STATUS OF MACROECONOMIC CONVERGENCE

2017

STATUS OF MACROECONOMIC CONVERGENCE IN 2017

The ECOWAS Monetary Cooperation Programme (EMCP) emphasizes the importance of convergence in ensuring macroeconomic stability prior to the launching of the ECOWAS Single Currency. The convergence criteria focus on price stability, low budget deficit, restrictions on central bank financing of the budget deficit and maintenance of adequate levels of gross external reserves. In addition, the benchmarks focus on debt sustainability and nominal exchange rate stability.

This section analyses the performance of ECOWAS Member States on the following rationalized macroeconomic convergence criteria adopted by the Authority of ECOWAS Heads of State and Governments in 2015:

Primary Criteria

- Ration of Budget deficit (commitment basis, including grants) to Gross Domestic Product (GDP): lower than or equal to 3Percent of GDP;
- Average annual inflation rate: less than 10 Percent in short term ad 5 percent as from 31st December 2019;
- Central Bank financing of Budget Deficit: less than or equal to 10Percent of previous year's tax revenue; and
- Gross external reserves: greater than or equal to three (3) months of imports cover.

Secondary Criteria

- Nominal exchange rate variation: (+/- 10Percent);
- Public debt to GDP ratio: less than or equal to 70Percent.

Overview of Macroeconomic Convergence

The macroeconomic convergence profile in 2017 was slightly better than the outturn in 2016 as improvements were recorded in two of the four primary criteria, one remained unchanged and one worsened during the review period.

With regards to the number of countries meeting the primary criteria in 2017, improvements were recorded in the areas of budget deficit and gross external reserves, while performance regarding central bank financing of the budget deficit remained unchanged and outturn on inflation slackened in 2017.

Under the secondary criteria, performance in 2017 improved with regards to the countries meeting the target on public debt while the outturn was unchanged with regards to the nominal exchange rate stability during the review period.

Table 1: *Number of Countries that Met the Convergence Criteria in ECOWAS*

CRITERIA	TARGET	2011	2012	2013	2014	2015	2016	2017	2018*
Primary Criteria									
Ratio of Budget deficit (including grants on commitment basis, including grants)	*≤3%*	*9*	*6*	*9*	*6*	*6*	*3*	*7*	*5*
Average annual inflation rate	*≤10%*	*12*	*12*	*12*	*14*	*14*	*12*	*11*	*11*
Central Bank financing of the Budget Deficit	*≥10%*	*12*	*13*	*14*	*13*	*12*	*13*	*12*	*15*
Gross external reserves	*≥3*	*14*	*13*	*13*	*14*	*12*	*13*	*14*	*14*
Secondary Criteria									
Nominal exchange rate variation	*±10%*	*13*	*14*	*14*	*13*	*13*	*12*	*12*	*13*
Ratio of Public debt to GDP	*≤70%*	*13*	*13*	*13*	*11*	*11*	*11*	*12*	*11*

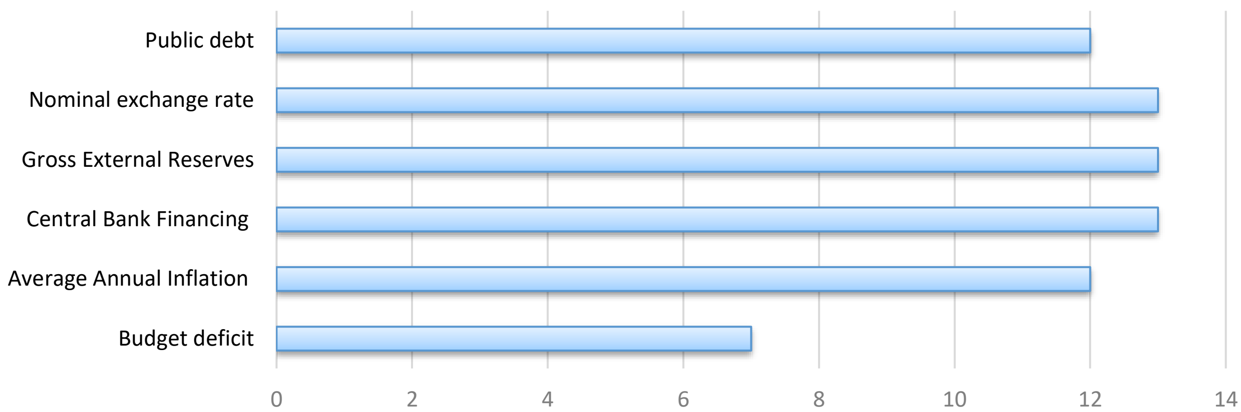
The criterion on budget deficit was met by seven (7) countries in 2017 compared to only three (3) in 2016. This performance was largely due to the continued fiscal consolidation efforts of Member States during the year.

