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STATUS OF MACROECONOMIC CONVERGENCE

2016

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

This section analyses the performance of the various ECOWAS member countries with respect to the following rationalized macroeconomic convergence criteria adopted by the Authority of ECOWAS Heads of State and Governments in 2015:

Primary Criteria

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

Secondary Criteria⁴

1. Nominal exchange rate: stable (+/- 10%);
2. Ratio of total public debt to GDP: not more than 70%.

1.1. Overview of Macroeconomic Convergence

In 2016, the macroeconomic convergence profile deteriorated relative to the outturn in 2015, especially with respect to the criteria on budget deficit, inflation, central bank financing and nominal exchange rate stability. However, with the exception of the criterion on budget deficit, the performance of the region remained quite encouraging.

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

	2012	2013	2014	2015	2016	2017**
Primary Criteria						
Budget Deficit (Incl. Grants)/GDP	7	9	7	5	4	5
Inflation (annual average)	12	12	14	14	11	12
Gross External Reserves	12	15	14	12	13	13
Central Bank Budget Deficit Financing	14	15	13	13	12	14
Secondary Criteria						
Nominal Exchange Rate	14	14	13	13	12	14
Public Debt/GDP	13	13	13	11	11	11

Sources: National Authorities; WAMA **Projections

Under the primary criteria, compliance with the budget deficit criterion remained the most difficult to satisfy as the fiscal position in most economies continued to worsen due mainly to low revenue

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.

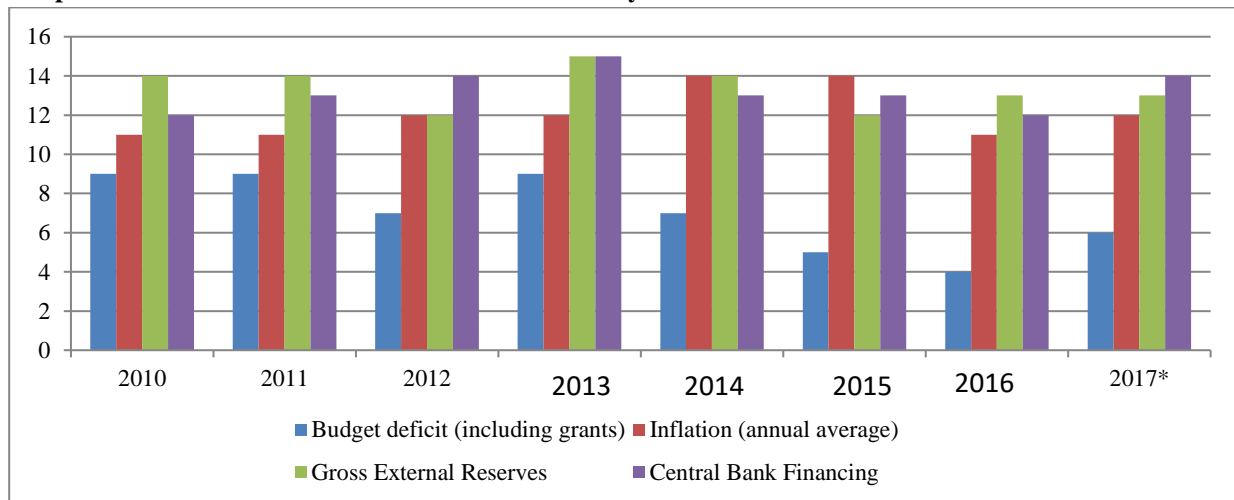
mobilization and expenditure over-runs. Moreover, for natural resource intensive economies such as Ghana, Nigeria and Sierra Leone, receipts from export commodities remained weak in the face of subdued global prices. Increasing recurrent expenditures, especially on interest payments, wages and salaries as well as transfers and subsidies significantly constrained budget execution. Thus, the target on budget deficit was met by four (4) countries in 2016 against five (5) countries in the preceding year.

Containing inflationary pressures within the single digit range was challenging, especially in the WAMZ countries as half of member countries missed the criterion in 2016, driven largely by the pass-through effects of exchange rate depreciation of domestic currencies. Overall, twelve (12) countries complied with the inflation criterion, compared to fourteen (14) in the preceding year.

With regards to the target on central bank financing of the budget deficit, one additional country missed the prescribed benchmark, thereby reducing the countries to twelve (12). This development was underpinned by fiscal pressures emanating from domestic condition associated with elections and infrastructure deficit, the number of countries relying on central bank financing of the budget deficit increased in 2016.

