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ECONOMIC AND SOCIAL CONDITIONS IN WEST AFRICA IN 2012-2013 AND OUTLOOK FOR 2014

January 2014

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Acronyms and abbreviations

BCEAO	Central Bank of West African States
ECA/SRO-WA	United Nations Economic Commission for Africa/Sub-Regional Office for West Africa
ECOWAS	Economic Community of West African States
GDP	Gross Domestic Product
HIPC	Heavily-Indebted Poor Countries
IMF	International Monetary Fund
SACU	Southern African Custom Union
SADC	Southern African Development Community
UEMOA	West African Economic and Monetary Union
WAMA	West African Monetary Agency
WAMZ	West African Monetary Zone
WEO	World Economic Outlook

Introduction

1. This report by the sub-Regional Office for West Africa of the United Nations Economic Commission for Africa (ECA/SRO-WA) seeks to provide member States with an overview of the economic and social conditions in West Africa and outlook for 2014 within the Economic Community of West African States (ECOWAS). It has been submitted to the Intergovernmental Committee of Experts for review and comments with a view to working out consensual recommendations and development strategies capable of: (i) boosting economic growth in member countries and contributing to their structural transformation in a more inclusive manner; and (ii) accelerating the economic integration of the sub-region.

2. Like in 2012, West Africaös economies recorded the highest growth rates on the Continent. However, structural weaknesses remain due to overdependence on raw material exports and weather conditions. Nonetheless, structural transformations are emerging with non-oil economic growth rates in excess of 5% in all oil-exporting countries (Nigeria, Ghana, Niger and Ivory Coast). The social aspect remains problematic in view of the demographic trends that indicate a difficult demographic transition in almost all countries. The massive social demands are usually advanced to justify not only the numerous fiscal slippages, but also failure to implement integration agreements, especially the free establishment of nationals of the sub-region in all members States.

3. Meantime, the economic environment remains very hostile in 2013 with the war in Mali and its burden of displaced populations and refugees, insecurity in Nigeria and security threats looming over Niger and Ivory Coast, in addition to the still unstable political situations in both Guinea and Guinea-Bissau. On the international arena, the industrialized countries are still grappling with persistent economic uncertainty despite the highly volatile premises for growth. However, the sub-region witnessed good weather conditions that enabled the primary sector, employing the majority of the population, to grow. Although unstable, food supply will have the benefit of containing the outflow of invaluable currency as well as inflation levels.

4. Besides the Introduction and the Conclusion, this report comprises three main sections: (i) a presentation of the global environment focusing on the situation in the world and in sub-Saharan Africa; (ii) the economic and social situation in ECOWAS countries from 2012 to 2013 and outlook for 2014; (iii) a description of demographic trends in West Africa. The Sub-Regional Office has prepared this report using documents produced by sub-regional institutions, including BCEAO, UEMOA, ECOWAS and WAMA, in addition to its own documentation. The IMF was often used as a source of data or information that was unavailable at sub-regional level.

I. The global environment

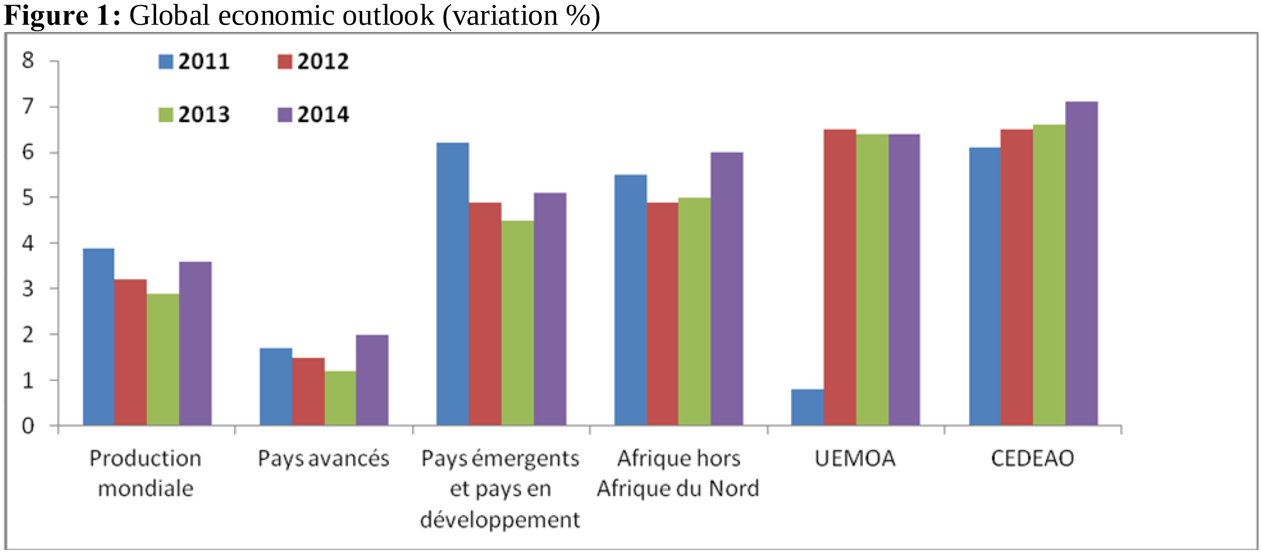
I.1 The global context

5. With a rate of 2.1% in 2013, global growth entered a transition towards recovery, but remained weak and prone to a potential downturn. The signs of recovery are very obvious in the advanced economies. In the USA, demand has been strong over several quarters amid a