With regards to the criterion on inflation, performance weakened slightly in 2017 as eleven countries (11) met this target compared to twelve (12) in the preceding year. This development was attributed to weakening inflationary pressures, especially those stemming from effects of currency depreciation, increased food and fuel prices.

The criterion on central bank financing of the budget deficit was widely met across the region in 2017. Thirteen (13) countries satisfied this target, same as the situation in 2016. Liberia and Sierra Leone were the only countries that missed the target on central bank financing in 2017.

Performance on gross external reserves recorded sustained improvement in 2017 as fourteen (14) countries met the criterion against thirteen (13) in 2016. This development emanated from favourable balance of payments and the reserve accretion efforts of the central banks.

Figure 1: **Number of Countries That Met the Primary Criteria**



	Budget deficit	*Average Annual Inflation*	*Central Bank Financing*	*Gross External Reserves*	*Nominal exchange rate*	*Public debt*
Average 2011 - 2017	*7*	*12*	*13*	*13*	*13*	*12*

Performance on the secondary macroeconomic convergence criteria remained satisfactory during the period under review. Despite the generally increasing trend in the level of public debt level in the region, twelve (12) countries met this target compared to eleven (11) in the previous year.

In terms of the number of countries meeting the criterion on nominal exchange rate stability, the outturn remained unchanged as twelve (12) countries met the criterion. In 2017, the domestic currencies of Liberia, Nigeria and Sierra Leone fluctuated beyond the required range. The Nigerian Naira was the most volatile currency in the last two years.

Table 2: Number of Primary Criteria met by Country

Countries	2013	2014	2015	2016	2017*	2018**
Benin	4	4	3	3	3	3
Burkina Faso	3	4	4	3	3	3
Cabo Verde	3	3	3	3	3	3
Cote d'Ivoire	4	4	4	3	3	3
The Gambia	3	2	1	1	3	3
Ghana	1	1	2	1	2	2
Guinea	3	3	1	3	3	3
Guinea-Bissau	4	4	4	3	4	4
Liberia	3	3	3	4	3	3
Mali	4	3	4	3	4	4
Niger	4	3	3	3	3	3
Nigeria	4	4	4	3	3	3
Senegal	3	3	3	3	4	4
Sierra Leone	2	3	3	1	1	1
Togo	3	3	3	3	4	4
No. of Countries that met all the Primary Criteria	**6**	**5**	**5**	**1**	**4**	**4**

Despite an improvement at country level in meeting all the four primary criteria, performance continues to be unsatisfactory. Four (4) countries; Guinea Bissau, Mali, Senegal and Togo met all the four primary criteria in 2017, whereas, in the preceding year, only Liberia met all the primary criteria.

Overall, the performance of Member States under the macroeconomic convergence improved in 2017, compared to the outturn in 2016. Guinea Bissau, Mali and Senegal met all the primary and secondary criteria during the period under review, while only Liberia met all the targets in 2016. Sierra Leone which has been the worst performer in recent years, met only one (1) primary and one (1) secondary criterion, same as the situation in 2016.