Regarding gross external reserves, performance improved in 2016 compared to that in the preceding year. Thus, thirteen (13) countries met the criterion on gross external reserves in 2016, against twelve (12) in 2015, reflecting relative improvements in the current account and foreign exchange inflows during the period.

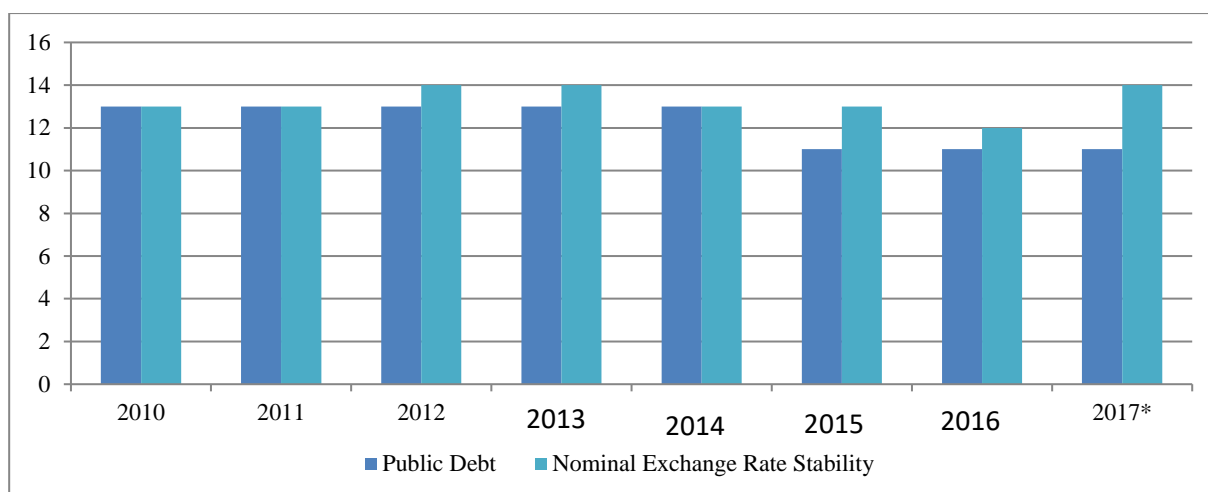
Graph 3.1: Number of Countries That Met the Primary Criteria



Sources: National Authorities; WAMA * Estimates ** Projections

With regards to the secondary criteria, overall performance deteriorated slightly. One additional country missed the target on nominal exchange stability, thus bringing the total number of countries meeting the criterion down to twelve (12) in 2016, as the domestic currency in some countries (Guinea, Liberia, Nigeria and Sierra Leone) experienced wider fluctuation margins driven mainly by foreign exchange shortages. However, the number of countries meeting the criterion on public debt remained the same (11), although public debt position continued its upward trend in most countries, with debt levels in Cabo Verde and The Gambia were record high.

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



Sources: National Authorities; WAMA ** Projections

On a country basis, only Liberia and Togo met all the four primary criteria in 2016; this compared unfavourably with four countries (Burkina Faso, Cote d'Ivoire, Mali and Nigeria) meeting this target in 2015. All previous performers failed to meet all the primary criteria in 2016.

Table 3.2: Number of Primary Criteria met by Country

	2012	2013	2014	2015	2016	2017**
BENIN	4	4	4	3	3	3
BURKINA FASO	3	3	4	4	3	3
CABO VERDE	3	3	3	3	3	3
COTE D'IVOIRE	3	4	4	4	3	3
THE GAMBIA	3	3	2	1	1	1
GHANA	2	2	1	2	1	2
GUINEA	2	3	3	1	3	3
GUINEA-BISSAU	4	4	4	3	3	4
LIBERIA	3	4	3	3	3	4
MALI	4	4	4	4	3	3
NIGER	4	4	3	3	3	3
NIGERIA	3	4	4	4	3	3
SENEGAL	3	3	3	3	3	3
SIERRA LEONE	1	3	3	3	1	2
TOGO	3	3	3	3	4	4
No. of Countries that met all the Primary Criteria	04	07	06	04	01	03

Sources: National Authorities; WAMA * Projections

Considering the overall (primary and secondary criteria) macroeconomic convergence performance, only Liberia was able to meet all the primary and secondary criteria in 2016 compared to a situation where in 2015, three (03) countries (Burkina Faso, Cote d'Ivoire and Mali) satisfied all the various criteria. All the UEMOA countries and Liberia attained five (5) criteria each in 2016. In contrast, the least performers in 2016 were The Gambia, Ghana and Sierra Leone, meeting only two (2) criteria.

