	**0.0**	**8.7**	**2.9**

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2.3 POLICY HARMONIZATION IN ECOWAS IN 2008

Policy harmonization is one of the crucial aspects of the ECOWAS economic and monetary integration process which should be implemented. In this regard, ECOWAS member States are expected to comply with a certain number of common principles in the areas of exchange rate policies, capital account liberalization, financial market and payments systems operations, banking supervision and regulation, trade liberalization, free movement of persons and statistical harmonization, among others.

The achievements recorded in respect of these programmes as at end 2008 in ECOWAS are presented as follows:

1) Exchange Rate Policies

In terms of exchange rate policy harmonization which makes it compulsory for ECOWAS member States to ensure the implementation of market-oriented monetary policy instruments, it is important to acknowledge that no significant progress has been made so far. In effect, this delay is due to the current existence of two major exchange rate regimes within the ECOWAS region namely, the fixed regime practised by member countries of the West African Economic and Monetary Union (UEMOA) and Cape Verde, and the floating exchange rate regime in force in non-UEMOA countries

2) Capital Account Liberalization

Like in previous years, the Gambia and Liberia are still the only two countries which have entirely liberalized their capital accounts. This liberalization, within UEMOA is only effective between member countries of the union. However, there is a manifest determination to open up to other ECOWAS member countries. The other ECOWAS member countries (Cape Verde, Ghana, Guinea and Sierra Leone) are still opting for a prudent approach and more or less maintain a certain level of control. It is therefore necessary to fast-track the process in order to promote investment and economic development in the ECOWAS region.

3) Harmonization of Financial Sector and Payments Systems

It is important to underscore that substantial progress is being made in the areas of harmonizing the financial sector and developing payments systems.

In effect, with UEMOA, apart from the financial market and the payment system which are already integrated and harmonized, progress continues to be made particularly in the area of payments system. In that regard, it should be indicated that the following measures were expected to be implemented in 2008.

✓ **Automated Interbank Clearing System in UEMOA**

(SICA-UEMOA):

- Migrating to version 2, used to easily process bank rejections, improve the structure of the "billbook" file so that each participant knows the full breakdown of his/her balance, improve the process of settling clearing balances and finally, consider the establishment of a guarantee fund in the settlement process;
- Introducing the Regional System with the installation of a (SICA –UEMOA) test environment by setting up test clearing access points at BCEAO and test servers for participants ;
- Normalizing payment instruments (cheques and other trade bills) including an analysis of effects on its information system and those on the participants' information systems and applications; this has been done by the BCEAO. The new specifications of SICA-UEMOA takes into account the new cheque standard;
- Migrating to version 3 particularly involving the passage from the country code to the ISO standard, amending the bank codes and new operation formats.

Finally, the registration of new members, developments in the BCEAO bank information system and the establishment of the guaranty fund for SICA-UEMOA should be noted.

✓ **AUTOMATED TRANSFER AND SETTLEMENT SYSTEM**

(STAR-UEMOA):

- Establishing the intra-daily advance mechanism which enable the Central Bank to provide liquidity to participants in need;
- Migrating the operating STAR-UEMOA towards Windows 2003 in order to benefit from services provided by this operating system particularly security enhancement.
- Integrating a new technology of exchanging more secure keys (RSA) that meet international standard;
- The ability for banks to safely access their settlement account position through the internet;
- The establishment of an emergency site to ensure effective continuity of exchanges.

The other exercises/measures focus on the interface of systems with other applications (SICA-UEMOA with the Payment Incidents Station, STAR UEMOA with the automated stock management application), the enhancement of BCEAO's access network, the banking culture and promotion of the utilisation of bank payment instruments)
With regards to the West African Monetary Zone (WAMZ), appreciable efforts are being made to upgrade the financial and payments systems of its member States to the same levels.
Two countries (Ghana and Nigeria) have an operational system for a "Real Time Gross Settlements – RTGS". This system is being established in the three other member countries (The Gambia, Guinea and Sierra Leone) with financial support from the African Development Bank (ADB).

For the cheques, WAMZ has also adopted common norms and standards. A common regulation in payment system has also been drafted and is being adopted. Once completed, this payment system which is being finalized at WAMZ will be inter-connected with that of UEMOA.

At individual level, every member country is making tremendous efforts to be abreast with developments in the area of payments systems. Thus, progress made by the Central Bank of Nigeria includes the reduction of clearing deadlines to two days maximum throughout Nigeria, the finalization of laws and regulations governing payments systems. Ghana and Nigeria had introduced the electronic payment system called "e-zwich" which enables the holder of this card to carry out electronic transactions at any sales point, automatic terminal or counter in the country. It also enables the bearer of the card to access banking services throughout Ghana, regardless of the issuing bank of the card. This system is also helping to channel transactions through the banking system in Ghana.

4. Supervision and Regulation of Banking System

On this issue, WAMZ member countries have taken the necessary measures to harmonize their banking laws and comply with the Basle 1 core principles in the area of banking supervision.
UEMOA member States are using an already unified banking regulation while supervision is carried out by the banking Commission.

5. Trade Liberalization

In the area of trade liberalization, issues relating to the Common External Tariff (CET) and the Protocol instituting the VAT in member countries have still not been entirely resolved.
The application of the ECOWAS CET, whose basic mechanism is similar to that of UEMOA, is still stumbling over the harmonization of the regime on waivers which are of two types. There are waivers relating to products whose rates are different from those of the reference CET but for which member States have decided to align themselves with the said CET between now and the end of the transitional period (type A) and waivers relating to products for which member States are requesting for a change of category in relation to the reference CET (type B). The type B wavers are being negotiated between the Joint ECOWAS Committee/UEMOA managing the ECOWAS CET. Most of the type B waivers have been agreed on by concession.
The other remaining items concern the definition, among other things, of products:
For which the setting of a fifth band (of 50%)is required;
Falling under category 0% (agricultural inputs and equipments, fire-fighting and other special use vehicles, colour gas, certain building materials, medicines and other specific inputs used in the manufacture of medicines) which are sensitive and require consequent tariff protection such as rice for certain countries. For the institution of VAT in all the member countries, a study has been carried out to this effect on the harmonization of member States legislation on VAT and other excise duties.
With regards to customs instruments, some progress has been made in terms of harmonizing customs codes, and customs values. A draft ECOWAS customs code is being finalized. A study on the agreements relating to customs value and the preparation of a draft customs value for goods from ECOWAS, is also been carried out.

6. Free Movement of Persons

With regards to the free movement of persons, measures relating to the organization of pilot monitoring units to combat harassment along the boarder roads, the establishment of the ECOWAS passport, international migration and cross-boarder co-operation.

7. Statistical Harmonization

The implementation of the 2006-2010 regional statistical programme is being pursued through the updating of member States' data, the harmonization of statistical tools and the regional statistical policy. The implementation of the harmonized frameworks and the national accounts programmes, consumer price indices (CPI), external trade statistics (with the EUROTRACE software used to update this sector's statistics) and the regional 2006-2010 programme, is also on course.

3. MACROECONOMIC CONVERGENCE AND STATE OF HARMONIZATION OF POLICIES ON COUNTRY OR ZONAL BASIS

3.1 COUNTRIES OF THE WEST AFRICAN ECONOMIC AND MONETARY UNION (UEMOA)1

3.1.1 MACROECONOMIC CONVERGENCE

3.1.1 BENIN

The economic targets set for 2008 fall under the implementation of a multiannual programme (2008-2010) which aims essentially to ensure accelerated economic growth, sustain budgetary performance and stabilize prices as well as improve the competitiveness of the external sector. In this regard, projections targeted a growth rate of 6.8%, a budget deficit excluding grants of 4% of GDP and an inflation rate below 2%. By attaining these objectives, the country should be able to maintain its performance regarding the ECOWAS convergence programme, with the achievement of 8 criteria including all the primary ones.

Achievements in respect of 2008 were generally below the targets set. Consequently, though there was acceleration in growth compared to 2007, the growth rate stood at 5.3%, a 1.5 percentage points below the target. In addition, the relative acceleration in growth was accompanied by intense inflationary pressures, with an average annual rate of 8.1% against 1.3% in 2007. In the same vein, the execution of state financial operations ended up with a significant worsening of the overall deficit excluding grants which settled at 3.4% of GDP against only 1.5% of GDP in 2007. With regard to the external sector, the current deficit stood at 7.9% of GDP in 2008 against 5.5% in 2007.

3.1.1.1 Sector Analysis

3.1.1.1.1 Real Sector

The Benin economy recorded a boost in activity in 2008. In fact, economic activity grew by 5.3% in 2008 against 4.6% in 2007. This acceleration in growth was fuelled by performance in the primary, secondary and tertiary sectors which recorded growth rates of 1.6 point, 0.7 point and 2.1 points respectively.

With a growth rate of 4.2% in 2008, value added in the primary sector increased almost at the same rate as in 2007. The increase in value added in the primary sector was mainly due to the performance in the agricultural sector which recorded a significant improvement thanks to a 6.1% expansion in food production. The increase in the volume of food production was observed both in terms of grains (65% for rice, 44% for millet and sorghum) and tubers (29% for yam and 16% for cassava).

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1 All amounts concerning the UEMOA zone are quoted in CFAF

With regard to export crops, pineapple production almost doubled while that of peanuts recorded a 27.7% increase in view of better outputs, the development of processing industries, and a significant expansion of exports to Nigeria. However, cotton production dropped by 10.3% as a result of the late rains which made it impossible for planting to begin at the right time.

In 2008, value added in the secondary sector grew by 5.6% against 3.2% in 2007 in line with the dynamism in the manufacturing industry as well as increased activities in the building and public works sub sector. In fact, the manufacturing industry benefited particularly from a more significant volume of cotton to be processed due to the increase in production in 2007 compared to 2006 as well as the boom in the food processing industry. Building and public works activities grew by 8.3% thanks to infrastructure development works being carried out as part of the implementation of major projects by the government.

In the tertiary sector, value added increased by 6.7% in 2008 against 5.7% in 2007 due mainly to the dynamism in trading activities, especially, the boom in re-exportation of goods to Nigeria boosted by port activities. This also contributed to increased activities in the transport sector. Besides, the telecommunication sector experienced sustained growth as a result of reforms implemented in the sector in 2007 and the arrival of a new operator in 2008.

The growth recorded in demand in 2008 stemmed from an 8.3% increase in Gross Fixed Capital Formation (GFCF) as well as a 3.7% upturn in final consumption. The upward trend in the GFCF is attributed largely to the sustained implementation of poverty reduction initiatives as well as the execution of major economic and social infrastructure projects. The expansion in final consumption was due to public expenditures which grew by 4.9%. As regards external trade, imports and exports in terms of volume went up by 6.7% and 11.0% respectively.

Trends recorded in world demand led to a slight improvement in savings and investment rates which settled at 12.1 % of GDP and 20.5% of GDP respectively in 2008.

Concerning prices, year on year inflation rate in 2008 stood at 9.9% and average inflation at 8.1% against 0.3% and 1.3% respectively in 2007. The strong inflationary pressures recorded in 2008 were attributed mainly to pressures on the international food market combined with a significant rise in prices of petroleum products during the first half of the year. It is worth stressing that the government took a number of initiatives to mitigate the effects of soaring prices notably by suspending temporarily customs duties and VAT on high consumption goods as well as providing cereals to vulnerable groups at social prices.

3.1.1.1.2 Public finances

The execution of state financial operations for the financial year 2008 ended up in the worsening of the overall budget deficit excluding grants which stood at 4.1% of GDP against a deficit of 1.5% of the wealth created at the end of the previous year. This deterioration was due to a higher increase in public expenditures than in mobilized revenue.

In terms of resources, total revenue rose by 6.2% to settle at CFA francs 581.3 billion or 19.5% of GDP against 20.7% in 2007. While non tax revenue fell by nearly 32%, the upturn in internal revenue was exclusively linked to the improved performance of the country's tax authority. Indeed, the mobilization of tax revenue improved by 14.9% in 2008 thanks to the computerization of the tax authority, the fight against fraud and security features on customs documents, simplification of procedures for clearing goods and implementation of reforms aimed at making Cotonou Port more competitive. With regards to grants, they declined by 3.2% in 2008 and accounted for 2.8% of GDP in 2008 against 3.3% a year earlier. The drop in grants in 2008 was in respect of current grants which fell by nearly 40%.

On the employment front, total expenditures and net loans grew by 16.5% to settle at 23.0% of GDP against 22.2% in 2007. This growth was exclusively fuelled by nearly 18% increase in current expenditures while capital expenditures declined by 7.8%. The rise in public expenditure was mainly attributed to the expansion in the wage bill following promotions as well as the financial regularization of contract workers recruited in 2007 for the departments of education, health, agriculture and the judiciary. On the whole, current expenditures accounted for 15% of GDP against 14.3% in 2007. The ratio current expenditure over total revenue increased from 69.2% in 2007 to 76.8% in 2008. The decline in capital expenditures stemmed from the drop in internally funded investments. These investments increased by 30% in 2008 as a result of infrastructure built as part of the organization of the CENSAD summit.

In all, the execution of the budget ended up with a deficit on a cash basis of CFAF161.8 billion mainly financed with funds mobilized from the banking system and drawings on external loans.

The total public debt in relation to GDP was 19.6% against 15.0% in 2007. Due debt servicing as a ratio of budget revenue stood at 5.3% against 3.7% in 2007.

3.1.1.1.3 External sector

The balance of payments position showed an improvement in the balance of current transactions. In fact, the deficit of current transactions settled in 2008 at 8.7% of GDP against 9.0% in 2007. Excluding public transfers, the deficit on the current transactions balance also improved from 11.1% of GDP in 2007 to 10.6% in 2008. The slight improvement of the current balance was due to the upward trend in exports, especially cotton exports which helped in offsetting rising demand for imports linked essentially to the upsurge in crude oil prices. On the whole, the coverage rate of imports by exports recorded a slight increase to reach 65.6%.

The current deficit was financed with the inflows of external funds namely foreign direct investments to the tune of CFAF 92.8 billion, portfolio investments worth CFAF 19.4 billion and other categories of investments equivalent to CFA137.4 billion.

These capital inflows enabled the country to record an overall surplus of CFAF 33.3 billion against a surplus of 141.4 billion in 2007. As a percentage of GDP, the overall surplus fell from 5.4% in 2007 to 1.1% in 2008. The decline in capital transfers and financial operations account mainly for this deterioration. At the level of financial operations, all categories worsened in 2008.

3.1.1.1.4 Monetary Sector

In 2008, BCEAO's monetary policy was based on the manipulation of interest rates and the system of mandatory reserves. In order to stem inflationary pressures resulting from the hike in petroleum products and food prices in the first half of 2008, BCEAO opted for a tightening of monetary requirements. Thus, on August 16 2008, monetary authorities decided to raise by a half percentage point the key rate and, for that matter, the pension rate, to peg it at 4.75%. The discount rate was subsequently raised to 6.75% against 4.75% previously. These rates have not seen any adjustment since 24th August 2006. On the other hand, the issuing institution maintained coefficients applicable to banks and other financial establishments of the Union in terms of mandatory reserves as well as the composition of the base.

As at 31st December 2008, money supply (M2) expanded by 26.9% to settle at CFAF1 103.0 billion. The expansion in money supply in 2008 was due primarily to a significant increase in net internal assets while net external assets firmed up modestly.

Indeed, net external assets recorded an increase of 5.1% as at end December 2008 compared to the same period the previous year. The accumulation of external assets was achieved by the Central Bank, with its reserves growing by 9.3% to reach the equivalent of CFAF 690.1 billion. However, commercial banks saw their external assets dwindle in net terms by 10.9% to settle at the equivalent of CFAF 120.7 billion.

Outstanding internal credit stood at 434.6 billion at end of December, representing an increase of 87.4% compared to its level over the same period the previous year. The expansion in the volume of domestic credit was due to demand from both the State and private sector. The country drew 62.3 billion from its reserves at the Central Bank and 42.8 billion from its deposits at commercial banks. However it remained in a creditor position vis-à-vis these financial institutions. Credit to the private sector grew by 18.8%, reaching CFA 617.5 billion as at 31st December 2008. The increase in ordinary credits was largely due to credits provided to companies involved in food processing, distribution of petroleum products, energy, telecommunication, micro finance and general trade in goods and services sectors.

Regarding the composition of money supply in a wider sense, it did not record any significant expansion in 2008. In fact, the share of money in circulation rose by over five percentage points to the detriment of current account deposits. The share of quasi-money remained almost stable between 2007 and 2008.

3.1.1.2 Performance under macroeconomic convergence

Difficulties resulting from the international environment had a great impact on the overall performance of Benin's economy as far as the community convergence programme is concerned. Six (6) targets were met in 2008 against (09) in the previous year. This is Benin's worst performance since 2006.

Table 3.1: CONVERGENCE STATUS OF BENIN

	Standard	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary criteria :											
i) Budget Deficit /GDP	≤ 4%	3.6	2.6	3.1	4.4	5.5	4.6	2.6	1.5	3.4	5.2
ii) Inflation Rate	≤ 5%	4.2	4.0	2.4	1.5	0.9	3.8	5.2	0.3	9.9	3.5
iii) CB Financing	≤ 10% RF n-1	4.3	0.0	4.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iv) UEMOA Reserves	≥6 months Imports	6.1	6.7	7.6	6.0	6.8	5.7	6.0	6.3	6.0	*6.0*
Country reserves (indicative)	B/S	*6.5*	*6 .7*	*7.0*	*7.2*	*7.8*	*9.3*	*10.4*	*8.4*	*8.1*	*9.0*
Secondary criteria											
i) Domestic arrears	?0	0.0	0.0	0.0	0.0	0.0	0.0	0,0	0.0	0.0	0.0
ii) Tax Revenue/GDP	≥ 20%	12.8	12.6	13.7	14.4	14.6	14.5	15.4	16.9	17.2	19.7
iii) Wage Bill/Tax Revenue	≤ 35% TR	31.1	32.0	31.9	33.5	38.0	39.1	35.6	32.1	35.6	31.9
iv) Internal inv. /Tax Revenue	≥20% TR	12.4	18.9	19.3	23.2	21.5	22.8	12.8	21.0	23.7	27.3
v) Real l Interest Rate	> 0	-0.7	-0.5	2.3	2.8	3.6	-0.3	-1.7	3.2	-6.4	0.0
vi) Real Exchange Rate Stability	± 5%	-	3.2	4.8	6.5	2.4	2.3	1.1	0.9	4.7	0.6
Number of criteria met		**6**	**7**	**8**	**7**	**7**	**5**	**5**	**9**	**6**	**8**

Source: BCEAO, UEMOA and WAMA * Estimates ** Projections

Primary criteria

Benin achieved only three targets in 2008 against four in 2007.

Budget Deficit over GDP

Benin succeeded in maintaining its performance in respect of this criterion. Though it improved, the budget deficit ratio fell below the target to settle at 3.4% in 2008.

Inflation

With inflationary pressures resulting from the escalation of energy and food prices, the inflation rate reached an exceptional level in 2008. In fact, year-on-year inflation stood at 9.9% against 0.3% in 2008. Thus, for the second time since 2000, Benin could not meet the criterion on inflation.

Financing of Budget Deficit by the Central Bank

All UEMOA countries meet the criterion on budget deficit financing by the Central Bank. In fact, BCEAO has stopped financing budget deficits of Member States as far back as 2003.

Foreign Reserves

In view of the policy of pooling and common management of reserves under UEMOA, an individual analysis does not seem to be very relevant. However, it is worth noting that the level of reserve attributed to Benin is generally above the community average. In 2008, the country had enough reserves to cover eight (8) months of imports.

Secondary Criteria

In 2008, Benin met only three of the secondary criteria against five the previous year.

Domestic Arrears

Like in previous years, this criterion was not achieved in 2008.

Tax Revenue/GDP Ratio

In Benin, tax administration has been witnessed improvements since 2005. The tax revenue over GDP ratio increased from 14.5% in 2005 to 17.2% in 2008. However, much more progress is needed in order to comply with the community standard.

Wage Bill /Tax Revenue

After experiencing some lapses regarding this criterion between 2004 and 2006, Benin returned to the set target in 2005. However, the country could not sustain its performance in 2008 in view of the recruitment of many public servants

Investments/Tax Revenue

With internally funded investment representing 24% of mobilized tax revenue, this criterion was met in 2008 as was the case in the previous year.

Real Interest Rates

With a high level of inflation, Benin recorded a significantly negative interest rate.

Real Exchange Rate

Fluctuations in the real effective exchange rate were moderate. In 2008 the REER depreciated by 1.8%.

3.1.1.3 Prospects for 2009

In spite of the expected effects of the financial crisis, the Benin authorities are optimistic for 2009. In fact, they are banking on a 6.1% growth. This growth will be fuelled by the expansion of activities especially in the primary and tertiary sectors.

Consequently, growth in the primary sector would settle at 4.8% against 4.2% in 2008 mainly as a result of the expected increase in food production due to support measures adopted by the Government. These measures include mechanization, supply of fertilizers at subsidized prices as well as the implementation of the emergency programme on boosting rice production. Growth in the secondary sector would be 10.0% against 5.6% in 2008. According to UEMOA data this trend would basically be accounted for by a better performance in the manufacturing as well as building and public works sectors. The building and public works sector will continue to benefit from the execution of building and road construction projects. The tertiary sector is expected to record a growth rate of 5.6% against 6.7% in 2008. This performance would be driven by the dynamic trading activities with Nigeria and land-locked countries. Activities in the “Transport and Telecommunication” sub sector would be sustained by growth in port activities which would be boosted by transit to neighbouring countries and operations of mobile phone companies.

With regard to prices, it is expected that 2009 would record positive trends due to prospects of a good harvest as well as the easing of food and oil prices being observed on the international market.

Concerning public finances, 2009 would be marked by a worsening of the overall budget deficit as a result of an expansion in total expenditure above that of total revenue.

As regards foreign transactions, the external current deficit excluding official transfers would settle at 11.0% of GDP against 10.6% in 2008. Similarly, the surplus on the overall position of the balance of payments would reduce significantly in 2009, especially due to the expected drop in cotton exports and a decline in transactions of the capital and financial operations account.

On the convergence front, Benin could improve its performance by meeting a total of eight (8) criteria in 2009.

3.1.1.4 Conclusion and Recommendations

On the whole, economic results for 2008 are generally mixed. In fact, though the country recorded an accelerated economic growth, the budget deficit worsened to some extent. Similarly, the current transactions deficit excluding grants deteriorated, reaching 10.4% of GDP. This situation is likely to persist as a result of the effects of the international crises. This explains why it is important that appropriate measures are taken to consolidate the macroeconomic framework by among others:

- Pursuing reforms in tax administration in order to improve performance ;
- Identifying measures that will help control current expenditures, especially salaries ;
- Pursing structural reforms required particularly in the energy and cotton sub sectors;
- Ensuring the implementation of the food security emergency programme;
- Strengthening initiatives that will promote the development of new agricultural sub sectors and diversification of exports.

3.1.2 BURKINA FASO

The strategic direction of Burkina Faso's economic policy for 2008 was based on a projected economic growth rate of 4.9%. The achievement of this target depended on climatic conditions, trends in the cotton sub sector as well as the effective implementation of sector reforms and structural measures contained in the programme concluded with the IMF. In this perspective, the inflation target is in line with the community standard. On the other hand, budget projections indicated a deterioration of the overall deficit in spite of the ambitious targets set for revenue mobilization.

At the end of 2008, the growth rate of economic activity stood at 4.5% against 3.6% in 2007. However, the economy was seriously affected by inflationary pressures due to tensions on the international food and energy market. Annual average inflation rate stood at 10.8% against -0.2% in 2007. However, in spite of calls on the State to curb inflationary pressures, the execution of state financial operations led to a reduction in overall deficit excluding grants which settled at 8.5% of GDP. On the contrary, the current account deficit worsened slightly to settle at 9.8% of GDP.

3.1.2.1. Sector analysis

3.1.2.1.1 Real Sector

In 2008, economic activity in real terms expanded by 4.5% against 3.6% in 2007. This performance was to a large extent linked to results achieved in the primary sector which recorded a growth rate of 4.6% after a 4.3% decline in 2007. The best results in the primary sector in 2008 was in a way attributed to the significant improvement in climatic conditions as well as measures taken by the Government as part of the emergency plan for food and nutritional security which resulted in an increase in grain production. This attained its usual level after an exceptional drop in 2007 due largely to the uneven rainfall patterns and floods. Concerning export crops, the increase in the producer price of a kilogramme of cotton seed as well as the stabilization of input prices thanks to government subsidies helped in raising in 2008 the volume of cotton production by 45.2%. Despite this significant upturn, the level of production in 2008 (516 500 tons) was still below the level achieved in 2005 or 2006.

The secondary sector recorded in 2008 a growth rate of 4.7% against 8.1% in 2007. The increase in value added in the secondary sector was essentially imputed to the dynamism in the extractive industries, performance in cotton ginneries and intensification of public infrastructure construction works.

In 2008, value added in the tertiary sector grew by 3.9% against 5.6% in 2007. Results achieved in the tertiary sector in 2008 was largely ascribed to performance in the "transport and telecommunication" component where competition helped in sustaining dynamism as it compelled the various actors to develop initiatives and strategies to conquer the market.

On the whole, the contribution of the primary, secondary, and tertiary sectors to GDP growth was 1.3, 1.1 and 2.1 points respectively.

With a decline in final consumption, investment was the main engine of GDP growth in 2008 in demand terms. In fact, consumption fell by 4.6% after a 3.3% increase in 2007. This decline was attributed to private consumption which dropped by 6.3% in line with a fall in demand and a steep rise in prices of goods and services whilst public consumption stagnated. The Gross Fixed Capital Formation went up by 2.2% against 29.9% in 2007. This slow down is explained by a 0.9% drop in private GFCF in 2008 as a result of a deceleration of investments in the mining sector and the international economic situation marked by the upsurge in the prices of goods and equipment. However, the public sector made efforts to build infrastructure. In fact, public GFCF went up by 8.5% following a drop of 7.5% in 2007. Concerning external trade, imports recorded a growth rate of 11.0% in 2008. Exports declined to settle at 3.7% against 7.4% in 2007.

In all, the rate of investment stood at 21.5% against 15.3% in 2007 and the gross domestic savings rate was 7.4% against 1.0% in 2007.

In terms of prices, Burkina Faso like most countries in the region was adversely affected by the hike in food and energy prices on the international market. Thus, trends in the Harmonized Consumer Price Index at end of December 2008 were reflected in an end of period inflation rate of 11.6% against 2.3% in 2007. Sectors that were mostly affected by the inflationary spiral were "foodstuffs and non alcoholic beverages" and "transport". However, inflationary pressures abated thanks to measures taken by the government to mitigate the impact of rising food prices. These measures involved mainly the suspension of customs duties and VAT on high consumption products as well as the provision of cereals at social prices for vulnerable groups.

3.1.2.1.2 Public Finances

The execution of state financial operations ended up in an overall deficit excluding grants of 12.0% of GDP against a ratio of 12.2% in 2007. This development was due to an increase in internal revenue within a context of relatively controlled expenditures.

In fact, budget revenues went up by nearly 10% in 2008 thanks to increases in both tax and non tax revenues. This is attributed to the good performance in the collection of taxes on goods and services especially VAT following measures taken by tax authorities namely education, computerization as well as the fight against fraud. In spite of all these measures, there was a slight deterioration of revenue indicators in 2008. Thus, the ratio total revenue over GDP fell from 13.6% in 2007 to 13.4% in 2008. Similarly, the tax pressure rate dropped by two points to settle at 12.3%.

In 2008, grants dropped significantly to settle at 146.9 billion (4.1% of GDP) against 210.3 billion (6.5% of GDP) in 2007. This decline is explained by the return to previous trends after exceptional levels were attained following the solidarity exhibited by the international community during the floods experienced in many localities.

Total expenditures and net loans reduced by 5.1% in 2008, representing 21.7% of GDP against 25.7% in 2007. This drop was in respect of capital expenditures which fell by 15.2% in 2008 due to a significant reduction in externally funded investments. This decline was somewhat offset by a 36% increase in investments funded with internal resources. Current expenditures expanded slightly by 1.1% in 2008 but in terms of relative value there was a net decline. The ratio current expenditure over GDP fell from 13.9% in 2007 to 12.6% in 2008. Current expenditures accounted for 94.1% of internal revenue against 102.3% of GDP the previous year. The relative control of current expenditures was due a better management of salary expenditures, transfers and subsidies as well as a fall in interest rates. This helped to achieve a primary surplus excluding grants.

In all, budget operations showed an overall deficit on a cash basis of about CFA 150 billion. This deficit was absorbed through external funds especially drawing on loans and withdrawal of available reserves at BCEAO.

3.1.2.1.3 External Sector

In 2008, the current transactions account showed a deficit of 345.5 billion, representing 9.5% of GDP against 268.4 billion or 8.3% of GDP in 2007. With transfers excluded, the current deficit worsened, widening from 12.6% of GDP in 2007 to 13.5% of GDP in 2008. This situation is attributed to a faster rate of increase in imports whilst exports were on a downward trend. In fact, exports declined by 7% as a result of a 27% fall in cotton exports. On the other hand, gold sales almost doubled following the opening of new mines combined with good prices. With regard to imports, they grew by 8.4% in 2008 due to the upward trend in food and energy prices. These trends were reflected in the drop of the coverage rate of imports by exports. This stood at 43.8% in 2008 while it was 51% in 2007. Concerning other headings of the current account, the trade in services deficit worsened by 8.3% as a result of increases in fret charges in line with the upsurge in imports and transport charges due to rising fuel prices.

The current deficit was offset by net inflows in respect of capital transfers and financial operations which were to the tune of 305.8 billion in 2008 against 457.9% in 2007. This decline in capital inflows is attributed to the significant drop in foreign direct investments into the national economy. These stood at 21.5 billion in 2008 against 164.5 billion in 2007. This drop brings out the exceptional levels of foreign direct investment received in 2007 as a result of the privatization of ONATEL.

In all, the overall balance recorded a deficit to the tune of 39.7 billion 2008 following a surplus of 190 billion in 2007. This deficit was cushioned off with reserves.

3.1.2.1.4 Monetary Sector

In 2008, BCEAO's monetary policy was based on the manipulation of interest rates and the system of mandatory reserves. In order to stem inflationary pressures resulting from the hike in petroleum products and food prices in the first half of 2008, BCEAO opted for a tightening of monetary requirements. Thus, on August 16 2008, monetary authorities decided to raise by a half percentage point the key rate and, for that matter, the pension rate, and peg it at 4.75%. The discount rate was subsequently raised to 6.75% against 4.75% previously. These rates have not been adjusted since 24 August 2006. On the other hand, the issuing institution maintained coefficients applicable to banks and other financial establishments of the Union in terms of mandatory reserves as well as the composition of the base.

In 2008, money supply in a wider sense expanded by 12.0% to settle at 910.9 billion, representing 25.3% of GDP against a ratio of 25.1% in 2007. The monetary wealth created in 2008 was exclusively from internal sources as net external assets dwindled over the period.

In fact, net external assets of the banking systems declined by 9.7% to stand at 369.6 billion against 409.3 billion at end of December 2007. This decline is explained by the use of official reserves to cover the overall balance of payments deficit. Thus, net external assets of the Central Bank dropped by 11.3% to settle at 315 billion. On the other hand, net external assets of money creating banks remained almost stable.

Outstanding domestic credit went up by 34.6% in 2008 to settle at 608.2 billion. This upturn was mainly in favour of the private sector which saw its outstanding credit increase by 22% to reach 666.4 billion. However, the State fell on its reserves at BCEAO to tackle budget operations but improved its creditor position in relation to commercial banks by 11.4 billion.

3.1.2.2 Performance under Macroeconomic Convergence

The status of convergence worsened significantly compared to what was achieved in 2007. Indeed, the total number of criteria achieved decreased from seven (07) to five (05) in 2008. This situation was due to the exceptionally high level of inflation which made it impossible to guarantee positive real interest rates.

Primary Criteria

Two primary criteria were met in 2008 against three in the previous year.

Budget Deficit/GDP

After rising in 2007, the budget deficit reduced substantially in 2008. Due to better control over public expenditures, the budget deficit/GDP ratio dropped from 12.2% in 2007 to 8.5% in 2007, thus returning to 2003 -2004 level. However, more effort is required to bring this indicator back within the community limits.

Inflation

With a year-on-year inflation rate of 11.3%, Burkina was one of the hardest hit countries by the crisis on the international food market. Thus, for the first time since 2000, the country could not meet the ECOWAS criterion on inflation.

Budget Deficit Financing by the Central Bank

All UEMOA countries met the criteria on budget deficit financing by the Central Bank. In fact, BCEAO has stopped financing budget deficits of member states as far back as 2003.

Foreign Reserves

In view of the policy of pooling and common management of reserves under UEMOA, an individual analysis does not seem to be very relevant. However, it is worth noting that the level of reserve attributed to Burkina Faso was above the community standard during the period 2007 – 2008.

Secondary Criteria

At the end of 2008, only three (3) secondary criteria were met, namely those concerning domestic arrears and internally funded investments as well as real exchange rate stability.

Domestic Arrears

In recent years, Burkina Faso has not accumulated domestic arrears.

Tax Revenue/GDP Ratio

The low level of the tax revenue is a source of concern given that the ratio fell from12.5% in 2007 to 12.3% in 2008. Under such conditions, it would be difficult to meet the community standard in the short term.

Wage bill/Tax revenue

Though there was a slight drop compared to the level in 2007, the wage bill/ tax revenue ratio is well above the community standard.

Internally funded Public Investments

The internally funded investments/tax revenue ratio stood at 43.7%. Contrary to the wage bill, this indicator continued to be satisfactory.

Real Interest Rate

With a high inflation rate, it was impossible to maintain positive real interest rate. This was extremely negative (-8.1%) against a positive rate of 1.2% in 2007.

Real Exchange Rate

As in previous years, fluctuations in the real exchange rate remained modest.

Table 3.2: CONVERGENCE STATUS OF BURKINA FASO

	Standard	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary criteria:											
i) Budget Deficit/GDP	≤ 4%	11.7	6.7	9.1	8.2	8.7	9.7	11.2	12.2	8.5	11.3
ii) Inflation Rate	≤ 5%	-3.0	4.0	2.4	1.5	0.9	4.5	1.5	2.3	11.6	3.9
iii) BC Financing	≤ 10% TR n-1	9.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iv) UEMOA Reserves	≥6 months Imports	5.8	6.7	7.6	6.0	6.8	5.7	6.0	6.3	6.0	6.0
Country Reserves (indicative)	B/S	6.0	6.7	7.6	6.0	6.8	4.5	4.2	7.6	6.7	6.7
Secondary criteria											
i) Domestic Arrears		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ii) Tax Revenue/GDP	≥ 20%	11.8	9.4	9.7	10.3	12.1	12.4	11.3	11.9	12.3	12.3
iii) Wage Bill/Tax Revenue	≤ 35%TR	43.7	45.7	42.8	41.7	38.8	40.4	44.1	46.5	44.7	45.4
iv) Int. investments /Tax revenue/	≥20% TR	23.4	24.6	36.0	32.7	41.9	36.3	42.7	35.6	43.7	37.9
v) Real Interest Rates	> 0	6.5	-1.4	-0.4	0.3	2.8	2.7	2.0	1.2	-8.1	-0.4
vi) Real Exchange Rate Stability	± 5%	-	3.3	2.0	5.0	-0.5	3.0	0.3	-0.6	-0.4	0.6
Number of criteria met		7	6	6	7	7	6	7	7	5	7

* Estimates ** Projection

Source: BCEAO, UEMOA and WAMA

3.1.2.3 Prospects for 2009

For 2009, the authorities intend to achieve a growth rate of 5.5%. This improvement would be largely driven by expected positive development in the secondary sector, with its contribution to GDP growth increasing from 1.1 point in 2008 to 2.1points.

Growth in the primary sector would be 3.9% against 4.6% in 2008. This growth would be fuelled by the dynamism in cereal and cotton production. The increase in grain production would be achieved by strengthening the production of off season crops especially as part of the implementation of the food security emergency plan. With regard to cotton production, it is expected that the upward trend triggered in 2008 would be sustained with the provision of subsidies to the tune of 6.5 billion francs to the sub sector.

Growth in value added in the secondary sector would be about 9.3% against 4.7% in 2008 as result of improvement in extractive as well as in the building and public work sectors. In the extractive industries, a rise in gold production and the opening of a zinc mine are expected. The building and public works sector would benefit from the execution of works planned in the Industrial and Commercial Activity Zone (ZACA) in Ouagadougou.

The tertiary sector is expected to grow by 4.4% not as a result of ongoing reforms to improve the business environment but the impact of an improved road network and an expansion of access to financial services.

As regards prices, there would be a significant reduction in inflationary pressures in 2009. This projection is based on the good results obtained in food production, the easing of oil and food prices observed on the international market as well as the opening up of production areas.

Concerning public finances, no improvement is expected in budget fundamentals which will remain weak in 2009. The overall budget balance excluding grants would settle at -11.3%.

For the external accounts, the current deficit may improve in 2009 to settle at 8.2% of GDP against 9.5% in 2008.

With respect to compliance with convergence criteria, the expected reduction in inflationary pressures could help achieve two additional criteria in 2009. This would bring the total number of criteria met to seven (07).

3.1.2.4 Conclusions and Recommendations

The economic situation was marked by a slight improvement in the growth rate but the general macroeconomic environment was affected by the vulnerability of the country's economy to external shocks. Performance in terms of macroeconomic convergence was equally affected by this situation.

In order to improve the macroeconomic situation and for that matter performance in the area of convergence, the Authorities are called upon to:

- Improve the level of tax collection by controlling exemptions and modernizing facilities of tax collection agencies in order to widen the tax net and intensify the fight against fraud and evasion;

- Pursue reforms in the cotton sub sector by promoting processing in the country to ensure its competitiveness and exports.

- Strengthen current policies on food security by diversifying crops and promoting off season farming.

