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English Version

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## **STATUS OF MACROECONOMIC CONVERGENCE**

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**2015**

## 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. Macroeconomic convergence focuses on price stability, low budget deficit, restrictions on central bank budget deficit financing and maintenance of adequate levels of gross external reserves.

The evaluation mechanism of convergence was initially revised in June 2012 and further revised in May 2015 by the Authority of ECOWAS Heads of State and Government. In May 2015, the total number of convergence criteria, which was eleven (11), was rationalized to six (6) criteria, comprising four (4) primary criteria and two (2) secondary criteria, including changes in some benchmarks.

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 GDP<sup>1</sup>;
2. Average annual inflation rate: less than 10%<sup>2</sup> (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 imports<sup>3</sup>.

### Secondary Criteria<sup>4</sup>

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

### 3.1 Overview of Macroeconomic Convergence

In 2015, performance loosened slightly especially in the areas of budget deficit, gross external reserves, central bank financing of the deficit and public debt. However, the macroeconomic convergence profile remained satisfactory for all the primary and secondary criteria with the exception of budget deficit criterion which was met by only five countries. The weak performance under the budget deficit criterion was mainly due to low tax revenue and high recurrent expenditures especially public sector wage bill, subsidies and transfers.

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

2The 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.

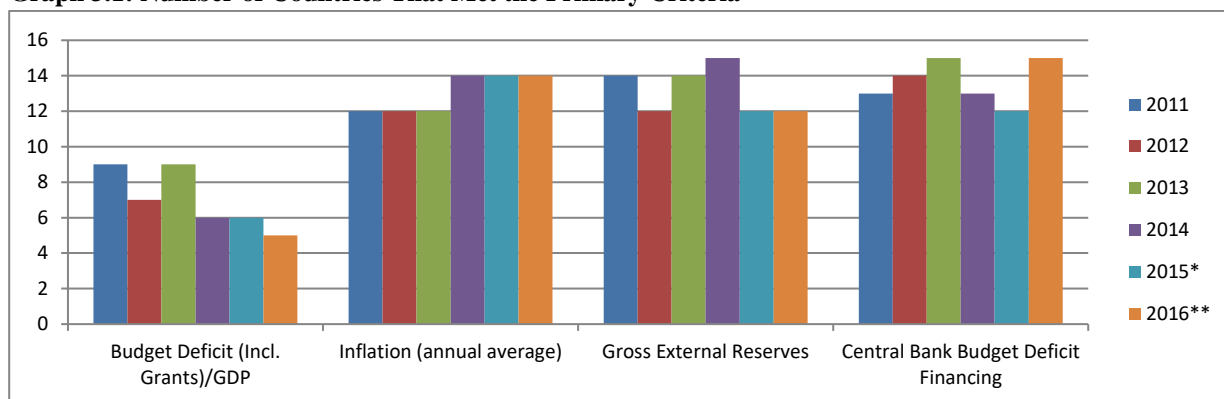
**Table 3.1: Number of Countries that Met the Convergence Criteria in ECOWAS**

	2012	2013	2014	2015	2016**
<b>Primary Criteria</b>					
Budget Deficit (Incl. Grants)/GDP	7	9	7	5	5
Inflation (annual average)	12	12	14	14	14
Gross External Reserves	12	14	15	12	12
Central Bank Budget Deficit Financing	14	15	13	12	14
<b>Secondary Criteria</b>					
Nominal Exchange Rate	13	13	13	12	12
Public Debt/GDP	14	14	13	13	13

Source: National Authorities; WAMA \*\*Projections

With the exception of the criterion on inflation which was met by 14 countries, performance under the primary criteria worsened relative to 2014. However, twelve (12) countries satisfied the target on gross external reserves during the review year against fifteen (15) in 2014. Similarly, one (1) additional country exceeded the maximum benchmark relating to Central Bank financing of budget deficit.