Table 3: Total Number of Primary and Secondary Convergence Criteria met Per Country

Countries	**2013**	**2014**	**2015**	**2016**	**2017***	**2018****
Benin	6	6	5	5	5	5
Burkina Faso	5	6	6	5	5	5
Cabo Verde	4	4	4	4	4	4
Cote d'Ivoire	6	6	6	5	5	5
The Gambia	3	2	2	2	4	4
Ghana	3	2	2	2	4	4
Guinea	5	5	3	4	5	5
Guinea-Bissau	6	6	6	5	6	6
Liberia	5	5	5	6	4	4
Mali	6	5	6	5	6	6
Niger	6	5	5	5	5	5
Nigeria	6	6	5	4	4	5
Senegal	5	5	5	5	6	6
Sierra Leone	4	5	5	2	2	2
Togo	5	5	4	4	5	6
No. of Countries that met all the Convergence Criteria	**6**	**5**	**4**	**1**	**3**	**4**

Analysis of Performance By Criteria

Primary Criteria

Ratio of Budget Deficit (Including Grants) to GDP ≤ 3%:

With regards to the number of countries satisfying the criterion on budget deficit, outturn improved significantly as seven (7) countries (Guinea, Guinea Bissau, Liberia, Mali, Nigeria, Senegal and Togo) met the target in 2017. Liberia and Nigeria have met this target on a sustained basis in recent years.

Budget deficit improved in nine (09) countries, deteriorated in five (5) and remained unchanged in one (1) in 2017. This performance contrasted with the trend in 2016 when the deficit increased in most countries. Burkina Faso and Sierra Leone had the highest budget deficit at 7.5 percent of GDP and 8.9 percent of GDP, respectively in 2017. Ghana and Togo recorded the highest reduction in their deficit in 2017 relative to 2016.

Table 4: **Budget Deficit (on commitment basis, including grants) to GDP**

Countries	2013	2014	2015	2016	2017*	2018**
BENIN	2.6	1.9	8	6.2	5.8	4.6
BURKINA FASO	3.6	1.9	2.2	3.3	7.5	4.8
CABO VERDE	9.3	7.6	4.6	3.1	3.1	4.9
COTE D'IVOIRE	2.2	2.2	2.8	3.9	4.2	3.7
THE GAMBIA	9.2	5.6	6.9	9.8	7.3	6.5
GHANA	11.1	10.1	7	10.4	5.1	4.5
GUINEA	2.7	3.6	6.9	-0.2	2.1	2
GUINEA-BISSAU	2.4	2.3	2.6	4	1.6	1
LIBERIA	0.5	-0.2	-1.6	-2.3	2.6	0
MALI	2.2	3.8	1.8	3.9	2	2.3
NIGER	2.6	8.1	9	5.5	5.2	6.4
NIGERIA	1.4	-1.5	0.8	0.9	1.0	0.2
SENEGAL	5.5	4	3.7	3.2	2.9	2.7
SIERRA LEONE	1.5	3.3	4.3	7.5	8.9	6.1
TOGO	4.6	3.4	6.3	8.3	0.3	2
UEMOA	**3.2**	**3.2**	**3.8**	**4.3**	**4.4**	**4.4**
WAMZ	**2.2**	**-0.5**	**1.4**	**1.7**	**1**	**0.6**
ECOWAS	**2.3**	**0.1**	**`1.8**	**2.1**	**1.5**	**1.2**
Number of Countries that met the target	**9**	**6**	**6**	**3**	**7**	**5**

At the regional and sub-regional levels, budget deficit improved to 1.0 percent of GDP in the WAMZ while it increased slightly in the UEMOA to 4.4 percent of GDP, well above the ECOWAS average of 1.5 percent of GDP in 2017.

