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STATUS OF MACROECONOMIC CONVERGENCE

2014

STATUS OF MACROECONOMIC CONVERGENCE IN ECOWAS

The ECOWAS Monetary Cooperation Programme (EMCP) emphasizes the importance of macroeconomic convergence with the view of ensuring macroeconomic stability prior to the launching of the ECOWAS Single Currency.

This section analyses the performance of the various ECOWAS member countries in terms of macroeconomic convergence in 2014 and prospects for 2015. The evaluation mechanism which initially included eleven targets (six primary and five secondary) was rationalized and revised to six (four primary and two secondary), including changes in some benchmarks. The analysis is based on the new set of convergence criteria adopted by the Authority of Heads of State and Government in May 2015, focusing on price stability, low budget deficit, restrictions on central bank budget deficit financing and maintenance of adequate levels of gross external reserves.

The newly adopted criteria are as follows:

Primary Criteria

1. Ratio of budget deficit (commitment basis, including grants) to Gross Domestic Product (GDP): less than or equal to 3% of GDP¹;
2. Average annual inflation rate: less than 10%² (single digit) ;
3. Central Bank financing of Budget Deficit: less than or equal to 10% of the previous year's tax revenue; and
4. Gross external reserves: more than or equal to three (3) months of imports³.

Secondary Criteria⁴

1. Nominal exchange rate: stable (+/- 10%);
2. Ratio of total public debt to GDP: less than or equal to 70%;

1.1. Overview of Macroeconomic Convergence

The adoption of the new convergence criteria resulted in a significant improvement in performance compared to previous assessments conducted based on the former criteria. This improvement was facilitated by revision of the targets on inflation and gross external reserves. The new target for the criterion on inflation is now a single digit instead of the previous threshold of maximum 5%. Similarly, the minimum threshold for the criterion on gross external reserves had been reduced from 6 months of

¹ The maximum target on the previous budget deficit/GDP ratio was 4% excluding grants.

² The analysis focuses on average inflation, in line with the revision made in June 2012, but the target adopted in May 2015 is now a single digit (<10%) instead of a maximum of 5%.

³ Based on the May 2015 revision, the target for gross external reserves is 3 months of imports cover instead of 6 months.

⁴ The following criteria have been delisted after the rationalization exercise: non-accumulation of domestic and external arrears, tax revenue/GDP, wage bill/tax revenue, public investments/tax revenue, positive real interest rate and real exchange rate stability.

imports of goods and services to three months. Moreover, only two secondary criteria have been maintained in the new ECOWAS convergence criteria, namely the criteria relation to public debt and nominal exchange rate stability. As a result, the overall performance of the region improved due to the fact that member countries' performance vis-a-vis these two criteria is generally satisfactory.

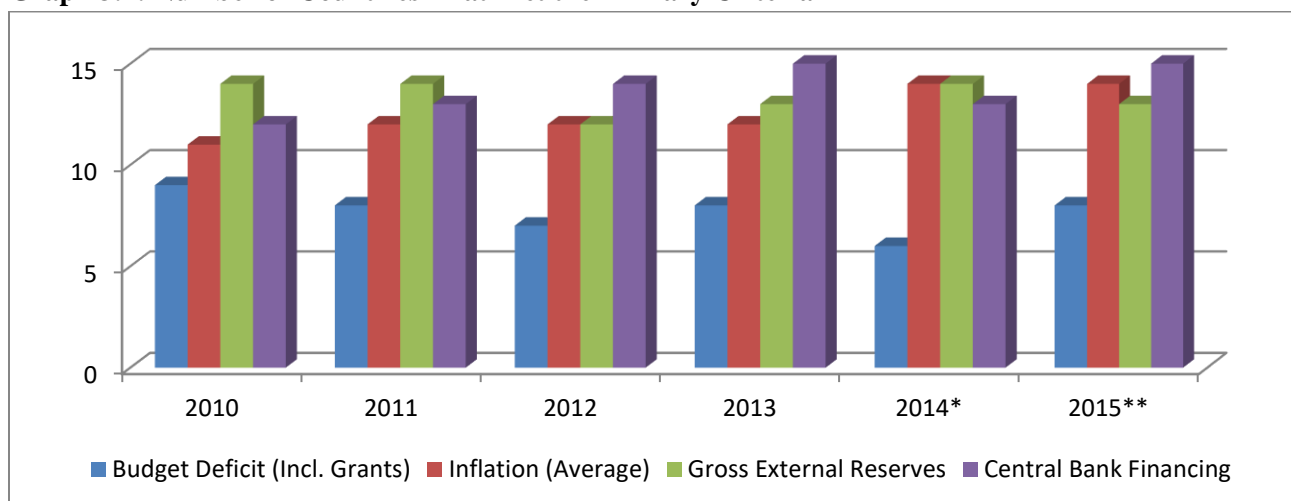
Table 3.1: Number of Countries that Met the Convergence Criteria in ECOWAS