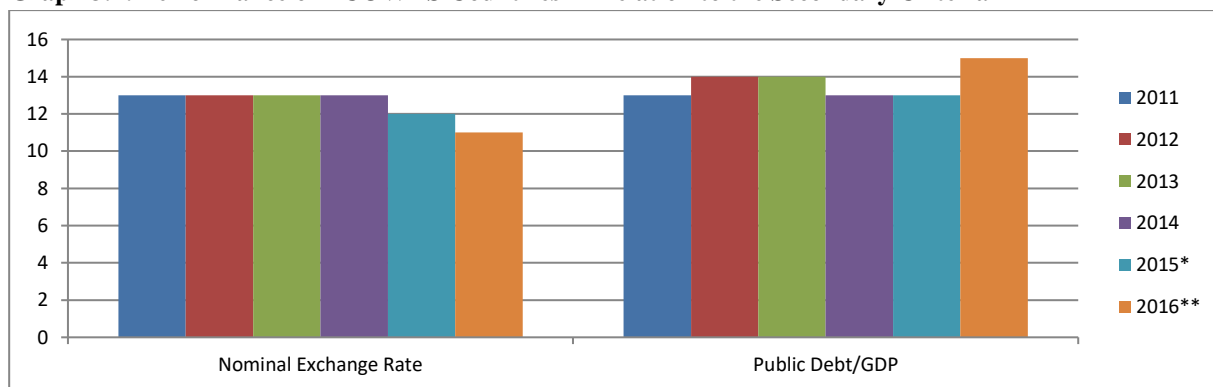
**Graph 3.1: Number of Countries That Met the Primary Criteria**



Sources: National Authorities; WAMA \* Estimates \*\* Projections

Regarding the secondary criteria, the same level of performance was achieved with respect to the criterion on nominal exchange rate stability with a total of thirteen (13) countries having met the prescribed benchmark. Conversely, twelve (12) countries complied with the target on public debt in 2015 against thirteen (13) in the preceding year.

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



Sources: National Authorities; WAMA \* Estimates \*\* Projections

On individual country basis, the analysis shows that four (04) countries (Burkina Faso, Côte d'Ivoire, Mali and Nigeria) met all the primary criteria in 2015 against seven (07) in the preceding year. Côte d'Ivoire, Mali and Nigeria are the only countries that have sustained their performance on the primary convergence criteria in the past three years (2013-2015).

**Table 3.2: Number of Primary Criteria met by Country**

	2012	2013	2014	2015	2016**
BENIN	4	4	4	3	3
BURKINA FASO	3	3	4	4	3
CABO VERDE	3	3	3	3	3
COTE D'IVOIRE	3	4	4	4	3
THE GAMBIA	3	3	2	1	1
GHANA	2	2	1	2	2
GUINEA	2	3	3	1	3
GUINEA-BISSAU	4	4	4	3	4
LIBERIA	3	4	4	3	3
MALI	4	4	4	4	3
NIGER	4	4	3	3	3
NIGERIA	3	4	4	4	4
SENEGAL	3	3	3	3	3
SIERRA LEONE	1	2	3	2	3
TOGO	3	3	3	3	4
<b>No. of Countries that met all the Primary Criteria</b>	<b>4</b>	<b>7</b>	<b>7</b>	<b>4</b>	<b>3</b>

Sources: National Authorities; WAMA \*\* Projections

Regarding the overall performance of member countries under the macroeconomic convergence criteria, only three (03) countries, namely Burkina Faso, Côte d'Ivoire and Mali, complied with all the six (6) prescribed benchmarks. These countries were followed by Benin, Guinea Bissau, Liberia, Niger, Nigeria, Senegal and Togo, which met five (5) targets each. Conversely, the lowest performance was recorded by The Gambia and Ghana which achieved only two (2) targets each similar to the performance in 2014. Compared to 2014, Guinea missed two additional targets while Guinea Bissau, Liberia, Nigeria and Sierra Leone missed only one. Over the past three years (2013-2015), Côte d'Ivoire and Mali have consistently complied with all the ECOWAS convergence criteria.

**Table 3.3: Total Number of Convergence Criteria Met Per Country**

	2012	2013	2014	2015	2016**
BENIN	6	6	6	5	5
BURKINA FASO	5	5	6	6	5
CABO VERDE	4	4	4	4	4
COTE D'IVOIRE	5	6	6	6	5
THE GAMBIA	4	3	2	2	2
GHANA	3	4	2	2	4
GUINEA	4	5	5	3	4
GUINEA-BISSAU	6	6	6	5	5
LIBERIA	5	6	6	5	5
MALI	6	6	6	6	5
NIGER	6	6	5	5	5
NIGERIA	5	6	6	5	6
SENEGAL	5	5	5	5	5
SIERRA LEONE	3	4	5	4	4
TOGO	5	5	5	5	6
<b>No. of Countries that met all the Convergence Criteria</b>	<b>4</b>	<b>7</b>	<b>7</b>	<b>3</b>	<b>2</b>

Sources: National Authorities; WAMA \*\* Projections

## 3.2 Analysis of Performance by Criteria

### 3.2.1 Primary Criteria

#### 3.2.1.1 Budget Deficit (Including Grants)/GDP ≤ 3%

In 2015, performance under this criterion deteriorated slightly with five countries (Burkina Faso, Côte d'Ivoire, Liberia, Mali and Nigeria) meeting the prescribed benchmark. The persistent challenges in meeting this criterion is mainly due to low tax revenue, decline in global commodity prices and high recurrent expenditure. In addition, the adverse economic effects of the Ebola outbreak contributed to poor performance in the region, especially in Guinea and Sierra Leone. Liberia, Mali and Nigeria have consistently complied with this criterion since 2012.