Table 3.3: Total Number of Convergence Criteria Met Per Country

	2012	2013	2014	2015	2016	2017**
BENIN	6	6	6	5	5	5
BURKINA FASO	5	5	6	6	5	5
CABO VERDE	4	4	4	4	4	4
COTE D'IVOIRE	5	6	6	6	5	5
THE GAMBIA	4	3	2	2	2	2
GHANA	3	3	2	2	2	4
GUINEA	4	5	5	3	4	5
GUINEA-BISSAU	6	6	6	5	5	6
LIBERIA	5	6	5	5	5	6
MALI	6	6	6	6	5	5
NIGER	6	6	5	5	5	5
NIGERIA	5	6	6	5	4	4
SENEGAL	5	5	5	5	5	5
SIERRA LEONE	3	5	5	5	2	4
TOGO	5	5	5	4	5	5
No. of Countries that met all the Convergence Criteria	04	07	06	03	00	02

Sources: National Authorities; WAMA * Estimates ** Projections

1.2. Analysis of Performance by Criteria

1.2.1. Primary Criteria

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

Fiscal performance worsened in the Community as the criterion on budget deficit was met by 4 countries (Guinea, Liberia, Nigeria and Togo) in 2016 against 5 countries (Burkina Faso, Cote d'Ivoire, Liberia, Mali and Nigeria) in 2015. Liberia and Nigeria are the only countries to have consistently met this target in the last five years.

Fiscal performance improved in eight (8) countries in 2016, hence recording lower deficit. The best performing countries in this respect were Guinea, Benin and Togo. However, economies that witnessed worsening fiscal performance were Ghana, Sierra Leone and The Gambia.

Table 3.4: Budget Deficit/GDP

	2012	2013	2014	2015	2016	2017**
BENIN	0.4	2.6	1.9	7.9	3.9	12.5
BURKINA FASO	3.1	3.6	1.9	2.0	3.1	5.1
CABO VERDE	12.4	9.1	7.4	3.9	3.6	3.2
COTE D'IVOIRE	3.2	2.2	2.2	2.9	4.0	3.6
THE GAMBIA	4.6	8.7	6.1	6.3	9.5	7.5
GHANA	5.7	8.7	6.4	4.8	10.4	4.6
GUINEA	0.4	2.1	3.1	6.9	-0.2	0.2
GUINEA-BISSAU	2.5	1.8	3.0	7.9	4.0	1.5
LIBERIA	-7.5	0.5	0.2	1.6	-2.2	-2.2
MALI	1.1	2.4	2.9	1.8	4.3	4.1
NIGER	1.1	2.6	8.0	9.2	6.0	3.8
NIGERIA	2.5	1.7	0.9	1.7	2.2	1.6
SENEGAL	5.8	5.5	5.1	4.8	4.3	3.6
SIERRA LEONE	5.1	1.5	3.3	4.3	7.7	7.7
TOGO	5.8	4.4	3.2	6.2	2.0	3.0
UEMOA	3.1	3.2	3.3	4.2	4.0	4.7
WAMZ	2.7	2.3	1.4	2.0	2.9	1.9
ECOWAS	2.8	2.4	1.7	2.3	3.1	2.3
Number of Countries that met the target	7	9	7	5	4	5

Sources: National Authorities; WAMA ** Projections

At the sub regional level, the budget deficit in the WAMZ remained within the benchmark target. However, in the UEMOA, the deficit declined slightly, although missing the required target. In the ECOWAS region as a whole, the target was missed just marginally.

Initial projections are that the number of economies meeting this target would increase to five; Nigeria and Liberia would continue meet the required target. Both the WAMZ and ECOWAS would meet the target while fiscal performance would worsen beyond the target in the UEMOA sub-region.