downturn in public orders. Actually, the IMF points out that the enabling conditions on financial markets and the turnaround in the real estate market have helped households to rebuild their assets, thereby reviving consumption growth in 2013. Despite a number of budget issues leading to a spending cut, projections showed that the rate of budget contraction for the entire US Federal government in 2013 will stay at 1.25% of GDP like in 2012. Japanӳ economy rebounded solidly, but risks suffering from a tighter fiscal policy. Actually, recession was short-lived thanks to measures like granting of subsidies to the car industry. Moreover, disrupted trade with China had a very mild impact. The extensive fiscal recovery program, accompanied by a greater flexibility of the monetary policy, marked especially by the depreciation of the yen, amid an upturn in foreign demand, justified the recovery of growth at least over the short term. Although the euro zone was emerging from a recession, activities remained slow. Actually, the measures taken have started to yield fruit, notably with a risk drop in the peripheral countries and an improvement in their financing conditions. This notwithstanding, in the advanced economies, unused production capacities remain massive and inflationary tensions have been moderate.

6. Although the emerging economies performed well, their growth rates, which far exceeded those of the advanced economies for cyclical and structural reasons, remained below the high levels recorded over the past years.

Figure 1: Global economic outlook (variation %)



Sources: IMF Global Outlook Oct. 2013

7. Global growth remained highly dependent on a number of recent decisions: firstly, the Federal Reserveӳ willingness to reduce its quantitative easing measures. Although not effective, this decision led to an increase in long-term returns in the United States and several other countries. Secondly, a credible assumption by numerous economists of a slowdown in Chinaӳ growth over the medium term.

8. The October 2013 issue of the Global Financial Stability Report (GFSR) points out that these developments have already had spillover effects in the emerging economies. They actually reveal the vulnerability of the emerging countries and their inability to replace the advanced economies as drivers of the global economy. A more rational redistribution of capital flows and monetary depreciations has been observed that mitigate the increasing competitiveness issues. However, there is much greater investment volatility and risk on adjustment itself should GDP growth continues.

9 The global economy therefore witnessed a highly fluctuating growth in 2013 which, according to the IMFôs WEO report for 2013, results from the continued recovery of the US economy at a pace that prompted the monetary authorities to consider the possibility of embarking, in May, on a gradual contraction of the monetary stimulus policy as from 2013, although this measure was postponed to the resurgence of budget risks and other internal developments. Europeôs economies seem to be finally emerging from recession, although growth remains slow and Japanôs economy is reacting well to the recovery policy; while China and the other emerging market economies that had been resilient to the global crisis and ended up playing an increasingly central role in recent years have started losing momentum.

10 Inflationary pressures subsided slightly leading to a 2.6% drop in 2013 compared with 2.9% in 2012. This lull results from an activity recovery in the advanced economies, albeit with a still low impact on production volumes, and decline in commodity prices owing to an imbalance between growing supply and low demand from the leading emerging economies, especially China.

11 Global trade witnessed the beginning of a slight recovery with a growth in volume of 2.9% in 2013 against 2.7% in 2012. In terms of imports, emerging countries performed better with 5% against 1.5% for advanced countries. For exports, the same trend was recorded with 3.5% and 2.7% respectively. However, compared to 2012, whereas the advanced economies witnessed growth for both imports and exports, the emerging economies are declining. Apart from the behavior of financial markets, one of the explanatory factors is the sluggishness of commodities markets. (IMF, 2013)

12 Actually, on the commodities market following all-time record highs, prices are expected to drop further in the coming years far earlier than expected. Spot oil prices went from a very low level in 2011, in the aftermath of the financial crisis, then grew and stabilized over a relatively long period at $100 per barrel, before growing anew driven by geopolitical considerations. By August 2013 ending, gold prices had slumped by 18% and copper by 26% compared to their recent peaks, but prices of gold and industrial metals rebounded slightly after the tightening of the US monetary policy was postponed. Iron ore and coal prices have shrunk since 2010 ending. Coffee prices that had been severely affected by surplus supply, slipped by 39% compared with the peak witnessed in the second quarter of 2011. Additionally, corn prices dropped in the past months by 11% compared with their record high, and wheat prices by 11%, which is a positive development for several African countries that import foodstuffs (IMF, 2013).