During the review period, ten (10) countries experienced deterioration in budget deficits. The highest increase in the deficit was recorded by Benin and Guinea, which organized presidential elections during the review year. In contrast, the other countries especially Cabo Verde and Ghana registered an improvement in budget deficits.

At the regional levels, the estimates showed that WAMZ and ECOWAS met the required target in 2015, mainly reflecting performance in Nigeria. For 2016, projections indicate that performance under this criterion would likely remain unchanged.

**Table 3.4: Budget Deficit/GDP**

	2012	2013	2014	2015*	2016**
BENIN	0.4	2.6	1.9	7.9	5.4
BURKINA FASO	3.1	3.5	1.8	2.0	3.1
CABO VERDE	10.3	8.9	7.3	3.8	4.7
COTE D'IVOIRE	3.1	2.2	2.2	2.9	3.8
THE GAMBIA	4.6	8.7	5.8	6.6	7.5
GHANA	5.7	8.6	6.4	4.7	5.3
GUINEA	1.1	1.8	3.8	9.0	1.6
GUINEA-BISSAU	2.6	1.8	2.9	6.3	1.4
LIBERIA	-3.8	-0.5	-0.2	-1.6	0.0
MALI	1.1	2.4	2.9	1.8	3.9
NIGER	1.1	2.6	5.4	9.0	6.6
NIGERIA	1.1	1.7	0.9	1.6	1.6
SENEGAL	5.8	5.5	5.1	4.8	4.3
SIERRA LEONE	5.5	1.5	3.3	4.3	5.2
TOGO	5.8	4.7	3.4	6.7	1.6
<b>UEMOA</b>	<b>3.0</b>	<b>3.2</b>	<b>3.3</b>	<b>4.2</b>	<b>3.9</b>
<b>WAMZ</b>	<b>1.5</b>	<b>2.3</b>	<b>1.4</b>	<b>2.0</b>	<b>2.0</b>
<b>ECOWAS</b>	<b>1.7</b>	<b>2.4</b>	<b>1.7</b>	<b>2.3</b>	<b>2.2</b>
<b>Number of Countries that met the target</b>	<b>7</b>	<b>9</b>	<b>7</b>	<b>5</b>	<b>5</b>

Sources: National Authorities; WAMA \* Estimates \*\* Projections

#### 3.2.1.2 Annual Average Inflation Rate ≤ 10%

With the exception of Ghana, all the countries met the prescribed target on inflation in 2015, similar to the performance in the preceding year.. However, inflation rate of ECOWAS rose from 7.4% in 2014 to 8.0% in 2015 due mainly to increased inflationary pressures in all member countries, except in Guinea and Liberia. The UEMOA countries which experienced deflation in 2014, recorded mild inflationary pressures in 2015.

At the regional level, the analysis further showed that UEMOA, WAMZ and ECOWAS met the single-digit inflation target. Performance in this criterion is expected to be sustained 2016.

**Table 3.5: Annual Average Inflation (in %)**

	2012	2013	2014	2015*	2016**
BENIN	6.7	1.0	-1.1	0.3	2.7
BURKINA FASO	3.8	0.5	-0.3	0.9	3.0
CABO VERDE	2.5	1.5	-0.2	0.1	-0.9
COTE D'IVOIRE	1.3	2.6	0.5	1.2	3.0
THE GAMBIA	4.3	5.7	5.9	6.8	6.1
GHANA	9.2	11.7	15.5	17.1	17.1
GUINEA	15.2	11.9	9.7	8.2	8.2
GUINEA-BISSAU	2.1	0.7	-1.0	1.5	3.0
LIBERIA	6.9	7.6	9.9	8.0	8.0
MALI	5.3	-0.6	0.9	1.4	1.5
NIGER	0.5	2.3	-0.9	1.0	3.0
NIGERIA	12.2	8.5	8.0	8.5	9.4
SENEGAL	1.4	0.7	-1.1	0.1	1.3
SIERRA LEONE	13.3	10.4	7.2	8.1	9.4
TOGO	2.6	1.8	0.2	1.8	3.0
<b>UEMOA</b>	<b>2.4</b>	<b>1.5</b>	<b>-0.1</b>	<b>1.0</b>	<b>3.0</b>
<b>WAMZ</b>	<b>12.0</b>	<b>8.8</b>	<b>8.6</b>	<b>9.2</b>	<b>10.0</b>
<b>ECOWAS</b>	<b>10.6</b>	<b>7.8</b>	<b>7.4</b>	<b>8.0</b>	<b>9.0</b>
<b>Number of Countries that met the target</b>	<b>12</b>	<b>12</b>	<b>14</b>	<b>14</b>	<b>14</b>