3.1.3 COTE D'IVOIRE

The authorities were banking on a 2.9% growth rate in 2008 due to the gradual return to normalcy of the socio-political situation. However, the persistence of unfavourable economic situation across the world as a result of escalating food and oil prices, a significant rise in inflation was expected. Consequently, the year saw the deterioration of major budget balances due to projections of a marginal increase in total tax revenues compared to expenditures.

On the whole, results obtained at the end of the year were in line with projections. Thus an economic growth rate of 2.9% was recorded in 2008 against 1.5% in 2007. As indicated earlier, inflationary pressures were very high, pushing the year-on-year inflation rate to 8.9%. The overall fiscal balance excluding grants worsened slightly to settle at -1.7% of GDP in 2008 against 1.4% in 2007.

3.1.3.1. Sector Analysis

3.1.3.1.1 Real Sector

In 2008, economic activity grew by 2.9% against 1.5% in 2007. All sectors contributed to this growth.

Thus, the increase in value added in the primary sector rose from 1.8% in 2007 to 2.2% in 2008. This performance was achieved thanks to the improvement in food production and fisheries. In fact, value added in food production went up by 2.9% against 2.7% in 2007. However, production of export crops remained almost stagnant. The 6.1% growth in cocoa production was cancelled by very poor coffee harvest due to the lack of maintenance of plantations combined with erratic rainfall pattern.

In the secondary sector, value added increased by 3.7% in 2008 against 3.1% in 2007. This upturn is due to a revival of activities in the mining and petroleum sector and renewed dynamism in the "public building and works" sector as well as "other industries". Indeed, the execution of major construction works helped achieve a 9.3% growth in 2008 against 2.0% in 2007 in the public building and works sector. Similarly, the improvement in the financial position of Societe Ivoirienne de Raffinage (SIR) which facilitated the refurbishment of production equipment contributed to a growth rate of 5.0% in the energy sector. Besides, the intensification of the fight against smuggling gave a boost to some industries in the country.

In the tertiary sector, value added recorded a 2.4% growth rate propelled by sectors such as telecommunication (+10.9%), trading (+2.5%) and transports (+2.4%).

On the whole, the contribution of the primary, secondary and tertiary sectors to GDP growth was 0.8 point, 0.9 points and 1.2 point respectively.

On the demand side, GDP growth in 2008 was sustained by the combine effects of firming up of consumption and increased investments. The upturn in final consumption which was achieved through the process to end the crisis occurred in both public (+6.0%) and private (+3.8%) sectors. The Gross Fixed Capital Formation recorded a growth rate of 14.0%. This rise stemmed from the volume of public investments which went up by 12.4% thanks to the expected improvement in the business environment as well as the social and political situation. With regard to trade, imports increased by 4.9% while exports rose at more modest pace (+1.7%).

These developments were reflected in gross investment and savings rates of 10.6% and 14.8% respectively in 2008.

In 2008, economic activity was pursued amid strong inflationary pressures due mainly to the energy and food crises. In fact, average inflation rate stood at 6.5% in 2008 against 1.9% in 2008. Year-on-year inflation rate rose from 1.5% in 2007 to 8.9% in 2008. The increases affected mostly “foodstuffs and non alcoholic beverages” and “transport” sub sectors. The hike in prices would have been more severe without the measures taken by government, namely, the suspension of customs duties on high consumption goods and the establishment of a mechanism for consultation with major distributors.

3.1.3.1.2 Public Finances

In 2008, total revenue went up by 8.7% to represent 18.9% of GDP against 19.2% in 2007. The increase in internal revenue was exclusively linked to an 11.6 % rise in tax revenue as non tax revenues dropped by 3.1%. Thus, the tax pressure rate stood at 15.6% against 15.5% in 2007. The improvement in tax revenue, which occurred within a context where the State relinquished 51.2 billion of tax revenue as part of efforts to control the hike in prices, was due to a better performance by tax authorities combined with improvement in economic activity.

Grants went up significantly to reach 180.6 billion in 2008 against 53.6 billion in 2007, indicating a gradual resumption of cooperation with donors and their willingness to support the return to normalcy and the electoral process in particular.

Total expenditures and net loans grew by 13.8% to reach 21.1% of GDP against 20.5% in 2007. This is due to a parallel growth in both recurrent and capital expenditures. Recurrent expenditures went up by 10.3% but accounted for only 16.8% as in 2007. The upward trend in the volume of recurrent expenditures is explained by the increase in the wage bill and interest rate charges on public debt. The expansion of the wage bill is mainly linked to a response to certain claims and recruitment in the social sectors.

Capital expenditures increased by 26.0% to settle at 319 billion. This increase stemmed primarily from the internally funded component which benefited from reconstruction works and major public projects. Capital expenditures accounted for 3% of GDP against 2.7% in 2007.

On the whole, budget operations did not yield any significant balance on a cash basis. However, the mobilization of internal funds to the tune of nearly CFA francs 200 billion helped in repaying external debt of CFA francs 175 billion.

3.1.3.1.3 External Sector

The current transactions balance excluding public transfers recorded a surplus. As a percentage of GDP, it stood at 1.01% following a deficit of 1.5% in 2007. If grants are included, the current surplus was 2.1% against a deficit of 0.7% in 2007. This improvement is essentially due to the significant increase of exports within a context of a moderate rise in imports. The exports of commodities were boosted by the upward trend in quantities and prices of cocoa and petroleum products induced by drilling works on some wells and firming of prices. As a result, cocoa exports grew by 20% while those of petroleum products soared by nearly 30%. However, with regard to imports, the substantial increase in the procurement of food and petroleum products due mainly to the level of prices was offset by the decline in the importation of capital goods. These developments led to an improvement in the rate of coverage of imports which stood at about 150%.

The current surplus helped in settling external payment arrears to the tune of 251.4 billion. It is worth noting generally that the country recorded net inflows of capital as foreign direct investment estimated at 211.5 billion, representing an increase of 3.4% compared to the previous year. This development indicates that investors are regaining more confidence as far as the stability of the country is concerned.

3.1.3.1.4 Monetary Sector

In 2008, BCEAO's monetary policy was based on the manipulation of interest rates and the system of mandatory reserves. In order to stem inflationary pressures resulting from the hike in petroleum products and food prices in the first half of 2008, BCEAO opted for a tightening of monetary requirements. Thus, on August 16 2008, monetary authorities decided to raise by a half percentage point the key rate and, for that matter, the pension rate, to peg it at 4.75%. The discount rate was subsequently raised to 6.75% against 4.75% previously. These rates have not been adjusted since 24 August 2006. On the other hand, the issuing institution maintained coefficients applicable to banks and other financial establishments of the Union in terms of mandatory reserves as well as the composition of the base.

The profile of monetary aggregates did not change much in 2008. In fact, the M2 aggregate grew by 5.6% to settle at 2994.5 billion. This money creation was solely from internal sources.

As at 31st December 2008, external assets declined by 1.9% as a result of dwindling official reserves due particularly to the payment of substantial arrears on external debt. On the other hand, hard currency assets of commercial banks grew significantly in line with the expansion of exports especially cocoa.

Net internal credit went up by 7.2% to settle at 2103.5 billion as at December 2008. This rise was due to an 11.3% growth in banks' support to the private sector which stood at 1704.0 billion. The increase in ordinary credits is ascribed to new facilities provided for companies operating in the food processing, telecommunication and energy sectors. On the other hand, net credit to the State reduced in all by 7.4%. More specifically, the State's position in relation to the Central Bank worsened by 22.0% but it reduced its indebtedness to commercial banks.

3.1.3.2 Performance under Macroeconomic Convergence

An analysis of the convergence status of the Ivorian economy in 2008 reveals that the country's performance has declined to some extent as it could meet only four (04) criteria against (06) during the previous evaluation.

Primary Criteria

In view of high inflationary pressures in 2008, Cote d'Ivoire was able to comply with three (03) criteria against four (04) in 2007.

Budget Deficit

The budget deficit excluding grants worsened in 2008 to settle at 2.3% of GDP against 1.4% in 2007. However, this indicator remained on course in spite of the instability that has shaken the country in recent years and increasing demands on the State to control inflationary pressures in 2008.

Inflation

Year-on-year inflation was 8.9%. Thus, for the first time since 2000, the country could not meet the community requirement in terms of price increases.

Budget deficit financing by the Central Bank

All UEMOA countries met the criterion on budget deficit financing by the Central Bank. In fact BCEAO has stopped financing budget deficits of member states as far back as 2003.

Gross External Reserves

In view of the policy of pooling and common management of reserves under UEMOA, an individual analysis does not seem to be very relevant. However, it is worth noting that the level of reserve attributed to Cote d'Ivoire was below the average. The level of reserves declined somewhat in 2008 with 3.6 months import coverage after a coverage rate of four (4) months in 2007.

Secondary Criteria

With regard to secondary criteria, only one was met in 2008. This was the criterion on real exchange rate stability. The poor results achieved in respect of secondary criteria which are mostly determined by budget aggregates bring to the fore budget adjustments problems. With a reasonable overall budget deficit, the problem lies mainly in the structure of public expenditures.

Domestic Arrears

At the end of 2008, the accumulation of arrears was beyond 50 billion CFA francs.

Tax Revenue/GDP

The tax pressure rate was 15.6% against 15.5% in 2007. The country need to deploy more efforts to meet the regional standard.

Wage Bill/Tax Revenue Ratio

This ratio settled at 43.4% in 2008 against 43.6% in 2007.

Internally funded Public investment/Tax Revenue Ratio

This indicator saw a relative improvement in 2008 to settle at 14.8%. However, it remained far below the target set under the community convergence pact.

Real Interest Rate

Between 2003 and 2007, the low level of inflation guaranteed regularly a positive real interest rate. This was not the case in 2008 which saw an exceptionally high level of inflation.

Real Exchange Rate

Under the current review, the only secondary criterion achieved was the real exchange rate stability.

<u>Table 3.3</u>: CONVERGENCE STATUS OF COTE D'IVOIRE

	Standard	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary Criteria:											
i) Budget Deficit GDP	≤ 4%	1.5	0.4	2.0	3.2	2.6	2.8	1.6	1.4	2.3	1.1
ii) Inflation Rate	≤ 5%	2.5	4.3	3.1	3.3	1.4	2.6	2.0	1.5	8.9	3.0
iii) CB Financing	≤ 10% TR n-1	0.0	0.0	0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iv) UEMOA Reserves	≥6 months Imports	5.8	6.7	7.6	6.0	6.8	5.7	6.0	6.3	6.0	6.0
Country Reserves (indicative)	B/S	*5.8*	*6.7*	*7.6*	*6.0*	*3.9*	*3.0*	*3.5*	*4.0*	*3.6*	*3.5*
Secondary Criteria											
i) Domestic Arrears	?0		0.5	22.1	141.8	72.9	22.6	0.0	62.4	51.4	0.0
ii) Tax Revenue/GDP	≥ 20%	14.3	14.6	15.8	14.5	15.2	14.5	14.9	15.5	15.6	16.5
iii) Wage Bill/Tax R evenue	≤ 35% TR	42.1	41.4	41.6	45.3	44.0	45.0	43.2	43.6	43.4	41.1
iv) Int. Investments/Tax Revenue	≥20% RF	10.6	7.5	11.6	10.5	9.9	10.7	15.5	12.8	14.8	13.3
v) Real Interest Rate	> 0	1.0	-0.8	-0.9	1.0	2.1	0.9	1.5	2.0	-5.4	0.5
vi) Real Exchange Rate Stability	± 5%	-	3.5	4.0	10.2	1.3	-0.1	-0.4	1.7	-1.0	0.0
Number of criteria met		6	5	5	5	6	6	7	6	5	7

Source: BCEAO, UEMOA and WAMA * Estimates** Projection

3.1.3.3 Prospects for 2009

For the year 2009, the authorities are targeting a 4.3% growth in economic activity. This strong growth would be largely fuelled by the primary sector which may record a 4.9% growth in value addition. These projections are based on the assumption of a good performance in the agricultural sector, especially the export crops sector which is expected to grow by 5.8% in terms of value addition. This growth would be achieved thanks to a revamp of the cotton sub sector which has experienced difficulties in recent years. In addition, a 3.4% growth in food production is expected in line with the implementation of measures under the programme on boosting rice production with the aim of achieving self sufficiency in rice production by 2012.

The secondary and tertiary sector would continue to benefit from state support in the form of tax incentives. Activities could also be boosted by improving free flow of road traffic and stimulating internal (West, North and Centre zones) and external (sub region) demand. With these assumptions, a growth of 5.2% is expected in 2009. The tertiary sector would record a growth rate of 3.3%. This will be largely supported by telecommunications, trade, transport and an improvement in services.

With regard to prices, there would be a noticeable easing of inflationary pressures following the drop in energy and food prices in the international market. The year-on-year inflation rate would settle at 3.0%.

As regards public finances, it is expected that there would be a reduction in the overall budget deficit which could settle at 1.1% of GDP. This projection is based on a substantial increase in revenue within a context of a better control over expenditure. This situation could be strengthened by attaining the completion point under the HPIC initiative which will reduce significantly the debt burden.

Concerning the external sector, there would be an improvement. Even though the current balance settled at 1% of GDP in 2008 against 2.1% in 2007, this indicator excluding public transfer should improve. The overall balance would record a surplus.

As far as convergence is concerned, the trend in the indicators should reflect an improvement in the country's performance, with seven (7) being met.

3.1.3.4 Conclusions and Recommendations

The economic situation in Ivory Coast improved in 2008 and prospects for 2009 are promising with the attainment of completion point under the HPIC initiative which will lead to a substantial reduction of the debt burden on public finances. As regards political stability, it should be strengthened given that developments are in tune with the Ouagadougou Accords.

In order to consolidate political stability in the country and improve macroeconomic indicators, measures must be taken to:

- Consolidate socio –political stability by improving compliance with peace agreements and ensuring the organization of free and fair elections in due course;
- Improve revenue collection by strengthening and modernizing tax administration ;
- Improve the structure of public expenditures by ensuring that salaries are under control so as to increase public investments ;
- Pursue structural reforms, particularly in the coffee, cocoa, cotton oil and other energy sub sectors with the aim of removing structural constraints weighing on these sectors.

3.1.4 GUINEA-BISSAU

The economic targets set for 2008 fell under the economic and financial programme which should be supported by post conflict emergency assistance. It was therefore expected that the growth rate would hit 4.3%. This growth was to be supported by an improvement in governance and greater sustainability of public finances and external accounts.

In terms of results, economic activity recorded a growth rate of 3.1% against 2.7% in 2007. However, this recovery in economic activity occurred within a context of strong inflationary pressures. Average annual inflation rate stood at 10.6% in 2008 against 4.6% in 2007. With regard to public finances, the situation remained fragile in spite of a slight improvement in the overall budget deficit excluding grants. Concerning external accounts, the current external deficit in relation to GDP was 5.3% against 8.0% in 2007.

3.1.4.1. Sector Analysis

3.1.4.1.1 Real Sector

Propelled by the dynamism in the secondary sector, GDP growth rate in real terms stood at 3.1% against 2.7% in 2007.

The primary sector recorded a growth rate of 2.3% against 2.5% in 2007. The dynamism in the sector was induced by the rise in cashew and cereal production thanks to a good rain fall.

Value added in the secondary sector grew by 5.9% thanks to the dynamism in the Public Building and Works sub sector due among others to the construction of the Government Palace and Sao Vicente Bridge.

The tertiary sector was also marked by a deceleration of growth, with value added increasing by 3.0% in 2008 against 4.8% in 2007. Reforms initiated within the public administration and investment in the financial, commercial and telecommunication sectors did not yield the expected results.

From the demand perspective, growth was primarily fuelled by consumption and public investments in line with the execution of infrastructure rehabilitation works. Exports also saw a boost thanks to measures aimed at improving the marketing conditions of cashew nuts.

In the course of 2008, year-on-year inflation rate stood at 8.7% against 9.3% in 2007. The increase in prices in 2008 is explained primarily by the hike recorded in the “foodstuffs and non alcoholic beverages” sub sector.

3.1.4.1.2 Public finances

The execution of state financial operations ended up in the reduction of the overall deficit excluding grants. In fact, the deficit dropped by nearly CFA francs 3 billion compared to its level in 2007. This improvement in the overall balance was due to a significant upturn in total revenue excluding grants against a backdrop of moderate increases in expenditures and net loans.

In fact, total budget revenue rose by over 30% to settle at 34.6 billion at end of the budgetary year 2008. Both tax and non tax revenue contributed to this increase. The improvement in mobilization of internal revenue was achieved despite tax relief measures taken to mitigate inflationary pressures. Indeed, government reduced taxes on rice and petroleum products. Customs duties were limited to those of UEMOA and ECOWAS i.e. 2.5%. The package of measures aimed at containing inflation led to a loss of revenue to the tune of CFA francs 2.0 billion.

Grants went up by nearly 13% to settle at 30.7 billion in 2008. This upturn was due to preparation for parliamentary elections. Besides, the conclusion of the post conflict programme helped in mobilizing more external resources in the form of assistance for the execution of public projects (CFAF 14.4 billion) and budgetary support (CFAF 26.1 billion).

Total expenditures and net loans rose by 7.2% in 2008 to reach 77.3 billion. This upward trend is attributed to a 4.6% increase in recurrent expenditures and 11.9% rise in capital expenditures financed mainly with external resources.

3.1.4.1.3 External Sector

In 2008, the balance of payments recorded an overall surplus of 13.1 billion, representing 6.6% of GDP.

Current transactions for the year were marked by a significant drop in the deficit which stood at 5.3% of GDP against a ratio of 8.0% in 2007. This drop in the current deficit was primarily attributed to the increase in current public transfers. In fact, the overall deficit excluding grants worsened, widening from 17.4% of GDP in 2007 to 19.8% in 2008. The trade deficit also worsened slightly despite the significant increase in cashew nut exports as was the case of the

With regard to financial operations, there was a considerable decline in foreign direct investment while portfolio investment remained insignificant.

3.1.4.1.4 Monetary Sector

In 2008, BCEAO's monetary policy was based on the manipulation of interest rates and of mandatory reserves system. In order to stem inflationary pressures resulting from the hike in petroleum products and food prices in the first half of 2008, BCEAO opted for a tightening of monetary requirements. Thus, on August 16 2008, monetary authorities decided to raise by a half percentage point the key rate and, for that matter, the pension rate, to peg it at 4.75%. The discount rate was subsequently raised to 6.75% against 4.75% previously. These rates have not been adjusted since 24 August 2006. On the other hand, the issuing institution maintained coefficients applicable to banks and other financial establishments of the Union in terms of mandatory reserves as well as the composition of the base.

Main monetary aggregates underwent significant changes in 2008. Money supply in the wider sense (M2) expanded by nearly 30% to settle at 89.2 billion as at 31st December 2008. This money creation was from both internal and external sources.

Net external assets of the banking system firmed up by 29.3% to reach 66.6 billion as at end of December 2008. Assets that firmed were mainly external assets of the Central Bank.

With regard to internal assets, internal credit expanded by 34.0% to settle at 27.7 billion as at end of December 2008. The net debtor position of the government improved slightly to stand at 9.1 billion at end of December 2008. Support to the private sector went up by 77.3% compared to the previous financial year.

3.1.4.2 Performance under Macroeconomic Convergence

On the convergence front, there was a decline in the level of performance in 2998. The number of criteria met fell from three (3) in 2007 to two (2) in 2008. However, aggregates saw some improvement in most cases.

Primary Criteria

In respect of primary criteria, two targets were achieved in 2008 as was the case in 2007.

Budget Deficit Excluding Grants/GDP

The budget deficit recorded a slight improvement with a ratio of 20.8% against 24.9% in 2007. However, in spite of this improvement, the profile of budget indicators was a source of concern. The budget continued to rely largely on foreign aid within the framework of post conflict assistance.

Inflation

The inflationary pressures that gripped the country's economy in 2007 could not be curbed in view of the international economic situation. However, the year-on-year inflation rate fell marginally to settle at 8.7% against 9.3% in 2007.

Budget Deficit Financing by the Central Bank

All UEMOA countries met the criteria on budget deficit financing by the Central Bank. In fact, BCEAO stopped financing budget deficits of Member States as far back as 2003.

Foreign Reserves

In view of the policy on pooling and common management of reserves under UEMOA, an individual analysis does not seem to be very relevant. However, it is worth noting that the level of reserve attributed to Guinea Bissau is generally above UEMOA average. The level of reserves declined to some extent in 2008, with 7.8 months of imports coverage against 8.0 months in 2007.

Secondary Criteria

Domestic Arrears

With the accumulation of areas to the tune of 3.1 billion during the 2008 budget year, the country could not meet this criterion.

Tax Revenue/GDP

The country is not yet able to strengthen efficiency in tax administration in order to achieve improved levels of revenue mobilization. The tax pressure rate stood at 10.2% almost the same level as the previous year.

Wage Bill /Tax Revenue

Salaries paid to public servants continued to outstrip mobilized tax revenue. In 2008, the ratio stood at 106.7% against 116.5% in 2007.

Internally funded Investments

The low level of tax revenue combined with the huge expenditures on personnel made it impossible to raise sufficient resources for investment. Thus, investments made in 2008 account for only 12.4% of tax revenue.

Real Interest Rate

In view of the hike in prices, real interest rates have remained negative since 2007.

Real Exchange Rate

Contrary to previous years, fluctuations in real exchange rate went beyond the +/-5% band. The variation in the real effective exchange rate was 10% in 2008.

Table 3.4: CONVERGENCE STATUS OF GUINEA BISSAU

	Standard	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary Criteria:											
i) Budget Deficit/GDP	≤ 4%	24.9	24.7	13.6	23.0	30.1	23.8	19.7	24.9	20.8	22.9
ii) Inflation Rate	≤5%	8.6	3.3	3.9	-3.5	0.9	0.3	3.2	9.3	8.7	3.8
iii) CB Financing	≤ 10%TR n-1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iv) UEMOA Reserves	≥6 months Imports	6.1	6.7	7.6	6.0	6.8	5.7	6.0	6.3	6.0	6.0
Country Reserves (indicative)	B/S	5.8	6.7	7.6	6.0	6.6	8.3	8.4	8.0	7.8	8.1
Secondary Criteria											
i) Domestic Arrears			3.4	5.3	15.8	0.0	8.4	0.0	7.8	3.1	0.0
ii) Tax Revenue/GDP	≥ 20%	11.4	10.4	8.6	9.2	8.3	11.2	11.1	10.3	10.2	8.8
iii) Wage Bill/Tax Revenue	≤35% TR	60.0	74.3	88.2	111.9	155.0	116.2	111.0	116.5	106.7	116.4
iv) Int. Investments/Tax Revenue	≥20% TR	20.0	16.9	5.9	4.2	16.9	9.3	2.2	12.2	12.4	16.9
v) Real Interest Rate	> 0	-5.1	0.2	2.6	3.4	2.6	3.2	0.3	-5.8	-5.2	-0.3
vi) Real Exchange Rate Stability	± 5%	-	1.7	2.6	2.8	1.6	-1.8	1.0	3.1	9.8	0.1
Number of criteria met		**3**	**5**	**5**	**4**	**6**	**4**	**6**	**3**	**2**	**5**

Source: BCEAO, UEMOA and WAMA * Estimates ** Projections

3.1.4.3 Prospects for 2009

In 2009, GDP would record a real growth rate of 3.2% against 3.1% in 2008. Growth in activity will be fuelled by all sectors.

Consequently, value added in the primary sector would increase by 2.3% reflecting good performances in agricultural production and fisheries activities. The boost in agriculture would depend on the actual implementation of measures indicated in the Project on the Rehabilitation of Agricultural and Rural sectors (PRESAR). While the modernization of Bissau fishing harbour as part of the Fisheries Sector Support Project would help boost production.

The secondary sector would record a growth rate of 6.1% against 5.9% in 2008, in line with the normalization of production and supply of electric power in view of the planned reforms in the sector, for which the World Bank has provided 5 750 billion CFAF and the BOAD 2 725 billion of CFAF.

The tertiary sector would grow by 3.1% against 3.0% in 2008. In 2009, this performance will sustained by the expansion of activity in the telecommunication, trade, hotel, catering and transport sectors with the support a more dynamic financial sector.

In terms of prices, it is expected that in 2008, there would be a significant easing of inflationary pressures as a result of a downward trend in petroleum product and food prices on the international market.

With regard to public finances, no improvement is expected. The main budget aggregate would worsen or at best maintain their levels.

Concerning external accounts, an improvement in the trade balance as well as the current account deficit is expected.

In the area of convergence there would be significant improvements in 2009. The country could meet five (five) criteria against only two in 2008. This performance will depend on results expected in terms inflation.

3.1.4.4 Conclusions and Recommendations

The macroeconomic framework of Guinea Bissau remained fragile especially due to the serious and recurrent budget imbalances. The inflationary pressures recorded in 2007 and 2008 have worsened the situation. However, the commitment on the part of Bretton Woods institutions to support Guinea Bissau in its efforts to improve the macroeconomic management of the country would contribute to the restoration of confidence in the private sector and development partners. From this perspective, the year 2009 is looking promising in terms of growth. However, an improvement in the budget situation is not expected in the short term.

The convergence targets set reflect an improvement in the country's performance.

In view of the current situation, the implementation of the following recommendations could help achieve a better macroeconomic stability and compliance with convergence criteria:

1. Consolidate socio-political stability so as to ensure the implementation of structural reforms especially in the energy, water, telecommunication and transport sectors which require a sustainable commitment of the international financial community ;

2. Implement efficiently the Post Conflict Emergency Assistance Programme in order to ensure increased mobilization of external resources required to finance public investment projects;

3. Strengthen efficiency in revenue authorities in order to ensure increased mobilization of internal resources ;

4. Taking strict measures to better control the public service wage bill.

3.1.5. MALI

The economic targets set for the year 2008 fall under the implementation of a multi annual programme (2008 -2010), which stems from strategic directions for the fight against poverty. Consequently, the growth target was set at 4.7% in 2008. In the area of public finances, the budget policy was to be implemented while taking into account the need for an improvement in financial governance. In this regard, measures taken to increase the financial capacity of the State and improve the quality of public expenditure were to be strengthened and pursued.

The results obtained at the end of 2008 were mixed. In fact, the economic growth rate of 4.7% recorded in 2008 was in line with projections and higher than that of 2007 (4.3%). On the other hand, the budget situation worsened and the country experienced strong inflationary pressures.

3.1.5.1. Sector Analysis

3.1.5.1.1 Real Sector

Thanks to the good performance in agricultural production and dynamism in the tertiary sector, real GDP growth rate was 4.7% in 2008 against 4.3% in 2007.

Value added in the primary sector grew by 10% as a result of special efforts made by government to improve food security. In fact, the Rice Initiative set up by the Government during the 2008 -2009 farming season led to a record increase in production (+44%). However, cotton production continued to slump. It recorded a decline of 13.4% due primarily to difficulties surrounding the purchase of seed cotton during the 2007 -2008 farming season and uncertainties about the privatization of CMDT.

Contrary to the dynamism observed in the primary sector, production in the secondary sector continued to decline. In fact, following a drop of 4.6% recorded in 2007, value added in the sector fell by 5.3% in 2008. This decline is explained essentially by a slump in gold production which was estimated at 52.5 tons against 55.3 tons in 2007 as a result of dwindling gold content at the Sadiola and Morila mines. Similarly, activities in the textile industry fell by 32% due to the continued drop in seed cotton production in recent years. Besides, for this same reason, the food processing sub sector experienced a 20% drop in production. On the other hand, the "energy" as well as "Public Building and Works sub sector" grew by 11.2% and 8% respectively due to the execution of construction and infrastructure works.

The tertiary sector activities grew by 6.5% against 10.4% in 2007. In spite of this deceleration resulting from the slump in the economic environment marked by soaring prices on the international market, the sector remained dynamic in view of the vitality in "trading", as well as " transport and telecommunication" sectors which recorded growth rates of 6.5% and 15.2% respectively.

On the demand side, economic growth was sustained by consumption and investments. Total final consumption went up by 4.6% propelled by its two components. The Gross Fixed Capital Formation increased by 1.0% thanks to its private component. This component grew by 10.6% due to the implementation of the rice initiative and investments in mineral exploration.

Concerning external trade, imports grew by 3.5% while exports fell by 3.5% following the reduction in the sale of two major products namely, cotton and gold.
As regards inflation, the end of period inflation stood at 7.8% as at end of December 2008, against 2.2% in 2007. This steep rise in inflation is primarily attributed to foodstuffs as well as "accommodation, water, gas, electricity and other fuels" sub sectors.

3.1.5.1.2 Public Finances

State financial operations ended up with a worsening of the main budget balances. Thus, the overall balance excluding grants in relation to nominal GDP stood at -8.5% against -8.0% in 2007. In the same vein, the overall deficit on a cash basis in relation to GDP deteriorated significantly, widening from 3% in 2007 to 5.8% in 2008. This situation is explained by the appreciable expansion of expenditures and net loans within the context of modest increase of resources.

Total revenues increased by 6.4% in 2008 to reach 15.7% of GDP against a ratio of 16.6% in 2007. The increase in revenue in nominal terms was achieved thanks primarily to the 3.6% rise in tax revenue following the computerization of tax centres and modernization of services. Non tax revenue rose from 22.2 billion to 35.2 billion as a result of dividends paid by mining companies. Besides, projections indicated an insignificant increase of 0.4%. With regard to grants, they remained almost stable when compared to their level in 2007.

Concerning employment, total expenditures and net loans grew by 10.3% in 2008 to account for 24.2% of nominal GDP. This situation is justified mainly by the near 9% increase in current expenditures following measures taken to stave off the economic crisis marked by soaring international prices of consumer products which affected the purchasing power of workers. Consequently, the wage bill expanded by 19.3% due to the increase in salaries of public servants by 5% as well as new recruitment in social sectors and payments in respect of statutory promotion of public servants. In addition, the State's commitment to the implementation of the rice programme and restructuring of the cotton sector had an impact on the level of subventions and transfers. Furthermore, material expenses went up by 20.5% in line with the improvement in operational allocations and creation of new public institutions in the areas of health and basic education in accordance with concerns raised in the PRSP. On the other hand, capital investment fell by 3.7%. This decline was mainly on account of investments expenditures funded with internal resources.

3.1.5.1.3 External Sector

In 2008, the balance of payments recorded an overall deficit of 46.3 billion, representing 1.2% of GDP after a deficit of 0.3% of GDP in 2007. The deterioration of the overall balance is due to the widening of the current deficit against the backdrop of a downward trend in capital transfers.

With regard to current operations, the year was marked by a significant worsening of the trade deficit which settled at 212. 6 billion compared to 138.9 billion in 2007. This is explained by the decline in cotton exports following a 41.6% drop in cotton production during the 2007/2008 farming season combined with an upsurge of 9.2% in imports of food and petroleum products. This deterioration was cushioned off by the growth in non monetary gold sales sustained by an 11.6% increase in the price of the product. Besides, current transactions were compensated for by the appreciable reduction in the revenue deficit as a result of lower repatriation of dividends by mining companies and higher public and private current transfers. In all, the current deficit remained stable at 8.0% of GDP. Similarly, the current deficit excluding grants stabilized at about 10.0% of GDP.

Concerning financial operations, capital transfers in net terms fell from 1553.3 billion in 2007 against 136.1 billion in 2008 due particularly to the drop in transfers to public administration.

With regard to financial operations, the balance settled at 124.2 billion in 2008 against 99.6 billion in 2007. This growth was sustained essentially by other investments especially drawings on external support for public administrations. Foreign direct investment grew modestly to settle at 35.0 billion in 2008.

3.1.5.1.4 Monetary Sector

In 2008, BCEAO's monetary policy was based on the manipulation of interest rates and of mandatory reserves system. In order to stem inflationary pressures resulting from the hike in petroleum products and food prices in the first half of 2008, BCEAO opted for a tightening of monetary requirements. Thus, on August 16 2008, monetary authorities decided to raise by a half percentage point the key rate and, for that matter, the pension rate, and peg it at 4.75%. The discount rate was subsequently raised to 6.75% against 4.75% previously. These rates have not been adjusted since 24 August 2006. On the other hand, the issuing institution maintained coefficients applicable to banks and other financial establishments of the Union in terms of mandatory reserves as well as the composition of the base.

At the end of 2008, the profile of monetary aggregates did not change much. Thus, the M2 aggregate was almost stable compared to its level as at 31st December 2007. In view of the expansion in internal assets was offset by the fall in external assets.

Net external assets increased by 4.4% to settle at 516.7 billion. This is basically due to the support to the private which went up by 7.6% in 2008. Nevertheless, the State improved significantly its creditor position vis-à-vis the banking system.

In line with the balance of payments position, net external assets declined by 8.8%. This decline stems from foreign asset of currency issuing banks which, in net terms, reduced by nearly 80% in the course of the year.

3.1.5.2 Performance under Macroeconomic Convergence

On the convergence front, the situation deteriorated significantly in 2008. The country could only meet five (05) criteria in 2008 against eight (08) in 2007.

Primary criteria

The country could meet only two primary requirements, namely the level of reserves and financing of budget deficit by the Central Bank.

Budget Deficit

The country is still unable to control the budget deficit excluding grants. The budget deficit/GDP ratio worsened in 2008 to settle at 8.5%.

Inflation

The country was not spared the inflationary pressures that affected the region. Year-on-year inflation stood at 7.8% against 2.2% in 2007.

Financing of budget deficit by the Central Bank

All UEMOA countries met the criterion on budget deficit financing by the Central Bank. In fact BCEAO has stopped financing budget deficits of Member States as far back as 2003.

Reserves

In view of the policy on pooling and common management of reserves under UEMOA, an individual analysis does not seem to be very relevant. However, it is worth noting that the level of reserve attributed to Mali is above the UEMOA average. The level of reserves improved to some extent in 2008, with 8.0 months of imports coverage against 7.8 months in 2007.

Secondary Criteria

In 2008, only two secondary criteria were met by Mali against four (4) at the previous evaluation.

Domestic Arrears

In recent years, Mali has not recorded any accumulation of arrears.

Tax Revenue /GDP

The effort of mobilizing tax revenue has not yet yielded the expected results. There was rather a worsening of this ratio. This fell from 15.4% in 2005 to 13.1% in 2008.

Wage Bill/Tax Revenue

The wage bill/tax revenue which had been within the community limits since 2000 went above the limit in 2008 to settle at 38.5%.

Internally funded public investments

Gross investment funded with internal resources accounted for only 26.7% of tax revenue in 2008 against 34.5% in 2007.

Real Interest Rates

In 2008, the high level of inflation had a negative impact on real interest rates, which ended up with a negative value of -4.3%.

Real Exchange Rate

Due to inflationary pressures, the real exchange rate index fluctuated strongly in 2008, recording an annual variation of 8% against 0.5% in 2007.

Table 3.5: CONVERGENCE STATUS OF MALI

	Standard	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary Criteria:											
i) Budget Deficit/GDP	≤ 4%	9.0	9.6	6.9	5.3	6.5	7.1	7.0	8.0	8.5	9.6
ii) Inflation Rate	≤5%	-0.7	5.2	5.0	-1.3	-3.1	3.4	3.6	2.2	7.8	2.6
iii) CB Financing	≤10% TR n-1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iv) UEMOA Reserves	≥6 months Imports	6.1	6.7	7.6	6.0	6.8	5.7	6.0	6.3	6.0	6.0
Country Reserves (indicative)	B/S	5.8	6.7	7.6	6.0	8.5	8.7	7.5	7.3	8.0	7.9
Secondary Criteria											
i) Internal Arrears		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ii) Tax Revenue/GDP	≥ 20%	12.3	12.7	12.5	14.2	15.3	15.4	14.7	14.2	13.1	14.5
iii) Wage Bill/Tax Revenue	≤ 35% TR	31.3	29.1	30.6	27.7	31.2	30.9	31.5	33.4	38.5	36.0
iv) Int. Investments/Tax Revenue	≥20% TR	25.7	22.0	20.5	24.5	22.8	22.0	21.4	34.5	26.7	26.3
v) Real Interest Rate	> 0	1.0	-1.7	-0.6	8.5	2.0	0.1	-0.1	1.3	-4.3	0.9
vi) Real Exchange Rate Stability	± 5%	-	3.6	4.8	1.1	-2.9	3.1	-1.3	0.5	8.0	0.4
Number of criteria met		7	5	7	8	8	7	7	8	5	7

Source: BCEAO, UEMOA and WAMA * Estimates ** Projections

3.1.5.3 Prospects for 2009

In 2009, the authorities are banking on a real GDP growth rate of 5.1%. This growth will depend largely on performance in the primary and tertiary sector.

For the primary sector, projections are targeting a growth rate of 5.4%. This growth would depend on a normal and evenly spread rainfall pattern as well as the effects of the rice initiative launched in 2008 and sustained implementation of some support project for rural development.

With regard to secondary sector activities, value addition should grow by 4.2% mainly as a result of a boost in production in the extractive industry, which will record an increase of 3.1%. The extractive industry would be revamped thanks to the resumption of activity in small mines, namely Kodieran, Tabacoto and Syama. Besides, activities in the energy sub sector would grow by 10% as a result of major investments aimed at expanding electricity supply across the country. The building and public works sub sector would benefit from construction work on the third bridge of Bamako.

Value addition in the tertiary sector would record a growth rate of 5.6% propelled mainly by the dynamism in trade and "transport and telecommunication" sub sectors which would grow by 7.2% and 8.5% respectively. Activity in the "transport and telecommunication" sub sector would be boosted with the expansion of mobile telephone networks and the arrival of a new private operator following the privatization of SOTELMA.

Economic activity would be pursued in 2009 within the context of relative price stability in view of adequate supply of local products and the gradual stabilization of food and petroleum prices on the international market.

Concerning public finances, there would be a consolidation of revenue collection which would however not lead to a reduction in the overall deficit excluding grants.

As regards external transactions, it is expected that there would be a reduction in the current deficit which, in relation to GDP, would settle at 7.2% against 7.9% in 2007.