13 In the area of financing, liquidity contractions have been noticed on global financial markets since May 2013, thereby shrinking or reversing portfolio capital flows to most of the emerging and pioneer markets, including in sub-Saharan Africa. The US Federal Reserve policy that is responsible for this situation is likely to continue, thereby leading to a slight increase of debt security yields in domestic and foreign currencies on the one hand, while on the other hand, the currencies of emerging economies depreciated and stock prices slumped. The emerging economies suffered foreign exchange gaps at a time when these economies were being affected by financial markets.

14 Global activity should therefore be boosted by the ongoing recovery in advanced countries, although it is advisable to remain cautious. Production is expected to grow at a rate of roughly 2.9% in **2014**, improving slightly from 2013. In the USA, public demand may witness

stronger growth in 2014, in the same manner as private demand, thereby consolidating growth. However, the budget situation might be problematic with a debt limit almost reached in 2014. Budget austerity may hinder growth in Japan. In the Euro Zone, growth rates will depend mostly on the performance of peripheral countries. Emerging countries and developing countries are expected to grow by roughly 5% in 2014. The budget policy should be more or less neutral and real interest rates relatively low.

15 Unemployment, now a global issue, will remain extremely high in several developed countries and several emerging countries, especially in North Africa and the Middle East. Despite improvements observed in Europeôs economy, the global rate hovered around 6% in 2013, according the ILO. In 2013, the number of unemployed was estimated at 202 million and there are no signs of an improvement. The Euro Zoneôs unemployment rate stood at 12% in 2013, with Spain and Greece performing even worse with more than 25% unemployment. Youth unemployment remains and will continue to remain high at roughly 12.8% until growth is enough to generate jobs.

16 The US economy is therefore a huge risk. Raising the debt ceiling is a necessity. Actually, the IMF (WEO, Oct. 2013) points out that a short-term suspension will likely have a mild effect on the US economy, but its extension may be extremely harmful. The Bretton Woods institution adds that failure to raise the debt ceiling promptly, leading to a selective default by the US, the spillover effects may be severe on the global economy. A more stringent American monetary policy may cause new market adjustments and reveal financial excesses and systemic vulnerability. This may be more detrimental to emerging countries that may have to undergo further readjustments of their exchange rates and financial markets, compounded by worsening economic outlook and increasing domestic vulnerability. Some may even face immense disruptions of their balance of payments.

17 In the Euro Zone, the risk lies in the incomplete bank bailouts and credit transmission operations as well as the over-indebtedness of businesses, according to the IMF. In Japan, reforms and budget consolidation are urgently needed, especially to address fiscal issues.

18 Overall, fiscal risks remain high in the advanced economies with excessive outstanding public debts, whereas no credible mid-term adjustment package has been provided together with specific measures and strong reforms. Fiscal vulnerability is equally present in varying degrees in the emerging economies and low-income countries.

I.2 The African context

19 Economic growth remains strong in Africa, despite an unfavorable global environment. Although the signs of recovery seem to be consolidated in the advanced economies, at the same time, the emerging economies have started to feel the backlashes of the crisis. This situation is risky for Africa that has long relied on demand from emerging countries, which are increasingly facing a slowdown, whereas its traditional partners are hardly recovering from recession. A protracted slowdown of these economies, especially Chinaôs, will have dire consequences on prospects of a slight global growth.

20 As noted in the Officeôs 2012 report, considering the limited number of countries that rely heavily on the advanced economies, like South Africa and Nigeria, the continentôs two giants, the other economies performed better in 2012 than in 2011. Sub-Saharan Africa took advantage of the good momentum in both emerging and developing countries, but above all, it

enjoyed favorable weather conditions that enabled it to overcome the effects of drought in the Sahel and in East Africa. Africa witnessed strong growth, estimated at 5.1% in 2012, with sub-Saharan Africa scoring 4.8%. Most countries in the region enjoyed substantial growth despite close ties to Europe. However, for some time now, certain countries importing foodstuffs are dogged by skyrocketing global prices of some agricultural products.

21 The exploitation of natural resources in several countries (Angola, Niger and Sierra Leone) and recovery in West Africa are the key factors thereof. For the latter, it is the recovery of farming activity in the Sahel area after the drought and in some parts of East Africa, including Kenya and the sharp recovery of the Ivorian economy. As in 2011, most countries had contributed to the strong growth, except South Africa and countries heavily dependent on food. These performances were driven by good commodity volumes and prices, a more substantial redirection of exports towards Asia and financial systems shielded from global financial turmoil in most countries. Most of the natural resources exported are in high demand on foreign markets, especially oil.