Sources: National Authorities; WAMA \* Estimates \*\* Projections

### 3.2.1.3 Central Bank Financing of Budget Deficit: Less than or equal to 10% of the previous year's tax revenue

Central Bank financing of the budget deficit worsened as twelve (12) countries met this target in 2015 compared to thirteen (13) in the preceding year. The Gambia, Ghana Guinea and Sierra Leone have been inconsistent in meeting this criterion.

**Table 3.6: Central Bank Financing of Budget Deficit as a % of Previous Year's Tax Revenue**

	2012	2013	2014	2015	2016**
BENIN	0.0	0.0	0.0	0.0	0.0
BURKINA FASO	0.0	0.0	0.0	0.0	0.0
CABO VERDE	0.0	0.0	0.0	0.0	0.0
COTE D'IVOIRE	0.0	0.0	0.0	0.0	0.0
THE GAMBIA	0.4	0.0	41.1	26.9	29.7
GHANA	21.6	9.3	11.1	0.0	0.0
GUINEA	0.0	0.0	0.0	19.9	0.0
GUINEA BISSAU	0.0	0.0	0.0	0.0	0.0
LIBERIA	0.0	0.0	0.0	0.0	0.0
MALI	0.0	0.0	0.0	0.0	0.0
NIGER	0.0	0.0	0.0	0.0	0.0
NIGERIA	0.0	0.0	0.0	0.0	0.0
SENEGAL	0.0	0.0	0.0	0.0	0.0
SIERRA LEONE	0.0	0.0	7.6	14.1	0.0
TOGO	0.0	0.0	0.0	0.0	0.0
<b>UEMOA</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>WAMZ</b>	<b>1.8</b>	<b>0.8</b>	<b>1.0</b>	<b>0.4</b>	<b>0.1</b>
<b>ECOWAS</b>	<b>1.5</b>	<b>0.7</b>	<b>0.9</b>	<b>0.3</b>	<b>0.0</b>
<b>Number of Countries that met the target</b>	<b>14</b>	<b>15</b>	<b>13</b>	<b>12</b>	<b>14</b>

Sources: National Authorities; WAMA \*\* Projections

### 3.2.1.4 Gross External Reserves $\geq$ 3 Months Imports Cover

In 2015, a total of twelve (12) countries met the standard on gross external reserves against fifteen (15) in the preceding year. During the period under review, five (5) Central Banks (The Gambia, Ghana, Guinea, Liberia and Cabo Verde) registered depletion in gross external reserves. This development was driven by declining exports and foreign currency inflows. Projections indicate that the level of performance would be largely maintained in 2016.

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

	2012	2013	2014	2015	2016**
CABO VERDE	4.0	4.5	5.9	5.8	6.2
THE GAMBIA	4.8	4.6	3.7	2.5	2.1
GHANA	3.4	3.6	4.2	3.6	3.0
GUINEA	2.4	3.0	3.1	2.1	2.0
LIBERIA	2.8	3.1	3.0	2.7	2.8
NIGERIA	6.8	8.9	6.0	6.5	6.5
SIERRA LEONE	2.2	2.0	3.6	3.8	3.6
<b>UEMOA (8 COUNTRIES)</b>	<b>5.6</b>	<b>4.7</b>	<b>5.0</b>	<b>5.4</b>	<b>5.2</b>
<b>WAMZ</b>	<b>6.4</b>	<b>8.3</b>	<b>5.8</b>	<b>6.2</b>	<b>6.1</b>
<b>ECOWAS</b>	<b>6.3</b>	<b>7.8</b>	<b>5.7</b>	<b>6.1</b>	<b>6.0</b>
<b>Number of Countries that met the target</b>	<b>12</b>	<b>14</b>	<b>15</b>	<b>12</b>	<b>12</b>

Sources: National Authorities; WAMA \*\* Projections

### 3.2.2 Secondary Criteria

#### 3.2.2.1 Nominal Exchange Rate Stability ( $\pm$ 10%)

As was the case in recent years, the nominal exchange rate of ECOWAS currencies remained relatively stable in 2015. As a result, thirteen (13) countries met the required target, implying the same level of performance as in the preceding year. For 2016, projections indicate that the Guinea franc and Leone would fluctuate outside the target band of  $\pm$ 10% in relation to the WAUA.