	2010	2011	2012	2013	2014*	2015**
Budget Deficit (Incl. Grants)/GDP	9	8	7	8	6	8
Inflation (annual average)	11	12	12	12	14	14
Gross External Reserves	14	14	12	13	14	13
Central Bank Financing	12	13	14	15	13	15
Public Debt	13	13	13	13	13	13
Nominal Exchange Rate Stability	13	13	14	14	13	13

Sources: National Authorities; WAMA * Estimates ** Projections

Regarding the primary criteria, the performance of member countries was encouraging with respect to the criteria on inflation, gross external reserves and Central Bank financing of budget deficit. Thus, fourteen (14) countries met the required targets on inflation and gross external reserves, whilst thirteen (13) countries complied with the criterion on Central Bank financing of budget deficit. However, member countries continue to face difficulties in controlling budget deficit. As a result, only six (6) countries met the prescribed benchmark for this criterion in 2014, against four (4) in the preceding year. This poor performance mainly related to Guinea and Sierra Leone, two countries adversely affected by the Ebola outbreak, which had disastrous economic and fiscal consequences on the countries. The sharp slowdown in economic activity resulted mainly in a significant decline in tax revenue mobilization, whilst these countries had to cope with exceptional and high expenses.

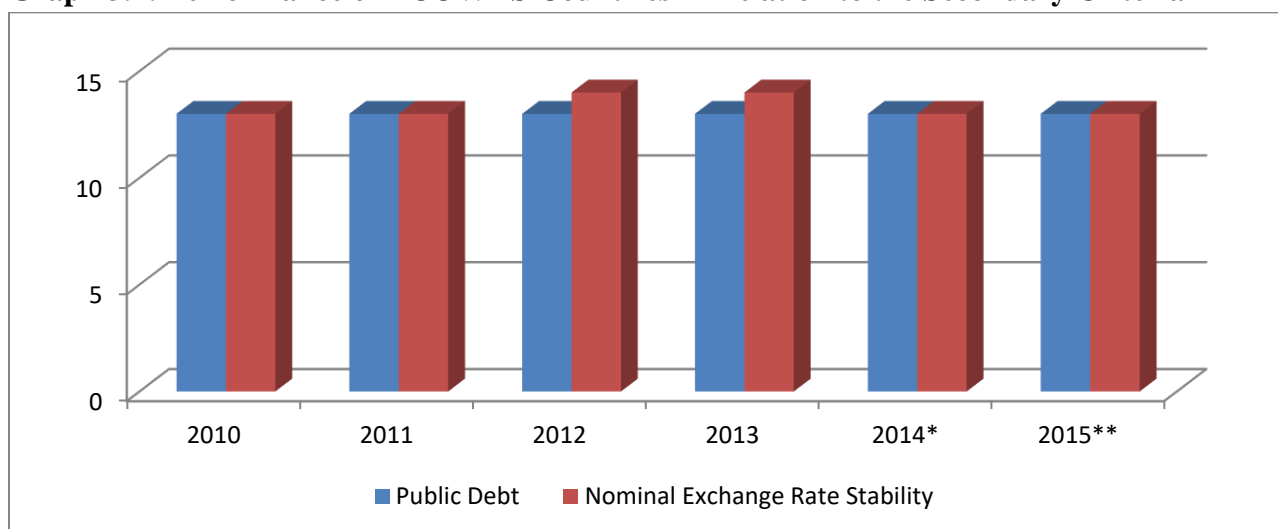
Graph 3.1: Number of Countries That Met the Primary Criteria