22 The Officeôs 2012 report predicts that despite the gloomy and uncertain economic conditions, the growth rate will stabilize at 5.8% in sub-Saharan Africa in 2013 despite uncertainties over the outcome of the Euro crisis and the current food and security situation. However, on the continent as a whole, growth shrank to 4.1% in 2013 due to the protracted political instability in Egypt, Tunisia and Libya, leading to disruptions in oil production. Inflation continued to drop in 2013 with the very stringent macroeconomic measures taken by the countries. The report concluded that with a sound macroeconomic management, confidence in sub-Saharan Africaôs future will there will grow, especially with the successful entry of Angola and Zambia on the international sovereign bonds market. Finally, notwithstanding the sluggish global economic climate and rising instability, growth remained strong, driven especially by mineral exporting countries and low-income countries, particularly Ivory Coast, the Democratic Republic of Congo, Mozambique, Rwanda, Sierra Leone and a few others. Amongst the internal factors accounting for the weak performance in 2013 in some oil-producing countries are budget execution delays in Angola and the upsurge in oil theft in Nigeria that have led to the temporary shutdown of certain facilities.

23 In South Africa, the expected real growth rate was merely 2% in 2013, which clearly reveals that private investment has been meager due to a gloomy external environment and tensions between employers and trade unions. This is compounded by a decline in consumption due to a slowdown in the growth of disposable incomes and loss of confidence amongst consumers. The neighboring countries will bear the brunt, especially members of the Southern African Development Community (SADC), particularly those of the Southern African Customs Union (SACU). The latter may witness a drop in remittances by their nationals and taxes on South-African trade, which make up most of the shared revenues of this customs union. Additionally, although South Africa hardly imports from African countries, the deployment of these businesses, making it an increasingly major export market for South Africaôs manufactured goods and services will be seriously undermined.

24 In Africa, global inflation is on a declining trend since early 2012, driven by the meltdown, and sometimes by the drop in foodstuff prices and the pursuance of stringent monetary policies in some countries that had previously suffered from high inflation. The average inflation rate shrank from 8.2% in 2012 to 8.0% in 2013. However, in some countries, it stayed at 10% owing to some specific factors, especially bottlenecks in neighboring country

transportation systems (Burundi), steady monetary expansion (Eritrea), inaction amid a gradual slowdown (Guinea) and currency depreciation (Malawi).

25 Despite the implementation of prudent monetary policies, the money supply in the broad sense is expected to increase at an average rate slightly higher in 2013 than in 2012 in the region, due to a rising demand for money and accumulation of reserves. Actually, central banks had slowed down money creation due to the implementation of prudent monetary policies and limited credit development in the public sector, whereas the private sector witnessed further credit growth from a generally poor base in most middle-income countries. 2013 is expected to witness a stronger growth of money supply in all categories of countries, except in low-income countries. More especially, Angola should enjoy rapid growth thanks to its efforts to build reserves and cut down dollarization under its new monetary policy, while Malawi should be driven by growth in private sector credits.

26 Budget deficits are expected to widen in 2013 in several countries in the region, but public debt indicators remain acceptable in most of them. The downturn is mostly attributable to low public revenues compared with GDP. This is particularly true for natural resource exporters who are beset by low commodity prices or poor production, whereas several of them have embarked on ambitious public investment programs. This is the case of oil-producing countries like Angola and Cameroon.

27 In some countries, the public debt-to-GDP ratio has grown. Amongst middle-income countries, South Africa’s budget deficit has not shrunk as expected following the incentive packages implemented during the global financial meltdown. Although real spending growth had been commensurate with the country’s growth potential, revenues remained systematically below forecasts due primarily to the sluggishness of the economy. Although some countries in the region like Botswana, the Republic of Congo and Togo are expected to adjust their budget policies in 2013, deficits are likely to remain high in several countries, thereby raising public debt. In most low-income countries, particularly weak States where infrastructure and social security needs are largely unmet, it is unlikely that spending will be contained. In other words, there is ample room for growth of revenues in most of the low-income countries where revenues account for a meager proportion of GDP, less than 20% on average.

28 In the region, current external accounts are expected to shrink in 2013, especially in oil-producing countries that have opted for expansionary budget policies, whereas the tendency to increase the coverage ratio using exchange reserves as noticed in the region in the aftermath of the crisis is expected to continue in 2013. Developments in the financial account of the balance of payments reveal a growing integration of the region into global markets, which integration is expected to continue. Countries like Ghana, Kenya, Mauritius, Mozambique, Nigeria, Senegal and Tanzania have continued to make use of global financial markets, taking advantage of generally favorable financial conditions and the upturn in internal economic outlook. Besides South Africa, which is an emerging market economy, six countries issued State bonds or State-guaranteed bonds in 2013, including Nigeria on two occasions, while Kenya and Tanzania plan to follow suit very soon.

29 Increased access to financial markets enables pioneer economies to find new sources of financing. However, it equally raises unexpected challenges, namely: the risk of a sudden change; the possibility of increased public debt; greater financing, exchange and interest rate risks; pressures for currency appreciation. Moreover, there is a risk that a liquidity increase

may stimulate inflation, raise stock prices or lead to an exponential private sector credit growth. Actually, the excess funds generated by portfolio capital inflows have especially helped to generate an upsurge in reserves, and its overall incidence on liquidity has been sterilized, except in Mauritius and Zambia. However, a number of countries like Ghana and Mauritius have witnessed private sector credit expansion or stock market price hikes like Kenya and Nigeria.