Annual Average rate of Inflation: less than 10%:

Inflationary pressures heightened slightly as most economies in the Community witnessed an upward trend in average inflation in ten (10) countries during the period. Consequently, eleven (11) countries met the criterion on average inflation in 2017 compared to twelve (12) in 2016. Ghana, Liberia, Nigeria and Sierra Leone missed the target in 2017 compared to Ghana, Nigeria and Sierra Leone missing the target in the previous period. It is encouraging to note that while Ghana has missed the criterion for several years now, the trend is declining and getting close to the target. Both Nigeria and Sierra Leone have witnessed an upward trend in recent year.

Sierra Leone recorded the highest increase while Ghana registered the highest decline in average inflation during the period. Average inflation was highest in Sierra Leone (18.3 percent) and lowest in Togo (negative 0.8 percent) in 2017.

Average inflation in the UEMOA inched up slightly to 0.6 percent from 0.3 percent in 2016. Similarly, in the WAMZ, it increased to 13.7 percent from 15.6 percent in 2016. In ECOWAS, average inflation rose to 13.7 percent from 13.3 percent in 2016. The upward trend in average inflation in the WAMZ and ECOWAS was mostly influenced by the trend in domestic prices in Nigeria.

Table 5: **Annual Average Inflation rate**

Countries	2013	2014	2015	2016	2017*	2018**
BENIN	1	-1.1	0.3	-0.8	0.1	1
BURKINA FASO	0.5	-0.3	0.9	-0.2	0.4	0.4
CABO VERDE	1.5	-0.2	0.1	-1.4	0.8	1
COTE D'IVOIRE	2.6	0.4	1.2	0.7	0.7	0.7
THE GAMBIA	5.7	6.9	6.8	7.9	6.9	7.2
GHANA	11.7	17	17.2	17.5	12.4	12.5
GUINEA	11.9	9.7	8.2	8.2	8.9	8.5
GUINEA-BISSAU	0.7	-1	1.5	1.4	1.1	1.4
LIBERIA	7.6	9.8	7.8	8.8	12.4	11.9
MALI	-0.6	0.9	1.4	-1.8	1.8	1.4
NIGER	2.3	-0.9	1	0.2	2.4	2.6
NIGERIA	8.8	8	9	15.7	16.6	13.2
SENEGAL	0.7	-1.1	0.1	0.8	1.3	1.9
SIERRA LEONE	10.4	7.2	8.1	10.8	18.3	12.5
TOGO	1.8	0.2	1.8	0.9	-0.8	1.2
UEMOA	1.5	-0.2	**1**	**0.3**	**0.6**	**0.6**
WAMZ	8.8	8.7	**9.6**	**15.6**	**16.1**	**13.1**
ECOWAS	7.7	7.3	**8.3**	**13.3**	**13.7**	**11.1**
Number of Countries that met the target	12	14	**14**	**12**	**11**	**11**

Central Bank Financing of the Budget Deficit: less than or equal to 10 Percent of previous year's tax revenue:

Central bank financing of the budget deficit has been the criterion met by most countries in recent years. Thirteen (13) countries met the criterion in 2017, same as the situation in the preceding year. Liberia and Sierra Leone missed the target during the period under review.

Table 6*:* *Central Bank Financing of Budget Deficit as a Percent of Previous Year's Tax Revenue*