Source: National Authorities; WAMA * Estimates ** Projections

The performance of ECOWAS countries under the secondary criteria was generally encouraging. In 2014, thirteen (13) countries complied with the standard on exchange rate stability whilst the same number of countries met the target on public debt. In recent years, only Cape Verde and The Gambia have experienced difficulties in meeting the prescribed benchmark for the criterion on public debt, whilst the criterion on exchange rate stability remains a challenge for The Gambia and Ghana.

Graph 3.2: Performance of ECOWAS Countries in Relation to the Secondary Criteria



Sources: National Authorities; WAMA * Estimates ** Projections

Regarding the individual performance of member countries, the analysis shows that six (6) countries met all the primary criteria in 2014, against five (5) the preceding year. Guinea Bissau is the only country that sustained its performance as it has been complying with all the primary criteria since 2011. Over the past five years, the best performance vis-a-vis compliance with the primary criteria was achieved in 2010, with a total of seven (7) countries meeting all the criteria.

Table 3.2: Number of Primary Criteria met by Country

	2010	2011	2012	2013	2014*	2015**
BENIN	4	4	4	3	4	3
BURKINA FASO	3	4	3	3	4	4
CAPE - VERDE	3	3	3	3	3	3
COTE D'IVOIRE	4	3	3	4	4	4
THE GAMBIA	3	2	3	3	2	4
GHANA	3	3	2	2	1	2
GUINEA	0	3	2	3	3	2
GUINEA-BISSAU	4	4	4	4	4	4
LIBERIA	4	4	3	3	4	3
MALI	4	3	4	4	3	4
NIGER	4	4	4	4	3	3
NIGERIA	2	2	3	4	4	4
SENEGAL	3	3	3	3	3	3
SIERRA LEONE	1	1	1	2	2	4
TOGO	4	4	3	3	3	3

Sources: National Authorities; WAMA * Estimates ** Projections

With regards to the overall performance of member countries, six (6) countries complied with all the convergence criteria in 2014, namely Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Liberia and Nigeria. These countries were followed by Guinea, Mali, Niger, Senegal and Togo, with five (5) convergence criteria each. Conversely, the lowest performance was recorded by The Gambia and Ghana which realized only two (2) targets each. Overall, no significant progress was noted compared to the previous year. Over the last three years (2012-2014), only Guinea Bissau has consistently complied with all ECOWAS convergence criteria.

Table 3.3: Total Number of Convergence Criteria Met Per Country

	2010	2011	2012	2013	2014*	2015**
BENIN	6	6	6	5	6	5
BURKINA FASO	5	6	5	5	6	6
CAPE - VERDE	5	4	4	4	4	4
COTE D'IVOIRE	6	5	5	6	6	6
THE GAMBIA	5	4	4	3	2	4
GHANA	5	5	3	4	2	3
GUINEA	0	3	4	5	5	4
GUINEA-BISSAU	5	6	6	6	6	6
LIBERIA	6	6	5	5	6	5
MALI	6	5	6	6	5	6
NIGER	6	6	6	6	5	5
NIGERIA	4	4	5	6	6	6
SENEGAL	5	5	5	5	5	5
SIERRA LEONE	2	2	3	4	4	6
TOGO	6	6	5	5	5	5

Sources: National Authorities; WAMA * Estimates ** Projections

1.2. Analysis of Performance by Criteria

This section analyses the performance of member countries under the convergence criteria as categorized into primary and secondary criteria

1.2.1. Primary Criteria

1.2.1.1. Budget Deficit (Including Grants)/GDP \leq 3%

In 2014, six (6) countries met the required target for this criterion, against four (04) in 2013. The difficulties in meeting this criterion generally relate to low tax revenue mobilization relatively to high operating expenditure, notably wage bill, subsidies and transfers. During the review year, the economic effects of the Ebola outbreak also contributed to slackening performance, particularly in Guinea and Sierra Leone. Apart from the specific case of countries affected by the Ebola outbreak (Guinea, Liberia and Sierra Leone), year 2014 was marked by a decline in deficits. Seven (7) countries experienced a decline in budget deficit, with the most significant recorded by Ghana, Burkina Faso and Togo.