30 In sub-Saharan Africa, the instability in global financial markets in 2013 had a severe impact on South Africa and a number of pioneer markets[1i]. The South African Rand depreciated by roughly 8% and national bond yields grew by approximately 170 base points from May ending to August ending, with the effects of external factors accentuated by internal economic weaknesses. These developments helped to worsen the monetary conditions in the randôs common monetary area made up of Lesotho, Namibia and Swaziland. On the pioneer markets, Nigeriaôs currency depreciated in relation to the dollar in the midst of the instability, and State bond yields improved slightly, whereas the Ghanaian cedi and Kenyan shilling were equally losing ground. Global prices of financial assets stabilized markedly in July and August, but capital flows remained volatile compounded by renewed financial tensions in some emerging countries, especially those like South Africa with substantial external current account deficits.

31 Overall, the growing global financial volatility had milder effects in sub-Saharan Africa than in other regions. This may be due to the relative lack of depth of Africaôs pioneer markets, which primarily attract long-term investors who opt for direct investments and respond mostly to the economic fundamentals of the countries receiving their funds. In the period ahead, a protracted volatility and rise in financing costs are expected as the authorities of the advanced economies gradually give up the unprecedented accommodative orientation of their monetary policy. Real exchange rates have tended to appreciate in all country categories, except in middle-income countries. These developments have been very pronounced in countries like Seychelles (15%) and Uganda (14%). In other countries, fluctuations have been far less prominent, but very often directed upwards. In the middle-income countries, including the four members of the randôs common monetary area, the highlight was the depreciation of the South African currency that began well before the market tensions in June, which was basically due to a mood swing amongst investors regarding South Africa, as well as falling global gold and platinum prices, amongst other factors.

32 The seventeen countries, whose currency is pegged to the euro, namely the CEMAC and UEMOA zone countries, enjoyed relative real exchange rate stability and, better still, since mid-2012, these rates had grown slightly. Apart from South Africa, the twenty-five countries whose exchange rate system provides for some amount of flexibility witnessed a real appreciation of their currency since 2010 ending, a trend very prominent on pioneer markets and oil-exporting countries in this country category. As mentioned earlier, apart from South Africa, Ghana, Kenya and Nigeria suffered a currency depreciation following the US Federal Reserveôs announcement of the phased withdrawal of exceptional stimulus measures.

I.3 Africa’s outlook for 2014

33 In 2014, Africaôs growth rate would be driven by strong domestic demand stemming especially from investments by several countries in infrastructure and export capacities. The countries will take advantage of the positive effects of the ongoing global recovery, especially

in Europe. Consequently, the growth rate is expected to stand at 6% in 2014 thanks to continued investments in infrastructure and production capacities.

34 It will be difficult to mitigate the budget deficits in 2014. On the contrary, they should expand given the priority given to investment spending in the countries and poor revenues. The countries will continue their fiscal adjustments in 2014, but deficits are likely to remain high as in 2013 in many countries, hence the risk of another public debt increase.

35 Monetary policy discipline seems to produce good results, as inflation has receded. However, structural reforms are still needed to boost food supply whose good prices account for the low inflation levels. The risk of a protracted slowdown in the upward trend of commodity prices should equally be noted.

36 Money supply growth is expected to slow down slightly in 2014 in some countries, and grow further in others like Gambia driven by credits to the private sector and Uganda driven by credits to the State.

37 Current external accounts are expected to contract further in 2014 generally across the region as in 2013, especially in countries with expansionary budget policies. However, the tendency to raise the coverage ratio through exchange reserves observed in the region after the crisis in 2013 is expected to continue in 2014.

38 Nonetheless, the outlook for 2014 remains relatively unstable with rising financing costs, sluggishness of emerging market economies and a less favorable trend for commodity prices on the global arena. Actually, major temporary but plausible shocks are expected on global commodity prices, but these would not jeopardize average growth in sub-Saharan Africa. However, these developments will definitely impact the growth rate and balance of payments of certain countries exploiting natural resources heavily. Emerging economies are equally starting to feel the sluggishness of advanced country markets, and this may have a major backlash on African economies, which had newly become key economic partners for Africa in recent years.

39 Internal risk factors remain poor weather conditions that may affect agriculture especially, but also and systematically, political events. Agriculture depends primarily on weather conditions both in the Sahel and in East Africa. Social strife of all types (post-elections, strikes, etcé) and volatile security conditions in several countries remain a major risk.

40 Moreover, a decline in savings can be expected after several years of investments in infrastructure. Actually, maintaining a high level of investment, part of which is financed by domestic resources in addition to FDIs and capital transfers, has led to a widening of current external deficits in several countries. Admittedly, exportation- and infrastructure-oriented activities are the primary beneficiaries of these developments, but budget deficits remain high and indebtedness, albeit manageable, has started to grow with renewed vigor. It is therefore necessary to ensure fiscal balance over the medium term with a view to providing room for intervention. The priority is thus to mobilize public revenues, so as to meet social demand and infrastructure needs more effectively.