In the area of macroeconomic convergence, the country would comply with a total of seven (7) criteria, including three primary ones.

3.1.5.4 Conclusions and recommendations

The main challenge for the Malian economy is to achieve a growth rate compatible with poverty reduction objectives without compromising current efforts at streamlining the macroeconomic framework through the rationalization of budget operations.

From this perspective, the following targeted actions could help address this major concern and to guarantee the inclusion of economic targets set under the ECOWAS macroeconomic convergence programme:

- Support food crop and off season crop sectors in order to achieve food self-sufficiency and win the fight against inflation ;
- Strengthen efficiency in revenue agencies in order to increase the tax pressure rate;
- Control current expenditures especially the salary line which is beginning to go beyond the standard;

- Implement the various sector reforms in the areas of cotton production, baking, telecommunication, water and electricity.

3.1.6 NIGER

As was the case in 2007, the priority of Niger's economic and political authorities was the implementation of the poverty reduction programme while maintaining a stable macroeconomic and financial framework. This was to be achieved through the implementation of far reaching structural reforms aimed particularly at reducing Niger's vulnerability to external shocks through the diversification of the economy and private sector development. Thus, the aim of the government was to raise significantly internal tax revenue and control public expenditure within a stable macroeconomic framework.

In terms of achievement, economic growth rose to 5.9% in 2008 against 3.3% in 2007. This growth rate was mainly sustained by the primary sector, thanks to the good harvest obtained during the farming season. Economic activity was pursued within a context of escalating prices. In 2008, the annual average inflation rate stood at 11.1% against 0.1% in 2007 while the end of period inflation was 13.6%. Concerning external accounts, the current account deficit of the balance of payments worsened, widening from 8.5% to 13.0% in 2008 in line with the high level of imports made and its related freights. However, the overall balance settled at 0.5% of GDP against -1.0% in 2007. The monetary situation was marked by the consolidation of net external assets, an increase of 27.4% of internal credit following an improvement of net credit to the government and a 34.7% increase (NCG) in credits to the economy. Similarly, money supply expanded by 21.4%.

The projected growth rate for 2009 is 4.5%, inflation 3.9% and the deficit would stabilize at 13.8%.

3.1.6.1 Sectoral Analysis

3.1.6.1.1 Real Sector

Production

High agricultural yields, a high growth rate of the Public Buildings and Works (BTP) sector and an impressive performance of the industrial, transport and communication sectors dominated the economic activity in 2008. The primary sector recorded a growth rate of 8.6 % in 2008 as against 4.0 % in 2007. This high growth rate was attributable to the agricultural output which improved by 11.6 % in 2008 as against 3.8 % in 2007. This performance resulted from the heavy rainfall observed during the agricultural season. For the other branches, forestry development, like in 2008, recorded a growth rate of 3.4 %, whilst fisheries improved by 4.1 % as against 2.6 % in 2007. Livestock improved by 4.2 % as against 4.4% in 2007.

The secondary sector recorded a growth rate of 0.9% as against a decline of 1.1% in 2007. This performance resulted from the revamping of energy production and the dynamism of the BTP activities. In effect, the energy branch recorded a high growth rate of 9.3% as against 3.3% in 2007, with the extension and electrification of the rural areas. The construction branch recorded a growth rate of 5.9%in 2008 as against 3.1 % in 2007. On the other hand, in spite of the increase in the price of uranium, mining output retrogressed by -7.3%. With regards to manufacturing activities, value added improved by 3.9 % as against 2.3% in 2007, with the impressive performance of the food and chemical industries.

In the tertiary sector, economic activity recorded a real growth rate of 4.6% in 2008 as against 3.9 5 in 2007. This development was particularly attributable to the projected performance in the communication, transport and public service branches which improved by 5.0%, 4.95 and 6.0% respectively.

In 2008, the contributions of the primary, secondary and tertiary sectors to GDP growth stood at 3.7 points, 0.1 point and 2.1 points receptively.

With regards to demand, economic growth resulted in increased consumption and investment. Total household consumption which is the major component of GDP, accounted for 71.5% in 2008 in 2008. It improved by 4.8% in 2008 thanks to the harvest boom and improvement in revenue level. Total public service consumption increased by 6.8%.

With regards to investments, a high growth rate was recorded in both the private sector (10.2 %) and public sector (12.2%), with an increase in public capital expenditure and further investments in the areas of mining research, particularly for uranium and oil, energy and communication.

External trade deficits worsened seriously. Imports increased by 8.5% to 23.6 % of GDP. This development was in line with the demand for capital goods and foodstuffs. Exports increased by 3.9% to 18.3% of GDP, thanks to the increased output of uranium and agro-pastoral products.

The contribution of end user consumption, investment, exports and imports in 2008 stood at 4.4 points, 2,7 points, 0.7 point and -1.9 point respectively.

The gross domestic savings rate stood at 11.3 % as against 10.9 % in 2007 whilst the rate of investment stood at 26.3 % as against 23.6% in 2007.

3.1.6.1.2 Public Finance and Public Debt

In 2008, fiscal revenue improved by 31.8%, representing 17.5 % of GDP, as against 15.2% in 2007. Tax revenue improved by 9.7 % to 11.0 % of GDP as against 11.5% in 2007. These developments were mainly attributable to domestic tax revenue. The door tax revenue situation was due to measures taken by the Government to dismantle tariff and customs duties as stipulated by ECOWAS for some high demand consumer commodities. The impressive performance of domestic taxation was due to a more effective recovery of industrial and commercial profits (BIC) and the value added tax (VAT). Non tax revenue stood at 6.4 % of GDP as against 3.5 % in 2007, in line with the new revenue from mining licenses and bonus for signing the oil licence disposal, as well as exceptional dividends from mining companies.

Total expenditure and net lending increased by 17.05 in 2008, representing 232.9 % of GDP. Current expenditure stood at 12.6% of GDP in 2008 as against 11.7% in 2007, showing an increase of 22.6%, resulting from transfers and subsidies, other current expenditure and wages. The wage bill recorded an increase of 19.5%. Capital expenditure stood at 11.3 % of GDP in 2008as against 11.6 % in 2007. These developments especially resulted from an increase of 38.4% in capital expenditure financed from domestic resources.

With regards to domestic and external public debt, the rate (volume) of indebtedness decreased by 7.1 percentage points. Thus, the volume of total public debt as a ratio of nominal GDP increased from 24.0% in 2007 to 16.9% in 2008. The external component was estimated at 61.7% of the total volume and 11.1% of GDP. The external debt stock was estimated at 38.3% of the total volume.

3.1.6.1.2 External Trade and Balance of Payments

The overall balance in the balance of payments improved when the State received the bonus for signing the oil license disposal in 2008. The current deficit, excluding grants, a ratio of GDP, increased from 10.7% in 2007 to 15.3% in 2008 as a result of the worsening deficit in all its components with the exception of current transfers. Trade balance worsened by 80.9 billion CFA Francs when compared to 2007. Exports increased by 47.5 billion CFA Francs when compared to 2007, propelled by that of uranium (price of uranium per kilogram rose by 37.5%), gold and the major agro-pastoral products. Imports increased by 127.9 billion CFA Francs, attributable to the performance of the entire group of products. The capital account and financial operations balance improved by 43.2% when compared to 2007, This development resulted particularly from capital transfers, with the financial operations account declining as a result of the dwindling drawings on public lending

3.1.6.1.3 Monetary Situation

The net external position of monetary institutions improved by 50.2 billion CFA Francs by end December 2008. The volume of domestic credits rose by 27.4% when compared to 2007. The Government's net position improved by 27.7 billion CFA Francs as a result of the State's increasing claims on the banking system. Credits to the economy increased by 34.7 % when compared to their December 2007 level, in line with the increase in ordinary credits. The increase in the volume of ordinary credits was mainly due to cash advances given to the oil, mining, telecommunication, energy, hotel and service companies, Money supply increased by 21.4% by end December 2008. This increase in overall liquidity resulted in a 29.6% increase in bank deposits and a 7.7% increase in fiduciary circulation.

3.1.6.2 Performance under Macroeconomic Convergence

On the whole, the level of performance of Niger deteriorated in 2008. The country met five (05) targets, including two primary criteria, against seven (07) in 2007. The public deficit ratio improved during the period due to an increase in the tax revenue/GDP ratio as well as lower recurrent expenditure. The relative control of expenditures, especially primary ones besides wage related expenditures explains this improvement. In spite of a slight improvement, the tax pressure rate remained one of the lowest in the sub region. The increasing inflationary pressures made it impossible to guarantee positive interest rates that would boost internal saving mobilization efforts. However, inflation aggregates in relation to trading partners have remained since 2004 at acceptable level; this has ensured a lower appreciation and a relative stability of the real effective exchange rate.

Primary Criteria

At the end of 2008, Niger met two primary criteria, namely the coverage of import of goods and services by gross reserves and the budget deficit financing by the Central Bank.

Budget Deficit/GDP Ratio

In 2008, Niger's finances improved. The budget deficit excluding grants shrunk from 8.2% in 2007 to 6.2% in 2008. Though the country could not comply with the community standard, its performance in terms of public finances improved by 2 percentage points. This situation was attributed to a disproportionate increase in revenues and expenditures. Budget revenue increased by 31.8% to reach 407.4 billion, representing 17.5% of GDP against 15.2% in 2007 while total expenditures and net loans rose by 17.0% in 2008 and accounted for 23.9% of GDP. This performance was backed by non tax revenue estimated at 149.0 billion in 2008, representing 6.4% of GDP against 3.5% in 2007. These revenues accrued from new mining licenses and bonus from issuing petroleum license as well as special dividends from mining companies.

Inflation

Niger was also affected by the world inflationary spiral. At the end of 2008, end of period inflation rate stood at 13.6% in 2008 against 4.7% in 2007. On the average, prices increased at an annual compound rate of 4.8%. Niger had always met the community standard.

Gross External Reserves

Concerning the coverage of import of goods and services, UEMOA countries have a common reserve and as such the criteria is achieved at the zonal and therefore all member states comply with the community standard.

Budget Deficit Financing by the Central Bank

All UEMOA countries met the criterion on budget deficit financing by the Central Bank as BCEAO has stopped financing budget deficits of Member States as far back as 2003.

Secondary Criteria

As at end of 2008, three secondary criteria were met by Niger, namely the non accumulation of domestic arrears, level of wage bill and real effective exchange rate stability.

Domestic Arrears

Since 2006, Niger has not recorded an accumulation of domestic arrears. .

Tax Revenue/GDP Ratio

The tax revenue/GDP ratio deteriorated to some extent compared to 2007 and remained at a disturbing level in view of the community target set at 20%. Tax revenues grew by 9.7% to settle at 10.7% of GDP against 11.5% in 2007. This situation was attributed to measures taken by government to reduce duties and tariffs on some high consumption goods within the framework of ECOWAS. The good performance with regard to internal revenue was due to a better collection of taxes on industrial and commercial profits as well as value added tax (VAT).

Wage Bill/Tax Revenue

Since 2005, the wage bill/ tax revenue ratio is in line with the community standard. The wage bill grew from 31.0% in 2007 to 33.7% of total tax revenue in 2008, representing an increase of 19.5%.

Internally Funded Public Investments

The upward trend in capital expenditure was due to a 38.4% growth in capital expenditures funded with internal resources. Internally funded public investment was 47.3% in 2008 against 37.5% in 2007. Since 2003, Niger has always observed this criterion.

Real Interest Rate

The real interest rate which was already negative in 2007 could not be restored given the level of price escalation. It fell from -1.2% in 2007 to -10.1% in 2008.

Real Exchange Rate

At the end of 2008, the real effective exchange rate fluctuated by 9.5%, a figure well above the community standard.

Table 3.6: CONVERGENCE STATUS OF NIGER

	Target	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary Criteria:											
i) Budget Deficit/GDP	≤ 4%	8.9	8.0	8.5	7.8	9.5	9.5	6.8	8.2	6.2	13.8
ii) Inflation Rate	≤ 5%	2.9	4.0	2.6	-1.6	0.2	4.2	0.3	4.7	13.6	3.9
iii) Deficit Financing by CB	≤ 10% RF n-1	0.0	4.9	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iv) Reserves UEMOA	≥6 mois Imports	6.1	6.7	7.6	6.0	6.8	5.7	6.0	6.3	6.0	6.0
Country Reserves (indicative)		5.8	6.7	7.6	6.0	4.0	4.4	4.9	5.7	4.7	4.9
Secondary Criteria:											
i) Domestic arrears		0.0	0.0	2.6	0.0	3.2	2.0	0.0	0.0	0.0	0.0
ii) Tax Revenue/GDP	≥ 20%	9.1	8.9	10.5	10.5	11.6	10.2	10.7	11.5	10.7	11.4
iii) Salary Mass/Tax Revenue (TR)	≤ 35% RF	50.4	40.2	38.2	37.5	35.2	34.8	33.4	31.0	33.7	32.4
iv) Domestic Investissements /TR	≥20% RF	7.9	20.0	18.7	26.6	30.4	40.4	32.9	37.5	47.3	41.6
v) Real Interest Rate	> 0	0.6	-0.5	2.9	5.0	3.3	-0.7	3.2	-1.2	-10.1	-0.4
vi) Real Exchnage Rate Stability	± 5%	-	2.3	2.0	3.7	0.6	4.4	-3.1	0.9	9.5	0.5
No. of Criteria Met		5	6	5	7	6	5	8	7	5	8

Source: BCEAO, UEMOA and WAMA * Estimates ** Projections

3.1.6.3 Prospects for 2009

Growth rate of output is expected to reach 4.5% in 2009. It would be sustained by all sectors. Indeed, substantial investments would be made under major initiatives in agricultural, mining, road and energy sectors. Implementation of various projects initiated in the secondary sector would help to boost growth in the sector. This concerns mainly the operations of a coal mine, the related construction of a power plant, commencement of investments for the exploitation of a uranium mine and Agadem oil deposit, construction works on an oil refinery and a 500-km pipeline linking the deposit site to the refinery, continuation of investments in the energy sector as well as the government's road projects.

With regard to demand, growth in 2009 would continue to be boosted by consumption and investments. Indeed, increase in household incomes and public expenditures would stimulate final consumption. Likewise, many investment projects will be made in 2009 by the private sector and the State. As such, the rate of investment would go up and funding would be ensured through substantial support from external resources.

Concerning public finances, total revenue would fall drastically to 12.2% of GDP in 2009, from17.5% in 2008 due to the low level of non-tax revenue. Total expenditures and net loans would shoot up in 2009 from 17.1% to 26.2% of GDP. This trend would be justified by the two expenditure components, but mainly by capital expenditure which would record a growth of 26.6% compared to 8.6% for current expenditure.

In 2009, the overall position of the balance of payments would register a surplus of 5.0 billion. The current balance would show a deficit of 15.3% of GDP. Trade deficit would be 191.0 billon compared to 194.8 billion in 2008. This is due to a substantial increase in exports compared to imports. Exports would reach 405.5 billion in 2009, i.e. an increase of 10.4% over that of 2008, thanks to the main components, particularly uranium and gold.

3.1.6.4 Conclusions and Recommendations

In spite of the relative sluggishness of the global economic and financial outlook in 2008, economic activity in Niger was characterized by economic growth. Indeed, the actual growth rate of GDP went up from 3.3% in 2007 to 5.9% in 2008, sustained mainly by the primary sector. This performance was attributed to the favourable agricultural season and further investments in the power, construction, transport, telecommunications and mining sectors.

With regard to macroeconomic convergence, public finances recovered significantly with improvement in budget balance, even-though the criterion was not met. However, this performance was driven by non tax revenues which remained uncertain, thus compromising the sustainability of compliance with this key criterion. Apart from non compliance with the criterion on inflation due to rising cost of fuel and food, the two other primary criteria and three secondary criteria were met. Efforts made have begun to bear fruit.

However, performance remains precarious. As such, additional efforts should be made to strengthen the current economic situation. In specific terms, the government should:

1. Pursue specific actions to expand the tax net and improve budget revenue collection through the consolidation of measures recommended in the action plans of the financial authorities;
2. Ensure better allocation of expenditures, by controlling especially the content and trends in the transfer and subsidies items;
3. Pursue and strengthen structural and sector reforms in order to promote strong and sustainable economic growth needed for poverty reduction;
4. Promote local food production in order to reduce the country's dependency on external sources and exposure to tensions on the international market;
5. Promote export products through a sensitization and incentive policy on diversification of products in order to increase the sources of enhancing balance of payments;
6. Implement programmes on irrigation and rehabilitation of hydro-agricultural schemes to reinforce agricultural production so as to ensure food security and control inflation;
7. Diversify production through the development of the food products sub-sectors and those of export products so as to strengthen the economic growth base.

3.1.7. SENEGAL

Senegal's medium- and long-term economic and financial development objectives are to raise the contribution of exports to economic growth and to lower, in the long-term, the external current account deficit excluding grants to less than the 5% threshold set within the framework of multilateral surveillance within UEMOA. Senegal intends to work also to maintain and consolidate economic and financial stability by restoring, in the short-term, the basic budget balance in relation to nominal GDP to a positive level, the inflation rate to less than the 3% threshold and, in the medium- and long-term, and balance of payments deficit to less than 5%.

In 2008, Senegal's economic and financial situation was characterized by the constant rise in the prices of food products and high cost of energy products that led to a fall in demand. Concerning supply, implementation of the Great Agricultural Offensive for Food and Abundance (GOANA), coupled with a good rainfall pattern, was favourable to agriculture. The secondary sector was affected by delays in State payments to the private sector and difficulties of the **ICS**, in spite of their recapitalization. The service sector was marked by a slowdown, due especially to the 18.5% fall in real estate business. As such, the GDP real growth rate was estimated at 3.9% in 2008 against 4.8% in 2007. Inflation, measured by the Harmonized Consumer Price Index, was about 6% at the end of 2008, due mainly to hikes in the prices of food by more than 10% and, to a lesser extent, in prices of energy products.

Management of the 2008 budget was characterized by treasury problems attributable to expenditure on energy and food sector support which was estimated at 163 billion, i.e. 2% of GDP. However, mobilization of tax revenue increased by 9.9% compared to 2007. This situation is due to increased tax revenue collection, on the one hand, and public expenditure control, particularly capital expenditure, on the other hand.

On the external front, the current account deficit (including donations) was estimated at 12.1% of GDP in 2008 against 10.9% of GDP in 2007. The deterioration of the current deficit could be explained by the worsening trade balance as well as services and income balance, cushioned by the surplus of current transfers. The monetary situation in 2008 was characterized by a 176.9 billion drop in net external assets, a 19.0% increase in domestic credit and a 3.8% expansion in money supply.

In 2009, macroeconomic prospects will depend on pursuing the growth objectives and a series of measures envisaged in the second generation Poverty Reduction Strategy Document (PRSP).

3.1.7.1 Sectoral Analysis

3.1.7.1.1 Real sector

a) Production

The favourable rainy season, coupled with the implementation of the GOANA initiated by the Government, boosted agriculture. The primary sector improved by 14.9% in 2008 as against a decline of 0.3% in 2007, resulting from the recovery of the agricultural sector. The sub-agricultural sector improved by 24% as against a decline of 8.6% in 2007. This performance of the sub-agricultural sector was also as a result of industrial commodity supplies which increased by 36.4%, as well as food crops which improved by approximately 18.9%. The livestock sub-sector improved by 8.4% in 2008 as against 10.2% in the previous year, showing the continued dynamism propelled by the high demand. The fisheries sub-sector improved by 1.8% as against a decline of 8.2 % in 2007. The slowdown in catches was attributable to the further 24% decline in industrial fishing activity, reflecting the difficulties encountered in the sector, particularly with regards to the resource scarcity. This situation was alleviated by the sound management of local fishing, which grew by 6.8%.

The secondary sector declined by 0.9 as against a growth rate of 4.3% in 2007. This situation stemmed not only from the poor performance recorded by the extractive, raw food and chemical sub-sectors, but also from the decline in demand following the hike in the prices of foodstuff and energy products. In effect, the fact that nearly a quarter of industrialists are in support of a decline in demand constitutes the major constraint facing the sector. It should also be underscored that the secondary sector was affected by the late payment made by the State to the private sector and the difficulties the ICS have been facing, in spite of their recapitalisation.

The tertiary sector was characterised by a slowdown due particularly to the 18.5% decline in real estate activities. The growth of the sector was estimated at 4.6% as against 6.8% in 2007. This situation resulted particularly from the decline in the other services particularly housing activities, which dropped by 18.5% after the 15% growth a year earlier. The poor performance of this sub-sector was related to inadequate demand, especially for office materials, due to adverse domestic economic conditions on one hand, and the State's claims on the private sector, on the other. With regards to demand, total consumption was estimated at about 91% of GDP in 2008, representing, like in 2007, a domestic savings rate of 9%. The Fixed Gross Capital Formation (FGCF) progressed by 0.5% in 2008 as against 6.8% in 2007. This slowdown was mainly attributable to the public FGCF which retrogressed by 7.6%. The private FGCF improved in relative terms by 3.3% in 2007. The investment rate measured by the FGCF thus stood at 22.9% in 2008 as against 24.2% in 2007.

Domestic demand rose by 4.5% in 2008, as against 6.7% in the previous year, propelled by end user consumption. External demand, on its part, was characterised by the slowdown in imports which increased by 1.1% and the 3.9% decline in exports. Thus the trade deficit was estimated at 20.9% of GDP.

b) Prices and Inflation

Average inflation stood at 7.8% as against 5.4% in 2007 although by the end of the period inflation was estimated at 4.3% en 2008 as against 6.1% in 2007. This increase was attributable to the rising cost of basic food items as a result of the food crisis and the high cost of crude oil on one hand, and the increase in the prices of certain export commodities, particularly chemical products. However, inflation was alleviated by State subsidies for certain products. With such inflationary tensions, the Senegalese economy recorded competitive losses of around 4% due mainly to an adverse inflation differential in relation to its major partners, with the exception of the UEMOA zone, and to a lesser extent an appreciation of the domestic currency, following the appreciation of the Euro against those of ECOWAS and the industrialised countries.

3.1.7.1.2 Public Finance

Fiscal management in 2008 resulted in a satisfactory level of fiscal revenue collection and gradual control of public expenditure, particularly with a view to regularizing the State's payment situation vis a vis the private sector recorded during the last two fiscal years. The fiscal revenue for 2008 year improved by 9.9% in 2008 when compared to the 2007 level. This improvement was attributable to the encouraging developments in the tax revenue collection particularly the domestic VAT, the specific petroleum tax and income tax. The tax revenue collected for year 2008 increased by 11.5%, reflecting a less rapid development than that of the activity which improved by 12%, representing a 1.5 point decline in tax revenue. This slight drop in tax revenue could be attributed to the decline in the excise duties and import VAT on petroleum of 4.9% and 3.4% respectively. Thus, the fiscal pressure stood at 19.5% of GDP, which was slightly above the 17% ceiling adopted at the Community level.

Total expenditure and net lendings rose by 7.5%. They comprised current expenditure estimated at 995.9 billion CFA Francs, capital expenditure evaluated at 549.9 billion CFA Francs and net lendings of -2,7 billion CFA Francs. Personnel cost for year 2008 increased by 9% when compared to the 2007 management budget, mainly made up of bonuses and other allowances, with basic salaries increasing by a mere 4% on average. The salary mass/tax revenue ratio remained below the 35% Community ceiling at 30.8% as against 31.6% in 2007, representing an improvement of 0.7 point.

Capital expenditure declined by 2.7% attributable to capital expenditure financed from domestic resources. The HIPC and IADM revenue declined by 10.6 % when compared to 2007, reflecting the finalisation of the first phase of the major public works, particularly within the framework of the Urban Mobility Improvement Programme (PAMU). However, the ratio of capital expenditure funded from domestic resources to tax revenue remained above the 20 %

Community threshold, to 27.9%. Externally funded Investment expenditure improved by 11.2%.

On the whole, overall budget deficit (on commitment basis) stood at 3.4% of GDP as against 3.5% of GDP in 2007. Excluding grants, this deficit stood at 5.6% of GDP. The basic budget deficit (excluding HIPC and IADM) stood at 0.5% of GDP. With regards to financing, the recourse to net external increased by 79.2 billion CFA Francs when compared to 2007, mainly attributable to the quantum of drawings. Net domestic financing was evaluated at -1.4 billion CFA Francs. Bank financing declined by 7.3 billion CFA Francs in 2008 as a result of public stock repayments (treasury bills and bond issue), which were higher than the issuances.

The total volume of public debt was estimated at 26% of Gross Domestic Product in 2008 as against 23.7% in 2007. It consisted of external debt (19.5% of GDP) and domestic debt (6.% of GDP). Domestic debt included bond issue worth 152.6 billion CFA Francs and treasury bills worth 54.7 billion CFA Francs.

Furthermore, external debt servicing amounted to 6.3% of fiscal revenue as against a viability threshold of 30%. In relation to the export of goods and services, it represented 5.6% as against a ceiling of 20% adopted under the public debt viability analysis.

3.1.7.1.3 External Sector

In 2008, Senegal's balance of payments was estimated at an overall deficit balance of 176.9 billion CFA Francs whilst in 2007, a surplus of 69.3 billion CFA Francs had been recorded. This situation reflected the combined effect of the worsening deficit balance of current transactions and the decline in the surplus of the capital and financial operations account within the last two years. The deficit balance in the current balance (including grants) was estimated at 12.1% of GDP in2008 as against 10.9% in 2007. Excluding grants, it stood at 12.9% of GDP in 2008 as against 11.8% in 2007.

The capital and financial operations account posted a surplus balance but inadequate to cover the deficit in current transactions. Capital transfers in 2008 declined when compared to 2007, due exclusively to the decline in public capital transfers. In effect, the magnitude of the level observed in 2007 was mainly as a result of the proceeds from the sale of the third mobile telephone license (89.1 billion).

The financial operations account posted a decline of 31.5 billion when compared to 2007. The latter resulted mainly from the drop recorded in private capital, alleviated by the decline in the FDIs and public capital.

3.1.7.1.4 Monetary Sector

The monetary institutions' situation in 2008 was characterized by a decline in net foreign assets, a 19.0% increase in domestic credit and a 3.8% expansion in money supply. The net external position of monetary institutions worsened by 176.9 billion when compared to 2007. This situation was attributable to both the Central Bank and deposit banks which accounted for 109.2 billion and 67.7 billion respectively

The volume of domestic credit increased by 252.0 billion from 1,323.4 billion to 1,575.4 billion between 2007 and 2008 mainly as a result of credits granted to the private sector; with the Government's net position showing some improvement.

In effect, year 2008 was marked by the State's net disengagement of 7.3 billion from the banking system, particularly commercial banks. This decline in net credits to the State was exclusively attributable to repayments of treasury bills held by banks which helped to offset 19.1 billion of the State's indebtedness to the banking system. With regards to the Central Bank, the retrocession of the IMF lendings accounted for the 11.8 billion increase in the State's indebtedness.

Reflecting the developments of its counterparts, money supply expanded by 3.8% in 2008 when compared to 2007. Thus, the liquidity rate of the economy dropped from 36.8% to 34.2% between 2007 and 2008. Fiduciary circulation and mainly bank deposits (banks and CCP – 98.5%) increased in 2008.

3.1.7.2 Performance under Macroeconomic Convergence

In 2008, Senegal met additional two criteria compared to 2007. Senegal fulfilled seven (7) convergence criteria in 2008 as in 2006. The only primary criterion that was not met was the one on budget balance excluding grants (See Table 3.7).

Primary Criteria

The three primary criteria that were fulfilled at the end of 2008 were inflation, level of reserves and the financing of budget operations by the Central Bank.

Budget Deficit /GDP ratio

In 2008, the public finances situation was marked by a 10.0% increase in tax revenue, i.e. 20.2% of GDP against 20.6% in 2007. This trend was induced by a decline in tax revenue which recorded an increase of 11.6% in 2008 against 13% in 2007, as a result of the suspension or reduction of certain taxes decided by the government to control the hike in prices of foodstuffs and petroleum products. Non tax revenue decreased by 18.6%, representing 0.8% of GDP. Grants accounted for 2.1% of GDP in 2008 compared to 2.5% in 2007.

Total expenditures and net loans in 2008 went up by 11.5% to settle at 26.7% of GDP compared to 26.8% the previous year. Current expenditures grew by 21,7%, boosted especially by transfer and subsidy expenditures owing to measures put in place by the government of Senegal to curb the effects of increases in the price of foodstuffs. The wage bill and interest on public debt increased by 9.0% and 21.6% respectively. Capital expenditure went down by 2.7% with a 10.6% decrease in the component financed with internal resources.

On the whole, the budget deficit excluding grants worsened from 6.2% in 2007 to 6.6% in 2008. The overall deficit went up from 3.8% in 2007 to 4.4% in 2008.

Inflation

Senegal performed well as regards inflation in 2008. The annual inflation rate at the end of the period settled at 4.3% in 2008 compared to 6.1% in 2007. This inflation is explained by the rise in the prices of "food products and non alcoholic beverages" and the function "transport". This situation is induced by the increase in the price of foodstuffs and transport following the rise in prices, especially world prices of petroleum products and cereals. However, at the end of 2008, the drop in inflation compared to the previous year may be explained by the fall in the price of oil and certain essential commodities.

Gross External Reserves

For UEMOA countries, the import coverage of reserves is given purely for information purposes. The reserves are common to all UEMOA countries. Thus, as the criterion is achieved at the zonal level, it can be deduced that all member countries of the Union have complied with the community standard.

Financing of budget deficit by the Central Bank

The criterion on the financing of budget deficit by the Central Bank is fulfilled by all UEMOA countries, because since 2003 BCEAO no longer finances the budget deficits of member States.

Secondary Criteria

Indicators relating to domestic arrears, wage bill, investments from internally-generated resources and the stability of the real exchange rate were satisfactory in 2008.

Domestic Arrears

Senegal's performance regarding this criterion has always been satisfactory.

Tax Revenue/GDP Ratio

The tax pressure rate went up from 19.3% in 2007 to 19.5% in 2008 for a set target of 18.8%, in accordance with the 2007-2009 multi annual programme.

From the community point of view, the 20% target was not met. This slow trend was induced partly by the suspension or reduction in certain taxes decided by the government to control the hike in the prices of foodstuffs and petroleum products. However, at the end of 2008, tax revenues rose by 12.1% as a result of the implementation of reforms to widen the tax base and the abolition of economic measures taken by the government to control high cost of living.

Wage bill/Tax revenue

The ratio of wage bill over tax revenue reached 30.8% in 2008 compared to 31.6% a year earlier. This situation may be explained by a higher increase in tax revenue than in the wage bill.

Internally funded public investments

Capital expenditures funded with internally generated resources remained above the community threshold of 20%, settling at 27.9% in 2008 against 34.8% in 2007.

Real Interest Rate

The real interest rate criterion has not been met since 2006 due to the high rate of inflation. In 2009, negative real interest rate is also expected.

Real Exchange Rate

The real exchange rate stability criterion was met in 2008. It settled at 4.2% compared to 5.3% in 2007.

Table 3.7: CONVERGENCE STATUS OF SENEGAL

SENEGAL	Target	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary Criteria:											
i) Budget Deficit/GDP	≤ 4%	1.6	3.8	1.8	3.2	4.7	4.7	7.5	6.2	6.6	5.5
ii) Inflation Rate	≤ 5%	0.7	3.0	2.3	0.0	0.5	1.4	4.0	6.1	4.3	3.6
iii) Deficit Financing by CB	≤ 10% TR n-1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iv) Reserves UEMOA	≥6 months of	6.1	6.7	7.6	6.0	6.8	5.7	6.0	6.3	6.0	6.0
Country Reserves (indicative)		5.8	6.7	7.6	6.0	5.2	4.3	4.1	4.1	4.4	4.2
Secondary Criteria:											
i) Domestic arrears		0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
ii) Tax Revenue/GDP	≥ 20%	17.3	16.6	16.9	16.8	18.4	18.6	18.8	19.3	19.5	20.4
iii) Salary Mass/Tax Revenue (TR)	≤ 35% TR	32.7	30.7	31.7	30.1	29.5	30.0	31.0	31.6	30.8	29.9
iv) Domestic Investissements /TR	≥20% TR	19.8	20.5	23.5	24.1	30.0	33.7	36.6	34.8	27.9	27.1
v) Real Interest Rate	> 0	2.8	0.5	2.1	5.0	1.8	2.1	-0.5	-2.6	-0.8	-0.1
vi) Real Exchnage Rate Stability	± 5%	-	1.8	2.8	1.8	0.1	-1.2	-0.1	5.3	4.2	-0.2
Nombre de critères respectés		7	9	9	9	8	8	7	5	7	8

Source: BCEAO, UEMOA, Ministry of Finance and WAMA * Estimates ** Projections

3.1.7.3 Prospects for 2009

Although, according to estimates, there are signs of a possible recovery in 2009, the sluggish economic prospects in the world economy induced by the financial crisis may compromise the achievement of the above-stated objectives. However, macroeconomic prospects for 2009 would depend on pursuing the objectives of growth and a series of measures envisaged in the second generation Poverty Reduction Strategy Paper (PRSP). The real GDP growth is estimated at 5.2%, with the assumption that the performance of the primary sector will be consolidated, that the secondary sector will recover, that problems of delay in payments will be eliminated, that prices of oil will continue to fall and that the service sector will maintain its dynamism. Inflation should ease off mainly because of a good farming season in 2008 and favourable oil price in relation with the expected slowdown in global economic activity. During the fiscal year, performance in terms of revenue collection would be sustained and more stringent public expenditure controls would be applied. The current account deficit for 2009 is estimated at 10.1% of GDP. The deficit excluding grants would be 12% of GDP. This slight improvement would stem from export recovery, particularly agricultural and chemical products (phosphoric acid from **ICS**). The monetary situation would be marked by an additional 55.0 billion to the net external assets, a 7.6% rise in domestic credit and a 8.6% increase in money supply.

3.1.7.4 Conclusions and Recommendations

At the end of December 2008, the macroeconomic performance of Senegal was satisfactory judging from the community's standards. In 2009, the criteria profile would improve with the fulfillment of eight criteria. However, the country still faces problems with budget deficit standard. This has not been achieved since 2004 and it will not be the case in 2009. To achieve this, appropriate measures will have to be adopted to minimize, in time, the negative impact of an unfavourable international economic situation. To that end, the government of Senegal should give priority to the following measures:

1. Programmes aimed at strengthening and enhancing food production to ensure food self-sufficiency, and consequently control inflation further as well as programmes aimed at strengthening and diversifying exports so as to benefit from opportunities offered by international markets;

2. Sector restructuring and special programmes likely to stimulate strong and sustained growth;

3. Deepening the restructuring of ICS, SAR and SENELEC so as to boost sustained economic growth;

4. Efforts to control current expenditures so as to minimize pressures on public finances; and

5. Ensuring better current expenditure control, particularly transfers and subsidies in order to consolidate benefits derived from good macroeconomic performance recorded from the beginning of 2000;

6. Pursuing revenue mobilization efforts.

3.1.8 TOGO

In the light of revised estimates, taking into account the resurgence of power shortages, floods that occurred in July, persistence of difficulties encountered in the production of phosphates, slight recovery in cotton grain production and the sudden rise in the prices of commodities, economic growth in 2008, initially estimated at 2.7%, was 0.8% compared to 1.9% in 2007. This slowdown in economic activity that began a year earlier mainly in the primary and secondary sectors took place within the context of inflationary pressures. The average annual inflation rate was 8.4% compared to 1.0% in 2007.

The public finance situation deteriorated, together with the major budget balances. The overall budget deficit in relation to nominal GDP was 2.9% in 2008 compared to a 0.3% surplus in 2007.

The current deficit of external accounts in relation to nominal GDP was 9.5% compared to 9.2% in 2007; this was due to the worsening of trade deficit by 22.8 billion, resulting from the combined effect of a 8.8 billion fall in exports and a 13.8 billion rise in imports. This would be 9.4% in 2009.

With regard to monetary aggregates, net external assets rose by 10 billion and domestic credit by 37.6%, i.e. an increase of 10.1%. Reflecting trends in its counterparts, money supply would go up by 45.3 billion, i.e. an increase of 10.1%.

3.1.8.1 Sector Analyses

3.1.8.1.1 Real Sector

a) Production

Production was mainly realised by the primary and secondary sectors. However, the resurgence of power cuts, the July floods, the persistent difficulties in phosphate production, the moderate revamping of cotton lint production and the hike in the prices of essential commodities, affected the level of production.

The primary sector progressed by 1.1%as against 3.0 % in 2007, thanks to the food crops which improved by 0.1% in line with the performance recorded in the production of yams, millet, sorghum and paddy rice. With such performance, foodstuff production estimated at 3,628.2 thousands of tonnes almost stagnated when compared to year 2007. This situation was attributable to the destruction of certain food crops, following the floods in July 2008. Cash crops declined by 2.9 %, resulting mainly from the decline in cotton lint production which dropped from 48,800 tonnes I 2007 to 42,000 tonnes in 2008, representing a shortfall of 14.0%. This decline in cotton production, observed in spite of the increase in the producer price from 155CFA Francs/kg to 160 CFA Francs/kg, was attributable to the reluctance of cotton farmers to invest in this crop following the protracted delays in the payment of arrears due them. The other cash crop speculations were high, especially coffee which improved by 16.6% as against -2.2% in 2007.

The secondary sector recorded a 4.11% improvement in 2008 as against -5.2% I 2007. This revamping of the sector's activity was due to the performance of the extractive industries, which improved by 2.8% as against a decline of 21.0% a year earlier, the "housing, public works branch", which also improved by 47.0%. The "Electricity, water and gas" sub-branch improved by 2.25 as against -11.2% in 2007 due especially to the increase in the water level of the Nagbeto hydroelectric dam following the heavy rainfall in the third quarter of 2008. The manufacturing industries declined by 8.8%. Phosphate production stabilised at around0.8 million tonnes with a value added of 14.5 billion CFA Francs thanks to the increase in the price of phosphate which stood at 746.6 CFA Francs a tonne.