1.2.1.2. Annual Average Inflation Rate \leq 10%

Economic activity was characterised by increased inflationary pressures in ECOWAS, although this masked the individual country price developments during the period. During 2016, three countries (Ghana, Nigeria and Sierra Leone) experienced high inflationary pressures, with the average inflation hovering above the single digit target. This performance compared adversely with situation in 2015 in which only Ghana missed the target.

Average inflation of the Community increased to 13.5 percent from 8.4 percent in the preceding year, hence missing the target. Similarly, the WAMZ region also missed the target as average inflation was 15.7 percent. However, inflation in the UEMOA zone remained subdued with average inflation falling to 0.3 percent in the review year, from 1.0 percent in 2015. Indications are that performance would be sustained as the same countries are expected to meet this target in 2017. ECOWAS and the WAMZ region would continue to miss this target, while the UEMOA zone is expected to sustain performance in this area.

Table 3.5: Annual Average Inflation (in %)

	2012	2013	2014	2015	2016	2017**
BENIN	6.7	1.0	-1.1	0.3	-0.8	1.0
BURKINA FASO	3.8	0.5	-0.3	1.0	-0.2	0.5
CABO VERDE	2.5	1.5	-0.2	0.1	-1.4	-0.6
COTE D'IVOIRE	1.3	2.6	0.5	1.3	0.7	1.5
THE GAMBIA	3.9	5.7	5.6	6.2	6.7	6.7
GHANA	9.2	11.7	15.5	17.1	17.5	11.2
GUINEA	15.2	11.9	9.7	8.2	8.2	8.2
GUINEA-BISSAU	2.1	0.7	-1.0	1.4	1.8	2.0
LIBERIA	6.8	7.8	9.9	7.9	8.8	9.7
MALI	5.3	-0.6	0.9	1.4	-1.1	0.2
NIGER	0.5	2.3	-0.9	1.0	0.2	1.0
NIGERIA	12.2	8.5	8.0	9.0	15.7	12.8
SENEGAL	1.4	0.7	-1.1	0.1	0.8	1.3
SIERRA LEONE	13.3	10.4	7.2	8.1	10.8	11.8
TOGO	2.6	1.8	0.2	1.8	0.9	1.2
UEMOA	2.4	1.5	-0.1	1.0	0.3	3.0
WAMZ	12.0	8.8	8.6	9.6	15.7	12.6
ECOWAS	10.6	7.8	7.4	8.4	13.5	11.2
Number of Countries that met the target	12	12	14	14	12	12

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

In 2016, three countries (The Gambia, Ghana and Sierra Leone) provided financing (including securitization) above the target. This compares unfavourably which the situation in 2015 when only The Gambia and Guinea missed the target. It must be noted that The Gambia continued to

miss this target for the third consecutive year. At the regional and sub-regional levels, central bank financing was adequately met.

Projections are that performance would improve as only one country is expected to miss this target in 2017. The ECOWAS region and the sub-regions of UEMOA and WAMZ are also expected to be safely within the limit.

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

	2012	2013	2014	2015	2016	2017**
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
CABO 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	0.4	0.0	41.1	26.9	29.7	16.3
GHANA	21.6	9.3	11.1	-2.4	10.1	0.0
GUINEA	0.0	0.0	0.0	19.9	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	-37.7	1.7	8.1	-2.2	33.4	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	1.5	0.8	1.0	0.1	1.1	0.0
ECOWAS	1.3	0.7	0.9	0.0	1.0	0.0
Number of Countries that met the target	14	15	13	13	12	14

Sources: National Authorities; WAMA ** Projections

1.2.1.4. Gross External Reserves \geq 3 Months Imports Cover

With regards to the criterion on gross external reserves, thirteen (13) countries met this target in 2016 against twelve (12) meeting this target in 2015. Despite the decline in commodity prices, six (6) member central Banks witnessed an expansion in their gross external reserves in months of imports cover, reflecting the improvement in their balance of payments. Performance is expected to remain largely unchanged in 2017 for countries, region and the various regions.