II. Economic and social conditions in ECOWAS countries over 2012-2013

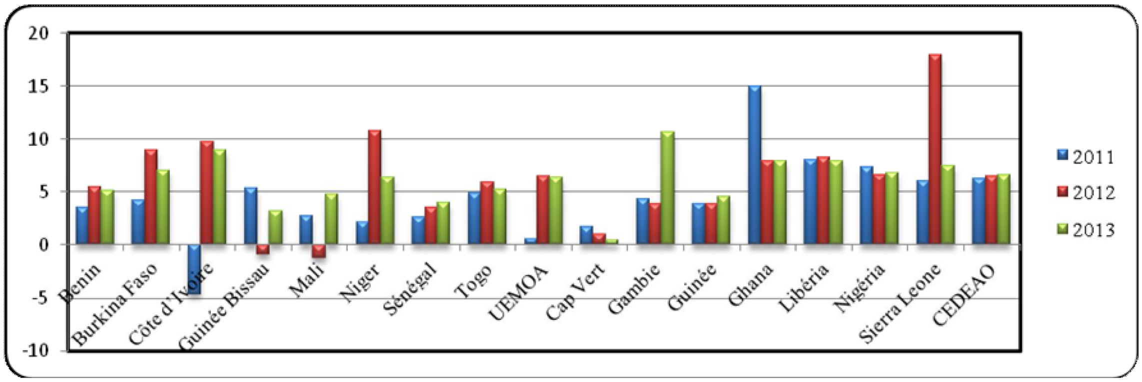
41 The Economic Community of West African States largely met its macroeconomic goals in 2013 despite the volatile security conditions. Although relatively dependent on the advanced economies, ECOWAS countries continued on the path of growth. Sound macroeconomic management, especially monetary and financial stability, a dynamic foreign sector thanks to mining or oil products, and a high-performing agriculture sector are the key growth factors. The sub-regionós economic growth remained quite stable at a rate of 6.6% in 2013 against 6.5% the previous year. It remains one of the regions least affected by the financial turmoil and the increasingly gloomy global outlook.

II.1 Economic growth

42 In 2012, ECOWAS countries enjoyed yet another year of strong growth with a rate of 6.5% against 6.2% the previous year. The success factors were sound macroeconomic management, quick recovery of post-conflict countries and high-performing mining and oil industries in some countries. These solid performances therefore helped to contain negative growth in Mali and Guinea-Bissau, and a slowdown in Cape Verde, Ghana and Nigeria. Weak growth in these two pilot countries was due to declining oil production in Ghana (7.1% in 2012 against 14.4% in 2011) and a downturn in the non-oil economy owing to tighter fiscal policies with the removal of oil and monetary subsidies in Nigeria (6.6% in 2012 against 7.4% in 2011). UEMOA witnessed stronger economic growth with a rate of 6.5% against 0.9% in 2011 thanks to the normalization of the sociopolitical situation in Ivory Coast and favorable weather conditions. The best performers were Niger *(10.8%)*, Ivory Coast *(9.8%),* and Burkina Faso *(9.0%)*. However, economic activity in Mali *(-1.2%),* and Guinea-Bissau *(-0.9%),* had been blighted by sociopolitical crises and an aggravation of security conditions in the Sahel region. By contrast in the WAMZ countries, economic growth slowed down slightly from 6.9% in 2012 against 7.9% in 2011, following the aforementioned developments in Ghana and Nigeria. Cape Verdeós growth fell from 1.7% in 2011 to 1.0% in 2012, owing to a contraction of domestic demand.

43 For the entire ECOWAS sub-region, 2012 was marked by a recovery in the agriculture sector, dynamic mining production, slowdown in oil production, and solid performance in post and telecommunications, tourism and financial services. Despite energy issues in several countries, the secondary sector improved especially thanks to building and public works that took advantage of the priority given to infrastructure. Investments in major projects in a good number of countries and under poverty-reduction programs, and final-consumption growth in most countries equally helped to drive growth.

Figure 2: Growth rates for ECOWAS countries



Sources: BCEAO, UEMOA, WAMA 2012, IMF, database of the African Department (8 October 2013)

44 **In 2013,** initially forecast at 7% in the Officeȏs report, the Communityȏs growth rate finally stood at 6.6% against 6.5% in 2012. This performance was reportedly sustained by several countries with growth rates of at least 7%, namely Burkina Faso, Ivory Coast, Gambia, Ghana, Nigeria, Liberia and Sierra Leone. Continuation of investments in infrastructure, commissioning of new mining and oil production sites, sound price management for certain commodities as well as improvement in public finance management are all factors accounting for the continuous performances. The risks that may have severely impaired the solid performances finally had little impact or did not materialize altogether, namely: (i) a possible contraction of both public and private foreign capital; (ii) an aggravation of insecurity in some UEMOAȏs economic hubs; (iii) a protracted sociopolitical crisis in Mali and Guinea-Bissau, that may severely affect the economies of these countries and have substantial spill-over effects in other countries of the sub-region; (iv) a poor ending of the 2012/2013 farming year that may negatively impact farm production and exacerbate food insecurity; and (v) a renewed downturn in the global economic situation.