The tertiary sector recorded a 0.9% decline in production when compared to 2007. These developments were as a result of the 0.4% drop in the non commercial branches and the 15.7 % decline in the commercial sub-branch in 2007.

The contributions of the primary, secondary and tertiary sectors to growth stood at 0.4 point, 0.8 point and -0.4 point respectively.

With regards to demand, economic activity growth was mainly propelled by (public and private) investment which increased by 223.2% as against -16.7% in 2007. Total consumption declined by 10.3% as against 5,1% in 2007, induced by the 12.0% regression of its private component whilst the public consumption component increased to account for 2.9% GDP as against -7.0% in 2007, in line with the improvement in political governance. With regards to external trade, the export of goods and services dropped by 0.6% as against 7.9% in 2007. The importation of goods and services declined by 11,8% following the hike in the cost of imported goods, especially foodstuff. The rate of gross domestic savings stood at 9.5% of nominal GDP. Investment rates stood at 16.3 % as against 14.4% I 2007.
On the whole, the contributions of foreign investment and external trade balance to total consumption growth stood at 12.8 points, 3.6 points and 9.9 points respectively.

b) Prices and Inflation
Within a context characterised by rising costs of goods and on the revised projections as at end October, the average annual rate of inflation stood at 8.4% in 2008 as against 1.0% in 2007 whilst that that of the end of period stood at 10.2% as against 3.4% in 2007. This rise in the rate of inflation was related to the increase in the prices of foodstuff and petroleum products which impacted negatively on the prices of goods and services, with the exception of

restaurants and hotels. This rise in inflation was mainly caused by the cost of food commodities and non alcoholic beverages which rose by 21.1% as against 1.3% I 2007, followed by alcoholic drinks, tobacco and narcotic drugs which rose by 5.1%. Transportation was also partly responsible for this high inflation rate of 4.0% as against -0.5% in 2007.

3.1.8.1.2 Public Finance and Public Debt

The public finance situation in 2008 was characterised by worsening key budget balances. Total fiscal revenue increased by 2.5% and accounted for 16.5% of nominal GDP as against 17.0%in 2007. This development was as a result of the improvement in the mobilisation of tax and non tax revenue. Tax revenue increased by 1.4% as against 9.3 % a year earlier, in line with the effective implementation of the necessary reforms for the modernisation of financial state controls. Non-tax revenue progressed by 27.9% in 2008. Grants increased by 2.6 billion CFA Francs when compared to the 20.4 billion recorded in year 2007, as a result of the country's co-operation with the international community.

Total budget expenditure increased by 19.7% representing 21.2% of GDP as against 18.7% in 2007This development was attributable to current and capital expenditure. In effect, current expenditure increased by 2.5% as against 2.2% in 2007, in line with the high salary increment of 15.3% and the sizeable increase in transfers and subsidies from 35.3% in 2007 to 56.3% in 2008. The salary increment was attributable to the upward review of office allowances and the 3% review in the index value of salaries on one hand, and recruitments, promotions and incorporation into the public service of auxiliary teachers with at least five (5) years of teaching experience, on the other. The increase in transfers and subsidies was due to the fuel subsidies given to the power sector and the urgent repairs of damages caused by the floods.

The increase in total budget expenditure was also attributable to the high level of capital expenditure which increased by 163.4%, in line with the increase in domestically funded capital expenditure which increased by 96.1% as a result of the re-introduction of public investments in the 2008 budget.

Year 2008 was therefore marked by worsening key budget balances. The overall budget deficit excluding grants as a ratio of nominal GDP worsened further to 4.7% as against 1.4% in 2007. The overall budget deficit stood at 2.9% as against a surplus of 0.3% in 2007. The overall volume of public debt as a ratio of nominal GDP stood at 70.8% in 2008 as against 97.0% in 2007, in line with the rescheduling of the external debt rearranged by the Paris Club creditors in June 2008. In effect, with the efforts at sanitizing the macroeconomic framework supporte4d by the 2008-2010 FRPC, Togo attained the decision point by end November 2008 and became the 34th HIPC. Thus, Togo could start benefiting from an intensive rescheduling of its external debt in 2009.

3.1.8.1.3 External Trade and Balance of Payments

The external accounts showed a surplus overall balance of 10.0 billion CFA francs as against 0.1 billion in 2007. This development was induced by the improvement in the capital and financial operations account, since that of current transactions had worsened. The current account deficit was estimated at 121 billion CFA Francs as against 110.2 billion in 2007, in line with the increase in the trade deficit which moved from 186.7 billion to 209.1 billion. These trends were attributable to the decline in imports particularity petroleum products and equipments, in line with the investments poured in modernising the production equipments of the phosphate producing company (SNPT) and the implementation of a power policy aimed at increasing electricity supply.

Excluding grants, the current balance as a ratio of GDP rose from -10.6% in 2007 to -10.5% in 2008.

The capital account and financial operations balance revealed a surplus of 131,1 billion CFA Francs as against 110.2 billion in 2007, resulting from the increased mobilisation of external revenue, following the return to normalcy of the socio-political situation.

3.1.8.1.4 Monetary Situation

The net external position of the monetary institutions improved by 10.0 billion CFA Francs when compared to the achievement during the same period in the previous year, due exclusively to the build-up in the banks' net foreign assets. The volume of domestic credits also increased by 14.3% when compared to end December 2007. The debit **PNG** worsened by 9.4 billion CFA Francs. The volume of credits to the economy increased by 28.2 billion when compared to end December 2008. Lending granted to companies operating in the petroleum products distribution sector, partly account for these developments.

Money supply increased by 10.1%. This increase in the overall liquidity was as a result of bank deposits which increased by 11.8% and fiduciary circulation which increased by 5.6% during the review period.

3.1.8.2 Performance under Macroeconomic Convergence

In 2008, Togo complied with only three (3) convergence criteria, including two primary criteria and one secondary criterion, in spite of progress made in economic governance with the proper implementation of the 2008-2010 FRPC programme. Factors that explain this counter-performance are, on the one hand, the sudden rise in the prices of food products and petroleum prices, and, on the other hand, the floods that occurred in August 2008 and the consequences of the energy crisis. At the end of 2008, the performance of Togo worsened a little, from seven (7) to three (3) criteria.

Projections for 2009 indicate that three primary criteria would be met. They are inflation, financing of deficit and import coverage. The status of convergence is as follows.

Primary Criteria

Besides the criteria on budget deficit financing and reserves which are regularly fulfilled by the UEMOA countries, the country has not been able to meet the requirement relating to budget deficit and inflation.

Budget Deficit/GDP Ratio

The public finance situation was characterized by a decline in the major budget balances in 2008. Total tax revenues went up by 2,5%, accounting for 16.5% of nominal GDP compared to 17.0% in 2007, whereas total fiscal expenditures increased by 19.7%, accounting for 21.2% of GDP compared to 18.7% of GDP in 2007. The budget balance ratio was -4.6% in 2008 compared to -1.4% in 2007. This deficit could widen further in 2009.

Inflation

Within a context marked by hikes in the prices of goods and on the basis of estimates revised at the end of October, the rate of inflation at the end of the period was 10.2% in 2008 compared to 3.4% in 2007, in spite of favourable weather conditions for farming. This rise in the rate of inflation is attributable to increases in food and fuel prices, which reflected on the prices of all goods and services, except restaurants and hotels. This inflationary trend was mainly felt in the cost of food and non-alcoholic beverages which went up by 21.1% compared to 1.3% in 2007, followed by alcoholic beverages , tobacco and drugs which increased by 5.1%. Transport also accounted partially to this high inflation, with a rate of 4.0% against -0.5% in 2007.

Gross External reserves

Import cover by reserves is provided for purely information purposes. Togo is a member of UEMOA which has common reserves for all member countries. It should be pointed out that once UEMOA met this criterion and thus Togo also fulfilled it.

Financing of Budget Deficit by the Central Bank

The criterion on financing of budget deficit by the Central Bank is fulfilled by all UEMOA countries. Since 2003, BCEAO no longer finances the budget deficit of member States.

Secondary Criteria

At the end of 2008, Togo had met only the criterion on domestic arrears.

Domestic Arrears

In 2008, Togo did not record any arrears in conformity with the community standard, unlike in 2007 when she recorded domestic outstanding debts totalling 700 million CFA F.

Tax Revenue/GDP Ratio
The tax pressure rate went down by one percentage point of GDP in 2008 to settle at 15.4% against 16.3% in 2007. Besides, tax revenues increased by 1.4% compared to 9.3% a year earlier, in relation to the effective implementation of reforms needed to modernize financial institutions, particularly the quantitative performance criteria contained in the Poverty Reduction and Growth Facility (PRGF) Programme.

Wage Bill/Tax Revenues
The ratio of wage bill over tax revenue was 37.4% in 2008 compared to 32.8% in 2007. The rise in salaries was attributable, on the one hand, to the upward adjustment of duty allowances and the 3.0% increase in the grade-related value of salaries, and, on the other hand, to recruitments, promotions, and integration of assistant teachers with five (5) years' experience into the civil service.

Internally Funded Public Investments
The ratio of public investments financed with internally-generated resources over tax revenues was 13.8% in 2008 compared to 7.1% in 2007. Capital expenditures financed internally increased by 96.1% thanks to renewed public investments in the 2008 budget.

Real Interest Rate
Real interest rate fell from 0.1% in 2007 to -8.7 in 2008. The criterion could not be met because of the high rate of inflation.

Real Exchange Rate
The level of real exchange rate fluctuation was 6.1% in 2008 compared to 0.8% in 2007. This significant real exchange rate fluctuation may be explained by the high rate of inflation during the same period.

Table 3.8: CONVERGENCE STATUS OF TOGO

TOGO	Target	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary Criteria:											
i) Budget Deficit/GDP	≤ 4%	5.0	2.3	1.0	1.8	0.9	4.0	4.2	1.4	4.6	6.2
ii) Inflation Rate	≤ 5%	1.9	3.9	3.1	-0.9	0.4	5.5	1.5	3.4	10.2	4.3
iii) Deficit Financing by CB	≤ 10% TR n-1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iv) Reserves UEMOA	≥6 months of	6.1	6.7	7.6	6.0	6.8	5.7	6.0	6.3	6.0	6.0
Country Reserves (indicative)		5.8	6.7	7.6	6.0	3.9	1.8	3.1	3.1	2.9	2.7
Secondary Criteria:											
i) Domestic arrears			17.6	15.1	19.8	26.1	5.2	0.0	0.7	0.0	0.0
ii) Tax Revenue/GDP	≥ 20%	11.0	10.5	11.5	13.9	13.6	14.6	15.4	16.3	15.4	16.1
iii) Salary Mass/Tax Revenue (TR)	≤ 35% TR	53.9	51.0	44.7	34.7	36.6	30.4	33.1	32.8	37.4	36.7
iv) Domestic Investissements /TR	≥20% TR	3.1	2.5	2.6	1.7	2.3	8.4	3.7	7.1	13.8	14.2
v) Real Interest Rate	> 0	1.6	-0.4	2.0	4.4	3.1	-2.0	2.0	0.1	-6.7	-0.8
vi) Real Exchnage Rate Stability	± 5%	-	3.3	3.7	2.2	1.3	3.2	-1.0	0.8	6.1	0.5
No.of Criteria Met		4	5	6	7	6	5	7	7	3	5

Source: BCEAO, UEMOA and WAMA *** Estimates ** Projections**

3.1.8.3 Prospects for 2009

In 2009, economic activity made a 3.3% recovery, thanks to the positive effects of the satisfactory implementation of a series of economic reforms contained in the FRPC programme, a major rescheduling of the external debt by the Paris Club in June 2008 and the success of the Conference of Development Partners held in September 2008 in Brussels. This growth was mainly propelled by the primary and secondary sectors. On the demand side, growth in economic activity was mainly due to total investments which went up by 22.9%.

The total growth in revenue was 9.0% boosted by an 8.5% increase in tax revenues, accounting for 16.0% of nominal GDP. Grants would be almost double their 2008 level of 23.0 billion. Total fiscal expenditures would also increase by 15.8%, accounting for 23.2% of GDP, in relation to the attendant rise in current expenditures by 6.0% compared to 2.5% the previous year.

Economic recovery effort in the area of public finances would be more significant. The overall position of the balance of payments would show a surplus and would result from a worsening current deficit compared to 2008. The worsening of the current deficit compared to 2008 would be due to the deterioration of the balance of trade balance and net revenues, and an improvement in the balance of current services and transfers. The worsening of the trade balance would stem from more significant rise in imports than that of exports. The increase in the importation of intermediary and capital goods is in line with investments made as part of the modernization of production equipment of the *Société Nouvelle des Phosphates du Togo* (SNPT) and implementation of measures to enhance electricity supply in Togo.

All in all, the effective implementation of the FPRC programme is an encouraging sign for Togo to get back to sustainable growth in the coming years.

3.1.8.4 CONCLUSION AND RECOMMENDATIONS

In spite of the fact that, since the end of 2007, Togo has maintained harmonious relations with the international financial community, making it possible for the country to start negotiations with the Bretton Woods Institutions, during the first quarter of 2008, and that significant negotiations have led to the conclusion and implementation of a 3-year FRPC programme, its macroeconomic performance is below expectation. However, this programme which is being implemented since January 2008 will enable her to regain strong growth, thanks to external financial support and benefits from the HIPC Initiative. Even if the sound economic prospects resulting from this FRPC programme, with the release of the first instalment of $108 million in 2008, have not enabled Togo to converge in 2008, it must be admitted that a proper execution of the FRPC programme is an encouraging sign for Togo to return to sustainable growth in the coming years. Consequently, the following recommendations are hereby made to the government of Togo:

1. Spare no efforts in implementing effectively the measures contained in the FRPC programme;

2. Take appropriate measures, like boosting food production and improving distribution channels of large consumer goods in order to contain the sudden rise in the prices of foodstuffs, non alcoholic beverages and petroleum products with a view to controlling inflationary pressures that loom on the horizon;
3. Pursue structural reforms necessary for the modernization of financial institutions, particularly their computerization and networking, in order to increase fiscal resources;
4. Speed up restructuring measures for public enterprises in the cotton, (SOTOCO), phosphate (SNPT) and energy (CEET) sectors, which are real pillars of economic growth in Togo;
5. Pursue fiscal and customs administration reforms, by taking measures to minimize tax and duty exemptions as well as increase excise duties on alcoholic beverages and tobacco;
6. Restructure the cotton sub-sector in order to increase cotton grain production;
7. Draw up a development strategy for the phosphate sub-sector on the basis of the outcome of the planned strategic audit.

3.1.2 STATUS OF POLICY HARMONIZATION IN UEMOA

A) LIBERALIZATION OF CAPITAL MOVEMENTS

One of the pillars of the common market of the West African Economic and Monetary Union (UEMOA) is the free movement of capital among member States of the Union. Indeed, in accordance with articles 76, 96 and 97 of the Treaty of the Union and article 4 of the Treaty of the West African Economic and Monetary Union UEMOA), all capital movements among member States of UEMOA shall be free and without any restrictions.

Community provisions on capital operations aim at improving channels of financing and eliminating obstacles in the area of investments and investment security.

1. **Improving channels of financing**

Improving channels of financing involves streamlining of the banking systems. The relevant provisions are covered, for example, by **Directive n°01/2002/CM/UEMOA** of 23 May 2002, on transparency in financial relations. On the basis of this Directive and other community provisions, the Banking Commission of the West African Economic and Monetary Union (UEMOA), as part of its role, intervenes regularly in accordance with international standards, and submits quarterly reports on conditions of individual banks and financial institutions to the Council of Ministers of the Union.

2. **Removal of obstacles to investments**:

The removal of obstacles to investments within UEMOA involves the following actions:

- The establishment of a Regional Stocks Exchange in July 1998;
- Substitution of national agreements on banking and insurance with a regional approval system. This measure found expression in the decision of the Council of Ministers of UEMOA on the adoption of implementation modalities of the single approval in September 1998. This decision came into force in February 1999.
- Recommendation of the Council of Ministers in June 2004 on measures to deepen implementation modalities of the common agreement.
- Regulation n° 09/98/CM/UEMOA of 20 December 1998 on external financial relations of member States of UEMOA.
- The Community Investment Code, the draft of which will soon be submitted to the Council of Ministers of the Union for adoption.

3. **Investment security and control of money laundering**

Regulation n°09/98/CM/UEMOA of 20 December 1998 on the financial relations of member States of UEMOA aims to ensure the security required for investments within the UEMOA zone.

In the light of all these mechanisms, it appears that UEMOA member States have set as their objective, within the framework of the common market, to prohibit and fight all forms of obstacles to free movement of capital within the Union. However, some administrative, political and legal obstacles seem to persist and limit this free movement of capital.

B) THE MONEY LAUNDERING MECHANISM

Over the past decade, money laundering and financing of terrorism have been at the centre of unprecedented mobilization by the international community (for example, Resolutions n°1373 –2001 - and n°1276 –1999- of the United Nations Security Council). This mobilization stems from the realization of serious threats posed by these phenomena.

The fight against money laundering and financing of terrorism within the Union hinges on a community mechanism that aims to preserve the integrity of the regional financial system, by preventing criminals from benefiting from their crimes and by cutting terrorists from their sources of financing. This mechanism includes legal instruments which aim to prevent, detect and call into question money laundering and financing of terrorism. These community provisions are:

a. **The uniform Law** on the fight against capital laundering in the member States of UEMOA, adopted on 20 March 2003 by the Council of Ministers of the Union;
b. **Regulation n°09/98/CM/UEMOA** of 20 December 1998 on the financial relations of member States of the West African Economic and Monetary Union (UEMOA);
c. **Directive n°07/2002/CM/UEMOA** of 19 September 2002, on the fight against capital laundering in the member States of UEMOA;
d. **Regulation n°14/2002/CM/UEMOA** of 19 September 2002, on the freezing of funds and other financial resources as part of the fight against capital laundering and funding of terrorism in member States of UEMOA;
e. **Directive n°04/2007/CM/UEMOA** of 4 July 2007, on the fight against the financing of terrorism in member States of UEMOA, which should be implemented under the same terms as the directive on capital laundering;
f. **Decision n°09/2008/CM/UEMOA** of 28 March 2008, on amendment of Decision no. 09/2007/CM/UEMOA of 6 April 2007, on the list of persons, entities or bodies targeted by the freezing of funds and other financial resources as part of the fight against terrorism in member States.

Beside these community texts, there is also a collection of Directives issued by the Central Bank of West African States (BCEAO) for financial institutions, particularly **Directive n°01/2007/RB** of 2 July 2007, on the fight against money laundering and financing of terrorism.

With regard to the adoption of the uniform Law on the fight against money laundering and the establishment of National Financial Information Processing Units (CENTIF), all member States have complied with the community provisions.

Senegal is the only country that has adopted the uniform Law on the fight against financing of terrorism. The process is on-going in the other member States. The legal mechanism to fight against capital laundering and financing of terrorism in Burkina Faso, Guinea-Bissau, Mali, Niger and Senegal has been assessed under the auspices of the Intergovernmental Action Group against Money Laundering and Financing of Terrorism in West Africa (GIABA). These assessments have revealed that several community provisions implemented by member States do not conform to GAFI Recommendations. This situation is explained by the fact that anti-money laundering legislations within UEMOA were drawn up before GAFI reviewed its recommendations in 2004 and 2006.

C) HARMONISATION OF STATISTICS

Multilateral surveillance operation involves observing collective discipline which must be assessed objectively on the basis of reliable, regularly updated and comparable data. Two main objectives are therefore pursued within the Union:

- Ensuring the monitoring of study and harmonization projects;
- Pursuing implementation of the Regional Statistics Programme and current action on regional statistics production.

In specific terms, the main areas in this field concern:
- Statistics harmonization work;
- Updating of statistics data bases;
- Monitoring and evaluation of the regional PRSP;
- Modelling works; and
- Current statistics activities.

1- Statistics harmonization work

The main programmes of harmonization work, in the short term, aim at monitoring:

- Implementation of the HCPI (Harmonized Consumer Price Index) reform project;
- Implementation of the subsidy contract with AFRISTAT for the preparation of national accounts;

- Establishment of the CPHI mechanism in member States and ensuring the production of the index;
- Study on Purchasing Power Parity in collaboration with ADB;
- Study on the reorganization of statistics activities within the Commission.

1.1 Harmonized Consumer Price Index (HCPI) Reform

Consumer price index is an instrument used in measuring, in the course of time, trends in the general level of prices of goods and services bought, used or acquired for consumption by a reference population. Within the framework of UEMOA, measures have been taken to harmonize the methodology of preparing this instrument to ensure data comparability among the eight member States of the Union.

a) Objective of the HCPI reform project

The overall objective of the project is to make the HCPI a reliable and efficient inflation monitoring instrument in member States of UEMOA. In specific terms, the objective is to reform the HCPI in all member States of the Union in order to measure inflation better. To that end, data collection and preparation of a new price index took place concurrently in the eight member States of the Union in close collaboration with the Sub-Saharan Africa Economic and Statistical Observatory (AFRISTAT).

b) The main results expected from the project

At the end of the project, the following results were obtained:

- Household survey and collection of prices in 2008 in a harmonized manner in the Member States of UEMOA;
- Weight of the Index calculated on country basis and at the regional level;
- Coefficients of seasonality calculated on country basis;
- New 2008 base price Index calculated;
- Preparation of base 2008 HCPI calculation methodology Document;

c) Project cost

Project cost was F CFA 2.930 billion, with 78.3 % contributed by members of the Union.

1.2 Preparation of the Harmonized Industrial Production Index (IPHI)

The year 2008 was devoted to the establishment of the IPHI production mechanism. Thus, the Commission equipped the departments responsible for the preparation of IPHI in the National Statistics Institutes (NSI) with statistical materials. Guinea-Bissau was given technical support. This support helped to prepare a provisional list of firms which served as the basis for the survey, calculation of indices for the first two quarters of 2008 and, finally, to build the capacity of senior officers of the NSI responsible for the preparation of the IPHI.

Activities in support of the establishment of the IPHI are being pursued in 2009 through support for collection of information and organization of training workshops and adoption of best practices.

1.3 Preparation of national accounts in Member States

Work done by the Commission on national accounts has helped to harmonize the scope and methods of preparing accounts, in accordance with the recommendations of the United Nations Accounting System. Regulation no. 11/2002/CM/UEMOA on modalities for the calculation of GDP, adopted in September 2002 helped to produce regularly and every year a more comparable GDP for all the eight member States of the Union.

A national accounts reform strategy has been developed and is being implemented through the ERE-TES (Employment Resources Equilibrium-In Out Table) Module, which is an effective tool and an appropriate working framework for the implementation of the SN93. This will help prepare more comparable accounts.

As part of work on the preparation of national accounts, a subsidy contract between the Commission and AFRISTAT has been prepared and is in the process of being signed. By this contract, the Commission will support Member States to speed up the regular production of national accounts. A study on Purchasing Power Parity (PPP) will also be conducted in 2009 with the support of ADB.

1.4 Monitoring of regional statistics and coordination

BCEAO ensure the coordination of community statistics on the balance of payments is ensured by Coordination of the real sector, prices and public finances falls within the purview of UEMOA Commission.

The objectives of the UEMOA regional statistics programme (2006-2010) are as follows:

a) Improved access to regional data in all fields covered by community policies ;
b) Availability of an operational and reliable statistics information system for all the Union's programmes and policies;
c) Proper coordination of the Commission's statistics system with the other regional stakeholders; and
d) Improved quality of the statistics publications of the Commission.

In accordance with the UEMOA regional statistics programme, DESE is having a more comprehensive brainstorming on the organization of the Commission's statistics system. Management has also contributed to the test phase for the implementation of the RAIS (Regional Agricultural Information System) managed by DDRE in collaboration with FAO. In a bid to ensure adequate links with the various existing information systems within the Commission, Terms of reference for the establishment of integrated data bases will be developed and implemented in 2009.

A study on the reorganization of statistical activities within the UEMOA Commission is being undertaken. It will propose a new organization of statistical activities within the UEMOA Commission.

2. Updating of data bases

The new Multilateral Surveillance Data Base (**MSDB**) has been sustained by service providers entrusted with this task and a ratification workshop was held to that effect in Dakar from 15 to 17 October 2008. Several working sessions were also organized with ECOWAS to harmonize the MSDB with their data base for multilateral surveillance.

In support of preparation of half-yearly reports on implementation of the multilateral surveillance and the Franc zone, regional statistics on macroeconomic aggregates are generated regularly.

In a bid to monitor effectively the sustenance of MSDB and control the harmonization of data, a statistics collection monitoring mission will be undertaken to all member States in the third quarter of 2009.

Installation of the 2gLDB software and introduction to automated publication tools with the technical support of AFRISTAT will be completed in the course of 2009. To that end, AFRISTAT will undertake a mission in May 2009 to exchange best practices and build capacity in the use of these applications.

3. Monitoring and Evaluation of the regional PRSP

At the joint meeting held in ABUJA in August 2008, the two technical steering Committees (UEMOA-ECOWAS) prepared a road map for the PRSP monitoring and evaluation. For 2009, the following priority action areas have been set:

- Publication of 1,000 copies of the document, financed by ADB;
- Organization of a regional workshop to launch the operational phase of the regional poverty reduction strategy. The workshop will take place before 30 June, 2009;
- Organization of a regional workshop on the calculation and analysis of poverty indicators, probably at the end of October 2009. The exact date will be determined later, by common consent, by the UEMOA and ECOWAS Commissions;
- Drafting of the first report on the state of poverty within the Union.

The Directorate of economic studies and statistics shall provide Secretarial services to the technical group of the Commission responsible for the preparation and implementation of the PRSP with the ECOWAS Commission. The World Bank has decided to continue its technical and financial support to UEMOA in the area of monitoring and evaluation of the regional PRSP.

Modelling and Impact Analysis

Models of analysis, forecast and simulation (MAFS) are being updated in 2009 for some countries. Recently collected data as part of the new multilateral surveillance database will be introduced in order to reassess certain behavioural econometric equations.

The following programmes will be carried out in 2009:

- Updating of existing models;
- Short- and medium-term economic forecasts for countries of the Union;
- Consolidation and updating of the database for macroeconomic modelling.

With regard to impact studies, a capacity-building programme on simulation and impact analysis through models of calculable general equilibrium will be implemented. As part of this programme, there are plans to design in 2009 a social accounting matrix with a harmonized structure for Member States.

5. Current statistical activities

The following actions will be taken under current activities:

- Preparation of regional economic situation notes Nos. 7 and 8 which will deal with the second six-month period of 2008 and the first six months of 2009 respectively;
- Monthly updating of the economic database using information obtained from BCEAO and AFRISTAT;
- Updating of FAO countryStat site;
- Production of monthly regional consumer price index;
- Design of the 2006/2007 regional statistics directory;
- Participation in missions to monitor national economies.

A harmonized consumer price index has been calculated monthly since 1998 by member States and from 2003 by Guinea-Bissau. A regional consumer price index is also calculated by the Commission. HCPI is prepared using a common methodology and the same calculation software known as “**CHAPO**”.

3.2 WEST AFRICAN MONETARY ZONE (WAMZ) COUNTRIES

3.2.1 THE GAMBIA

The Government of The Gambia is currently implementing a three-year Poverty Reduction and Growth Facility (PRGF) arrangement with the International Monetary Fund (IMF) which began in February 2007. The aim of this programme is the consolidation of macroeconomic stability achieved in recent years as well as fostering conditions for sustaining high economic growth and poverty-reduction. In this regard, the government initiated a number of policy measures geared towards enhancing revenue mobilisation, improved fiscal prudence, and strengthening of monetary policy management.

Real GDP growth in The Gambia remained strong in 2008 at 6.1 percent, compared to 6.9 percent in 2007, despite an adverse international environment. Inflation, as measured by the national consumer price index rose by 0.8 percentage point to 6.8 in 2008, compared to end 2007. The rise in inflationary pressures could be explained by monetary expansion, increases in imported food prices and adjustments in petroleum prices.

3.2.1.1 Sector Analyses

3.2.1.1.1 Real Sector

Although economic activity slowed down marginally, it remained robust recording a real GDP growth rate of 6.1 percent in 2008 compared to 6.9 percent in the preceding year. This was mainly as a result of bumper crop harvest. Also all industrial activities, except manufacturing, registered positive growth rates

Agricultural activities grew by about 23.4 percent, accounting for 78.3 percent of the overall GDP positive change. Primary production industries grew by 15.1 percent, while the services sector, which accounts for 59.0 percent of GDP, grew by 2.6 percent.

The growth in the agricultural activities was dominated by crop production, which accounted for 95 percent of the real increase. Fish production, which accounted for about 1.8 percent of GDP, grew by 3.5 percent, explaining 0.8 percent of the positive GDP increase. Both forestry and livestock registered positive increases of 1 percent and 3 percent respectively.

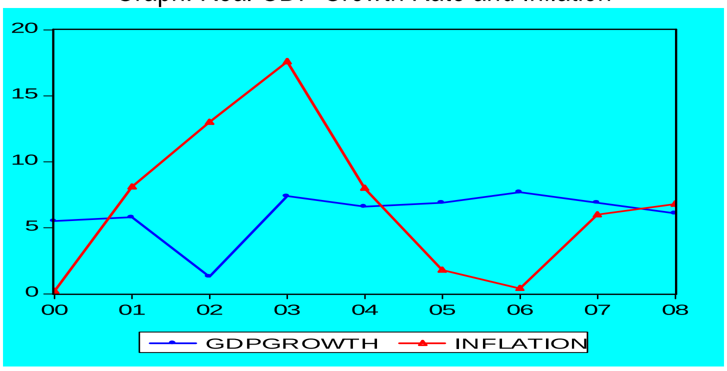
'Electricity and Water 'activities grew by 8.0 percent, while 'Mining and Quarrying', and 'Building and Construction' increased by 6 percent.. Manufacturing declined by 2.5 percent, compared to the 2007 production level.

The industrial activities continued to grow for the past three years, 2006 to 2008, by 5.7 percent, 10.7 percent and 2.6 percent respectively.

Communications, and Hotels & Restaurants registered growth rates of 10.0 percent and 6.3 percent respectively. Distributive Trade Services, which accounted for 22.8 percent of GDP, and contributing 19.2 percent of overall economic growth, witnessed a downturn of 5.7 percent, compared to 2007. The transportation activities increased by 6.0 percent.

Year	2001	2002	2003	2004	2005	2006	2007	2008
GDP Growth	5.8	1.3	7.4	6.6	6.9	7.7	6.9	6.1
Inflation Rate	8.1	13.0	17.6	8.0	1.8	0.4	6.0	6.8

Graph: Real GDP Growth Rate and Inflation



Inflation in The Gambia at the beginning of the year (January) was 5.1, compared to 6.9 percent as at end 2007. This downward trend in inflationary pressures was maintained during the first four months of 2008, reaching 1.4 percent. The trend reversed in May 2008, with inflation rate increasing to 6.8 percent by the end of the year. The resurgence in inflation that commenced in the second quarter of the year was largely explained by the global food and oil price hikes, coupled with an increase in the cost of housing.

3.2.1.1.2 Public Finances

The robust performance in the fiscal sector experienced in recent years somewhat declined in 2008 as shown by lower-than-anticipated revenues and high expenditure pressures. Although the overall fiscal performance weakened relative to the past two years, the outcome was better than projected.

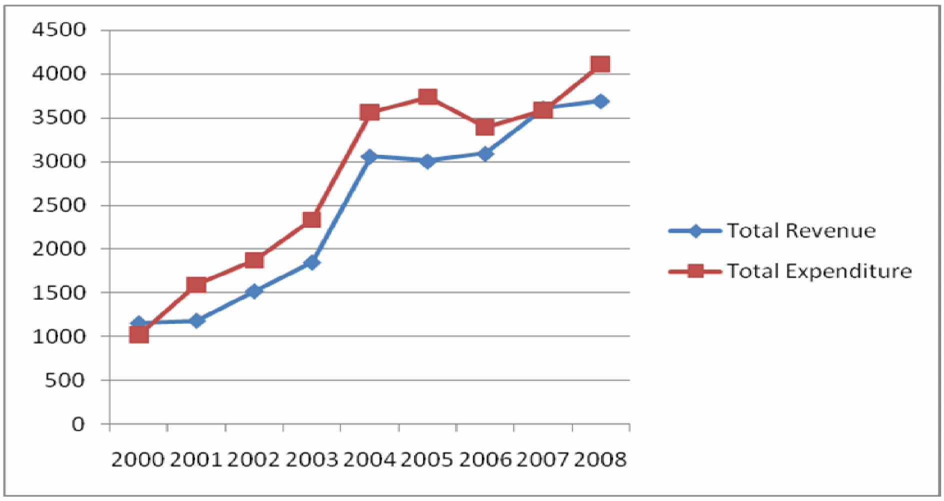
Performance in revenue collection was relatively weak during the period under review. Revenue growth rate slowed to 3.0 percent, the lowest in the last seven years. Tax buoyancy weakened due to the combined effects relative slowdown in real economic activity, appreciation of the dalasi, lower turnover at the ports (fall in re-export trade), the implicit subsidisation of petroleum products, as well as fiscal exemption package. The re-establishment of peace and security in post-conflict Sierra Leone, Liberia and Cote d'Ivoire resulted in diversion of shipping routes from The Gambia to these countries. In response to increasing global food prices, the Gambian authorities temporarily removed sale tax on rice, which was zero-rated. The expected compensation in the form of increased taxes on spare parts and used cars could not offset the revenue losses registered. The pump price of petroleum products was also adjusted upwards by 10-24 percent to minimise the implicit budget subsidy. Tax revenue, which represented 17.9 percent of GDP, grew by 5.8 percent compared with 12.8 and 14.0 percent in 2007 and 2006 respectively. Growth in tax revenue declined from 14.0 percent in 2006 to 5.8 in 2008.Although tax revenue performance had weakened, its share of total revenue (excluding grants), reached an eight year high of 91.0 percent. Non-tax revenue, which represented 1.8 percent of GDP in 2008, performed poorly. It declined by 18.9 percent during the period, relative to a growth of 21.9 percent in 2007. The downside risk to revenue expansion in The Gambia is the narrow tax base. The fiscal burden of relatively high tax rates, multiplicity of taxes and local government charges may adversely affect the country's external competitiveness.

Total expenditure and net lending, which accounted for 23.0 percent of GDP in 2008, grew by 14.7 percent between 2007 and 2008. The growth in expenditure during the year was largely driven by recurrent expenditure, of which, the overall wage bill accounted for 42.1 percent. The rise in the wage bill reflected the extension of the pay rise to government sub-vented institutions, increase in allowances as well as the rise in the number of employees on government payroll. The proportionate share of recurrent and capital expenditure in the ratio of about 70:30 remained broadly stable. While recurrent spending grew by 6.2 percent and 13.1 percent in 2007 and 2008, respectively, capital expenditure expanded by 2.3 percent and 9.1 percent in the same period. However, the fall in external interest payments (due to HIPC debt relief) from 5.8 percent of GDP in 2007 to 5.6 percent of GDP in 2008 partly moderated the expenditure growth rate.

In the light of the lower-than-expected tax revenue and substantial expenditure pressures in 2008 relative to 2007, the fiscal deficit widened from 1.0 percent to 3.7 percent in 2008. The deficit was largely financed by borrowing from the banking system, of which the central bank financing constituted the largest share.

The stock of domestic debt grew by 0.5 percent in 2008 compared to 2.7 percent in 2007. Relative to GDP, the outstanding domestic debt stock declined progressively from 30.9 in 2006 to 25.5 percent in 2008, indicating a downward trend in the past three years. External debt service payments reduced significantly due to HIPC debt relief in 2007. In addition, the Gambia also qualified for additional debt relief under the Multilateral Debt Relief Initiative (MDRI). Three creditors (IDA, AfDB and IMF) are expected to provide debt relief under this initiative (MDRI). MDRI debt relief (net of HIPC assistance) is expected to translate to debt service savings of US $ 373.5 million over a 43 year period. The Gambia's debt situation is expected to improve significantly after it receives enhanced HIPC assistance and MDRI debt relief. However, the country could still be at risk of debt distress even after receiving HIPC and MDRI relief, given the rate of growth of the domestic debt.

Graph: Trends in Total Revenue and Expenditure



3.2.1.1.3 External Sector

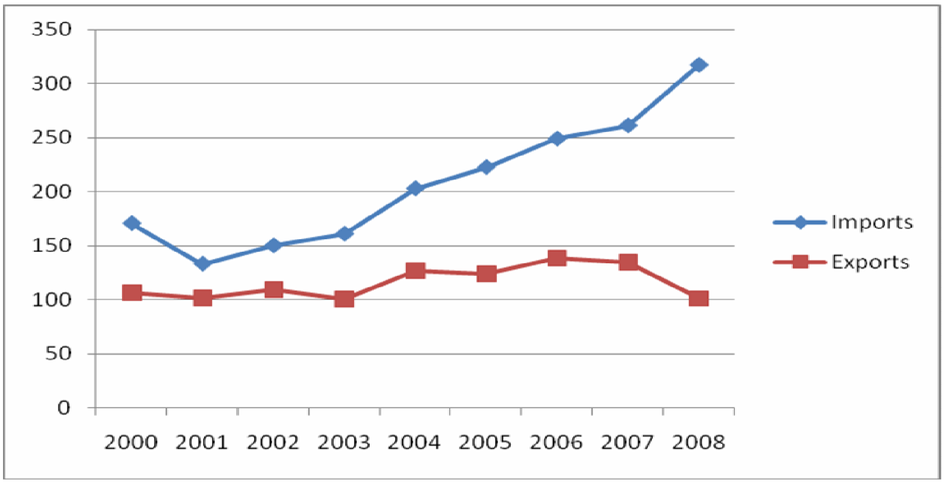
The global crises impacted on the Gambia's external sector performance. These were reflected in the decline in remittances, travel income, portfolio investment as well as export earnings. In addition to the risk-averse position taken by portfolio investors, the global financial crises have made private non-concessional borrowing difficult to access and very expensive.