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

	2012	2013	2014	2015	2016	2017**
CABO VERDE	4.0	4.9	5.5	6.4	6.6	6.6
THE GAMBIA	4.8	4.6	3.7	2.5	2.4	2.4
GHANA	3.4	3.6	4.2	3.6	4.2	3.0
GUINEA	2.4	3.0	3.5	2.3	1.5	1.4
LIBERIA	2.8	3.1	2.5	2.3	3.3	3.2
NIGERIA	6.8	8.2	5.8	5.6	7.7	7.5
SIERRA LEONE	2.3	3.2	3.6	4.6	5.3	4.0
UEMOA (8 COUNTRIES)	5.3	4.7	5.0	5.1	4.4	5.2
WAMZ	6.4	7.7	5.6	5.4	7.3	7.0
ECOWAS	6.3	7.3	5.5	5.3	6.9	6.8
Number of Countries that met the target	12	15	14	12	13	13

Sources: National Authorities; WAMA ** Projections

1.2.2. Secondary Criteria

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

Variations in nominal exchange rates increased slightly in 2016 relative to the preceding year. The number of countries meeting this target declined to twelve (12) in 2016 compared to thirteen (13)

in 2015. In 2016 this target was missed by Guinea, Nigeria and Sierra Leone while Ghana and Nigeria missed the criteria in 2015. The Nigerian Naira as the most volatile currency in the past two years. The Gambian Dalasi was the most stable during the same period, although, the situation was influenced by the fixing of the currency for some part of the year.

In 2017, performance is expected to improve as only one country is forecasted to miss this secondary target.

Table 3.8: Nominal Exchange Rate Stability⁵

	2012	2013	2014	2015	2016	2017**
CABO VERDE	-4.8	4.1	0.1	-9.3	0.5	-0.2
THE GAMBIA	-4.5	-10.3	-16.5	4.9	-3.3	-5.0
GHANA	-14.4	-7.4	-31.5	-15.7	-4.2	-4.9
GUINEA	-2.5	2.1	-1.5	2.2	-16.4	-8.7
LIBERIA	1.3	-4.1	-9.0	7.2	-8.4	-6.2
NIGERIA	0.7	2.1	-1.9	-11.9	-23.5	-15.9
SIERRA LEONE	3.3	1.1	-4.0	-3.1	-19.1	-8.7
UEMOA (8 COUNTRIES)	-4.8	4.1	0.1	-9.3	0.5	-0.1
WAMZ	-0.6	1.3	-4.4	-11.9	-21.7	-14.8
ECOWAS	-1.2	1.7	-3.8	-11.5	-18.5	-12.7
Number of Countries that met the target	14	14	13	13	12	14

Sources: National Authorities; WAMA * Estimates ** Projections

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

Stock of public debt generally increased in 2016, however in terms of the number of countries meeting this target, performance remained unchanged compared to 2015. Four (04) countries, namely The Gambia, Cabo Verde Ghana and Togo had debt levels in excess of 70.0 percent of GDP in both 2015 and 2016. Public debt increased in eleven (11) countries although most were safely within the limit.

Preliminary forecast indicates that performance in terms of the number of countries meeting this target would remain unchanged at eleven (11) in 2017.

Table 3.9: Public Debt/GDP

	2012	2013	2014	2015	2016	2017*
BENIN	26.8	25.4	30.9	41.6	50.0	58.2
BURKINA FASO	28.0	28.6	30.8	32.7	34.2	34.9
CABO VERDE	91.1	100.9	115.0	126.1	130.7	130.7
COTE D'IVOIRE	45.8	43.4	46.2	45.1	41.8	41.8
THE GAMBIA	75.5	85.6	93.8	100.8	114.9	114.9
GHANA	47.8	51.7	66.9	71.9	70.2	70.0
GUINEA	29.8	30.6	31.5	36.9	35.8	35.8
GUINEA-BISSAU	56.0	58.5	62.9	48.0	45.2	42.3
LIBERIA	34.1	30.5	37.9	32.0	37.2	37.2
MALI	24.3	26.4	27.3	30.8	35.0	37.5
NIGER	21.2	23.1	25.6	36.2	40.6	44.4
NIGERIA	7.6	10.0	10.5	13.5	17.1	16.0
SENEGAL	42.4	45.2	53.4	57.1	59.5	58.3
SIERRA LEONE	33.2	28.5	35.3	45.4	55.1	55.1
TOGO	46.0	54.1	67.0	76.8	76.0	74.2
UEMOA	36.3	36.8	41.0	44.2	45.4	46.5
WAMZ	11.6	14.0	15.8	19.0	22.2	21.2
ECOWAS	15.3	17.5	19.6	22.9	25.8	25.1
Number of Countries that met the target	13	13	13	11	11	11

Sources: National Authorities; WAMA * Projections

⁵ Table shows average exchange rate movements against WAUA