45 The primary sector as a whole will enjoy strong growth due to the aggressive policies adopted in all countries to guarantee food security in the sub-region and actions taken at sub-regional level by the UEMOA and ECOWAS Commissions. The secondary sector will continue to witness solid growth thanks to rising investments in both physical and social infrastructure, continuation of refurbishments in the energy sector and relentless expansion of the food processing industry that is taking advantage of a more substantial solvent demand. The tertiary sector is expected to take advantage of performances in other dynamic sectors and the growth potential of telecommunications.

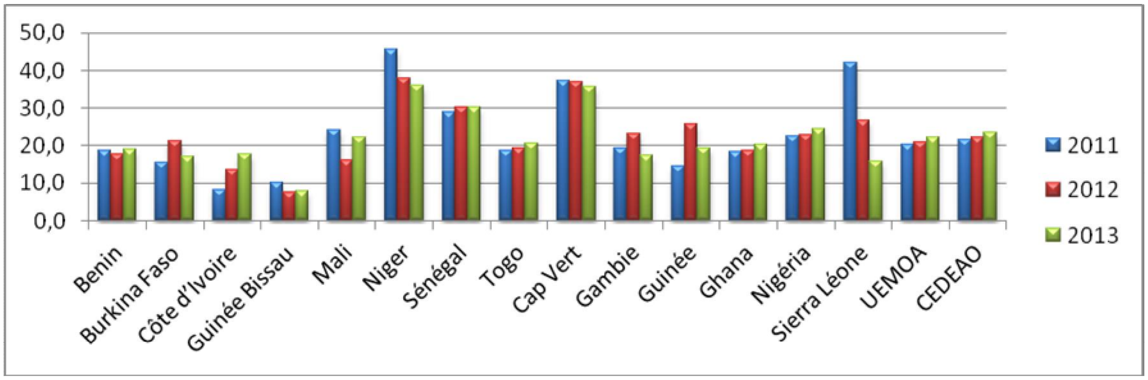
46 Looking at the IMFȏs estimates, it emerges that the Communityȏs non-oil GDP is higher than the overall GDP, which stems from the solid performance of the non-oil sectors in the sub-regionȏs two economic powerhouses, namely Ivory Coast and Nigeria. In the case of Ghana, despite extensive diversification of the economy, the non-oil sector slowed down sharply in 2013, whereas in Niger, the newfound oil economy remained predominant.

47 In employment, the highlight was the fast-growing investments, both public and private. In 2013, ECOWAS as a whole recorded an investment rate of 23.4% of GDP against 21.7 in 2012 (IMF). Many of the sub-regionȏs countries had exceeded this average rate several years

earlier. In 2013, this included Niger (36% of GDP), Cape Verde (35.8%), Senegal (30.3%) and Nigeria (24.6%). However, note should be taken of the meager FDI flows in the entire Community, which accounted for 2.8% of GDP against 3.1% in 2012, a decline due to new investments in the mining or oil countries. The beneficiaries were Liberia (15.8% of GDP), Sierra Leone (13.4%), Ghana (7.3%), Gambia (6.5%), Cape Verde (3.8%), Mali (3.5%) and Ivory Coast (3%) owing to exploitation of natural resources and tourism. The high level of investments led to a steady mobilization of regional domestic savings both through the monetary market and the financial market. The Communityǿs gross savings rate was estimated at 21.8% of GDP in 2013 against 23.1% in 2012. In the UEMOA countries, the rates were lower with 14.9% of GDP in 2013 against 15% in 2012. Domestic demand therefore remained steady in 2013.

48 In terms of growth, **UEMOA** is expected to achieve an average growth rate of 6% down from 6.5% in 2012, despite the sociopolitical crisis and insecurity in Mali and institutional instability in Guinea-Bissau. Actually, this environment has prevented the inflow of some amount of foreign investments and led to pressures on public finances, with an upsurge in military spending. In this regard, the Malian crisis produced more than 400 000 refugees in the sub-region. Additionally, the results of the 2013/2014 farming season were properly oriented, which performance stemmed from several factors. Firstly, the projected recovery in Mali (4.8% against -1.5% in 2012) thanks to the gradual return of a pacified sociopolitical climate that will pave the way for the organization of presidential and legislative elections. Guinea-Bissau equally performed well with a growth rate of 3.2% in 2013 against -1.5% in 2012, although elections were postponed to 2014. On the other hand, growth rates above 6% were maintained in Burkina Faso (7%) and Ivory Coast (9%), thanks to investments in infrastructure and mining pursuant to the socioeconomic development plans and growth acceleration strategies. Growth rates are also reportedly improving in Senegal (4% against 3.7% in 2012), Benin (5.1%) and Togo (5.8%). **WAMZ** economic activity has grown steadily, at a reported rate of 6.7% in 2013 against 6.8% in 2012. Besides Guinea, growth rates for all other members States surpassed 6%.