Total exports in 2008 were estimated at US$ 101.5 million, representing 13.0 percent of GDP, down from US $134.3 million, or 17.9 percent of GDP in 2007. The estimated value of imports moved from US$ 261.2 million in 2007 to US$ 317.2 million in 2008. The value of imports grew by 21.4 percent. The current account balance (excluding official transfers) deteriorated from a deficit of US $ 111.0 million, accounting for 14.8 percent of GDP in 2007 to a deficit of US$ 127.5 million, representing 16.4 percent of GDP. Both the current and the capital and financial accounts registered deficits. Overall balance of payments estimates indicated a deficit of US$ 1.1 million, representing 1.4 percent of GDP in 2008 relative to US$ 3.3 million, or 0.4 percent of GDP.

The dalasi depreciated by 15.1 percent in 2008, due in part to combined effects of strong demand for capital imports and rising cost of fuel imports, as well as the strengthening of the US dollar in the international financial market. Central Bank of The Gambia (CBG) intervened in the foreign exchange market during the year under review. Early in the year, CBG purchased foreign currency to moderate the rate of appreciation of the dalasi but sold foreign currency in the third quarter of the year to avert undue exchange rate volatility. Owing to the country's import dependence and shallow manufacturing base, resulting in a structurally higher demand than supply for foreign exchange, the depreciation of the local currency will likely continue through 2009.

Despite the difficult external conditions, gross external reserves position stood at US $ 153 million, equivalent to 5.8 months of import cover, compared to 5.5 months of imports in 2007.

<u>Graph</u> : Trends in Imports and Exports



3.2.1.1.4 Monetary Sector

The main thrust of monetary policy in 2008 was to contain inflation to a level below 6.0 percent amidst the challenges of high energy and food prices. In addition, it was also intended to keep interest rates broadly at levels consistent with macroeconomic fundamentals and ensure exchange rate stability.

The Central Bank of The Gambia pursued a tight monetary policy stance. The programmed targets of reserve money and broad money supply growth in 2008 were 10.9 percent and 12.2 percent, respectively.

Developments in 2008, however, indicated a reversal of tight monetary policy stance that was observed in 2007. During the first quarter of the year, the CBG reduced the statutory minimum reserve requirement of banks from 16 percent to 14 percent. Broad money growth accelerated from 6.7 percent in 2007 to 18.4 percent in 2008. Similarly, reserve money expanded by 5.7 percent in 2008 having contracted by 4.3 percent in 2007. Thus the reserve money multiplier rose from 3.0 to 3.4 in the review period, while the velocity of money moderated to 1.8.

The expansion in broad money was largely driven by the growth in net domestic assets. Net domestic assets grew by 24.4 percent and were dominated by net claims on government, which stood 17.8 percent. With the bulk of the growth in claims on government coming from the deposit money banks and claims on the private sector only growing at 6.8 percent, the private sector is gradually being crowded out.

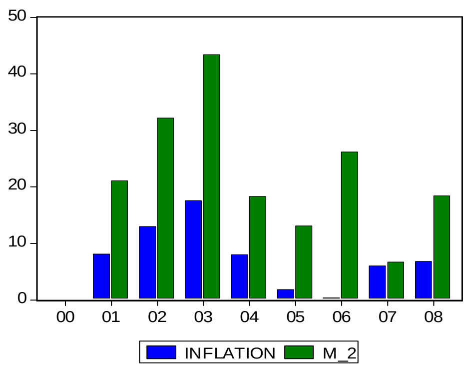
As a proportion of total credit to the private sector, distributive trade, other commercial credits, other loans and advances, building, transport and tourism were dominant accounting for 26.9, 19.4, 16.7, 12.5, 8.2 and 5.6 respectively. An interesting scenario of the distribution of credit was the very low level of credit received by the real sectors of the economy, including agriculture and manufacturing. A close look at the credit structure revealed a special preference for merchandise and services sectors as well as government debt instruments in the loan portfolio of banks. Out of the outstanding treasury and sukuk Salaam bills of D 4773.27 million, commercial banks held about 66.7 percent.

Interest rates in the money market showed mixed trends. In order to counter the inflationary pressures in the second and third quarters of the year, the yield on 91-day benchmark Treasury bill rate was increased by 30 basis points to 13.1 in September 2008. Also, the rediscount rate that remained stable at 15.0 percent for four consecutive quarters was raised by one percentage point to 16.0 percent in September 2008. However, the average savings and lending rates both fell by 50 basis points during the same period but the spread between the two rates remained unchanged at 17.0 percent. This development shows the seeming disconnect between the direction of policy signal of the monetary authorities and the response of savings and lending rates of deposit money banks. The interest rate spread, measured as the difference between weighted average deposit and lending rates, ranged between 12.0 percent and 21.0 percent of loans. The large spread, reflects the high transactions cost, the oligopolistic nature of the banking sector as well as the relative shallowness of the domestic money market.

Table: Broad Money Growth and Inflation in The Gambia

Year	2001	2002	2003	2004	2005	2006	2007	2008
M2 Growth	21.1	32.2	43.4	18.3	13.1	26.2	6.7	18.4
Inflation	8.1	13.0	17.6	8.0	1.8	0.4	6.0	6.8
Res.Money	21.1	34.1	62.7	11.0	11.9	24.3	-4.3	5.7

Graph: Money Supply Growth and Inflation



3.2.1.2 Performance under Macroeconomic Convergence

Gambia's performance under the convergence criteria remained difficult in 2008 as the country met only three criteria, thus maintaining the same level of achievement in 2007. The achievement comprised of two primary criteria and one secondary criterion. Performance on each of the primary and secondary is detailed below

Performance under the Primary Criteria

The Gambia sustained the budget deficit (3.7%) below the required maximum limit of 4.0 percent of GDP. Among other measures, the establishment of the Gambia Revenue Authority, automation of tax collection and valuation mechanisms and introduction of the cash management system in 2006 contributed to the relative improvement in fiscal performance.

Inflation, which had been contained in 2005 and 2006, began to accelerate during the year under review from 1.4 percent in December 2006 to 6.0 and 6.8 percent by end-2007 and end-2008 respectively, thus missing the required target. As already indicated, the rising price level could be explained by monetary expansion, increases in imported food prices, adjustments in petroleum prices as well as the extended CPI coverage to all urban and sub-urban centres.

THE GAMBIA: STATUS OF CONVERGENCE

Criteria/ Period	Target	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary Criteria											
i) Budget Deficit/GDP	? 4%	3.6	9.8	9.1	5.2	9.9	8.4	2.7	1.0	3.7	3.3
ii) Inflation Rate	? 5%	0.2	8.1	13.0	17.6	8.0	1.8	1.4	6.0	6.8	5.0
iii) Central Bank Financing	? 10% TR n-1	0.0	80.7	22.0	63.1	0.0	0.0	0.0	0.0	0.0	0.0
iv) Gross External Reserves	?6 months of Imports G/S	7.5	7.2	2.9	3.1	4.7	5.2	4.9	4.4	4.3	4.7
Secondary Criteria											
i) Domestic Arrears		na	na	na	na	na	na	na	na	na	na
ii) Tax Revenue(TR)/GDP	? 20%	23.3	19.2	14.1	13.8	22.4	17.2	18.8	19.3	17.7	18.2
iii) Salary Mass/Tax Revenue	? 35% TR	30.6	40.1	38.0	33.3	23.1	24.3	24.2	22.4	28.6	24.8
iv) Public Investments/Tax Revenue	?20% TR	6.1	6.1	7.5	11.0	14.2	4.8	3.1	5.6	14.7	6.0
v) Real Interest Rate	> 0	8.8	0.9	-4.0	-5.1	6.8	3.2	3.6	-1.0	-1.8	0.0
vi) Real Exchange Rate Stability	± 5%	-	-12.2	-17.5	-28.5	-1.2	6.4	-0.2	9.7	14.4	0.3
No. Criteria Met		7	2	0	1	4	4	6	3	3	5

Source: WAMA, Central Bank of The Gambia, *projected end-2008 data

The central bank did not finance the budget deficit in 2008, reflecting the strong fiscal performance during the year. Improvement in revenue mobilization and restrained spending arising from a commitment to avoid expenditure overruns under the strict cash budget system contributed to the sustainability of this fiscal non-accommodation objective of the central bank.

Gross external reserves declined from 4.4 months of imports cover to 4.3 months by end-2008, which could be attributable to the decline in export performance and remittances. Thus, the country missed the required minimum target of 6.0 months. The performance of Gambia on this criterion has been aided by increasing foreign exchange inflows accruing from its traditional exports and transactions on the capital account.

Performance under the Secondary Criteria
With regard to the domestic arrears criterion, member States are required to prohibit and liquidate all existing arrears. The importance of this criterion lies in the fact that it strengthens the credibility of the primary budget deficit indicator. However, this criterion could not be assessed owing to inadequate data. Evidence of the stock of arrears as at end-2008 was not available.

The Gambia did not meet the tax revenue performance criterion (tax revenue/GDP) during the period as shown by deterioration from 19.3 percent in 2007 to 17.7 percent in 2008. The Gambia needs to deepen its private sector-led development strategy in order to sustain its performance on this criterion.

Gambia's performance on the salary mass/tax revenue benchmark was very encouraging as the country has consistently met the required maximum target of 35.0 percent in recent years.

However, the level of investments financed from domestic resources remained low by the community standard, despite a significant jump from 5.6 percent in 2007 to 14.7 percent of tax revenue in 2008.

Real interest rates remained negative in 2008, which is inimical to domestic savings mobilization. The Gambia needs to contain inflationary pressures in order to meet this criterion, given the low average savings rate.

Using a fluctuation band of ± 5.0 percent, the real exchange rate remained unstable during the period under review at 14.4 percent.

3.2.1.3 Prospects For 2009
The Gambia has achieved and maintained macroeconomic stability over the last three years with strong growth and low inflation. The government will continue to implement prudent macroeconomic policies in the face of challenging global economic and financial conditions. The main objectives and assumptions underlying the medium term macroeconomic framework are as follows:

- Real GDP growth rate of 4.6-6 percent a year
- Inflation falling to 6.0 percent in 2009 and 5 percent in 2010;
- A reduction in government's domestic debt from 25.5 percent of GDP at end-2008 to 17.3 percent at end 2011
- Maintain a basic fiscal balance surplus of between 1.0-2.0 percent of GDP;
- Maintain an external current account deficit (including official transfers) falling from about 16.0 percent of GDP in 2008 to about 12 percent in 2011; and
- Building level of international reserves to cover at least four months of imports.

Given the prudent macroeconomic policies, massive investment in the tourism and energy sectors as well as government commitments to address the constraints in the agricultural, industrial and construction sectors, the growth rate of 6.5 percent projected for 2009 appears reasonable. The acceleration in inflationary pressures is expected to reverse in the second half of 2009, given the downward trend in global commodity and food prices.

The domestic currency, the Dalasi is forecast to remain weak against major international currencies amid reduced inflows of foreign currency as the global financial crisis deepens.

The projections for 2009 indicate that The Gambia will improve its performance under the macroeconomic convergence, all things remaining equal. The country is expected to meet the target on inflation and real exchange rate stability, in addition to the three targets realized in 2008. The budget deficit is expected to improve to 3.3 percent in 2009. Inflation would recede from 6.8 percent to 5.0 percent by end-2009 in view of the restrictive monetary policy currently being pursued as well as the downward trend in global commodity and food prices. Budget deficit financing and gross external reserves would be expected to be favourable.

A boost in tax revenue would help sustain performance on salary mass. However, the level of public investment would remain low. The country would meet the target on exchange rate stability, while real interest criterion might be missed.

3.2.1.4 Institutional Arrangements and Policy Harmonisation

National Coordinating Committees
The National coordinating committees in the Gambia is not yet officially launched although preparations have reached an advanced stage. The Ministry of Finance, in collaboration with the Central Bank, is working out the modalities to effectively launch the NCC, co-opting all the relevant institutions.

ECOWAS Commission, had however , purchased some equipment for the NCC, which is currently being kept by the Central Bank. Necessary arrangements are also being made to access the seed grant of 7500 dollars being given by ECOWAS to the NCCs.

The process of constituting the NCC in The Gambia could also be expedited by WAMA and ECOWAS under the Joint Secreariat.

Payments System Development

The settlement system for both retail and large value payments remain manual. Inter-bank money market transactions are carried out with Central Bank payment instruments, thus offering same day value in central bank funds. On average, it takes about three days to clear local cheques while it takes seven days to clear non-urban cheques.
At the level of the WAMZ, an AfDB-funded Payments systems development project, with some counterpart contribution, is currently being implemented for The Gambia, Guinea and Sierra Leone. The proposed project involves the improvement of the payment systems of the three countries to a level that would largely be comparable with Ghana and Nigeria.

This project basically involves the development of Real Time Gross Settlement (RTGS) payment system in the countries concerned. RTGS is a large value funds transfer system whereby financial intermediaries can settle inter-bank transfers for their own account as well as for the account of their customers.In addition to RTGS, the project also include an automated clearing house (ACH), Automated Checque Processing (ACP). It would also upgrade the Banking Application Software systems, incorporating Scriptless Securities Settlement System (SSSS). Another important component of the project is upgrading of telecommunication and power facilities to operate the systems. The project is expected to be completed by 2011 and would upgrade the payments system of The Gambia to required WAMZ standard.

Work is also in progress in to establish the Gambia National Switch, which is expected to be completed by end of 2009. The Switch project will increase the number of ATMs from the current number of fourteen, all located in the greater Banjul area.

Statistical Harmonisation

The Gambia is fully compliant with classification of Individual Consumption by Purpose (COICOP) and is progressing satisfactorily from System of National Accounts 1968 to SNA 1993. The country also conducted an economic census in 1996 with a view to changing its base year. As a result, the country has recently released new GDP estimates covering 2004-2007 in both current and constant prices, using 2004 as base year. The census provided benchmark data for 2004, using the production and expenditure approaches. Efforts are also ongoing to compile employment data by the end of 2009.

Capital Account Liberalisation, ECOWAS Common External Tariff (CET), etc

The Gambia has fully liberalised its capital accounts and has also taken important strides towards implementation of the free movement of goods, and persons and rights of residency as enshrined in ECOWAS protocols.

By end of 2007, the Gambia had adopted the ECOWAS Common External Tariff and aligned some tariff lines with the CET. However, the country has still some other tariff lines that require alignment with the ECOWAS Common External Tariff. ECOWAS was to organise a meeting (for negotiation) on the type B list of exemptions that would help finalise alignment with the CET. The Gambia is currently preparing for the negotiation of the products that would be included in the fifth band that will attract a duty of 35 percent with the other ECOWAS countries, within the framework of the EPA.

3.2.1.5 Conclusion and Policy Recommendations

In conclusion, the Gambian economy remained strong despite certain constraints in agriculture, industry and construction. Macroeconomic stability, which has been preserved in recent years, deteriorated slightly in 2008 due to a difficult international environment. The reduction in foreign direct investment might affect growth in the services and construction sectors. Similarly, the reduction in foreign exchange inflows in the form of reduced private remittances is expected to adversely affect the foreign exchange market. The continued high spread between the savings and lending rates, an indication of inefficiency in the banking system, is also a cause for concern.

In the light of the above developments, the government needs to adhere to the prudent fiscal and monetary policies adopted in recent years in order to sustain the level of economic activity and overall macroeconomic stability. The central bank also needs to sustain the restrictive monetary policy stance.

In addition, the real sector lacks adequate infrastructure such as irrigation dams, storage facilities and other inputs to encourage higher production for both domestic consumption as well as for exports, which would boost the foreign exchange earning capacity of the country. It is also necessary for The Gambia to accelerate its policy harmonization measures, particularly, in the area of payments system development and interconnectivity. The following recommendations may be considered:

1. enhance tax revenue further by introducing value added tax (VAT), continue to strengthen the tax collection apparatus and widen the tax base to cover identifiable professions in the informal sector;
2. facilitate private sector development by enhancing access to capital and upgrading infrastructural development in roads, utilities, and telecommunications;
3. make conscious efforts to increase the level of public investments financed from domestic sources;
4. diversify the production base to address the country's over-reliance on a few primary commodity export products (groundnuts and cashew nuts);
5. improve foreign exchange earning capacity through exports promotion;
6. develop a workable agreement with the Government of Senegal to facilitate cross-border trade and accelerate implementation of all aspects of the ETLS and CET.

3.2.2 GHANA

The high and ever-increasing crude oil prices, energy crisis and unfavourable weather conditions have impacted negatively on the economy of Ghana in recent years. Inflation has remained above the programmed targets although the exchange rate has been relatively stable in recent years owing to massive foreign exchange inflows. The desire of the government of Ghana for accelerated growth impacted negatively on fiscal policy, contributing to an increase in domestic demand and further worsening of the impact of exogenous shocks. Consequently monetary policy has been under considerable pressure, noting also that the deposit money banks contributed to liquidity creation. The external sector also experienced some constraints arising from an increasing demand for imports (both oil and non oil). Consequently, the country's performance under the convergence programme has not been encouraging.

With this background, the 2008 macroeconomic objective of the Government of Ghana aimed at increasing growth and ensuring a stable macroeconomic environment through prudent fiscal policy and a restrictive monetary policy that is flexible enough to respond to external shocks and ensure price stability. On the basis of these broad objectives the government proposed the following macroeconomic targets in its 2008 budget statement: a real GDP growth of at least 7.0 per cent; an average annual inflation of 7.0 percent; accumulation of international reserves to at least three months of import cover and an overall budget deficit of 4.0 per cent of GDP.

The provisional macroeconomic indicators for 2008 show that the real sector remained buoyant as the level of economic activity improved, recording a real GDP growth rate of 7.0 percent compared to 6.3 percent in 2007. However, the authorities were not able to achieve some of its targets on macroeconomic stability. The average headline inflation increased from 10.7 percent in 2007 to 13.5 percent, driven by the exogenous and endogenous factors that have characterized the economy in recent years. To help mitigate the inflationary impact of the rising crude oil prices and increases in food prices, the government announced the removal of certain tax elements on basic consumable commodities in 2008. The exchange rate fluctuation in 2008 was relatively higher compared to its performance in the preceding yeas. Interest rates also trended upwards in the year under review, in line with the increasing inflationary trends and expectations.

Even though total revenue returns remained robust, fiscal performance deteriorated during the year under review. The government's fiscal operations resulted in an overall budget deficit equivalent to 11.5 percent of GDP in 2008 compared to 8.1 percent in the preceding year. Total domestic revenue rose from 26.1 percent of GDP in 2007 to 27.9 percent, representing an increase of 31.5 percent (exceeding the programmed target by 7.2 percent). However, government expenditure during the review period increased from 40.8 percent of GDP to 46.5 percent, reflecting the scaling up of capital expenditure on energy infrastructure, wage bill, subsidies on electricity consumption and election-related spending. About 58.3 percent of the budget deficit was financed from domestic sources and the rest from foreign exchange inflows that accrued from donors, exceptional financing and proceeds from sovereign bonds raised on the capital market. The borrowing behaviour of government led to significant increases in the stock of short-term financial instruments.[2] The

[2] The stock of 91 day treasury bills increased from GHC 245.5 million to GHC 843.0 million and 182 day bills rose from GHC 134.0 million to GHC 665.3 million.

analysis further showed that the external debt position is currently sustainable, implying that the government has the leeway to borrow from external sources to finance its fiscal operations, although it should exercise caution in this respect.[3]

Monetary policy was generally restrictive as the growth rate in reserve money declined moderately from 30.5 percent in 2007 to 27.1 percent. Nevertheless, broad money supply (M_{2+}) increased by about 39.8 percent compared to 36.3 percent in the preceding year. The analysis showed that monetary policy was constrained by the expansion in fiscal policy and the credit creating activities of the banking system, underpinned by significant increases in credits to government and the private sector. Net credit to government more than doubled in 2008 whilst total credits extended to the private sector increased by 47.7 percent, further to the 58.6 percent growth recorded in 2007. To reverse the inflationary trends, the Bank of Ghana increased the prime rate from 13.5 percent to 17.0 percent during the first half of the year, which was maintained subsequently. The general structure of interest rates drifted upwards, reflecting the increasing cost of capital. The analysis showed that the government increased its borrowing from the money market, especially, through issuance of 91-day government treasury bills, leading to an increase in the discount rate by 12.7 percentage points to 23.2 percent. Nonetheless, the spread between the savings and lending rates narrowed as the average savings rate increased by 4.45 percentage points to 9.0 percent whilst the average lending rate went up by 0.30 percentage point to 27.3 percent by December 2008.

The balance of payments experienced significant constraints as the deficit on the current account widened on account of an increasing imports bill on both oil and non-oil products. The stock of external reserves declined from USD 2,836.7 million to USD 2,036.2 million. Developments on the official foreign exchange market shows that the domestic currency lost its relative stability against the major international currencies, depreciating by 20.1 percent and 16.3 percent against the US dollar and euro respectively whilst appreciating by 7.1 percent against the pound sterling. In comparison, the domestic currency depreciated against all the major international currencies in 2007 - by 4.8 percent, 15.7 percent and 7.2 percent against the US dollar, euro and pound sterling respectively.

[3] The external debt position increased from 48.2 percent of GDP in 2007 to 50.0 percent, with debt service payments constituting 4.3 percent of exports of goods and non-factor services. A country is generally regarded as severely indebted (external debt position is unsustainable) if the external debt is above 250% of GDP and the ratio of scheduled debt service to exports of goods and non-factor services is above 25.0%.

3.2.2.1 STATUS OF CONVERGENCE

The assessment indicated that Ghana met none of the primary convergence criteria in 2008. The status of convergence deteriorated as the country met only two targets in the secondary criteria category. Performance under the convergence criteria was as follows:

Primary Criteria

As already indicated, Ghana met none of the primary criteria in 2008, having realized the benchmark on central bank budget deficit financing since 2003. Unfortunately, performance on the primary criteria appears to be diverging rather than converging. The outcomes on the relevant benchmarks were as follows:

Budget Deficit/GDP ≤ 5 %

As already indicated, fiscal policy deteriorated in spite of continued buoyancy in domestic revenue mobilization. The budget deficit (on commitment basis excluding grants) was 19.7 percent of GDP compared with 14.7 percent in 2007. The analysis further showed that this benchmark had exhibited an upward trend since 2005, thus accentuating the adverse variance from the prescribed maximum target of 4.0 percent of GDP. Performance is not expected to improve 2009 as the projections based on the available information in the 2009 budget statement indicated that the deficit position would remain high at 15.5 percent despite attempts by the new government to rationalize its fiscal and financial operations. This performance is worrisome as fiscal dominance tends to undermine the realization of all the other benchmarks, thus, being one of the major problems limiting progression towards macroeconomic convergence.

Inflation ≤ 5%

The end-period inflation increased from 12.8 percent at end-2007, peaked at 18.4 percent in June and eased marginally to 18.1 percent by end-2008. Apart from the exogenous factors relating to the rising crude oil and food prices, an increase in consumer demand fuelled the inflationary pressures observed during the year. Containing inflation has generally been a problem in Ghana, noting that the country achieved its best performance of 10.9 percent in 2006. Developments in the consumer price index in the first quarter of 2009 indicated that inflation would surge further in 2009 as the general price level increased by 6.7 percent compared to 4.6 percent in the corresponding period of 2007. Annualizing the movement in the consumer price index, the end-period inflation for 2009 would, ceteris paribus, be about 29.8 percent.

Central Bank Budget Deficit Financing ≤ 10.0% of Previous Year's Tax Revenue

Having performed satisfactorily during the period 2003-2007, Ghana missed this target in 2008, recording a deficit financing relative to tax revenue outturn of 18.4 percent. This outcome compares unfavourably with maximum requirement of 10.0 percent. The weakening fiscal position arising from the ambitious investment drive forced government to resort to financing from the central bank in addition to other forms of financing from the deposit money banks, private sector and foreign sources. A further analysis of the government's 2009 budget statement indicates that, ceteris paribus, Ghana would not meet the required target in 2009, and may possibly overshoot it by 5.5 percentage points. Considering its inflationary implications, it is advisable for the government to avoid this form of financing.

Gross External Reserves ≥ 6 Months of Imports Cover

In spite of favourable foreign exchange inflows by way of private remittances and foreign direct investments, this criterion has generally exhibited a downward trend since 2005. Gross external reserves dwindled from 3.9 months of imports cover at end-2007 to 2.2 months by end-2008. The declining trend in reserves was mainly due to the increasing imports bill (both oil and non-oil). It is expected that this performance would not improve in 2009 considering the fact that the government estimated a minimum two months of imports cover for gross external reserves in its 2009 budget statement.

GHANA: STATUS OF CONVERGENCE

	target	2002	2003	2004	2005	2006	2007	2008	2009*
Primary Criteria:									
i) Budget Deficit/GDP	≤4%	7.9	7.7	9.5	6.9	12.6	14.7	18.6	18.0
ii) Inflation Rate	≤5	15.2	23.6	11.8	13.9	10.9	12.8	18.4	29.8
iii) Budget Deficit Financing									
iv) Gross External Reserves	≤10%	12.1	0.0	1.6	0.0	0.0	0.0	17.3	15.5
	≥6m	2.3	4.1	3.7	4.0	3.7	3.9	2.2	2.4
Secondary Criteria:									
i) Domestic arrears									
ii) Tax Revenue/GDP									
iii) Salary Mass/Tax Revenue	=0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
iv) P. Invest/Tax Revenue	≥20%	17.5	19.3	22.4	20.8	21.1	23.7	23.1	23.9
v) Positive Real Interest Rate	≤35%	49.1	44.4	38.9	44.4	53.1	46.8	45.5	49.5
vi) Real Exchange Rate**									
	≥20%	13.6	18.8	18.4	18.8	26.5	27.3	34.3	6.0
	≥0	-2.2	-13.9	-2.3	-7.5	-6.2	-8.3	-9.9	-19.8
	±5%	0.7	0.8	-1.4	0.0	7.1	1.5	9.1	2.8
Total No. Of Criteria Met		1	2	3	3	3	4	2	3

Source: BOG; *projections

Secondary Criteria
The authorities endeavoured to sustain the country's performance on the two benchmarks realized under this category since 2006, namely, in the areas of tax revenue and public investments financed from domestic sources. Performance under the relevant criteria in this category is as follows:

Domestic Arrears = 0
Performance under domestic arrears could not be assessed owing to data unavailability. This criterion is important in assessing the level of fiscal sustainability and credibility of the data on other variables. In this regard, the Ministry of Finance and Economic Planning is being should facilitate the convergence monitoring process by providing the relevant data.

Tax Revenue/GDP ≥ 20%
Performance under this criterion is very encouraging as Ghana has since 2004 met this target consistently. Tax revenue was 23.1 percent of GDP in 2008, representing a growth rate of 33.3 percent. The projections show that this performance would improve further in 2009.

Salary Mass/Tax Revenue ≤ 30%
Performance under this criterion remained poor despite the improving efficiency in revenue mobilization. The wage burden relative to tax revenue declined marginally from 46.8 percent in 2007 to 45.5 percent. This outcome was about 10.5 percentage points above the maximum requirement of 35.0 percent, thus, confirming the need for further reforms in the public sector. The projections show that Ghana would continue to grapple with this criterion in 2009 owing to the indication or an upward adjustment in salaries in the 2009 budget statement.

Public Investment/Tax Revenue ≥ 20%
The country made further progress on this criterion, aided by the increasing domestic revenue and the investment drive undertaken by government in 2008. The level of investment financed from domestic resources represented 34.3 percent of total tax revenue compared to 27.3 percent in 2007. However, Ghana would not meet this criterion in 2009, as indicated in the government's 2009 budget statement in a bid to curtail budget deficit.

Positive Real Interest Rate (> 0)
As in recent years, real interest rates remained negative. Performance under this criterion, measured as the diffidence between the minimum savings rate and inflation, continued to deteriorate due to the upward movement in the general price level. The persistence of this phenomenon could have an adverse impact on private savings.

Real Exchange Rate Stability (±5 %)
Measured by the real effective exchange rate within the fluctuation band of ±5.0 percent, Ghana did not meet the prescribed target on this criterion in 2009. This development is attributable to the exchange rate depreciation and increasing inflationary trends.

3.2.2.2 INSTITUTIONAL ARRANGEMENTS AND POLICY HARMONIZATION

The National Coordinating Committee (NCC)
The authorities indicated that the NCC has been established in Ghana with the chairmanship based in the Ministry of Finance and Economic Planning, while the secretariat is located in the Bank of Ghana. All members of the economic management team are designated members of this Committee.

A bank account had already been opened for the Committee and arrangements were underway to retrieve an amount of USD 7,500.00 being subvention transferred through the ECOWAS Unit of the Ministry of Foreign Affairs and Regional Integration by the ECOWAS Commission in 2007. However, the Committee is yet to organize a meeting to develop a programme of activities for 2008 and fashion out modalities for preparing the quarterly economic and pluri-annual reports as indicated in the decision (A.DEC.17/12/01 of 2001) of the Authority of ECOWAS Heads of States and Government.

At separate meetings at the Statistical Office and Ministry of Finance the WAMA delegation underscored the need for the Committee to function effectively in order to strengthen the multilateral surveillance mechanism. The Chairman pledged his commitment to ensure effective activation of the Committee as soon as possible.

Payments System Development
Ghana has advanced in its payments system reforms in 2007 and 2008. The country established the Real Time Gross Settlement (RTGS) system and the Securities Settlement System (SSS) to provide platforms for high value and time critical payments. In addition, the Bank of Ghana established the Ghana Interbank Payment & Settlement Systems Limited (GhIPSS) in 2007 as a subsidiary body to manage interbank payments and settlements. The Bank also initiated work on the development of a cheque clearing and truncation system as well as an automated clearing house.

A major activity in the payment systems development programme was the inauguration of the national electronic switch system in April 2008. This national switch, popularly called the 'e-zwich', was meant to facilitate cashless transactions, extend the coverage of financial services to a large segment of the population and provide a common platform for most retail payment transactions in the country through integration of all existing bank switches. Thus, the system will facilitate the interoperability of all automatic teller machines (ATMs) and points of sale (POS) systems and further accommodate the use of local debit/credit magnetic stripe cards, international branded association cards, smart cards and mobile phone bank accounts. The switch would also support cross border transactions in the future.

Furthermore, a Central Securities Depository Bill was passed into law (Act 733) to provide the legal and regulatory framework for the establishment, operation and regulation of central depositories for the development and promotion of vibrant primary and secondary money and capital markets in Ghana. The Bank of Ghana also upgraded the MICR clearing technology with the aim of enhancing its efficiency and processing speed.

Work on the Automated Clearing House and Cheque Codeline Clearing and Truncation System (to replace the current cheques clearing system) is also far advanced. These projects have currently reached the pilot phase with the expectation that they would become fully operational by mid-2009. Other on-going projects include the establishment of regional clearing zones, inter-regional settlement links and the collaterization of exposures in clearing banks. Arrangements are also underway to solve certain challenges relating to telecommunication and disaster recovery plan.

Capital and Financial Market Liberalization

Ghana made significant progress in the liberalization of its capital and financial account in 2007 following the promulgation of the Foreign Exchange Act (Act 723) in December 2006 to replace the Exchange Control Act of 1961.

In a notice issued to the general public on March 15, 2007 in pursuance of the new Act, the Bank of Ghana announced the removal of a wide range of controls in the foreign exchange market, particularly, on the maintenance of foreign exchange accounts, capital transactions, money market transactions, credit operations, inward and outward direct investment and real estate transactions.

However, the guidelines maintained minor residual controls on the non-retention of cocoa proceeds, importation and exportation of bank notes exceeding $10,000.00, prohibition of the sale locally of money market instruments by non-residents and ownership of leasehold beyond fifty years by non-residents.

ECOWAS Trade Liberalization Scheme (ETLS) and Common External Tariff (CET)

Ghana has fully implemented the provisions under the ETLS by 2007 and has fully complied with the protocol on free movement of goods and services. However, the main obstacles and challenges facing the country are in respect of the complex rules of origin, cumbersome procedures for industrial goods, ineffective compensation schemes, the continued existence of trade barriers, including unnecessary road blocks other time-consuming border procedures, imposition of packaging and special health requirements and in other ECOWAS countries, unilateral anti-trade decisions by certain ECOWAS countries and the existence of two trade liberalization (the ECOWAS and UEMOA) schemes.

With regard to the CET, Ghana has not yet implemented its basic principles required under the scheme. The Authorities are currently engaged in negotiations with the ECOWAS-UEMOA Management Committee on final duty rates on the Type B Exceptions. The Authorities are also making necessary arrangements to align the Type A Exceptions with the appropriate CET rates, adopt the relevant legal framework and undertake necessary sensitization programmes so as to facilitate implementation of the CET structure by June 2009.

Statistical Harmonization

Ghana is far advanced on the statistical harmonization programme. The country has since 2006 been compliant with the common platform for determination and calculation of the Consumer Price Index (CPI) which is nationwide in coverage and based on a consumer basket comprising 273 commodities. The Statistical Service has also reviewed the weighting methodology using information obtained from the recent 2006 living standards survey. Furthermore, studies are ongoing to change the base year and review the supply and use tables in collaboration with the IMF.

The Statistical Service is currently engaged on the harmonization of the National Accounts. The COICOP method of classification has been adopted and arrangements are underway to transcend from the current SNA 68 method of presentation to SNA 93 by end-2009. Regarding the ECOMAC database, the Statistical Service has updated the CPI, National Accounts and Trade Statistics.

The Statistical Service faces a few challenges in data generation such as: inadequate data on the activities of certain service providers, poor classification of transactions of items between investment and consumption expenditure, intermediate and final consumption, wholesale and retail trading transactions etc. Arrangements are however underway to step up training in these areas.

The Service also underscored the problem of data coordination among various institutions and expressed the need for a central data collection point.

3.2.2.3 Conclusion and Recommendation

The economy of Ghana continued to experience some constraints on both the domestic and external fronts. On the domestic front the high fiscal dominance impacted significantly on inflation. Monetary policy encountered significant challenges. Constraints in the external sector, especially, in the merchandise trade account contributed to a relative depreciation of the domestic currency. The macroeconomic difficulties affected the country's performance on most of the convergence criteria, especially, on budget deficit, deficit financing, inflation, gross external reserves, positive real interest rates and real exchange rate stability. The outlook indicated that the country would continue to grapple with criteria in 2009. Activities under the institutional and policy harmonization initiatives are progressing steadily, with the exception of the National Coordination Committee (NCC) that needs to be established properly.

In the light of the above analysis, the following recommendations are relevant:

1. The government should control the budget deficit by rationalising expenditure in order to control the growth in public debt (both domestic and external), interest payments and financing from the central bank;
2. The government may adopt the cash budgeting system to help control expenditure;
3. The government should accelerate the public sector reforms with the objective of streamlining the size of the work force and enhancing productivity;
4. The government may develop strategies to enhance the foreign exchange earning capacity of the country by encouraging the production and processing of tradable commodities;
5. The government may associate increases in the wage rate with the level of productivity;
6. The government should inculcate the convergence targets in its medium term expenditure programmes and exhibit commitment to the integration programme through complying with the relevant targets;
7. The Bank of Ghana should strengthen its monetary policy and institute appropriate strategies to avoid excessive accommodation of the government's fiscal operations; and
8. The Bank of Ghana should ensure that its prime rate reflects the movements in inflation and the need for attractive interest rates higher private savings within the economy;
9. The Ministry of Finance and the Bank of Ghana should endeavour to operationalize the NCC as soon as possible.

3.2.3 GUINEA

During 2008 the Guinean authorities continued to pursue the necessary reforms to stimulate economic activity through the implementation of measures contained in the emergency program and the Poverty Reduction and Growth Facility program (PRGF). The main objective of the government's economic program is the revival of economic activity and improvement of living conditions of the people including the improvement of economic and financial management, restoration of basic macroeconomic equilibrium and improvement of access to basic social services.

The year 2008 saw a significant revival in economic activity. Macroeconomic results for 2008 were generally satisfactory, especially when measured against earlier projections. Indeed, economic growth was slightly above the 4.5% target, inflation was well below the target of 18%, foreign exchange reserves have experienced a significant improvement and key fiscal indicators were controlled, despite some difficulties experienced during the last quarter of the year.

3.2.3.1.1 Real sector

The year 2008 saw a significant revival of economic activities. The Guinean economy recorded a real growth rate of 4.9% as against 1.8% in 2007. The revival of economic activity was aided by the positive effects of the lull in social upheavals, dynamism in the mining sector and good performance in the agricultural sector.

During 2008, the primary sector recorded an estimated growth rate of 3.6% against only 1.7% in the previous year. Growth in the primary sector was essentially driven by the livestock sub-sector, followed by fisheries and agriculture to a lesser extent. The forestry sub-sector also experienced a renewed dynamism, in the wake of the resumption in logging by some companies who secured the Government approval.

The secondary sector on its part, recorded an exceptional growth of 9.5% against 1.7% in 2007. This strong growth is based on the performance of the mining sector, which has experienced growth in volume of about 16%, and influenced, to a lesser extent, by the public building and works sub-sector. Regarding the mining sub-sector, non industrial mining of diamonds witnessed a resurgence of activity with a production almost twice that of last year, growing from 1009.73 carats in 2007 to 2019.47 carats in 2008. Value added in the public building and works sub-sector recorded a real growth of about 7.5% in 2008 against a mere 1.5% in 2007. In another development, water and electricity supply improved significantly in 2008.

The tertiary sector on its part, in 2008, recorded an actual value added growth of 2.8%, following a 0.6% growth in 2007. This renewed dynamism in the tertiary sector is due to the impact on trade and transport as well as renewed activity in the agricultural and mining sectors.

The structure of the Guinean economy did not undergo any significant change in 2008. With the development of trade, Guinea's GDP is still largely dominated by activities of the tertiary sector, accounting for more than 40% of same. This sector was followed by the secondary sector which, thanks to the mining sector, accounted for 33.4% of total value addition. On the other hand, the primary sector in which is concentrated the essential part of the active population represented only 21% of GDP in 2008.