Estimates indicate that the WAMZ and ECOWAS met the standard in 2014 mainly thanks to the performance of Nigeria, which registered a low deficit. Projections indicate a slight improvement in performance with respect to compliance with this criterion, with two (2) additional countries likely to meet the target in 2015.

Table 3.4: Budget Deficit/GDP

	2010	2011	2012	2013	2014*	2015**
BENIN	1.8	2.0	0.5	3.1	2.3	3.1
BURKINA FASO	4.6	2.3	3.1	3.5	1.8	1.1
CAPE – VERDE	10.5	9.5	10.3	8.8	8.5	8.5
COTE D'IVOIRE	1.7	4.1	3.1	2.2	2.2	2.3
THE GAMBIA	2.7	4.2	4.7	8.6	9.1	1.3
GHANA	2.4	0.9	5.7	8.6	6.4	6.6
GUINEA	14.3	1.3	1.2	2.1	3.9	7.7
GUINEA-BISSAU	-0.2	0.5	2.4	2.2	2.2	2.7
LIBERIA	-6.7	0.5	-4.3	-2.1	-0.2	0.0
MALI	2.6	4.2	1.3	2.9	3.5	2.3
NIGER	2.4	1.9	1.1	2.3	5.5	7.8
NIGERIA	5.0	3.1	2.5	1.7	0.9	0.9
SENEGAL	5.2	6.7	5.9	5.5	5.2	4.5
SIERRA LEONE	5.1	4.4	5.5	1.5	3.4	1.5
TOGO	-0.3	1.1	5.8	4.3	3.3	3.6
UEMOA	2.8	3.8	3.1	3.3	3.2	3.1
WAMZ	4.9	2.9	2.8	2.3	1.5	1.5
ECOWAS	4.6	3.0	2.8	2.4	1.7	1.7
Number of Countries that Met the Target	9	8	7	8	6	8

Sources: National Authorities; WAMA

* Estimates

** Projections

1.2.1.2. Annual Average Inflation Rate \leq 10%

Performance vis-à-vis this criterion improved significantly as a result of the revision of the Community threshold. Thus, with the exception of Ghana, all member countries complied with the prescribed benchmark in 2014; reflecting two (2) additional countries relative to the preceding year. During the review year, eleven (11) countries experienced a decline in average inflation, the most significant recorded by Sierra Leone (-3.3%), Niger (-3.2%) and Guinea (-2.2%). Conversely, four (4) countries, namely Ghana (+3.8%), Liberia (+2.3%), Mali (+1.5%) and The Gambia (+0.3%) recorded an increase in inflation.

At the zonal/regional level, the analysis showed that UEMOA, WAMZ and ECOWAS met the single-digit inflation target. Projections indicate that the same level of performance would be maintained for the year 2015.

Table 3.5: Annual Average Inflation (in %)

	2010	2011	2012	2013	2014*	2015**
BENIN	2.1	2.7	6.7	1.0	-1.1	-0.3
BURKINA FASO	-0.6	2.8	3.8	0.5	-0.3	1.2
CAPE – VERDE	2.1	4.5	2.5	1.5	-0.2	0.3
COTE D'IVOIRE	1.7	4.9	1.3	2.6	0.5	1.1
THE GAMBIA	5.0	4.8	4.3	5.3	5.6	5.6
GHANA	10.7	8.7	9.2	11.7	15.5	15.5
GUINEA	15.5	21.4	15.2	11.9	9.7	7.4
GUINEA-BISSAU	2.2	5.1	2.1	0.7	-1.0	1.2
LIBERIA	7.3	8.5	6.9	7.6	9.9	8.0
MALI	1.2	3.0	5.3	-0.6	0.9	1.3
NIGER	0.9	2.9	0.5	2.3	-0.9	1.0
NIGERIA	12.4	10.8	12.2	8.5	8.0	8.0
SENEGAL	1.2	3.4	1.4	0.7	-1.1	1.0
SIERRA LEONE	17.1	16.0	13.3	10.4	7.2	7.2
TOGO	1.4	3.6	2.6	1.8	0.2	-0.5
UEMOA	1.4	3.9	2.4	1.5	-0.1	0.8
WAMZ	12.3	10.8	12.0	8.8	8.6	8.6
ECOWAS	10.7	9.8	10.6	7.8	7.4	7.5
Number of Countries that Met the Target	11	12	12	12	14	14