**Table 3.8: Nominal Exchange Rate Stability<sup>5</sup>**

	2012	2013	2014	2015	2016**
CABO VERDE	-4.0	4.1	0.1	-9.3	-8.5
THE GAMBIA	-4.5	-10.3	-16.5	4.9	4.9
GHANA	-14.4	-7.4	-31.5	-15.7	-3.8
GUINEA	-2.5	2.1	-1.5	2.2	-12.2
LIBERIA	1.3	-4.1	-9.0	7.2	-7.2
NIGERIA	0.7	2.1	-1.9	-11.9	-2.1
SIERRA LEONE	3.3	1.1	-4.0	-3.1	-15.2
<b>UEMOA (8 COUNTRIES)</b>	<b>-4.8</b>	<b>4.1</b>	<b>0.1</b>	<b>-9.3</b>	<b>0.4</b>
<b>WAMZ</b>	<b>-0.6</b>	<b>1.3</b>	<b>-4.5</b>	<b>-11.9</b>	<b>-2.4</b>
<b>ECOWAS</b>	<b>-1.2</b>	<b>1.7</b>	<b>-3.8</b>	<b>-11.5</b>	<b>-2.1</b>
<b>Number of Countries that met the target</b>	<b>14</b>	<b>14</b>	<b>13</b>	<b>13</b>	<b>13</b>

Sources: National Authorities; WAMA \*\* Projections

#### 3.2.2.2 Public Debt/GDP ( $\leq$ 70%)

In 2015, the public debt position of most ECOWAS countries remained within the prescribed target of 70.0 percent of GDP. Thus, all the countries, with the exception of Cabo Verde, The Gambia and Ghana, complied with the required benchmark. However, the accumulation of new debt in the Community is observably growing at a fast pace. Compared to 2014, thirteen (13) countries experienced an increase in the debt to GDP ratio, with the most significant registered by Benin,

<sup>5</sup> Table shows average exchange rate movements against WAUA

Ghana, Niger and Sierra Leone. Forecasts indicate that overall performance would remain the same in 2016; Guinea Bissau is likely to miss this target while Ghana is expected to observe this criterion in 2016.

**Table 3.9: Public Debt/GDP**

	<b>2012</b>	<b>2013</b>	<b>2014</b>	<b>2015*</b>	<b>2016**</b>
BENIN	26.8	26.0	30.9	41.5	33.8
BURKINA FASO	28.0	28.2	30.4	32.3	31.8
CABO VERDE	90.4	101.7	114.0	117.1	129.1
COTE D'IVOIRE	45.8	43.4	46.2	45.1	43.2
THE GAMBIA	75.8	84.9	94.1	100.8	100.7
GHANA	46.9	51.7	59.3	71.6	63.6
GUINEA	37.2	37.7	38.2	46.1	47.2
GUINEA-BISSAU	56.0	58.5	62.9	68.2	71.9
LIBERIA	34.1	30.5	38.2	32.0	33.0
MALI	24.3	26.4	27.3	31.3	30.3
NIGER	21.2	23.1	25.6	36.2	33.1
NIGERIA	9.0	10.0	10.5	13.2	11.9
SENEGAL	42.4	45.2	53.4	57.1	56.8
SIERRA LEONE	33.1	28.5	35.3	45.8	48.6
TOGO	46.0	45.3	52.7	57.3	59.3
<b>UEMOA</b>	<b>36.3</b>	<b>36.4</b>	<b>40.3</b>	<b>43.5</b>	<b>41.8</b>
<b>WAMZ</b>	<b>12.8</b>	<b>14.1</b>	<b>15.3</b>	<b>18.9</b>	<b>17.0</b>
<b>ECOWAS</b>	<b>16.4</b>	<b>17.5</b>	<b>19.0</b>	<b>22.6</b>	<b>20.8</b>
<b>Number of Countries that met the target</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>12</b>	<b>12</b>

Sources: National Authorities; WAMA \* Estimates \*\* Projections