As regards demand, Final Consumption increased by 3.5% in 2007 at a constant price, whereas gross fixed capital formation increased by 24.4%. Increased consumption was only experienced in the public sector, representing more than 50%, whilst consumption in the private sector dwindled by 10% at constant price. The sturdy increase of private investment in 2008 was essentially in favour of the private sector, notably mines and telecommunications, which recorded massive inflows of Foreign Direct Investment (FDI). All in all, the composition of aggregate demand did not witness a significant change in 2008. The share of final consumption stabilised at 70%, while investment represented about 30%, just as in 2007.
Concerning prices, year-over-year inflation was 13% against 12.8% in 2007. This reached a peak, during the year, at the end of 2008 with an inflation rate of 25.1%, following a 60% hike of petroleum product prices, combined with pressures on the international market, unleashed by the soaring prices of commodities. In all, the rising inflation was driven by soaring commodity and energy prices on the international market during the first quarter and relaxation of budgetary and monetary policies towards the end of the year, culminating in the depreciation of the Guinean Franc.

3.2.3.1.2 Budget sector

Budgetary operations were characterized by a slight worsening of the deficit excluding grants commitment basis in 2008. In fact this deficit settled at GNF 352.78 billion, representing 1.7% GDP against 0.9% GDP in 2007. In spite of the decline, however, State financial operations continued to show substantial primary surplus. The primary balance actually showed a surplus of GNF 633.71 billion in 2007 (19.4% of internally mobilized resources) after showing a surplus of 652.86 billion GNF in 2007, representing 26.6% of internal revenue.

On the whole, budgetary fundamentals performed well in 2008 despite the difficulties encountered, especially during the 4th quarter of the year. This performance is primarily based on the mobilization of internal revenue, making it possible to compensate for the soaring recurrent expenditure.

During 2008, internal revenue was mobilized to the tune of 3265.1 billion GNF (15.7% of GDP) against 2477.28 billion in 2007 (14.3% of GDP). This significant improvement in internal revenue is primarily linked to improvement in revenue levels from the mining sub-sector and taxes on goods and services. Taxes on goods and services yielded additional revenue of about GNF 368.8 billion, 13.7 billion for petroleum products whereas the development of mining activities allowed for raising the additional tax of 165.75 billion in 2008. The operation license fees were mobilized to the tune of 569.51 billion in 2008 against 472.65

billion in 2007, representing an increase of 96.9 billion, mainly due to renewed importations and the depreciation of the Guinean franc. In all, efforts deployed in revenue mobilization made it possible to increase the tax pressure rate from 13.5% in 2007 to 14.7% in 2008.

On expenditure, recurrent expenditure increased by 42% to reach GNF 2777.22 billion in 2008. This sky-rocketing of the current is primarily attributed to the acquisition of goods and the provision of services, interest charged on debt and payment of salaries. Expenditure on the acquisition of goods and provision of services nearly doubled in 2008 and stood at 988.17 billion. This situation may be linked to the cost of induction into office of members of the all inclusive government. Similarly, the recruitment of new employees and obligations springing from demands made by the army and other professional groups translated into a substantial increase in the number of salaried workers. Thus, the personnel cost increased from GNF 607.21 billion in 2006 to 885.00 billion in 2007, representing an increase of 45.7%. Also, the depreciation of the Guinean franc in combination with the significant recourse to the issue of Treasury Bills led to an increase in interest charged on the domestic debt. Overall, current expenditure, as happened in 2007, absorbed about 80% of internal revenue.

Capital expenditure, on the other hand, increased in volume by about GNF 110billion. However, public investments as a percentage of GDP were almost stable. It should be noted that in 2008, State contribution was slightly more than that of the various donors' contributions.

Unlike the previous fiscal year that recorded an extraordinary surplus, Guinea's budget implementation in 2008 recorded a deficit on a cash basis of GNF 215.61billion. This deficit was mainly financed by local banks. The State deployed efforts targeted at paying up its debts to foreign donors and local suppliers. However, foreign exchange constraints did not allow for fulfilling all the foreign obligations of the State. Foreign arrears were accumulated to the tune of USD 12.8 million during the financial year.

3.2.3.1.3 External Sector

Guinea's balance of payment showed a current account transaction of USD 423.24 million compared to 455.57 million in 2007, representing a 7.09% improvement. Contrary to the situation in 2007, this deficit is mainly financed by a net capital flow of USD 394.52 million.

Concerning asset transactions, Guinea's export earning was at 1 342.01 million against 1.366.07 million USD import expenditure, representing a trade deficit of 24.06 million USD compared to 14.41 million in 2007. The rate of import cover by exports has been almost stable (98.24% in 2008 as against 98.82% in 2007).

Regarding services, Guinea showed a deficit of USD 337.11 million in 2008, as against 247.42 million in 2007. This deficit was essentially due to sea transport which accounted for USD 239.06million, air transport for 16.29 million USD and various specialised and technical services for USD 23.14 million.

Touching on revenue, the transaction balance showed a deficit of 80.55 million USD compared to 63.15 million in 2007. This deficit largely originates from benefits and dividends and interests paid to non residents by mining companies to the tune of USD 62 million and interests charged on the external debt by the public administration. During 2008, the State paid 4.56 million USD for accumulated chargeable interests and 21.94 million being common term interests.

On current transfers, operations produced a surplus of USD 18.48 million. Money transfer companies received USD 58.619 million from abroad. 90% of these funds are spent on the maintenance of Guinean immigrants' families and 10% is invested in the real estate market. Over the same period, these companies transferred USD 34.101 million. These funds are generally meant for supporting Guinean students abroad or for covering the medical bills of patients transferred abroad.

As indicated earlier, the current transactions deficit was essentially financed with a net capital flow from the capital and the financial operations account.
In 2008, the capital account recorded a surplus of USD 34.75 million. This surplus largely came from cash donations provided by diplomatic missions and international organisations to finance investment projects.

The balance of financial operations showed a surplus of USD 359.77 million in 2008 as against 261.43 million in 2007. This surplus came essentially from a cumulated net capital flow of Foreign Direct Investment of USD 255.77 million and other foreign investments amounting to USD 104 million. During 2008, direct investors pumped USD 381.88 million into mining companies.

The other investments showed a surplus of 104 million USD as against 5.29 million USD in 2007. This surplus mainly came from drawings on loans by the State to the tune of USD 54.16 million and new loans and borrowings contracted by various mining companies amounting to 47.30 million USD during the period.

In the course of 2008, transactions between Guinea and the rest of the world recorded a total deficit of 28.71 million USD against 87.64 million in 2007. This deficit was absorbed by drawings on new borrowings to the tune of 48.71 million and a debt rescheduling involving USD 20.30 million. The in-flow of these funds allowed for a replenishment of reserves assets USD of 21.24 million.

3.2.3.1.4 Monetary Sector

In 2008, the monetary authorities continued to implement a restrictive monetary policy especially through the execution of demands of the Treasury on the basis of available funds. This strategy, though softened up a bit in the last quarter of the year, due to constraints on the Public Purse, led to relative stability of the exchange rate and prices.

At-end December 2008, money supply stood at GNF 4 700.53 billion against 3 398.24 billion as of 31 December, 2007, representing an increase of 38.3%. This improvement is due to the simultaneous increase of net foreign assets of 486.01 billion and net internal assets of 816.28 billion GNF.

Between December 2007 and December 2008, net foreign assets increased from USD 92.64 million to 169.00 million, representing an increase of 76.36 million USD (82.4%).

During this period, the gross exchange reserve of the Central Bank increased by more than 50% to stand at USD 62.95 million. This improvement was primarily due to earnings from the mining sub-sector (145.5 million USD) and the acquisition of foreign exchange by the BCRG from commercial banks (89.9 million USD). In spite of the beefing up of these reserves, they only cover 0.5 months of import of goods and services. The foreign assets of commercial banks witnessed an improvement of 43.1%, having increased from USD 127.12 million to 182.00 million. The lifting of the moratorium on some imports and the development of mines are the main factors that contributed to this improvement.

Net domestic assets increased by 27.1% to stand at 3 828.46 billion GNF as of December 31, 2008. This development was born of the State's increased net indebtedness to the commercial banks to the tune of GNF 459.64 billion and an increase of 18.6% of private loans to the private sector. The state's indebtedness to the commercial banks through Treasury bills is the result of the resolve of the monetary authorities to avoid pressure on the Central Bank and to finance the Treasury trough sound and wholesome means. The State's indebtedness to the BCRG has, however, increased by GNF 137.04 billion at the close of the year.

Regarding the components, money supply at-end 2008 was dominated by deposits in the Guinean francs (36%), which improved by 3 points compared to 31 December 2007. Foreign deposits also increased by 3 points over the period, accounting for 29% of money supply. Credit circulation on the other hand lost three points, falling to 35% of money supply.

3.2.3.2 Performance under Macroeconomic Convergence

The Country maintained its performance during the year 2007 meeting a total of four (04) criteria, including two primary ones namely: budget deficit/GDP ratio and budget deficit financing by the Central Bank. This performance is especially significant, given that the year 2008 was marked by a succession of external shocks (food crisis, soaring energy prices and the financial crisis).

3.2.3.2.1 Primary Criteria

Guinea met the requirements of the ECOWAS convergence program in relation to the budget deficit and its financing by The BCRG in 2008.

Budget Deficit excluding Grants/GDP

For a community standard of 4%, Guinea recorded a budget deficit on commitment basis and excluding grants of 1.5% against a ratio of 0.9% in 2007.

Inflation

Achieving the maximum inflation rate of 5% is still a source of concern since 2001. Inflation inched up 2008 to stand at 13.5%.

Financing of Budget Deficit by the Central Bank

In 2008, the State requested funding from the Central Bank to a tune of 5.8% of the previous year's revenue.

External Reserves

If there is one area where the country is expected to make greater efforts it is certainly that of foreign exchange reserves of the Central Bank. Indeed, the level of official reserves remains a source concern and the situation is not getting any better. In 2008, the level of reserves stood at 0.5 months of imports of goods and services.

3.2.3.2.2 Secondary Criteria

With regard to the secondary criteria, Guinea succeeded as it did last year in meeting the requirements on the wage bill and real interest rate.

Domestic Arrears

There were no statistics available to assess performance in respect of this criterion.

Tax Revenue/GDP Ratio

While some budgetary performance recorded over the last two years is welcomed, the fact still remains that the tax authorities must intensify their efforts. Despite a slight improvement in 2008, the tax pressure rate remains well below the established community standard.

Wage Bill/Tax Revenue

Though it recorded an increase in 2008, the wage bill accounted for only 29% of tax revenue raised during the year.

Internally Funded Investments

With investments funded with local resources representing only 12.8% of tax revenue, Guinea is still far from meeting the 20% standard.

Real Interest Rate

The real interest rate improved slightly despite rising inflation.

Real Exchange Rate

Since 2003, nominal trends combined with a negative inflation differential relative to the main partners have made it impossible for Guinea to meet the regional standard.

<u>Table:</u> Convergence Status of Guinea

	Standard	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary Criteria:											
i) Budget Deficit /GDP	≤4%	5.2	3.4	6.2	8.8	5.9	1.6	2.0	0.9	1.5	3.7
ii) Inflation Rate	≤ 5%	7.2	5.2	6.1	12.9	27.6	29.7	39.1	12.8	13.5	7.7
iii) CB Financing	≤ 10% TR n-1	24.0	-0.7	24.5	14.6	26.2	-8.8	54.0	0.0	5.8	0,0
iv) Gross Exchange Reserves	≥6 months Imports B/S	2.2	2.8	2.3	1.6	1.2	1.1	0.8	0.4	0.5	1.1
Secondary Criteria											
i) Domestic Arrears		nd	nd	nd	nd	nd	nd	nd	nd	nd	nd
ii) Tax Revenue/GDP	≥20%	10.2	11.4	12.0	10.5	9.5	12.2	14.8	13.5	14.7	14.0
iii) Wage Bill/Tax Revenue	≤35% TR	38.2	32.0	31.0	34.3	32.5	23.2	18.4	25.9	29.0	29.2
iv) Int. Investments/Tax Revenue	≥20% TR	7.7	5.5	10.2	12.1	16.1	12.6	12.0	11.9	12.8	12.1
v) Real Interest Rate	> 0	0.7	2.8	1.3	-8.3	-19.2	-23.0	-20.0	1.8	0,5	4.3
vi) Real Exchange Rate Stability	± 5%	-	-3.2	-2.3	-6.	-5.8	-22.4	-7.0	32.6	-6.5	-4.8
Number of criteria met		1	5	3	1	1	3	2	4	4	5

Source: Central Bank WAMI and WAMA * Estimates ** Projections

3.2.3.3 Harmonisation of policies and institutional arrangements

Creation and functioning of the NCC

The Guinea National Coordination Committee was set up in 2006. Its composition was decided by a decree of the Prime Minister. A process is currently underway for the recruitment of a macro-economist and a bilingual secretary to run the NCC. In another development, owing to a major change to the structure of Ministerial Departments, a draft decree is also being proposed to define the new composition of the NCC.

Statistical harmonisation

Guinea's national accounts are prepared in conformity with the nomenclature adopted by the ECOWAS within the framework of the comparable GDP project. Also, the country since 2006 has shifted to the SCN 93 and is preparing to use the ETTES software for data processing.

As far as prices are concerned, Guinea uses the Harmonised Consumer Price Index (HCPI) adopted within WAEMU States under AFRISTAT. Currently, the nomenclature harmonized at the level of ECOWAS (COICOP 12 functions) is produced but not utilised.

Implementation of the CET
Guinea since 2005 has adopted the UEMOA Common External Tariff with a few adjustments particularly concerning agricultural equipment and inputs which are tax exempt.

Free movement of persons and goods
Free movement and establishment of ECOWAS citizens is a reality although some travellers have complaints about harassment at some border posts. According to Guinean authorities, the complaints they receive from traders primarily concern business transactions with some neighbouring countries.

3.2.3.4 Prospects for 2009

While 2008 was marked by a significant recovery in economic growth, the year 2009 promises to be difficult mainly because of the international financial crisis which has assumed the proportions of a global economic crisis. Despite this difficult context, the determination of the Guinean authorities is reflected in the projections. Thus, the projections indicate a growth rate of 3.9% for the year 2009. This growth would be driven by the performance of some segments of the mining sector (gold and diamonds) and development activities in agriculture, transport and fishing. Furthermore, there would be an increased mobilization of tax and customs revenues. The tax revenue/GDP ratio would increase to 15.3%. Similarly, the budget authorities have plans to strengthen controls over current expenditure in particular. The current expenditure/GDP ratio is expected to fall from 14.3% in 2008 to 13.1% in 2009. As regards monetary policy, the authorities are considering continued funding of government operations with funds available in the country's Treasury. Thus, growth in money supply will be largely kept below the nominal GDP growth. This should help promote price stability. The year-over-year inflation rate is expected to fall to 7.7% in 2009.

However, the already severe impact of the crisis on demand for raw materials including bauxite, which accounts for nearly 50% of Guinea's exports (25% of GDP), may have a serious repercussions on the economy. Also, the construction sector may be very much affected by the expected dwindling of remittances from Guinean workers living abroad. Furthermore, was a noticeable slowdown in economic activity during the 1st quarter due to the uncertainty associated with the change of regime. In this context, the expected economic growth could hardly exceed 3%. Also, the currency market may be very tight due to lower foreign exchange earnings in the mining sector and falling remittances from Guineans abroad. This could affect the level of foreign exchange reserves which is already very low.

Furthermore, the resulting treasury difficulties could lead to greater use of monetary financing which has been relatively contained over the past two years through the implementation of a tight fiscal policy combined with a restrictive monetary policy. This could result in deterioration of the economic fundamentals, including explosion of budget deficit, depreciation of the national currency and growing inflationary pressures.

In this very tight economic and financial situation, it should be refreshing that the new authorities are committed to fighting against corruption and moralizing of the public sector and recovery of the state's resources. Indeed, resources to be recovered may help to partly offset revenue losses due to the international economic crisis and the wait-and –see attitude of national economic operators.

In terms of macroeconomic convergence, the country could maintain its performance in 2009 in respect of the same criteria in 2008: two primary criteria (budget deficit and its financing by BCRG) and three secondary (wage bill, real interest rate and real exchange rate stability).

3.2.3.5 Conclusion and recommendations

Guinea's economy in 2008 experienced significant boost in activity but the country's macroeconomic situation remained very fragile. In spite of satisfactory monetary and fiscal performance, inflation, current account deficit and the level of official foreign reserves continue to be sources of concern. In this context, the global economic crisis may have important implications because of the limited diversification of the foreign trade sector.

In the coming years, the greatest challenges of the Guinean economy are the revival of growth, price stability, sustainability of achievements in fiscal and monetary policy and improvement in foreign trade. In this context, the implementation of the following recommendations is essential:

1. Compliance with commitments made to the International Contact Group in particular as regards the electoral process to enable a rapid return of donors;

2. Maintaining an internal environment conducive to social peace, notably through continued dialogue with the trade unions, civil society and political parties;

3. Lifting as soon as possible, the prohibition of certain exports because this measure is not appropriate in the current context, marked by a downward trend of inflation at the international level, but unnecessarily penalizes producers in Guinea ;

4. Continuation of the zero budget deficit funding policy that has in the past two years helped improve the fiscal accounts, the relative stability of the Guinean franc and a better control of inflationary pressures;

5. Continuation of audits and recovery of money owed to the State, while respecting the laid down judicial procedure. To be effective, this should be combined with the strengthening of expenditure controls including those relating to the military which had experienced significant increase in the first quarter of 2009;

6. the conduct of monetary policy appropriate to the situation marked by the international financial crisis through the identification of successful strategies for promoting private sector financing by banks;

7. Improved management of public finances by reducing unproductive spending in order to generate substantial resources for investment. The ratio of investment expenditure from local resources of Guinea is one of the lowest in the sub region;

8. strengthening efforts to improve water supply and electricity for the development of small businesses;

9. Reorganization of the business environment so as to promote the realization of the expected massive investment especially in the mining sector. To do so, the review of mining agreements should focus on cooperation to avoid the trap of costly litigation and the uncertain outcome that could dangerously affect the country's credibility in the eyes of investors;

10. Continuation of negotiations with the IMF under the current program in order to arrive quickly at the HIPC completion point.

3.2.4 NIGERIA

The economy of Nigeria, which depends on crude oil exports, has been relatively strong in recent years recording real GDP growth rates above 6.0 percent with inflation ranging between 6.0-12.0 percent. Despite an improvement in fiscal policy management, the country encounters certain difficulties in tax revenue mobilization. Monetary policy has been under considerable pressure albeit the central bank of Nigeria has been up to the task controlling excess liquidity, especially, sterilizing massive foreign exchange inflows in recent years in efforts towards the maintenance of macroeconomic stability. However, an unrelenting social unrest in the Niger delta, erratic power supply and an increasing domestic demand provide downside risks to the relative macroeconomic stability.

The analysis of the economic performance in 2008 showed that the economy remained buoyant although the level of macroeconomic stability deteriorated. Even though the level of economic activity slowed down in the second and third quarters, it accelerated during the 4th quarter enabling the country to achieve the same real GDP growth rate of 6.4 percent realized in the preceding year.

Inflation defied seasonal patterns and rose from 6.6 percent in 2007 to 15.1 percent in 2008. The inflationary pressure experienced during the year was attributed to the combined effect of an increasing domestic demand created by excess liquidity conditions and the rising oil and food prices on the international and domestic commodities markets. The domestic currency depreciated against the US dollar and euro in all segments of the foreign exchange market largely due to unfavourable global economic and financial developments. Interest rates that had hitherto trended downwards experienced an upward turn in 2008, reflecting an increasing cost of capital. Furthermore, the rapidly declining oil price was a major cause of concern to the authorities in Nigeria considering its potential impact on fiscal operations and the overall economy.

The overall output growth for 2008, which was estimated at 6.4 percent was driven by strong performances in the solid mineral, telecommunication, finance and insurance, wholesale and retail trade and building and construction sectors. in the preceding year. However, the output growth in the agriculture sector declined from 7.2 percent to 6.5 percent. It was also noted that activities in the crude petroleum and natural gas sectors which constituted about 39.9 percent of GDP continued to recede, recording a negative growth rate of 4.8 percent following a similar degree of recession in 2007. The underperformance in the oil sector has been attributed to a declining demand for exports and the continued disturbances in the Niger Delta.

The Federal Government of Nigeria continued to apply prudent fiscal policy measures resulting in an overall marginal budget deficit of 0.2 percent of GDP in 2008. The budget deficit has generally been below 1.0 percent in recent years. Even though Nigeria has in recent years experienced a boost in revenue driven by favourably high crude oil prices, the authorities have sought to control domestic demand by ensuring strict compliance with the oil-based fiscal rule adopted in recent years that requires the transfer of excess oil revenues (value above budgeted oil price and production level) into an excess crude account at the Central Bank of Nigeria. Total revenue increased by 37.0 percent to ₦7,756.6 billion, representing 32.3 percent of GDP in 2008 compared to 27.2 percent in the preceding year. A further review of the revenue structure indicated that Nigeria derives its revenue from oil-based resources (constituting 94.8 %, both tax and non-tax). To address the potential risk associated with this over-reliance, the Federal Inland Revenue Service has initiated a number of policy measures aimed at enhancing the level of non-oil revenue, including the intensification and strengthening of tax enforcement, auditing, recovery and monitoring mechanisms, introduction of taxpayer identification numbers, computerization of tax operations and capacity building to improve compliance and efficiency of collection and development of a national tax policy to ensure best practices in tax administration. Notwithstanding the high total revenue returns, about 40.7 percent of the total revenue was retained to finance the government's fiscal operations in 2008. The Government's fiscal policy was generally prudent and within the estimates programmed for the year. The marginal deficit was mainly financed from domestic sources, particularly from the non-bank private sector. The government maintained a favourable net position with the Central Bank.

Even though monetary policy was initially intended to be restrictive in 2007 and 2008, the authorities relaxed this policy initiative owing to certain difficulties encountered during the course of this two-year period, arising from the global financial crisis and its attendant credit crunch. In order to ease the tight monetary conditions, stimulate the economy and ensure the smooth functioning of the financial system, the monetary authorities adopted a number of policy decisions including the reduction in the monetary policy rate from 10.3 percent to 9.8 percent, reduction in the liquidity ratio from 40.0 to 30.0 percent, reduction in banks' foreign exchange net pen position from 20.0 percent to 10.0 percent of shareholders funds and permitted transactions in repos against eligible securities. In addition, the central bank also decided to participate actively in the interbank foreign exchange market and step up dealings in securities on the financial market. The monetary policy decisions resulted in a 29.6 percent increase in reserve money, the operating capital of the Central Bank of Nigeria, compared to 22.6 percent in 2007. Consequently broad money supply (M_{2+}) increased by 44.2 percent and 57.8 percent in 2007 and 2008 respectively. The increase in liquidity was driven by developments in net foreign assets and credits extended to the private sector by the deposit money banks. Even though the growth rate in net foreign assets had been declining in recent years, it contributed about 22.0 percent to the liquidity injection whilst credits extended to the private sector accounted for 51.7 percent. The hike in broad money supply resulted in increases of 21.0 percent and 66.7 percent in currency with the non-bank public and demand deposits respectively.

The provisional data indicate that the balance of payments remained buoyant as the overall surplus balance rose from 11.5 percent of GDP in 2007 to 18.1 percent. The positive balance on the current account improved significantly owing to the escalating crude oil price effect in 2008 in spite of a relative decline in production and volume of exports. However, the volume on non-oil merchandise exports declined from USD 1360.3 million to USD 800.8 million. 18.9 percent of GDP in 2008. Furthermore the capital and financial account recorded a significant decline in portfolio investments as foreign investors divested their holdings in the wake of the global financial crisis. Developments on the balance of payments led to a moderate increase in the stock of external reserves from USD 51,333.2 million to USD 53,000.4 million, equivalent to 14.7 percent of imports cover. The domestic currency experienced significant pressure, driven by a surge in the demand for foreign exchange as private inflows shrunk and oil prices declined on the international market, especially, during the second half of 2008. The outstanding external debt stock of the country stood at USD 3,704.1 million, representing 1.8 percent of GDP with the debt service rate being about 0.2 percent of goods and non-factor services, indicating a highly sustainable external debt position.

3.2.4.1 STATUS OF CONVERGENCE

With regard to macroeconomic convergence, the performance of Nigeria has been quite encouraging, although the assessment shows that the country has slightly declined. Nigeria sustained its performance on five targets realized in 2007 but missed out on the criterion on real exchange rate stability. Performance under the primary and secondary criteria was as follows:

Primary Criteria
As in recent years, Nigeria met three of the primary criteria, that is, budget deficit, central bank budget deficit financing and gross external reserves. The details of performance were as follows:

Budget Deficit/GDP ≤ 4%
The provisional data shows that the fiscal operations of the central government in 2008 resulted in a marginal budget deficit (on commitment basis excluding grants) of 0.2 percent of GDP. The country has since 2003 realized the required target in spite of the oil spite of the oil-based rule in vogue under which an amount ₦3,154.4 billion was retained for the government's fiscal operations. Nigeria is likely to meet this target by 2009 with a project budget deficit of 0.4 percent of GDP.

Inflation ≤ 5 %
The country's performance on this criterion deteriorated during the year under review. The end-period inflation surged from 6.6 percent to 15.1 percent by end-2008, driven by domestic demand arising from the continued hike in liquidity as reflected by persistent increases in the prices of both food and non-food components of the consumer price index. Thus, Nigeria surpassed the prescribed maximum target of 5.0 percent by 10.1 percentage points. The inflationary pressures were fuelled by monetary developments and the general rise in food prices.[4] The available data on the consumer price index (CPI) for the first quarter of 2009 gives an indication that the inflationary pressures would ease moderately in 2009 as the general price level increased by 1.9 percent, representing an annualized inflation rate of 7.7 percent.[5] This deceleration in prices is informed by the declining crude oil prices and an expected strengthening in monetary policy.

[4] Food inflation surged from 1.9% in December 2007 to 16.1 % in December 2008.
[5] The general price level increased by 2.5 % in the corresponding period in 2007.

Budget Deficit Financing≤ 10 % of previous year's tax revenue
Given the prudent fiscal policy measures adopted during the period, the central bank did not accommodate the government's fiscal operations. Rather, the available data indicates that the government improved its net position with the central bank.

Gross External Reserves ≥ 6 months of imports cover
The stocks of gross external reserves at end 2008 remained high at 14.7 months of imports cover, although the level of reserves relative to imports decreased from 17.4 months at end-2007. The relative decline in the number of imports cover was attributed to a hike in the imports bill for both oil and non-oil products. Nigeria has consistently met this criterion owing to the favourable returns from its crude oil exports.

NIGERIA: STATUS OF MACROECONOMIC CONVERGENCE

	Target	2002	2003	2004	2005	2006	2007	2008	2009*
Primary Criteria:									
v) Budget Deficit/GDP	≤4%	5.9	2.8	1.7	1.1	0.5	0.6	0.2	0.4
vi) Inflation Rate	≤5	12.1	23.8	10.0	11.6	8.5	6.6	15.1	7.7
vii) Budget Deficit Financing									
viii) Gross External Reserves	≤10%	0.0	19.7	0.0	0.0	0.0	0.0	0.0	0.0
	≥6m	9.9	8.5	16.1	13.1	15.1	17.4	14.7	14.6
Secondary Criteria:									
vii) Domestic arrears									
viii) Tax Revenue/GDP									
ix) Salary Mass/Tax Revenue									
x) P. Invest/Tax Receipts	=0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
xi) Real Interest Rate	≥20%	14.0	15.7	19.8	17.2	14.9	11.7	16.2	13.5
xii) Real Exchange Rate**	≤35%	47.2	32.6	33.8	17.9	19.5	31.6	31.2	24.3
	≥20%	30.7	21.4	18.7	20.6	20.0	31.2	24.6	26.4
	≥0	-8.4	-20.6	-5.6	-10.1	-6.5	-3.0	-12.0	-5.7
	±5%	-0.5	-5.1	2.7	15.3	7.3	-1.9	10.8	4.6
Total No. of Criteria Met		4	5	5	5	5	6	5	6

SOURCE: CBN: * projections

Secondary Criteria
Performance under the secondary criteria was not very encouraging and as the country sustained only two out of the six prescribed benchmarks, namely, those on salary mass (wage bill) and public investment.

Domestic Arrears (>0)
Performance under this criterion could not be assessed owing to data unavailability. This criterion is important in assessing the level of fiscal sustainability and credibility of the data on other variables. In this regard, the Federal Ministry of Finance should facilitate the convergence monitoring process by providing the relevant data.

Tax Revenue/GDP ≥ 20%
Even though Nigeria din not meet this target in 2008, the data shows that performance under this criterion improved significantly. The volume of tax revenue relative to GDP was 16.2 percent compared to 11.7 percent in 2007. The sub-optimal performance recorded in 2007 was partly attributed to the adoption of ECOWAS external tariffs structure (with relatively lower rates) and partly by socio-political unrest in certain parts of the country, particularly in the Niger Delta. The relative improvement in 2007 was partly due to an increase

in petroleum profit tax and royalties and partly due to the reform efforts towards higher returns in income tax, value added tax and other direct taxes.

Salary Mass/Tax Revenue ≤ 35.0%
Nigeria has met the required target since 2003. However the outturn in 2007 and 2008 were relatively higher than the figures recorded in 2005 and 2006 following the sub-optimal performance in tax mobilization in 2007 and re-adjustments in allowances paid to public service workers under a civil service reforms programme in the year under review.

Public Investment/Tax Revenue ≥ 20%
At 24.6 percent, the country met the required target on this criterion. However, it marked a decline in the level of public investments recorded in 2007 in which the government injected massive funds into infrastructure and agriculture under the presidential special initiatives.

Positive Real Interest Rates (>0)
Nigeria has never met this target within the last ten years. Measured as the difference between the minimum savings rate and inflation, negative real interest rates have prevailed due to the relatively low savings rate and high inflation. The persistence of negative real interest rate is detrimental to private savings and, can in the long-run, affect private investments and growth prospects of the country. Coupled with the large spread between the savings and lending rates, the negative real interest rates may thwart efforts in financial intermediation.

Real Exchange Rate Stability
Measuring real exchange rate stability using the real effective exchange rate within a fluctuating band of ±5.0 percent, Nigeria did not meet this criterion during the review period. This failure may be attributed to the high inflation and the relatively higher exchange rate fluctuation experienced against the international currencies.[6]

3.2.4.2 POLICY HARMONIZATION INITIATIVES

Payments System Development
Nigeria has established an advanced automated payments system known as the CBN Inter-Bank Funds Transfer System (CIFTS). This system, which incorporates the RTGS and the establishment of automated clearing houses, is intended to reduce delays in the clearing payment instruments, reduce cash transactions and enhance the transmission mechanism of monetary policy.

In 2007, the Central Bank of Nigeria adopted a strategic national payments development programme (vision 2020) aimed deepening the use of electronic payments systems for public and private sector transactions, including the

[6] The naira appreciated by 1.6%, 9.1% and 1.1% in 2006, 2007 and first half 2008 respectively against the US dollar. It appreciated by 6.6% and 1.2% against the pound sterling.

payment of salaries and pensions through direct deposits. The initiative includes the establishment of a central switch mechanism aimed at ensuring seamless interoperability and interconnectivity of electronic payments service providers. To further improve the quality of banking, the authorities also reviewed the banker's clearing house rules to reflect recent developments in the banking industry, including the introduction of electronic instruments and the reduction in up-country clearing cycle from five to three days. In 2008, the CBN initiated work on preparation of regulatory framework and guidelines to regulate operational issues regarding the provision and usage of mobile phones and other forms of electronic payments. Furthermore, the banking authorities adopted a national cheque standard and initiated strategies aimed at harmonizing the standards on electronic forms of payments. In addition, the authorities initiated a programme to link Capital market transactions to the CBN inter-bank funds transfer system, expected to be completed in 2008.

These initiatives contributed to a significant enhancement of payments, both in terms of volume and value of cheques, ATMs and point of sale (POS) transactions. Following the technological advancements in this area, the central bank succeeded in reducing the clearing cycle to two days (t+2) throughout the country. The use of the internet for payment for goods and services has also been enhanced.

Harmonization of Banking Laws and Regulations

The Central Bank of Nigeria Act (CBN Act no.24) was amended in 2007. The new Act aims at enhancing the operational autonomy of the CBN in line with international standards. Other salient elements in this newly promulgated Act relates to provisions limiting fiscal deficit financing and allowing the Bank to increase the authorized share capital and general reserve fund, expand the Board's membership to include the Accountant General of the Federation, establish a monetary policy committee, assume greater flexibility to the Bank in the selection of instruments and assets for reserve management purposes and empowering the Bank to enter into arrangements for information sharing with regulatory bodies outside Nigeria.

In 2008, the CBN also initiated arrangements for a review of the Bank and Other Financial Institutions Act (BOFIA) of 1991. Work on this document is still ongoing, expected to be finalized soon.

Statistical Harmonization

The statistical harmonization programme is advancing steadily. Nigeria has since 2006 adopted the classification of individual consumption by purpose (COICOP) nomenclature. Determination of the consumer price index (CPI) covers the whole country with price collections outlets spread throughout the rural and urban areas. The Statistical Service is currently reviewing the weights of items in the consumer basket and re-base the index using the recent result of the 2003/4 Living Standards Survey. Regarding the presentation of National Accounts, Nigeria has adopted the SNA 93 methodology and is currently working on the 2007 GDP data update using the new format.

ECOWAS Trade Liberalization Scheme (ETLS)

The ETLS is advancing steadily in Nigeria. The authorities initiated an agenda to reduce the number of authorized road blocks to one-stop checkpoints for immigration, customs and security inspection along each of the country's entry routes. Completion of this agenda would facilitate the free movement of goods across the country's borders. The Nigeria Customs Service has also launched a programme aimed at modernizing customs clearance procedures at the border posts and ports.[7] The remaining obstacles include the cumbersome clearing procedures, verification of certificates of origin re-imbursement for loss of revenue under the scheme and unilateral anti-trade decisions against neighbouring countries aimed at protecting the country's industries and agricultural products and preventing dumping of inferior goods through neighbouring countries and the adverse effects of complete liberalization on the balance of payments. To enhance cooperation among ECOWAS member countries, the authorities at the Federal Ministry of Commerce and Industry called for the creation of a forum to discuss pertinent issues on the ETLS. Furthermore, the authorities called for relocation of the ETLS schedule from the Federal Ministry of Foreign Affairs to the Ministry of Commerce and Industry to ensure effective coordination and implementation.

Concerning the common external tariff, Nigeria has adopted the ECOWAS four-band structure (0.0% for basic social goods, 5.0% for raw materials, capital goods and specific imports, 10.0% for intermediate goods and 20.0% for final consumer goods). Following the conclusion of relevant studies, the country adopted a 5th band of 35.0 percent for certain non-essential commodities. The authorities are negotiating with the ECOWAS Commission for all member countries to realign their tariff lines to this five-band nomenclature. Negotiations are also underway to harmonize the country's classification with that recommended by ECOWAS. In achieving this objective, the authorities intends to synchronize the trade and tariff regimes and achieve policy coherence by ensuring that the CET structure reflects the product classifications, especially, the sensitive products.

The officials in the Ministry of Commerce and Industry also indicated that they are reviewing the contents of the EU-ECOWAS Economic Partnership

[7] To do away with delays associated with the ASYCUDA 2.7 software, the Service has migrated to the current ASYCUDA 3.0 version which is relatively more efficient.

Agreement to determine the desirability of entering into trade agreements. Whilst undertaking to abide by a regional agreement, they called on ECOWAS countries to address supply-side constraints before encouraging trade with the EU in order to enhance their capacity to trade on equal terms and control any possible adverse impact on the unemployment level in member countries.

Capital and Financial Market Liberalization

In addition to the Wholesale Dutch Auction System and other measures introduced in 2006 to liberalize the foreign exchange market, the financial authorities have implemented other policy measures aimed at removing certain restrictions on the capital and financial account. Thus, the year 2007 witnessed the liberalization of capital transactions, financial credit operations, foreign direct investment (both outflows and inflows) and personal capital transactions. Investors are guaranteed unrestricted repatriation of their proceeds and are allowed to liquidate their investment without any restrictions.[8] In addition, foreign investors are allowed to extend loans to private entities. Residents are also allowed to invest in foreign currency denominated securities, subject to the repatriation of proceeds. Holders of foreign exchange accounts and ordinary domiciliary accounts are guaranteed unrestricted access to the use of their funds and exporters have the liberty to retain their export proceeds. Furthermore, there are no limits to the percentage of foreign holdings in companies registered in Nigeria.

Nevertheless, partial controls still exist on real estate transactions, foreign exchange position limits and capital and money market instruments. Even though investors have unfettered access to real estate, the land is owned by the State. Investments in money market securities must be for a maturity period of at least one year. Regarding foreign exchange exposure limits, the deposit money banks are required to operate within a net open position limit of 10.0 percent of their shareholders funds.

3.2.4.3 Conclusion and Recommendation

The country relies mainly on revenue generated from its dealings in crude oil. Fiscal policy has improved significantly in recent years. However, monetary policy has been under considerable pressure owing to massive foreign exchange injections into the economy and the liquidity creating activities of the deposit money banks. These developments contributed to a surge in inflation during the review period. The domestic currency appreciated against some of the major international currencies contributing to a relative decline in the country's competitiveness as measured by the real exchange rate stability. Furthermore, the persistence of negative real interest rate could affect the investment drive of government. Regarding the macroeconomic convergence criteria, the country's

[8] Foreign investors are allowed to invest in government bonds and securities of not less than one year maturity as well as in equity and other capital market instruments through a broker.

performance is not improving as fast as would have been expected. Nigeria faces challenges on inflation, tax revenue, positive real interest rate and real exchange rate stability.