Countries	2013	2014	2015	2016	2017*	2018**
BENIN	0	0	0	0	0	0
BURKINA FASO	0	0	0	0	0	0
CABO VERDE	0	0	0	0	0	0
COTE D'IVOIRE	0	0	0	0	0	0
THE GAMBIA	0	28.5	51.2	33.1	0	9
GHANA	12.3	13.7	4.1	0	0	0
GUINEA	0	0	19.9	0	5.7	0
GUINEA BISSAU	0	0	0	0	0	0
LIBERIA	0	0	0	3	38.6	0
MALI	0	0	0	0	0	0
NIGER	0	0	0	0	0	0
NIGERIA	0	0	0	0	0	0
SENEGAL	0	0	0	0	0	0
SIERRA LEONE	1.7	8.1	0	33.1	18.9	0
TOGO	0	0	0	0	0	0
UEMOA	**0**	**0**	**0**	**0**	**0**	**0**
WAMZ	**1**	**1.2**	**0.7**	**0.3**	**0.2**	**0**
ECOWAS	**0.8**	**1**	**0.6**	**0.3**	**0.2**	**0**
Number of Countries that met the target	**14**	**13**	**13**	**13**	**13**	**15**

At UEMAOA level, there was no central bank financing of the budget deficit by Member States due to the fact that the regulations require Member States to finance their budget deficit from the regional capital Market.

Gross External Reserves ≥ 3 Months of Imports Cover:

Gross external reserves were above the threshold in most of the economies in 2017. This criterion was met by fourteen (14) countries, compared to thirteen (13) in 2016. While the level of external reserve level of Guinea increased marginally, it has missed the target for the third consecutive year. Cabo Verde, Ghana, Nigeria, Sierra Leone and the UEMOA zone (as a group) continue to meet this target consistently. Nigeria had the highest reserve level, equivalent to 12.9 months of import cover and also recorded the biggest increase in reserves from the previous period.

Table 7: Gross External Reserves (in Months of Import Cover)

Countries	2013	2014	2015	2016	2017	2018**
CABO VERDE	4.9	5.4	7.1	6.6	5.9	7
THE GAMBIA	4.6	3.7	2.5	2.4	4.1	4.3
GHANA	3.6	4.2	3.6	4.2	4.8	4.5
GUINEA	3	3.2	2.3	1.4	1.9	2.7
LIBERIA	2.8	2.5	2.3	3	4.6	3.5
NIGERIA	8.9	6	8.2	5.8	12.9	12
SIERRA LEONE	3.2	3.6	3.8	4.7	3.9	3.6
UEMOA (8 COUNTRIES)	4.8	5	5	4.4	4.3	4.6
WAMZ	**8.3**	**5.8**	**7.7**	**5.6**	**12**	**11.2**
ECOWAS	**7.8**	**5.7**	**7.3**	**5.4**	**10.8**	**10.2**
Number of Countries that met the target	**14**	**14**	**12**	**13**	**14**	**14**

SECONDARY CRITERIA

Nominal Exchange Rate Variation (± 10Percent):

Performance relating to the nominal stability of domestic currencies of the region was largely unchanged in 2017, relative to the previous year. The variation of nominal exchange rate of twelve (12) countries were within the limit in 2017. The Liberian Dollar, Nigerian Naira and Sierra Leonean Leone were the most volatile currencies in the region as they deviated beyond the prescribed limit of 10.0 percent in 2017. The Guinean Franc and Escudo were the most stable currencies in 2017.

Table 8: Nominal Exchange Rate variation[1]

Countries	2013	2014	2015	2016	2017	2018**
CABO VERDE	4.1	0.1	-8.5	-0.4	2.1	4.4
THE GAMBIA	-10.3	-16.5	4.9	-3.3	-4.4	-5.2
GHANA	-7.4	-31.5	-15.7	-4.2	-9.8	-6.2
GUINEA	1.9	-1.5	1.7	-15.9	-1.1	0.8
LIBERIA	-4.1	-9	7.2	-8.4	-16.4	-12.2
NIGERIA	2.1	-1.9	-11.9	-23.5	-16.8	-6.5
SIERRA LEONE	1.1	-4	-3.1	-19.1	-14.5	-8
UEMOA (8 COUNTRIES)	6	6	5	5	5	5
WAMZ	**1.3**	**-4.3**	**-11.8**	**-21.8**	**-16**	**-6.4**
ECOWAS	**2**	**-2.7**	**-9.2**	**-17.6**	**-12.7**	**-4.6**
Number of Countries that met the target	**14**	**13**	**13**	**12**	**12**	**14**