Sources: National Authorities; WAMA * Estimates ** Projections

1.2.1.3. Central Bank Financing of Budget Deficit: lower than or equal to 10% of the previous year's tax revenue

Reliance on Central Bank financing of budget deficit is becoming increasingly seldom in ECOWAS. Thus, in 2014, only three (3) countries resorted to this financing, with The Gambia and Ghana exceeding the maximum threshold of 10% of previous year's tax revenue. Based on projections, all countries are expected to meet this required community target in 2015.

Table 3.6: Central Bank Financing of Budget Deficit \leq 10% of Previous Year's Tax Revenue

	2010	2011	2012	2013	2014*	2015**
BENIN	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
CAPE – VERDE	0.0	0.0	0.0	0.0	0.0	0.0
COTE D'IVOIRE	0.0	0.0	0.0	0.0	0.0	0.0
THE GAMBIA	14.9	12.6	0.4	0.0	41.1	0.0
GHANA	0.0	11.9	21.6	9.3	11.1	5.0
GUINEA	91.0	0.0	0.0	0.0	0.0	0.0
GUINEA-BISSAU	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
MALI	0.0	0.0	0.0	0.0	0.0	0.0
NIGER	0.0	0.0	0.0	0.0	0.0	0.0
NIGERIA	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

SIERRA LEONE	37.6	1.1	0.0	0.0	7.6	0.0
TOGO	0.0	0.0	0.0	0.0	0.0	0.0
UEMOA	0.0	0.0	0.0	0.0	0.0	0.0
WAMZ	1.3	1.0	1.8	0.8	1.0	0.4
ECOWAS	1.1	0.9	1.5	0.7	0.9	0.4
Number of Countries that Met the Target	12	13	14	15	13	15

Sources: National Authorities; WAMA * Estimates ** Projections

1.2.1.4. Gross External Reserves \geq 3 Months Imports Cover

With the new threshold set at three months of imports cover, the performance of member countries vis-a-vis this criterion improved considerably. Thus, all countries with the exception of Sierra Leone met the standard in 2014. Projections indicate a slight deterioration, with one additional country (Liberia) likely to miss the community target in 2015.

Table 3.7: Gross External Reserves (in Months of Imports Cover)

	2010	2011	2012	2013	2014*	2015**
CAPE – VERDE	4.2	3.2	4.0	4.9	5.4	5.9
THE GAMBIA	6.8	6.1	4.8	4.6	3.7	3.0
GHANA	3.7	3.2	3.4	3.6	4.2	3.0
GUINEA	0.4	3.8	2.4	3.0	3.1	2.0
LIBERIA	4.4	3.3	2.2	2.2	3.0	2.8
NIGERIA	7.8	6.3	8.5	10.8	7.4	7.4
SIERRA LEONE	3.6	1.8	2.2	2.1	2.8	3.3
UEMOA (8 countries)	5.5	7.1	5.6	4.7	4.8	4.8
WAMZ	7.3	6.0	7.9	10.0	7.0	6.9
ECOWAS	7.1	6.1	7.6	9.3	6.7	6.6
Number of Countries that Met the Target	14	14	12	13	14	13

Sources: National Authorities; WAMA * Estimates ** Projections

1.2.2. Secondary Criteria

1.2.2.1. Nominal Exchange Rate Stability (\pm 10%)

As was the case in recent years, the nominal exchange rate of ECOWAS currencies remained relatively stable in 2014. As a result, thirteen (13) countries met the required target in 2014, against fourteen (14) in the preceding year. No improvement is expected for the year 2015. Projections indicate that The Gambia and Ghana's currencies would continue to fluctuate within a target band above 10% against the WAUA.