In the light of the above developments, the following recommendations may be relevant:

1. strengthen the institutional tax collection structures and expand the tax base in order to diversify the sources of revenue;
2. strengthen monetary policy to address the lingering excess liquidity problem by issuing high yielding medium to long-term financial instruments and intensifying open market operations;
3. establish relevant infrastructure and pro-poor economic ventures to provide employment in the Niger delta in order to address the social unrest in this area.

3.2.5 SIERRA LEONE

The economy of Sierra Leone has been buoyant in recent years owing to massive investments in the economy, especially, in the agricultural and mining sectors. However, some constraints still persist in the real sector. Fiscal dominance has been a major problem owing to low revenue a relatively high demand for government spending, principally, in education, health services and infrastructural development. The resulting high budget deficits have often been monetized, contributing to inflationary pressures. To address this fiscal problem, the government introduced a cash budgeting system to help control excessive spending. The balance of payments has also been under considerable pressure owing to strong domestic demand for imports (both oil and non-oil products).

An analysis of the 2008 provisional data indicates that the economy experienced difficult conditions on both the external and domestic fronts. The external environment characterized by high food and crude oil prices and the global financial crises posed certain challenges whilst the domestic environment experienced a slowdown in economic activity, recording a real GDP growth rate of 5.5 percent compared to 6.4 percent in 2007. Even though the authorities realized the programme target of 15.6 percent for 2008, inflation remained high throughout the year due to combination of factors, including, the rising food and crude oil prices on the international commodities market and supply constraints amidst an increasing domestic demand. To help control the inflationary pressures, the government took proactive action by reducing customs duties and other indirect taxes on imported food items.

The slowdown in economic activity was mainly due to a drop in performance in the mining sector as the output levels of most minerals (diamonds, gold, bauxite and rutile) recorded negative growth in 2008. Production in this sector was hampered by the temporal suspension of operations by Koidu holdings and the collapse of the second dredge at the Sierra Rutile Mines. The agricultural sector is estimated to have contributed most to the growth in output, followed by the services sector and the industrial sector, particularly, mining, construction and quarrying. With assistance from the country's development partners, the Government prioritized infrastructure development and investments in the agriculture and energy sectors in 2008.

Budget performance remained weak resulting in an outturn of 6.4 percent compared to 5.6 percent in the preceding year. The worsening fiscal situation was attributed to a less-than projected total revenue and extra-budgetary capital expenditure. The budget deficit was largely financed from domestic sources, particularly, from draw-downs on MDRI deposits with the Bank of Sierra Leone and government borrowing from the commercial banking system. Nevertheless, this method of financing had marginal impact on private sector lending as the level of demand deposits increased by 36.1 percent compared to 12.1 percent in 2007. Delays in the disbursement of budgetary support most often led to temporal accommodation by the Bank of Sierra Leone which was however within acceptable limits. The analysis further showed that the country's external debt position was sustainable at 33.3 percent of GDP and a debt service/export of goods and non-factor services of 2.5 percent.[9]

The global financial crisis and rising prices of food and petroleum products and delays in the disbursement of programme donor funds (leading to temporary accommodation of the government's fiscal operations) affected the effectiveness of monetary policy. To enhance its capacity for monetary operations, the Bank of Sierra Leone introduced longer-term maturity treasury bills (6 months and one year instruments) in 2008 in a bid to intensify its open market operations.[10] As in the preceding year, monetary policy was generally restrictive in 2008 as reserve money, the operating target of the central bank, expanded by 10.2 percent in 2008 compared to 26.0 percent in 2007. Broad money supply grew by 22.5 percent in 2008, at the same rate recorded in the preceding year. The expansion in money supply was mainly due to the significant increase (36.1%) in demand deposits. The Bank of Sierra Leone controlled the growth in money supply and credit through robust open market operations and interventions on the foreign exchange market. The movement in the structure of interest rates was mixed. The yield on short-term time deposits (below 6 months) declined whilst that on longer-term financial assets increased. The annual yield on

[9] The external debt of Sierra Leone became sustainable in 2006 when the country met the HIPC completion point and qualified for debt relief.
[10] The bank of Sierra Leone had hitherto relied on government treasury bills for monetary policy purposes as well as a tool for government borrowing.

91days government Treasury bills, the lead indicator, declined from 21.2 percent in 2007 to 9.1 percent, reflecting an increase in government's borrowing requirement. The average savings rate dipped marginally by 50.0 basis points to 7.3 percent whilst the average lending rate increased by 200 basis points to 30.0 percent, thus, further worsening the large spread between the savings and lending rates.

The balance of payments deteriorated further in 2008 owing to constraints in the merchandise trade account arising from the adverse external environment, leading to a significant rise in the volume and value of imported food, fuel and lubricants. The increasing imports bill coupled with a significant reduction in foreign exchange (capital inflows and foreign direct investment) contributed to a reduction in gross external reserves from USD 215.5 million to 209.5 million. In spite of the difficulties on the external account, the domestic currency remained relatively stable against the major international currencies (except the pound sterling) owing to extensive interventions by the Bank of Sierra Leone on the foreign exchange market.[11]

3.2.5.1 STATUS OF MACROECONOMIC CONVERGENCE

The analysis indicated that performance under the macroeconomic convergence programme remained poor in 2008 although marginal improvements were recorded in central bank budget deficit financing, salary mass and public investments whilst the others worsened. The country missed the target on real exchange rate stability and sustained its performance on only one primary criterion. The details in performance under the primary and secondary criteria were as follows:

Primary Criteria

Sierra Leone met only one target on central bank budget deficit financing. Performance on all the other primary criteria deteriorated.

Budget Deficit/GDP

Fiscal operations in 2008 resulted in a budget deficit (on commitment basis excluding grants) of 6.4 percent compared to 5.6 percent in 2007. The deterioration in fiscal performance was attributed to a shortfall in revenue mobilization and higher-than-budgeted increases in government capital expenditure.[12] The shortfall in revenue was partly explained by temporal reductions in taxes on imported food items introduced during the year, and partly by the underperformance in rutile production and mining. Whilst total

[11] The domestic currency depreciated by 2.1% against the US dollar and appreciated by 1.3% and 39.4 percent against the pound sterling respectively in 2008.

[12] The shortfall was accounted for mainly by an underperformance in mining revenues, road user charges and revenues from MDAs whilst outlays on other unspecified items and investments nearly doubled.

revenue mobilized in 2008 representing 9.3 percent of GDP increased by 17.0 percent, total expenditure grew by 32.2 percent representing 16.2 percent of GDP.

Inflation

Notwithstanding the restrictive monetary policy stance adopted by the Bank of Sierra Leone, inflationary pressures remained high, accelerating during the first half of the year. The end-period headline inflation increased from 13.8 percent by end-2007, peaked at 18.0 percent in July before easing to 13.2 percent by end-2008. Thus, the monetary authority missed the prescribed target of 5.0 percent. The projections show that Sierra Leone would not meet the required target in 2009 as the end-period inflation has been estimated at 10.0 percent.

Central Bank Budget Deficit Financing

Performance on this criterion was encouraging considering the difficulties experienced in the fiscal front. A review of the consolidated balance sheet of the banking system showed that the Bank of Sierra Leone accommodated 0.3 percent of the total tax revenue compared to 0.8 percent in 2007. In 2006, the central bank had financed the government's fiscal operations to the tune of 13.3 percent. This development provides ample proof of the determination of the new government and management of the Bank to abide by prudent fiscal and operational rules.

Gross External Reserves

The level of gross external reserves decreased from 5.1 months of imports cover to 4.2 months, partly as a result of outflows to finance the country's rising imports bill and partly due to a decline in foreign exchange inflows on capital transfers and foreign direct investment. The external sector has remained relatively resilient owing to recent investments in the economy aimed at enhancing the foreign exchange earning capacity of the country. The government needs to sustain this effort in order to facilitate realization of the required minimum target of 6.0 months of imports cover.

SIERRA LEONE: STATUS OF CONVERGENCE

	target	2002	2003	2004	2005	2006	2007	2008	2009*
Primary Criteria:									
i) Budget Deficit/GDP	≤4%	16.5	19.4	14.3	9.5	8.5	5.6	6.4	8.1
ii) Inflation Rate	≤5	-1.3	11.3	14.4	13.1	7.3	13.8	13.2	10.0
iii)Budget Deficit Financing	≤10%	0.0	26.4	0.0	0.0	13.3	0.8	0.3	0.5
iv)Gross External Reserves	≥6m	3.1	1.7	3.3	4.8	4.9	5.1	4.2	4.6
Secondary Criteria:									
i) Domestic Arrears	=0	n/a	n/a	n/a	n/a	n/a	n/a	>0	>0
ii)Tax Revenue/GDP	≥20%	11.4	16.7	13.7	8.1	8.5	7.8	7.9	8.3
iii)Salary Mass/Ta x Rev.	≤35%	63.9	59.7	56.0	65.5	61.6	60.9	56.0	52.9
iv) P. Invest/Tax Rev.	≥20%	9.4	11.3	8.2	7.9	10.6	9.1	14.0	11.8
v)Positive Real Interest Rate	≥0	5.3	-7.3	-8.4	-7.6	-1.8	-8.3	-9.2	-9.5
vi)Real Exchange Rate**	±5%	-12.4	-20.0	-10.6	-11.5	6.2	1.2	7.9	0.5
Total No. Of Criteria Met		3	0	1	1	0	2	1	2

Source: BSL * projections

Secondary Criteria

Performance on the secondary criteria was also not encouraging as the outcome on all the prescribed benchmarks was below expectation.

Domestic Arrears

For the first time, the Ministry of Finance provided information on this criterion which indicated in principle that an amount of Le 93,689.5 million had been outstanding for more than three months by end-2008. Given that the 2008 fiscal statement has been prepared on commitment basis this figure has been factored into the budget deficit declared for the year. Since this criterion requires the prohibition of new arrears and the liquidation of existing ones it is expected that the fiscal authorities would abide by this rule in subsequent years.

Tax Revenue/GDP

In spite of recent efforts aimed at improving revenue mobilization, the volume of tax revenue relative to GDP remained relatively low, hovering below 10.0 percent of GDP compared to the minimum requirement of 20.0 percent. Given the fact that the country’s revenue is mainly derived from import duties and direct taxes on income and profits, the weak infrastructural base and inefficient capacity of the revenue mobilization agencies certainly constrains the growth prospect of higher tax returns.

Salary Mass/Tax Revenue

The wage bill continues to be a challenge for the fiscal authorities although the data has since 2005 exhibited a declining trend from 65.5 percent to 56.0 percent. This level of performance compares unfavourably with the maximum requirement of 35.0 percent. The declining wage bill was attributed to stringent controls and other remedial policy measures initiated by the authorities in 2007 to eliminate ghost workers and ensure the payment of salaries and allowances through the banking system.

Public Investment/ Tax Revenue
The level of public investments financed from domestic sources improved from 9.1 percent in 2007 to 14.0 percent of tax revenue in 2008 reflecting mainly the payment of government's contribution toward the Bumbuna Hydroelectric project. Investment being a discretionary expenditure item and considering the low level of domestic revenue, the fiscal authorities should sustain this encouraging performance.

Positive Real Interest Rates
Real interest rates, measured as the difference between the minimum savings rate and inflation, remained negative. This phenomenon has persisted since 2003, against the requirement for positive real interest rates. The persistence of negative real interest rates does not encourage private domestic savings and financial intermediation.

Real Exchange Rate Stability
Measuring real exchange rate stability using the real effective exchange rate within a fluctuation band of ±5.0 percent, Sierra Leone missed this criterion on 2008 This development was partly attributed to the relatively high inflation.

3.2.5.2 STATUS OF POLICY HARMONIZATION INITIATIVES

Statistical Harmonization
Sierra Leone made significant progress in its statistical harmonization programme in 2007. The country successfully migrated to the standard classification of individual consumption by purpose (COICOP) with a revised base year of 2003. The national Statistics Office of Sierra Leone also extended the CPI coverage to the Kono District, in addition to the four urban cities of Freetown, Bo, Kenema and Makeni, which had hitherto been the main centres of data collection. These five urban centres constitute 80.0 percent of urban household consumption in Sierra Leone.

With regard to harmonization of GDP presentation, Sierra Leone has adopted the ECOWAS platform based on SNA 93. To help improve the quality of statistics further, Statistics Sierra Leone intends to improve data administration, introduce producer price index in 2008 and consider the possibility of getting information on certain transactions which had hitherto not been recorded (informal sector transactions). The authorities are also considering the possibility of centralizing the production of trade statistics, as currently, the National Revenue Authority, Ministry of Trade, Bank of Sierra Leone and Statistics Sierra Leone share the responsibility for the production of statistics.

Payments System Development

Sierra Leone has made some progress in its payments system development programme. The Bank of Sierra Leone introduced a SWIFT system to facilitate efficient inter-bank funds transfer and automated the clearing system which resulted in a significant reduction in the clearing cycle for cheques.

Following the release of funding in 2008 by the African development bank under the WAMZ project, the Bank initiated an elaborate programme aimed at upgrading its payments system infrastructure which would involve the acquisition of real time gross settlement (RTGS) system, an automated clearing house (ACH), seamless securities settlement (SSS), banking applications and the establishment of a wide and metropolitan area networks. To facilitate the installation process, the Bank established a National Payments System Committee and initiated processes towards the recruitment of a Consultant by end-March-2009 after which the relevant equipment would be acquired for installation. The project is expected to be completed by 2011.

In the interim period, the Bank of Sierra Leone has developed harmonized guidelines to regulate the operations and payments transaction of commercial banks that are at different levels of implementation regarding the use of facilities such as automatic teller machines, visa cards and other modern forms of technological infrastructure. Discussions are currently ongoing among the financial institutions exploring the possibilities institutional interconnectivity and establishment of common points of sale access for customers. In addition, a law reform committee is currently reviewing the bills of exchange act and a payments systems bill.

ECOWAS Trade Liberalization Scheme

Sierra Leone implemented the ECOWAS Common External Tariff (CET) in 2005. The National Revenue Authority assessed that their level of compliance was about 98.0 percent. The import duties on all products imported into the country are consistent with the CET, with the exception of those on alcoholic beverages, rice and soft drinks.

According to the authorities at the Ministry of Trade, the ETLS has not benefited Sierra Leone as the country last received compensation from the ECOWAS Commission in 2006 for loss of revenue in respect of tax exemptions. Subsequent negotiations for re-imbursements under the scheme have been difficult as the process is elaborate and bureaucratic. Consequently, the ETLS has led to serious shortfall in revenue which needs to be addressed as soon as possible. The authorities have also introduced the harmonized customs documents, including the certificate of origin, the customs nomenclature and declaration forms. However, Sierra Leone has not yet introduced the road transit certificate required to facilitate free movement across countries.

Harmonization of Banking Laws and Supervision

The legal department of the Bank of Sierra Leone indicated that the Bank of Sierra Leone Act is currently being reviewed to reflect contemporary contingencies. Work on the harmonization of banking laws of Sierra Leone in line with the Basle core principles is at an advanced stage, expected to be completed in 2009.

With the assistance of the IMF, the Bank also reviewed the anti money laundering Act of 2005 to address its inadequacies and to incorporate provisions for the financing of terrorism. The draft Anti Money Laundering and Suppression of Financing of Terrorism Act has been forwarded to GIABA and an inter-ministerial committee for their comments pending further discussions at a workshop scheduled for April 2009.

In collaboration with GIABA, the Bank of Sierra Leone has developed guidelines for financial institutions to aid the prevention of money laundering and financing of terrorism

3.2.5.3 CONCLUSION AND RECOMMENDATIONS

The review showed that fiscal dominance remains a major problem in Sierra Leone. The weak infrastructure does not support robust revenue mobilization leading to an over-reliance on direct taxes, particularly, on income tax and import duties. The desire to resuscitate the economy leads to a high demand for government spending, resulting in high budget deficits. The economy has since 2003 experienced double-digit inflation within the range of 11.0-18.0 percent, influenced by the rising crude oil prices and supply constraints. The financial sector is characterized with excess liquidity but the absence of adequate instruments constrains the mopping-up exercise. The current account is under considerable stress due to a high domestic demand for imports. The above developments have impacted negatively on the performance of Sierra Leone under the convergence criteria.

In the light of the above developments, the following recommendations may be relevant:

1. strengthen the capacity of revenue mobilization agencies by automating revenue collection and extending the range of taxable activities;
2. expedite introduction of the value added tax (VAT) to enhance the volume of taxes;
3. develop a monitoring mechanism to ensure strict compliance with the cash budget system in order to minimise excessive spending;
4. continue to rehabilitate economic infrastructure and encourage investment in the real sector to support higher productivity;
5. encourage private sector development, review interest rate policy and other measures to encourage private savings and investment in cottage industries;
6. liberalize the financial market and create necessary conditions for a flexible interest rate regime;
7. introduce additional financial assets to enhance liquidity management;
8. take appropriate steps to reduce the public sector wage bill by instituting auditing mechanisms to weed out ghost workers, automating and streamlining public services for higher productivity;
9. increase the level of foreign reserves through export promotion and diversification;

3.3 *OTHER ECOWAS COUNTRIES*

3.3.1 CAPE – VERDE

The Government of Cape - Verde continued to focus on controlling macro-economic stability by implementing structural reforms to deliver growth and reduce poverty. In this regard, it made progress despite the effects of the current international financial turmoil. GDP growth rates were generally large and robust, on average 6% since 2005 and inflationary pressures were contained. However, the main indicators are becoming moderate since 2008 with GDP estimated at 5.9%. Annual inflation at the end of the year increased by 6.8% in 2008 against 3.4% in 2007 but is expected to decline in 2009. Fiscal reforms and the level of international reserves accumulated enabled Cape - Verde in recent years to absorb the impact of external shocks. The medium-term fiscal policy of Cape Verde is designed to preserve macroeconomic stability, improve taxation and encourage public investment. The Medium Term Expenditure Framework (MTEF) for 2008-10 has been validated. Domestic debt is decreasing owing to healthy inflows and continued rationalization of expenditure. The international reserves have helped to adjust to shocks while staying above 3 months of import cover of goods and services. Progress in structural measures was also regularly recorded in spite of delays on some measures. The new fuel prices have been finalized and development of income tax codes is at its final stage.

It should be noted that since December 2007, after more than seven years of negotiations, Cape Verde became the 152nd member of the World Trade Organization (WTO). For its industrial products, the country accepted tariff bindings at rates ranging from 0 to 55%. Some bindings involve reductions until 2018, bringing the highest rate to 15% on average. Her agricultural products, however, will be subject to a tariff binding at an average rate of about 19%. The country has also made commitments to facilitate access to ten segments of the service sector and a wide range of other industries.

Growth is expected to be sustained in the coming years by the macroeconomic and structural measures spelt out in the 2006-10 national plan, as well as the Policy Support Instrument (PSI) of the International Monetary Fund (IMF) for the period 2006-09, and the Medium Term Expenditure Framework (MTEF) 2008-10.

3.3.1.1 Sectoral Analysis

3.3.1.1.1 Real /sector

a) Production

In spite of the volatile prices of foodstuff and petroleum products in 2008, the country managed to maintain a sustained growth rate of 5.9%, without high inflation. According to the Authorities, the pegging of the Cape Verdian Escudo (CVE) to the Euro partly accounts for this performance as well as the abolition of the policy of pegging salaries to inflation. The latter, at 6.8%, remained moderate by end 2008 and is expected to decline in 2009 and 2010. However, the primary sector did not contribute much to this performance. Investment in agriculture remained minimal and productivity very low, even with the external assistance. Only 1% of the country's land is cultivable, because of the climate's aridity and the soil's poverty. Somehow, yields improved thanks to the drop-to-drop irrigation and more effective links with the urban markets. In spite of the abundant rains in 2008, agriculture only accounted for about 10% of GDP in 2008. The country is 80% dependent on imports to meet its food needs.

Contrary to agriculture, fishing is one of the rare natural resources presenting a true potential. Though relatively underdeveloped, it accounted for close to 10% of total exports in value in 2007. Fish exports increased by 62% in 2008 as a result of capacity development. Some Chinese investors have proposed to renovate the Cabnave naval facility, on the Sao Vincent Island, whilst some Spanish operators have manifested interest in the Interbase Freezing Depot, located on the same island. Ravaged by a fire accident in September 2008, the cost of reconstructing the Interbase is estimated at 14 million Euros, from public Spanish funding. The rehabilitation is expected to last for two years, after which the depot should be privatised.

From the demand viewpoint, the real GDP growth rate dropped in2008 and these same trends are being observed in the major components of the domestic demand. The growth in private investment set the pace with 14% in 2008. Overall consumption also slowed down, before leaping again in 2010 thanks to some recovery efforts. Private consumption is not expected to be affected by the recession, given the fact that the high growth rate recorded over the past ten years has considerably improved household situations.

The volume of exports reduced considerably in 2008, having been affected by the world economic situation. Since imports also declined substantially, the trade deficit position did not change significantly.

With regards to services, trade, transportation, tourism and the public administration contributed to growth. Tourism is the first growth vector and offers considerable opportunities for more extensive diversification. It has now become the country's major source of foreign exchange. According to the World Tourism and Travel Council (WTTC), it was expected to account for 15.9% of GDP in 2008 and employ 14,000 workers (14.6% of total employment) Tourism also enjoyed 99% of foreign direct investment flows (FDI) in 2008. However the WTTC projected a 2.4% drop in tourist activities in 2008 in real terms, leading to a 6.2% decline in employment within the sector. In the first half of 2008, service exports improved by about 11%, with tourism-related services accounting for 22 % (as against 36% in 2007. Cape Verde's dependence on tourism exposes that country to the impact of the economic situation on issuing markets. Hence, the need to promote value tourism and expand the clientele, which is so far dominated by Europeans, who are expected to be severely affected by the 2009 recession. The Cape Verdian leaders, resolutely optimistic, have projected an annual growth rate of 5.8% in tourism throughout the next decade.

Housing benefited from the tourist boom and construction of secondary residences by several compatriots from the Diaspora. Large-scale projects an complexes came up in succession at a sustained pace. In October 2008, the largest hotel complex in the country was opened at Boa Vista. Construction work at the Cesaria swimming station on the Sao Vincent Island - a one million United States dollar (US$1,000,000) project which commenced in 2008. A certain number of projects have however been suspended temporarily as a result of the credit crunch. Among the suspended tourist complexes are five all at the Sal site. Only projects fully on are making any progress.

b) Prices and Inflation

By end 2008, inflation measured by the consumer price index rose sharply to 6.8% following the rising cost of foodstuff and hydrocarbons, after posting an average of 1% between 2001 and 2005. In the case of food items, the rising cost was attributable to the international crisis (energy and food crisis).The prices of petroleum products were also reviewed upwards because of the hike in prices on the international market. On the other hand, inflation was projected to drop n 2009because of the falling prices of petroleum products and food items.

3.3.1.1.2 Public Finance

The greater portion of the State's budget was financed by the Public Development Aid (PDA). Public revenue improved by 28.2 % of GDP in 2008. Multilateral and bilateral donor funds commitment is expected to attain 20 billion CVE in 2009 (about 15% of GDP). Investment expenditure increased by 1%of GDP, with no salary increment. Budget deficit worsened in 2008 from 3.4% 2007 to 5.8% of GDP in 2008 in spite of the enhanced tax administration. It should also be underscored that the Authorities intended to reduce company and income tax from 30% to 25% in 2009. Small-scale enterprise tax was also expected to drop from 20% to 15%. The Government also granted tax exemptions to 95 companies in 2007, amounting to 778.2 million CVE. In order to avoid any kind of dysfunction, a proposal to review the general tax code was submitted to Parliament in 2008. A new tax exemption code should be presented in 2009. Meanwhile, a moratorium has been placed on the granting of new exemptions.

3.3.1.1.3 External Sector

The hike in the price of crude oil had no serious impact on the trade balance, since fuel re-exports represented over 80% of the total crude oil bill. Food imports declined in 2008, thanks to the agricultural boom and the drop in prices on the international market.

Portugal absorbed 23% of exports and provided 41% of Cape Verde's imports in 2006. Spain became the first outlet for Cape Verdian exports, thanks to the proximity of the Canaries Islands. Trade with member countries of the Economic Community of West African States (ECOWAS) remains limited (less than 2% of imports and exports).

Cape Verde has drastically reduced the level of its external indebtedness in recent years. External debt remained relatively high (63% of GDP as against 70% in 2007), though negotiable. The country's creditors include multilateral organisations and governments, with Portugal occupying the first position. External debt is expected to be reduced to 48% of GDP in 2009.

The banking system has been exposed to a sudden drop of deposits from non-residents (40% of total deposits), as a result of the crisis. The bulk of these deposits are derived from transfers of expatriates' funds, which limits the risk of capital flight since they are less volatile than investment portfolios. So far, it is highly unlikely that funds transfers will be motivated by investment opportunities for now, and a repatriation phenomenon, though remote, is still possible.

Foreign exchange reserves increased by 8% between December 2007 and December 2008, from 28.4 to 30,7 billion CVE. However, the BCV has just attained the ceiling level set in the **IPSE** programme, leading to two increases in the Central Bank's rate (25 basic points in June and 50 basic points in September) in order to reduce imports and preserve the level of foreign exchange reserves. These increases had a positive impact on inflation, leading to the withdrawal of part of the liquidity from the financial system.

For now, the international crisis has not had any impact on FDIs with the exception of Cape Verde. The inflows recorded between January and September 2008 surpassed the level attained for the whole of year 2007, with a substantial increase in credits to private investors. In 2009, huge construction projects which are already under suspension in the tourist sector will probably experience a slowdown. In addition, immigrants' investments in the country (also considered as FDIs) appear to be slowing down.

3.3.1.1.4 Monetary Sector

The primary mission of the Central Bank of Cape Verde, an independent institution, is to ensure the stability and credibility of the pegging of the Escudo to the euro. Currently, the risks are minimal, because of the small size of the economy and low level of exposure to international capital inflows. The parity, monitored by a Commission, is covered by a credit facility from Portugal amounting to 150 million Euros- which could be stepped up to 250 million, if necessary. The appreciation of the dollar in the second half of 2008 limited the appreciation of the real effective exchange rate of the Escudos. For now, any sudden decline in revenue derived from tourism - a scenario that could be concretised in 2009 - would reduce reserve levels and trigger tensions on the parity.

The rate of inflation stood at 6.8% by end 2008, as against 4.4% in 2007. Trends in monthly inflation rate were severely affected by the rising cost of foodstuff and crude oil, as evidenced by the leap recorded in January (3.8) and the one recorded in August (over 8%).

The financial system in Cape Verde appears to have relatively resisted the international crisis, as a result of its limited interactions with international capital markets and the relatively huge deposits of commercial banks in relation to their volume of loans.

In 2009, the BCV intends to improve on its supervision of external inflows, including non-residents' deposits. The Bank is prepared to intervene on interest rates to avoid destabilising capital inflows.

3.3.1.1.5 Status of Structural Policies

a) Private Sector Development

According to the World Bank's 2009 Doing Business Report, the business environment in Cape Verde is still unsatisfactory. The country even dropped from the 137th to the 143rd position between 2008 and 2009. But the situation could possibly change, with the initiatives recently taken by the Operational Group to promote the Information Company (Nucleo Operational de la Sociedad de la Informacion - Nosi) through online management. Similarly, the Citizens' Chamber (Casa do Cidada) has been established, operating as a sole counter to simplify administrative procedures. With this, the registration of a new business now takes barely one hour. Online tax payment should be operational in 2009. As a sign of success of these programmes, electronic documents produced by institutions now enjoy a legal status and are accepted in official transactions by some foreign Governments, such as Portugal.

On the contrary, the labour reform approved in 2008, which sought to increase competitiveness, seems to have had the reverse effect, by limiting recourse to part time contracts and increasing the notice period to 45 days. In the same vein, the labour market is becoming more rigid. According to data from the 2009 Doing Business, this situation has made the business environment in Cape Verde more difficult. The lack any effective law on bankruptcy also accounts for the country's poor ranking in the World Bank's indicators.

Two commercial banks, Banco Commercial do Atlantico (BCA) and Banco Inter-Atlantiico (BIA) hold close to 90% of Cape Verde's assets and deposits. Credit to the private sector on market conditio0ns are being developed for the benefit of both foreign and national investors, without distinction. The co-efficient of unproductive loans is however fairly high, although the situation is improving.

A comprehensive financial sector evaluation programme (FSEP) has been launched in collaboration with the IMF, which should end in 2009. This exercise is expected to enhance capacity building and improve on liquidity management.

In the face of increasing concerns about Cape Verde's eventual role in money laundering and international drug trafficking, the Ministry of Justice created a special invest investigations unit in 2008. It also pioneered the adoption by end October, of an Act to simplify lawsuits in money laundering cases. The central Bank has also created a unit responsible for the supervision of such activities.

A new Investment bank, the Banco Africano de Investimentos (BAI), was opened in October 2008, owned by Angola and Cape Verde. With a share capital of 90 million Euro, 71 % of its shares are held by BAI Angola, 19% by the Anglan petroleum company Sonangol and 10% by Sogei, a Cape Verdian estate firm. During 2009, 30% of the bank's shareholding is expected to be transferred from Angola to Cape Verde. The Nigerian financial institution, ECOBANK, is also operating in the archipelago.

b) Trade Liberalisation and the Economic Partnership Agreement

Cape Verde became a full member of the World Trade Organisation in July 2008. For a service-exporting country, such a status should not trigger too many changes in terms of trade opportunities. It however enhances its credibility and introduces Cape Verdian functionaries to the subtleties of international trade negotiations. Cape Verde is already enjoying preferential access to American and European markets, under the American law on the economic growth and opportunities in Africa (AGOA) and the Lomé and Cotonou agreements. But the quantum of exports to these destinations is still very negligible.

An economic partnership agreement (EPA) with Africa, Caribbean and Pacific (ACP) countries and ECOWAS was supposed to have been signed in 2008. However, Cape Verde is still hesitant, in fear of the impact this agreement and its common tariffs may have on its insular and import-dependent economy. The loss of tax revenue due to the tariff reduction for ECOWAS would represent a significant shortfall. Cape Verde is advocating for a special status before signing with ECOWAS The free movement of persons provided for in this EPA is not problem-free either.

c) Other Recent Developments

The privatisation of state-owned enterprises has practically been completed, with Government preserving only a few entities, including the pharmaceutical groups and the Cape Verde national airlines (Transportes Aereos de Cabo Verde- TACV). Whilst the privatisation of the national pharmaceutical enterprise, Inpharma, is progressing, that of the TACV is at a dead end. The government may have bailed out this institution but the emergence of a new competitor, Alcyonair, could further comprise its commercial liability.

The public service reform is ongoing, with the adoption of a new salary structure.

The review of the country's customs regulation is expected to be completed in 2009. In July 2008, the country abolished the rule on capital stock, simplified registration procedures and overturned the fiscal regimes of import-export firms. The adoption of the latest version of the customs management software introduced by the United Nations Conference on Trade and Development (UNCTAD), called Sydonia2 World, has been slated for 2009.

The Cape Verde public investment programme for 2005-2010 is being supported by international donors and provides for a host of road infrastructural (40 million Euro), seaport and airport (100 million Euros) development projects. These projects are being financed by soft loans from the Portuguese Government for the period 2007-11. A road project on the Fogo Island is also being financed by loans from the African Development Bank (ADB) and the United Kingdom, through its cooperation, the Department for International Development (DFID).

The World Bank is supporting the 2009-2012 poverty alleviation programme with a package of about US$ 98.5 million. Such loans lay emphasis on windmill electricity supply, fishing, biodiversity and road infrastructure. This package comes in the form of project financing and budgetary support. The 2008-2010 ADB programme will also support these projects with loans amounting to US$ 20 million. The Organisation of Petroleum Exporting Countries (OPEC), ADB and Japan have pledged to finance the energy production and distribution capacities in Cape Verde. The American Millennium Account (AMA) facility has pledged to develop and modernise the port in Praia and participate in less gigantic infrastructural projects.

The Chinese firms, originating from the former Portuguese settlement of Macao, have pledged considerable amounts in various projects, mainly in the tourist sector. They are negotiating a seaport investment project (Cabnave) to develop fishing activities. For some years now, the Chinese Government has been supporting several projects, including the construction of the Parliament building, a stadium and two dams. Cape Verde had been short listed, with four other countries, to become one of China's special economic zones in Africa – which could have attracted new investments. However, the project seems to have been frozen since the Chinese delegation visited the country in 2007. In September 2008, the Government of Cape Verde signed an agreement with the Chinese bank, Eximbank, for the financing of online public service projects, to the tune of US$ 17 million.

3.3.1.2 Performance under macroeconomic convergence

Despite the macroeconomic gains made by Cape - Verde, it met only three (3) convergence criteria including one primary criterion. The status of convergence is as follows:

Primary Criteria

Concerning the primary criteria, only the one on budget deficit financing by the Central Bank was met.

Budget Deficit/GDP Ratio
Budget balance excluding grants relative to nominal GDP stood at 5.8% against 3.4% in 2007. Indeed, there was an increase in tax revenue (13.1%) and non-tax revenue (25.2%). Grants and subsidies have also increased. Expenditures rose by 13.2%. This trend reflected the increase in current expenditure (6.1%) and, especially, the upward trend in capital expenditure (34.7%).

Inflation
The annual inflation rate at end of period was at 6.8% in 2008 against 4.4% in 2007. The rise in inflation was mainly due to rising cost of products categorized under 'food transport' (14.6%) and "clothing and footwear (13.4%)," non-alcoholic products and beverages "(11.8%) and " housing revenue, water, electricity, gas and other fuels (9.3%).

Gross External Reserves
As with the two criteria above, the criterion on the coverage of imports by reserves was not met by Cape - Verde. The reserve level stagnated at 4.1 months of imports in 2008. The quantitative targets of the program from late December 2008 have been reviewed downwards because of the global recession and rising cost of staple foods. But the external accounts have improved, showing an accumulation of international reserves to the tune of about CVE 29.369.1 million by the end of September 2008 (against CVE 28. 674 5 million in 2007).

Budget Deficit Financing by the Central Bank
The criterion on budget deficit financing by the central bank was achieved by the Central Bank of Cape - Verde. Since 2005, the Bank no longer finances the country's budget deficit.

Secondary Criteria

The indicators of tax pressure rate and the stability of exchange rates were observed by end of 2008.

Domestic Arrears

No information is available to assess performance in respect of this criterion.

Tax Revenue/GDP

The tax pressure rate was 23.9% in 2008 against 22.8% in 2007. This performance seems to reflect an improvement in tax revenue collection which rose by 13.1%. This ratio remained above the regional standard. By end of 2009, prospects for revenue growth would more or less stagnate.

Wage Bill/Tax Revenue

The wage bill /tax revenue ratio was 38.1% in 2008 against 41.6% in 2007. Although the criterion was not met, some improvement was observed reflecting the implementation of programs to improve public finances.

Internally funded Public Investments

The ratio of public investment financed from internal resources over tax revenue was 1.9% in 2008 against 2.0% in 2007. This poor performance reflects the weak effort of the Government in the pursuit of public investment to sustain growth and to fight more efficiently against poverty.

Real Interest Rate
The criterion on real interest rate has not been met by Cape Verde since 2006 owing to high inflation.

Real Exchange Rate

The level of variation in real exchange rate was 4.3% in 2008 against 3.0% in 2007. Although the Escudo continues to appreciate just like its anchor currency, the euro, its level of fluctuation was consistent with the community standard.

The overall level of performance has improved from four (04) criteria met at end December 2006 to five (05) criteria at-end 2007. This level of performance remained the same in the first quarter of 2008 (Table below).

Table: Convergence Status of Cape Verde

	Standard	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary criteria:		1	2	1	2	2	2	2	2	1	1
i) Budget Deficit /GDP	≤4%	15.0	11.4	10.5	9.1	8.4	11.0	9.7	3.4	5.8	11.5
ii) Inflation Rate	≤ 5%	-1.1	4.2	3.0	-2.3	-0.3	1.7	4.7	4.4	6.8	4.0
iii) CB Financing	≤ 10% TR n-1	59.3	0.1	20.7	6.3	0.2	0.0	00	0.0	0.0	0.0
iv) Gross Exchange Reserves	≥6 months Imports B/S	1.0	1.5	2.0	1.8	2.4	3.4	3.6	4.1	4.1	4.0
Secondary criteria		2	2	2	2	2	2	3	3	3	3
i) Domestic Arrears		nd	nd	nd	nd	nd	nd	nd	nd	nd	nd
ii) Tax Revenue/GDP	≥ 20%	17.3	18.7	19.7	18.6	19.6	21,0	23,0	22.8	23.9	23,9
iii) Wage Bill/Tax Revenue	≤ 35% TR	57.3	50.3	46.3	63.2	47.9	47.1	46.0	41.6	38.1	42.7
iv) Int. Investment/Tax Revenue	≥20% TR	8.2	4.2	4.8	3.4	3.3	2.9	2.9	2.0	1.9	2.4
v) Real Interest Rate	> 0	4.3	-1.0	0.2	5.5	3.5	1.5	-1.5	-1.2	-3.6	-0.8
vi) Real Exchange Rate Stability	± 5%	-3.8	-3.9	-0.2	0.8	-3.1	5.4	3.3	3.0	4.3	1,5
Number of Criteria Met		3	3	3	4	4	4	4	4	3	4

Source: Central Bank, AFRISTAT and WAMA* Estimates ** Projections

3.3.1.3 Prospects for 2009

In the face of deterioration of the economic and financial system, all the projections of Cape Verde for 2009 were reviewed downward. Real GDP growth is projected to be around 6.5%. Regarding inflation, the projection indicates an improvement in the average annual index of consumer prices (CPI), by bringing it to 4%. On the budget front, for 2009, the projection is a deficit, excluding grants of around 11.5% of GDP, reflecting deterioration in the budgetary position. For the balance of payments, the projection on external accounts for 2009 indicates a worsening current account deficit. Regarding the monetary situation in the face of a full blown financial crisis, the position of the monetary authorities in the conduct of monetary policy is expected to be influenced, as in 2008, by the financial crisis and especially by developments in the Euro zone with whom Cape - Verde has a fixed exchange rate arrangement.