Ratio of Public Debt to Nominal GDP (≤ 70Percent):

The public debt criterion was met by most of the economies of the region in 2017. Twelve (12) countries met the target compared to eleven (11) in 2016, thus, indicating an improvement in 2017. However, the debt level increased in the majority of countries in 2017 with The Gambia and Cabo Verde topping the list at 116.2 percent of GDP and 125.3 percent of GDP, respectively in 2017. Nigeria had the least debt-to-GDP ratio, at 15.5 percent, despite a slight increase from the previous period.

Table 9: Ration of Public Debt to Nominal GDP

Countries	2013	2014	2015	2016	2017	2018*
BENIN	25.4	30.5	42.4	49.4	54.5	55.7
BURKINA FASO	28.6	30.8	35	34.2	36.2	39.1
CABO VERDE	102.5	115	124.4	129.6	125.3	130.5
COTE D'IVOIRE	32	34.5	40.4	41.5	42.7	42.7
THE GAMBIA	85.1	99.5	101.3	114.6	116.2	102
GHANA	56.8	70.2	73.2	70.2	68.6	68.5
GUINEA	30.8	32.1	43.2	42.7	36.5	37
GUINEA-BISSAU	58.5	48	51.7	53.2	50.1	46.5
LIBERIA	30.5	37.9	32.3	40.3	42.6	44
MALI	26	27.1	30.8	35.9	35.7	33.2
NIGER	23.1	25.6	39.8	37.9	42	44.8
NIGERIA	8.9	10.7	11.2	14.2	15.5	16
SENEGAL	45.6	42.1	43.8	47.2	47.7	45.2
SIERRA LEONE	28.4	35.2	45.1	53.9	61.5	61.5
TOGO	53.8	60.8	71.8	78.4	73	69.6
UEMOA	**33.4**	**35.5**	**41.5**	**43.7**	**44.2**	**44.2**
WAMZ	**13.3**	**16.1**	**17**	**19.5**	**20.6**	**21**
ECOWAS	**16.5**	**19.2**	**20.9**	**23.5**	**24.4**	**24.8**
Number of Countries that met the target	**13**	**12**	**11**	**11**	**12**	**13**

[1] Table shows average exchange rate movements against WAUA

Prospects For 2018

Macroeconomic performance under the convergence criteria is expected to improve slightly in 2018. Outturn is expected to be fairly unchanged in the area of fiscal performance as seven (07) countries are anticipated to meet the target on budget deficit in 2018, same as the situation in 2017. Guinea, Guinea Bissau, Liberia, Mali, Nigeria, Senegal and Togo are expected to satisfy the criterion on the budget deficit in 2018. However, a total of eleven (11) countries are projected to record moderation in the target.

In terms of the number of countries expected to satisfy the target on average inflation, performance is expected to be unchanged as eleven (11) countries are projected to meet this target in 2018. This target is expected to be missed by Ghana, Liberia, Nigeria and Sierra Leone. Performance in the area of gross international reserves are projected to remain flat in 2018 as fourteen (14) countries are expected to meet this criterion, similar to the outcome in 2017. Performance with regards to central bank financing of the fiscal deficit is anticipated to improve as all fifteen (15) Member States are expected to satisfy this criterion in 2018. Sierra Leone which has consistently missed this target in recent years would be within the financing limit in 2018.

Projections indicate that the upward trend in the stock of public debt (level) would continue in 2018. However, thirteen (13) countries are expected to meet the criterion on public debt compared to twelve (12) in 2017. Domestic currencies are expected to be more stable in 2018 as fourteen (14) countries are projected to satisfy the target against twelve (12) in 2017. The Escudo and Guinea Franc are projected to be the most stable, while the Liberian Dollar is expected to be the most volatile in 2018.