Table 3.8: Nominal Exchange Rate Stability

	2010	2011	2012	2013	2014*	2015**
BENIN	-3.9	1.4	-4.8	4.1	0.1	-8.5
BURKINA FASO	-3.9	1.4	-4.8	4.1	0.1	-8.5
CAPE – VERDE	-3.9	1.4	-4.8	4.1	0.1	-8.5
COTE D'IVOIRE	-3.9	1.4	-4.8	4.1	0.1	-8.5

THE GAMBIA	-4.2	-4.5	-4.5	-10.3	-16.5	-16.5
GHANA	0.1	-8.7	-14.4	-7.4	-31.5	-26.3
GUINEA	-15.4	-17.0	-2.5	2.1	-1.5	-1.5
GUINEA-BISSAU	-3.9	1.4	-4.8	4.1	0.1	-8.5
LIBERIA	-3.3	-4.4	1.3	-4.1	-9.0	-9.0
MALI	-3.9	1.4	-4.8	4.1	0.1	-8.5
NIGER	-3.9	1.4	-4.8	4.1	0.1	-8.5
NIGERIA	0.8	-6.0	0.7	2.1	-1.9	2.1
SENEGAL	-3.9	1.4	-4.8	4.1	0.1	-8.5
SIERRA LEONE	-12.4	-11.8	3.3	1.1	-4.0	-4.0
TOGO	-3.9	1.4	-4.8	4.1	0.1	-8.5
UEMOA	-3.9	1.4	-4.8	4.1	0.1	-8.5
WAMZ	0.4	-6.4	-0.6	1.3	-4.5	-0.4
ECOWAS	-0.2	-5.3	-1.2	1.7	-3.8	-1.6
Number of Countries that Met the Target	13	13	14	14	13	13

Sources: National Authorities; WAMA * Estimates ** Projections

1.2.2.2. Public Debt/GDP ($\leq 70\%$)

The public debt of most ECOWAS countries reflected a sustainable profile due to cancellations enjoyed by these countries under various debt-related initiatives. Thus, since 2012, only Cape-Verde and The Gambia have been missing with the target of 70.0% of GDP set by the Community. However, the accumulation of new debt in the Community is observably growing at a fast pace. During the review year, all countries experienced an increase in the ratio of public debt to GDP, with the most significant recorded by Cape-Verde (+12.4%), Ghana (+12.4%) and The Gambia (+11.0%).

Table 3.9: Public Debt/GDP

	2010	2011	2012	2013	2014*	2015**
BENIN	33.8	35.7	32.0	30.9	36.5	25.3
BURKINA FASO	28.6	31.4	28.0	28.2	30.0	28.9
CAPE – VERDE	66.4	79.4	90.4	101.6	114.0	98.4
COTE D'IVOIRE	60.2	65.8	31.6	32.0	34.0	44.6
THE GAMBIA	69.4	69.1	75.8	85.4	96.4	75.0
GHANA	38.5	39.0	46.9	51.7	64.1	60.0
GUINEA	83.5	79.4	37.2	37.8	38.6	38.6
GUINEA-BISSAU	167.7	56.5	49.8	57.6	64.8	63.0
LIBERIA	40.4	33.3	32.0	29.9	37.3	37.3
MALI	29.2	29.1	29.3	31.4	34.4	37.7
NIGER	24.2	18.6	22.5	23.8	24.4	24.4
NIGERIA	9.4	10.2	10.4	12.0	12.7	10.5
SENEGAL	34.9	34.3	42.9	46.7	53.4	49.9
SIERRA LEONE	40.7	38.6	38.0	28.4	36.2	36.1
TOGO	46.7	47.1	45.6	44.3	45.9	34.7
UEMOA	42.6	43.1	33.0	34.1	37.3	38.8
WAMZ	13.1	13.8	14.1	15.9	17.6	15.3
ECOWAS	17.4	18.1	17.0	18.7	20.7	18.8
Number of Countries that Met the Target	13	13	13	13	13	13

Sources: National Authorities; WAMA * Estimates ** Projections