3.3.1.4 Conclusion and recommendations

The country faces serious structural problems. There is mass unemployment, mainly structural, the persistence of a relatively high rate of poverty, poor quality of services offered by public and private enterprises, shortage of skilled labour and inadequate infrastructure. There is also the geographical state of Cape Verde (over ten islands and eight islets) and arid Sahelian climate to be taken into account in policy development.

Other recommendations on less structural aspects must be taken into account:

1. Modernize fisheries, which is very important in the country's exports and traditional methods which are still being used. And also pay more attention to the scarcity of drinking water on the volcanic islands and the desalination of seawater, a relatively expensive process, thereby playing a more important role.

2. Diversify tourist attractions and implement policies that can increase the impact of tourism at the local level. So far, this activity is concentrated in a few large sites and products consumed by tourists are mostly imported, and so local markets do not profit much from it.

3.3.2 LIBERIA

In the Medium term, Liberia's three-year Poverty Reduction Strategy, which was supported under a Poverty Reduction and Growth Facility (PRGF) arrangement by the International Monetary Fund (IMF) was finalised in April 2008, following a participatory process which involved all levels of society as well as development partners. The main objectives of the programme were to firmly establish a stable and secure environment across the country, to achieve rapid, irreversible, inclusive and sustainable growth; to build capacity of the Liberian people and provide new opportunities for them; to establish responsible institutions of justice, human rights and good governance.

Specifically Liberia's 2008 economic policy thrust intended to revitalize the real sector, alleviate the level of poverty and large scale unemployment; and achieve price and exchange rate stability. In this regard, the authorities outlined the following targets in their 2008 macroeconomic programme: real GDP growth rate of 8.5 percent, end-of-period inflation of 5.0 percent, overall fiscal balance of 0.0 percent of GDP and gross external reserves of 1.0 month of imports.

3.3.2.1 Sector Analyses

3.3.2.1.1 Real Sector

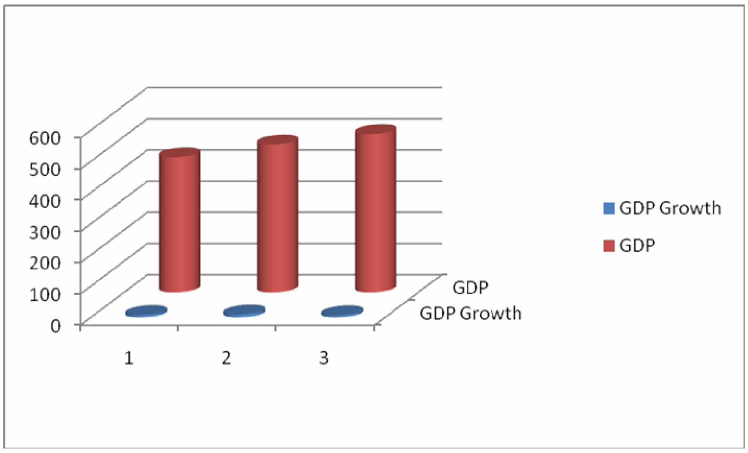
Economic growth in 2008 was initially projected at 9.5 percent, but was later adjusted to 8.8 percent and then to 7.1 percent; mainly resulting from delays in the resumption of mining activities and full-scale forestry operations. Expansion of the economy was projected to be primarily driven by the Agriculture and Services Sectors, accounting for 42.2 percent and 25.8 percent of overall projected real GDP for 2008

Inflation declined from 11.7 percent in 2007 to 9.4 percent in 2008 whilst the exchange rate stabilized, depreciating by only 3.1 percent against the US dollar during 2008. There were no significant changes in interest rates during the year under review.

Table: Gross Domestic Product (GDP) at 1992 Constant Price (In millions US$)

Sector	2006	2007	2008
Agriculture & fisheries	192.3	210.4	213.8
Forestry	74.1	81.1	97.5
Mining & Panning	0.7	0.8	0.8
Manufacturing	55.5	60.8	64.3
Services	110.5	120.9	130.7
Real Gross Domestic Product	433.2	473.9	507.1

The performance of the agriculture sector during 2008 was mixed. Rubber production declined, while output of coffee and cocoa increased.



Estimated output of rubber in 2008 totaled 87,901 metric tons, from 135,200 metric tons in 2007. The level of production declined by almost 35.0 percent with respect to the previous year, owing to the ageing of rubber trees. Production of coffee recorded a total of 124 metric tons during the year. Cocoa production expanded to 3,285 metric tons in 2008, from 2,126 metric tons in the preceding year. The gradual resettlement of farmers to their original villages was responsible for the increase in production.

Forestry activities have not fully resumed; however, the production of sawn timber continued. A total of 1,036,879 pieces of sawn timber was produced compared to 610,864 pieces produced in 2007, a rise of 69.7 percent. There is a need for full-scale logging operation in the country to help create jobs and reduce unemployment. Finalization of forestry agreements must be fast-tracked and logging activities started.

Although the mining sector has not resumed full activities since the end of the civil war, it had made significant strides since the beginning of 2008. During the year, tenders for the exploitation of iron ore in the Western and Central regions were launched. The tender for the Western Cluster Iron Ore Project was launched and the bids evaluated. The Western Cluster was later relaunched after a procedural error in the evaluation process. The bidding and selection process for the Western Cluster is expected to be completed in 2009. Additionally, the tender for the Bong Range Iron Ore Project in central Liberia was launched and evaluated. A Chinese Company, China Union, was selected following the evaluation to develop and exploit the iron ore in old Bong Mines in Bong County.

Direct foreign investments are anticipated to increase employment level, government revenue generation (particularly foreign exchange earnings), and improve infrastructure of the country. Besides the iron ore projects, a number of Mineral Development Agreements (MDAs) were also signed between the Government and private mining ventures for the exploitation and development of diamond and gold mines in some parts of the country.

Table: Key Agricultural and Forestry Production (2006-2008)

Commodity	Unit	2006	2007	2008
Rubber	MT	93,533	135,200	87,901
Cocoa Bean	MT	1,107	2,126	3,285
Coffee	MT	11	N/A	124
Sawn Timber	PCS	N/A	610,864	1,036,879

A total of 60,536 carats of diamond was mined in 2008. The increase in production was primarily due to the shift of resources (both human and capital) from gold production to diamond production because of high financial returns to diamond. Gold production expanded also by 10,053 ounces to 20,067 ounces, from 10,014 ounces in 2007. Increase in the number of artisanal miners and intensification of industrial mining of gold were responsible for the rise in production.

Production of cement totaled 94,037 metric tons compared to 157,200 metric tons in 2007. The 40.0 percent decline in output is largely attributed to the inadequate production capacity of the cement-producing company as against growing demand for the commodity for construction activities. As construction activities are on the rise throughout the country after a devastating war, the cement market needs to be truly opened and made competitive to ensure sustained availability. This will significantly help in Government’s economic recovery efforts.

Output of beverages declined to 17.6 million liters in 2008, from 19.9 million liters in 2007—a fall of 11.6 percent. Reduction in output was largely on account of a decrease in the production of alcoholic beverages.

Table: Key Industrial Output (2006-2008)

Commodity	Unit	2006	2007	2008
Cement	MT	135,486	157,200	94,037
Beverages	Liter	17,275,820	19,911,496	17,595.586
Paints	Liter	89,998	77,980	119,540
Candle	KG	579,233	473,239	289,041
Chlorox	Liter	713,776	526,153	456,534
Rubbing Alcohol	Liter	210.127	297,105	118,964
Mattresses	PCS	978,373	102,802	108,596
Finished Water	Gal	643,436,265	782,711,379	N/A
Gold	Ounce	304	10,014	20,067
Diamond	Carat		21,700	60,536

The rate of inflation in 2008, as measured by the Harmonized Consumer Price Index (HPCI) averaged 17.5 percent compared with 11.4 percent in 2007. This sharp increase in inflation was driven mainly by price increases in the international market for food and oil. The poor state of infrastructure in the country and the low level of domestic food production also played a role in driving up the general price level during the year.

Core inflation, defined to exclude Food and Transport items from the Consumer basket, increased by 0.8 percentage points to 4.7 percent at end-December, from 3.9 percent recorded at end-January of the previous year. The annual rate of core inflation averaged 6.0 percent, while the average rate of headline inflation stood at 17.5, indicating the enormous influence of oil and food on the general price level.

The inflationary pressure surged from a rate of 16.5 percent in January and peaked at 26.5 percent in August, the highest level recorded during the year. The rise in the inflationary condition followed the marked increase in the prices of oil and food on the world market, but the situation eased during the last half of the year following a downward trend in the prices of oil and food on the world market. Moreover, the fall in inflation during the latter part of 2008 was partly an outcome of the dry season when inter-county and farm-to-market roads are more accessible to enable farmers to bring their produce to the market. At end-December, the rate of inflation stood at 9.4 percent

3.3.2.1.2 Public Finances

The Government of Liberia took steps to enhance fiscal policy by strengthening revenue collection, with the objective of raising the ratio of total revenue to GDP above a minimum target of 15.0 percent. To achieve this objective, the authorities requested for technical assistance from the IMF on tax policy reforms. The policy measures on the revenue side included the broadening of the country's revenue base, institution of audit and control mechanisms, elimination of overdue tax obligations and rationalization of the list of tax exemptions. On the expenditure side, the authorities introduced measures aimed at strengthening the cash management/budgeting procedures, ensuring financial discipline and establishing transparency. The authorities also endeavoured to clear the civil service salary arrears.

The commitment of the authorities to the above policy measures resulted in a significant improvement of the fiscal situation. The overall balance improved from a deficit of 3.4 percent of GDP to a surplus of 2.0 percent, compared to the balanced cash budget target programmed for the year.

The relative enhancement in fiscal policy was due to an improvement in the operational efficiency of the revenue collection institutions. Tax revenue, comprising mainly of income tax and excise duties, increased considerably by 70.1 percent in 2008 compared to the negligible enhancement of 0.4 percent recorded in the preceding year. Total expenditure rose by 22.6 percent compared to 11.7 percent in 2007. Recurrent expenditure, which constituted 96.0 percent of total outlays, also increased by 23.9 percent in 2008. However, the level of capital expenditure dwindled over the period 2007-2008 from US$ 617.8 million to US$ 203.6 million.

The wage burden that shot up significantly in 2004 following the resumption of salary payments to civil servants eased during the year under review. In effect, wages and salaries decreased moderately by 8.6 percent from 46.5 percent of recurrent expenditure to 35.8 percent. This development impacted favourably on outlays on goods and services (including education and health) which increased accordingly by 60.6 percent to 36.1 percent of recurrent expenditure. Interest payments also increased marginally by 2.3 percent.

The fiscal operations in 2008 resulted in a borrowing requirement of L$ 933.6 million, which was financed mainly from domestic sources outside the banking system and non-bank private sector, particularly, from domestic revenues accruing during the year. It was noted that the Central Bank of Liberia has not as yet introduced treasury bills to facilitate borrowing on behalf of government.

3.3.2.1.3 External Sector

The external trade sector in Liberia during the year was faced with numerous challenges both on the domestic and international fronts. On the domestic front, the narrow export base and poor state of infrastructure are adversely impacting on the economy's ability to generate more foreign exchange earnings; while on the international front, declines in the prices of primary export commodities and the current global financial and economic crisis could undermine potential export receipts accruing to the economy.

For 2008, export receipts rose by 19.3 percent to US$238.8 million, from US$200.2 million in 2007. The major export commodities that contributed to the increase in export receipts were rubber, gold and diamond. Receipts from rubber rose by 11.7 percent, from US$183.9 million at year-end 2007 to US$205.6 million at end-November, 2008. The increase was mainly on account of rise in demand and the gradual improvement in productive sector related activities. At end-November, 2008, rubber exports accounted for 86.1 percent of total exports.
Earnings from minerals such as diamond and gold also contributed to the growth in total exports. Proceeds from diamond rose four-folds to US$9.8 million at end-November, 2008, from US$2.7 million recorded in 2007. Receipts from gold more than doubled to US$12.1 million for the same period due to an increase in the number of operators in the sector.

The “Other Commodities” category which includes charcoal, palm oil, scrap metals, personal effects, showed an increase of 25.9 percent to US$6.8 million at end of November 2008, from US$5.4 million during 2007. The increase was driven mainly by the relaxation of the ban on exports of scrap metals and palm oil during the year.

Iron ore mining has not yet become fully operational. It is however anticipated that the first shipment of iron ore will be exported by mid-2009, which will expand the country’s export base. Although the sanctions on the exportation of logs have been lifted, actual logging activities are yet to commence.

Receipts from coffee and cocoa exports were considerably low on account of cross-border trade, a situation which has led to under-reporting of exports of these commodities. For the reporting year, receipts from these commodities were recorded at US$2.8 million, from US$2.2 million in 2007.

As at end 2008, import payments totaled US$797.8 million, from US$501.5 million. The expansion reflected the robust growth in import payments for Food & Live Animals, Manufactured Products, Machinery & Transport Equipment and Petroleum Products. The cost of imports for the Food & Live Animals category grew by 56.8 percent to US$205.3 million, driven mainly by rice imports which accounted for 61.3 percent of expenditures on this category and 15.8 percent of total import payments. The rise in payments for rice was mainly due to the hike in world market price of the commodity. Liberia imports more rice than it produces.

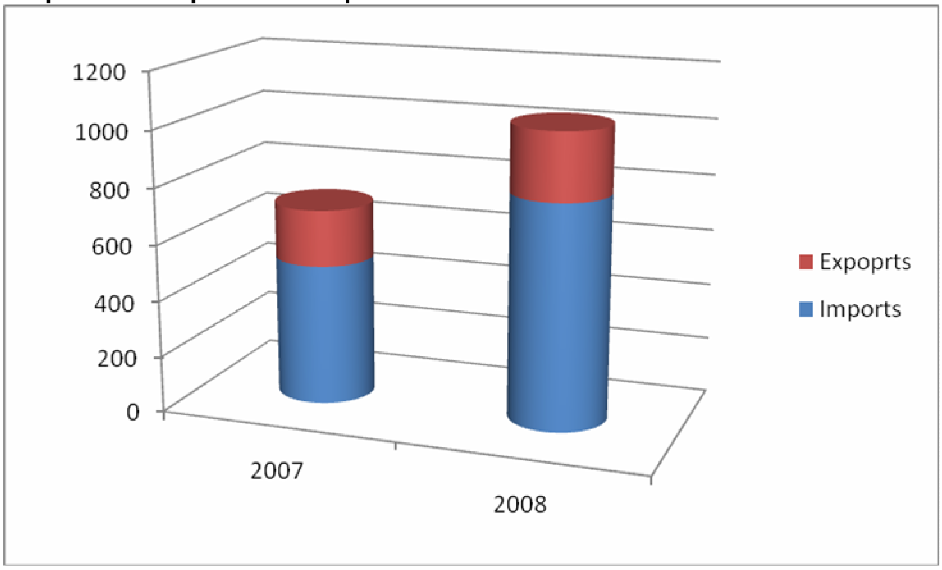
Payments for manufacturing products rose considerably by 40.5 percent to US$99.3 million. These imports include cement, zinc, and other building materials. This is reflective of the heightened reconstruction activities currently taking place in the country.

Payments to the Machinery & Transportation Category also rose significantly at end-November, 2008, from US$97.4 million in 2007 to US$204.2 million in

2008. The more-than- doubling in payments to this category is also reflective of the on-going reconstruction and recovery efforts in the country. The Machinery category includes importation of equipment by major concession entities, such as Arcelor Mittal Steel, Buchanan Renewable Energy (BRE) and others. The proliferation of motorcycle and vehicles in the country during the year also gave rise to the expansion in import bills to the category.

The total cost of imports for petroleum products increased by 46.9 percent to US$155.6 million at end-November 2008, from US$105.9 million at end-December, 2007. This was largely attributed to the rise in the global price of oil.

Graph: Total Imports and Exports



Balance of Trade

As at end-2008, the trade balance widened to negative US$559.0 million, from a deficit of US$301.3 million in 2007. The worsening of the deficit was due mainly to a significant rise in import payments which outpaced increase in export earnings. This deteriorating trend has existed in the last 3 years owing largely to the import-dependent nature of the economy whose productive sector is yet to regain full-scale operations.

The National Stock of Debt

The total stock of Liberia's public debt at end-October was recorded at US$4,274.6 million, of which external debt accounted for US$3,359.0 million (78.6 percent) and domestic debt, US$915.6 million (21.4 percent)

External Debt

The country's external debt, at present, is not sustainable; but is projected to improve. The latest low-income country debt sustainability analysis for Liberia shows that the country is in debt distress. However, debt dynamics are projected to be manageable following the full delivery of Heavily Indebted Poor

Countries (HIPC), Multilateral Debt Relief Initiatives (MDRI), and other debt relief initiatives. Total external debt as at end-October, 2008 stood at US$3,359.0 million, indicating a decrease of US$464.0 million over the level recorded at end-June 2008.

Table: External Debt Stock & Status As at End-June and End-October, 2008 (In Mil US$)

June, 2008				October, 2008
Estimates Debt Relief	**Stock at End-June**	**Estimates Debt Relief**		**Stock as at End-October**
Multilateral	655.0	960.0	655.0	1,051.0
Bilateral	254.0	1,289.0	843.0	700.0
Commercial creditors	-	1,574.0	-	1,574.0
International organizations	-	-	-	34.0
Total	**909.0**	**3,823.0**	**1,498.0**	**3,359.0**

Debt Relief

As at end-October 2008, the country received a total of US$1,498.0 million in debt relief, indicating an increase of US$589.0 million over the level of debt relief reported at end-June 2008. A dis-aggregation of debt relief by creditors shows that a total of US$655.0 million has been given in relief by multilateral creditors, and a total of US$843.0 million by bilateral creditors. Of the US$655.0 million realized in multilateral debt relief, US$400.0 million was cleared through the World Bank bridge loan, while the African Development Bank (AfDB) gave a total of US$255.0 million through its Post-Conflict Countries Facility (PCCF).

In March 2008, following the clearance of Liberia's arrears totaling over US$841.0 million to the IMF, the IMF Board approved Fund financing of around US$900.0 million under the Poverty Reduction and Growth Facility and Extended Fund Facility (PRGF/EFF). During the year, Liberia also formally entered the HIPC process which allows the Fund and other creditors to forgive Liberia's debts of over US$4.7 billion in the context of the HIPC Initiative framework. Since its achievement of the HIPC Decision Point in March, 2008, Liberia has started to benefit from IMF interim debt relief, which is expected to continue with the full application of the IMF's share of debt relief to be delivered when Liberia reaches the HIPC Completion Point.

During the year, Paris Club creditors offered US$254.0 million in immediate reduction, with no debt service payment for the next 3 years. Most Paris Club creditors have committed themselves to give the country more favorable terms which will lead to an eventual debt cancellation. China announced its intention to forgive 100.0 percent of its debt outstanding.

With regard to commercial creditors, the government met 3 of its creditors and there is a likelihood that there will be a debt buyback with support from the International Development Association (IDA) Debt Reduction Facility.

As a result of the current debt relief initiative, the Fund will be providing Liberia with new financial resources on concessional terms under the PRGF, equivalent to about $63.0 million over three years. On December 22, 2008, the Executive Board of the IMF completed the first review of Liberia's economic performance under a 3-year Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review made SDRs 7.0 million (about US$10.8 million) available to Liberia, bringing the total disbursements under the arrangement to SDRs 214.26 million (about US$331.0 million).

Domestic Debt

Total domestic debt at end-October 2008 was recorded at US$915.6 million. A breakdown of this by category shows the following: suppliers credit, US$8.1 million (0.9 percent); Salary and Allowances, US$3.8 million (0.4 percent); Financial Institutions-Agreements, US$276.9 million (30.2 percent); Pre-NTGL Salary, US$11.7 million (1.3 percent), and Contingent Liabilities, US$615.1 million (67.2 percent).

During the year, the GoL finalized the validation of outstanding domestic debt and accepted claims totaling US$300.5 million. Of the valid claims, about US$268.0 million is held by the CBL, while valid claims amounting to approximately US$51.0 million to private suppliers have been discounted in accordance with the government's domestic debt strategy to US$8.1 million. The remaining claims consist of restructured bank loans and wage arrears. The 2006 domestic debt resolution strategy envisioned the setting up of a trust fund to help service this debt, but the authorities are now reconsidering this approach because a large number of claims were rejected, which reduced the funding need, and in light of a low probabilities of donor support for such a trust fund.

3.3.2.1.4 Monetary Sector

During the year, the conduct of monetary policy, anchored on foreign exchange reserve management, was targeted towards ensuring broad stability in the exchange rate of the Liberian dollar. The CBL foreign exchange auction continued to be the mechanism through which monetary condition is affected to impact the exchange rate and the price level in the economy. Increasing the frequency of the auction from bi-weekly to weekly was one of the factors largely responsible for the broad stability of the exchange rate experienced during 2008.

The Central Bank of Liberia continued its recent expansionary monetary policy aimed at supporting the infrastructural development needs of the country. Reserve money, the intermediate target of the central bank, expanded by 34.2 percent, compared to 61.7 percent growth recorded in 2007. Broad money supply also grew by 41.4 percent compared with 40.1 percent in the preceding year. All the components of money supply registered significant increases, with currency in circulation and demand deposits growing by 4.8 percent and 64.4 percent respectively. The significant expansion in demand deposits signified the growing confidence of the private sector in the banking system following the restoration of peace and security.

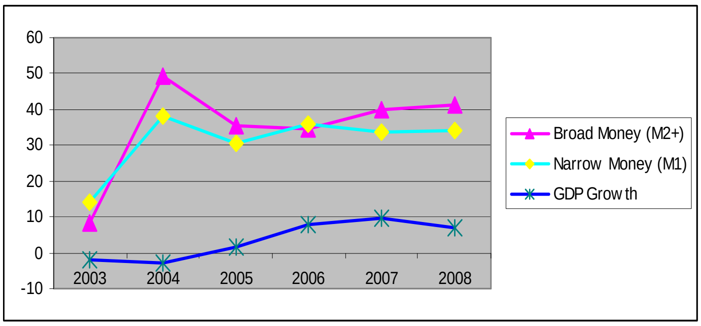
Broad money (M2+), comprising M1 plus quasi money (time and savings deposits) totaled L$16,931.0 million at end-December, 2008 — reflecting a 41.4 percent increase over the level recorded at end-December, 2007. The surge in broad money was driven largely by a 46.5 percent rise in savings deposits to L$3,902.6 million at end of 2008, from L$2,664.3 million at end-December, 2007. The 36.7 percent increase in quasi money to L$4,262.9 million at end of the year under review, from L$3,118.0 million at end of 2007 demonstrates the regaining of public confidence in the banking sector and the need for concerted efforts by the banks and the judiciary to ensure loan recovery, which could encourage banks to increase lending to various sectors of the economy, reducing the excess liquidity and improving financial intermediation.

Liberia: Growth in Monetary Aggregates (2003-2008)

Aggregate	2003	2004	2005	2006	2007	2008
Reserve Money	8.9	62.3	27.1	30.9	26.7	20.6
Broad Money (M2+)	8.3	49.3	35.7	34.4	40.1	41.4
Narrow Money (M1)	14.0	38.3	30.7	35.9	33.8	34.1
Currency in Circulation	24.8	34.6	23.6	22.1	27.7	4.8
Demand Deposits	5.5	41.8	37.0	47.1	39.5	64.4
Quasi-Money	-17.0	116.2	55.3	29.3	61.7	34.4

SOURCE: CBL, IMF

Graph : Growth in Monetary Aggregates and GDP



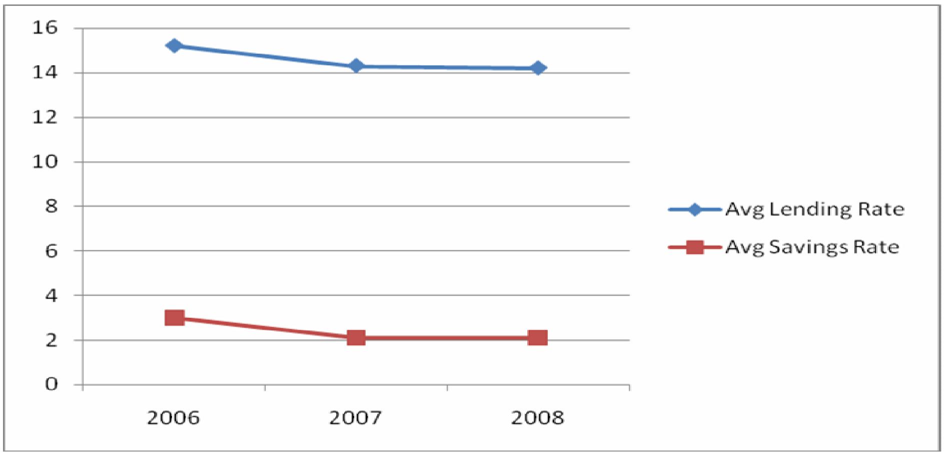
Interest Rates

At end-2008, average lending rate declined slightly by 0.1 percentage points to 14.20 percent, from 14.30 percent at end December, 2007. This level can be largely explained by the risk profile, credit history of clients and the level of non-performing loans in the banking sector. Personal loan rate, on average, remained generally the same but with a marginal decline of 0.5 percentage points to 14.42 percent, from 14.90 percent a year ago. The interest rate on mortgage loan increased on average to 14.00 percent for the period, representing a 2.0 percentage points rise, from 12.00 percent recorded at end-December, 2008. Average time deposit rate fell by 0.6 percentage points to 3.70 percent, from 4.30 percent recorded for 2007 while average savings rate increased negligibly by 0.01 percentage points to 2.11 percent, from 2.10 percent at end of the previous year. The large lending-savings rate spread shows how shallow and underdeveloped the financial system is, which calls for efforts that should be tailored at deepening the financial system through the modernization of the money market and eventual development of a capital market. The average rate on certificate of deposits (CDs) remained unchanged at 3.0 percent on a year-on-year basis.

Table: Interest Rates (2006 – 2008)

RATES	2006	2007	2008
Avg. Lending Rate	15.20	14.30	14.20
Avg. Personal Loan Rate	13.00	14.90	14.42
Avg. Mortgage Rate	12.00	12.00	14.00
Avg. Time Deposit Rate	4.90	4.30	3.70
Avg. Savings Rate	3.00	2.10	2.12
Avg. Rate on CDs	0.00	3.00	3.00

Graph: Average saving and lending rates



3.3.2.1.5 Performance under Macroeconomic Convergence

The performance of Liberia under macroeconomic convergence remained the same in 2008 compared to 2007. The country sustained the two primary criteria on budget deficit and central bank budget deficit financing and realized two secondary criteria on salary mass and real exchange rate stability.

Criteria/Period	Target	2000	2001	2002	2003	2004	2005	2006	2007	2008*	2009**
Primary Criteria:											
i) Budget Deficit/GDP	4%	0.9	1.9	1.0	3.7	4.4	0.9	-3.0	3.4	2.0	2.0
ii) Inflation Rate	5%	3.2	19.4	11.1	5.0	16.1	7.0	8.9	11.7	9.4	9.1
iii) Deficit Financing	10% TR n-1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
iv) Gross External Reserves	6 months of Imports G/S	3.6	2.6	0.0	-0.2	0.2	0.1	0.1	0.7	0.7	0.7
Secondary Criteria											
i) Domestic arrears		na	na	na	na	na	na	na	na	na	na
ii) Tax Revenue (TR)/GDP	20%	13.7	11.4	10.7	6.4	9.2	14.7	13.2	12.6	12.5	12.5
iii) Salary Mass/Tax Revenue	35% TR	24.8	29.0	19.1	26.4	48.0	59.2	34.5	32.9	28.7	35.2
iv) Public Investments/Tax Revenue	20% TR	39.6	46.1	47.3	0.0	25.6	18.3	14.9	13.8	12.5	14.7
v) Real Interest Rate	> 0	2.6	-13.7	-5.4	-0.6	-12.7	-3.9	-6.2	-9.1	-7.2	-6.9
vi) Real Exchange Rate Stability	± 5%	-0.5	-23.2	-30.1	-7.2	-14.2	-3.1	-4.6	2.5	2.7	2.7
No. of Criteria Met		7	4	4	3	2	3	4	4	4	3

Sources: CBL, IMF, AfDB and WAMA Calculations

With the sustenance of the two criteria mentioned above and the relative improvement in the fiscal position, the country's performance on the primary criteria was generally satisfactory. The budget deficit in 2008 was 2.0 percent, thus within the required target, compared to 3.4 percent during the preceding year. The adoption of cash budgeting policy has nibbed the necessity for fiscal accommodation by the central bank, as a result of which this target has been realized consistently. Although inflation declined, it remained above the maximum requirement of 5.0 percent. Gross external reserves remained very low during 2008 at 0.7 month of imports cover, the same level attained in 2007.

Performance under the secondary criteria remained challenging. Tax revenue slightly decreased from 12.6 percent in 2007 to 12.5 percent in 2008. The wage burden, which shot up in 2004 following the resumption of payment of wages and salaries, eased significantly thereafter, moving from 32.9 percent in 2007 to 28.7 percent of tax revenue, thus, meeting the required maximum target of 35.0 percent. However, the level of public investments financed from domestic sources, declined from 13.8 in 2007 to 12.5 in 2008, which largely fell short of the required target. The relatively high inflation contributed to the prevalence of negative real interest rates. Using the year 2000 as the base year and a fluctuation band of ± 5.0 percent, the real effective exchange rate was stable during 2008.

3.3.2.2 Institutional Arrangements and Policy Harmonisation

National Coordinating Committee (NCC)

The National Coordinating Committee of Liberia, which was launched on 8th of May 2008 comprises of the following institutions: Ministry of Finance (MOF) (Chair), Ministry of Planning & Economic Affairs (MPEA) (Co-Chair), Central Bank of Liberia (CBL) (Secretariat), Bureau of Budget (BOB), Liberia Institute of Statistics and Geo-information Systems (LISGIS), Ministry of Agriculture (MOA), Ministry of Commerce and Industry (MCI), Liberia Reconstruction and Development Committee (LRDC).

It was noted that the process of recruiting a Macroeconomist and an administrative officer, to be solely responsible for the activities of the NCC, has reached an advanced stage and was expected to be completed in early 2009.

Once these key personnel are recruited, the NCC of Liberia will be up and running, and thus adequately respond to the data and information needs of the Joint Secretariat. The NCC members were also urged to assist in the sensitization activities at the national level to ensure awareness and ownership of the monetary and economic integration programme.

Payment System Development

The CBL established 8 mobile payments centres in 2008, creating a presence for the Bank in all counties. Beginning October 2007, the payment centres commenced the encashment of United States Dollar cheques, in addition to salary cheques denominated in Liberian dollars.

One of the banks, Ecobank (Liberia) Limited (EBLL) concluded arrangements for introducing an ATM debit card system. The CBL concluded arrangements with UNMIL in 2007 for the construction of three (3) additional permanent payments centres under UNMIL Quick Impact Project, to be located in Greenville, Sinoe County; Harper, Maryland County; and Barclayville, Grand Kru County. Construction of the Harper payments centre had already been completed in 2008, while proposals for Sinoe and Grand Kru centres are under consideration.

The CBL requested and had received an IMF Technical Assistance in the form of a Resident Advisor to assist in developing a comprehensive national payments system. More extensive work is expected to take place on this project in 2009. The implementation of the clean banknotes policy continued in 2008, and had been extended to encashment centres throughout the country.

Significant progress has also been made in upgrading and expanding the electronic settlement component of the manual cheque clearing system to provide automation of some aspects so as to provide participants in the clearing house with output in electronic format. In addition, testing of new software is in progress to ensure improved electronic interface between the clearing system and the Bank's upgraded accounting system.

Capital and Financial Account Liberalisation

The capital account in Liberia has largely been liberalized with just minor pockets of restrictions. There remain no controls on credit operations, foreign direct investment and liquidation of direct investment. In terms of real estate transactions, controls have largely been removed .Therefore purchases of real estate abroad by residents in Liberia is allowed. Similarly, non-residents are allowed to transact in real estate.

Liberia has therefore conceded to a very important aspect which would help the monetary and economic integration process in the sub-region. Liberia is also making significant strides to rebuild the enabling infrastructure, which could enhance the inflow of capital, having fully liberalized its capital account.

Statistical Harmonization

The harmonization of key macroeconomic indicators, especially relating to GDP and consumer price index is being advanced in Liberia. The country had changed the base year of its consumer price index from 1964 to 1998, which gives a better representation of current consumption patterns. Similar improvements have also been made in the computation of its national accounts (GDP). A key objective of the country's National Statistics Development Strategy is the improved compilation of national accounts. Based on a census of establishments completed in 2008, a sample frame has now been established, from which a sample survey of non-agricultural businesses will be conducted with a view to improving national accounts data. Using the 2008 Population and Housing Census results, a sample frame will be established for household income and expenditure surveys. In 2009, an additional survey will be undertaken to include agricultural production and mining. These activities will culminate in a first set of improved national accounts, the results of which are expected in 2010

3.3.2.3 Prospects for 2009

General economic prospects for 2009 remain favorable. Real GDP growth is expected to continue but at a slower pace between 6 and 7 percent, as a result of the potential impact of the global financial and economic crisis. This growth is anticipated to be largely driven by the resumption of logging, rebound in agricultural production and increase in mining and services. Inflation is projected to decline to single digits and the current account deficit is likely to narrow in 2009. However, a sharper-than-projected slow-down in growth of the global economy, or significant declines in world commodity prices, could reduce demand for Liberia's key exports, or delay investment activity in the economy, more than projected.

The CBL expects to contain inflation by keeping the exchange rate relatively stable through the conduct of its foreign exchange auction to manage Liberian dollar liquidity. The CBL also intends to continue with implementation of measures to further strengthen the banking sector to support growth of the economy.

As one of the means of supporting economic growth through increased consumer spending, the Government is expected to institute a series of tax reform measures, including reduction of personal income and corporate tax rates.

The ongoing implementation of the Government's Poverty Reduction Strategy (PRS) Program which includes 4 pillars, namely; Peace & Security, Economic Revitalization, Governance & Rule of Law, and Infrastructure & Basic Services, is expected to help bring about gradual improvement in the socio-economic condition of the population during 2009 and beyond.

Notwithstanding the relatively optimistic outlook for Liberia's near-term economic prospects, a prolonged global recession could have significant adverse impact on domestic economic activities including the areas of foreign direct investments, export earnings, consumption and remittance inflows.

3.3.2.3 Conclusion and Recommendations

Liberia faces a myriad of economic problems ranging from weak physical infrastructure, inadequate but increasing revenue, high demand for expenditure, unsustainable external debt position, weak financial system with inadequate monetary policy tools, balance of payments constraints, a weak foreign exchange earning capacity. Notwithstanding these limitations, the government of Liberia will have to strengthen the effectiveness of its restructuring programme in order to accelerate the rate of economic recovery. Depending on the availability of adequate technical and financial assistance, the Government of Liberia may take the following issues into consideration in its reconstruction and development programmes:

1. restructure the financial sector, in order to strengthen the effectiveness of its intermediation role in accelerating the rate of development;
2. introduce appropriate monetary policy instruments and mechanism to monitor and mop-up excess liquidity;
3. create jobs by developing cottage industries to reintegrate the displaced population who should contribute their quota to economic development;
4. reconstruct economic infrastructure on priority basis to support revitalization of economic activities;
5. strengthen the revenue collection apparatus to sustain their mobilization capacity; and inculcate the convergence targets into the pluri-annual budgets as the macroeconomic fundamentals improve.
6. There is need to strengthen national development strategies, improve the alignment of donor support to domestic priorities, increase the credibility of the budget as a tool for governing and allocating resources, and increase the degree of accuracy in budget estimates of aid flows;
7. The country and donors should use performance assessment frameworks and • more cost-effective, results-oriented reporting. In this regard, there is need for donors to contribute to capacity building and make more use of country reporting systems; and more credible monitoring systems need to be developed to ensure mutual accountability.

GENERAL CONCLUSION

On the whole, economic activity at Community level more or less stagnated even though economic growth improved by 1 percentage point. The effects of the crisis were worse than expected because:

- The slow down in world economic activity was worse than envisaged;
- The prices of most basic commodities fell below their 2007 levels;
- Advanced countries and emerging countries became prone to financing difficulties;
- Foreign investors were less inclined to take risks.

Governments should therefore quickly, efficiently and thoughtfully undertake the necessary adjustments to preserve the huge economic gains recorded during the last 10 years. The measures to be taken will depend on each country's situation; for example its level of indebtedness, its dependence on basic commodities, its exchange rate regime, its level of reserves and its opportunities to access financial markets.

Against this difficult backdrop, characterized by multiple challenges for member States of the Community and with prospects for economic recovery for partner economies in the North, convergence as currently defined would require time and reorganization. This would help sustain macroeconomic stability and reposition the economies of the Union on a favourable track. To achieve this, member States should:

- Adopt and effectively implement, in collaboration with the Union's institutions, the Regional Initiatives for Electrical Energy which mainly focuses on the development of a diversified, competitive and lasting supply and the establishment of a consumption control schedule;
- Pursue structural reforms, particularly those relating to products constraining member States to high subsidies in order to have a greater margin to propel public investments and economic growth.
- Increase supply of agricultural products which contribute to the reduction of inflationary pressures and ensure lasting food security. Particular emphasis should be laid on measures that would
- help improve distribution circuits of food products, particularly cereals and starchy foods, in order to minimize speculative effect-related risks.
- Gradually, abolish emergency budgetary measures, particularly fiscal taken within the framework of reducing the cost of living, to improve on the level of tax mobilization and reduce budget deficit.

- Enhance economic governance to establish an appropriate framework for the implementation of programmes supported by the PRGF facility and the application of measures to promote the private sector.