Figure 3: Investment rates (in %)



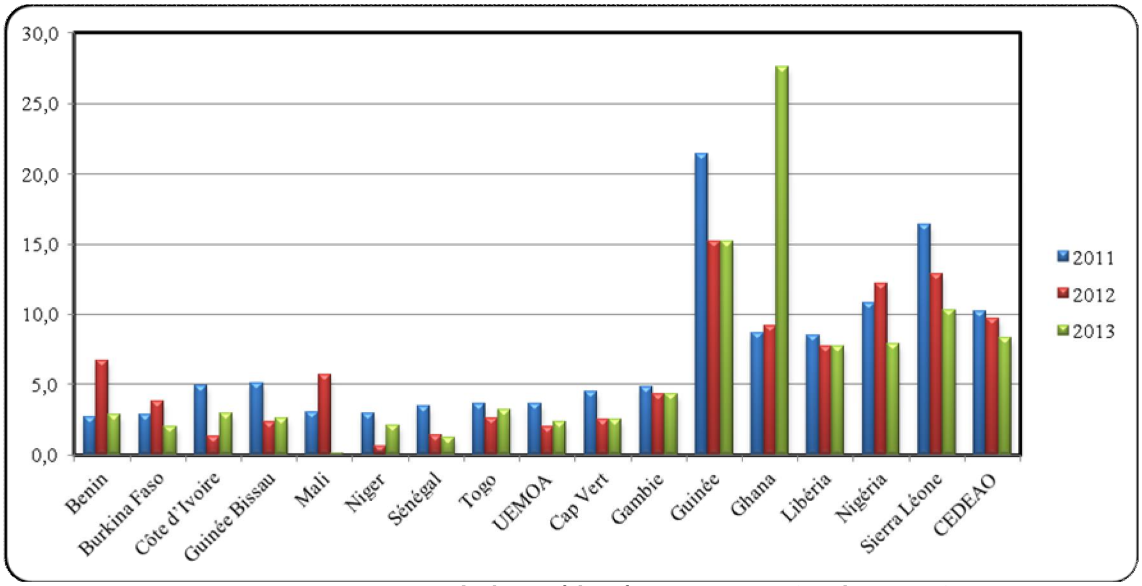
Sources: BCEAO, UEMOA, WAMA 2012, IMF, databases of the African Department (8 October 2013)

II.2 Inflation

49 The Communityǿs average annual inflation rate stood at 9.7% in **2012** against 10.2% in 2011 owing to the easing of tensions on global commodity markets and better weather conditions in the Sahel. Inflation dropped in all countries. Consequently, in the UEMOA countries, economic activity in 2012 happened amid an easing of inflationary tensions in most member countries, although price levels remained high. The annual inflation rate in this country stood at 2.4 % in 2012 against 3.9% in 2011. Inflation was curbed primarily thanks to measures taken by most countries to address food price hikes, especially by selling cereals at moderate prices, distributing foodstuffs freely in areas facing high food insecurity and distributing seeds for off-season crops in the Sahel countries. However, the situation remains problematic in some member countries due to rising transportation prices and food prices. Benin had the highest inflation rate (6.6%) and Niger the lowest (0.5%). Inflation in **WAMZ** countries remained high compared with the average level for the Community and sub-Saharan Africa, standing at 11.8% in 2012 against 12.2% in 2011. This slight improvement was noted in all countries, excluding Gambia whose inflation rate rose from 4.8% in 2011 to 5.5% in 2012. Therefore, none of these countries actually met the ECOWAS criterion.

50 In 2013, inflation continued to decline in all ECOWAS countries with 8.3% against 9.8% in 2012. WAMZ countries were the worst performers in this area, although a quite stringent deflation process has been implemented in recent years: Nigeria (9.9% in 2013 against 9.9% in 2012), Ghana (11.2% against 9.2%), Sierra Leone (10.3% against 13.8%), Guinea (12.7% against 15.2) and Liberia (7.7% against 6.8%). Overall, Cape Verde and the UEMOA countries contained their inflation levels more effectively, occasionally keeping them below the established criterion. Actually, in 2013, UEMOA countries equally witnessed a continuous deceleration of inflation. The Unionǿs average annual inflation rate is expected to stand at 1.6% against 2.4% in 2012 should the trend witnessed so far be confirmed by December 2013 ending. This situation was mainly due to growing food prices, with a 2.9% price increase in the food and non-alcoholic beverage segment, compared with 1.2% for the same period in 2012. This growth was mitigated by a slowdown in the transportation segment, where prices grew by only 1.8% over the first four months of 2013 against 5.3% for the same period in 2012. This rapid growth was more pronounced in Ivory Coast and, to a lesser extent, in Togo.

Figure 4: Inflation rates (in %)



Sources: BCEAO, UEMOA, WAMA 2012, IMF, databases of the African Department (October 8, 2013)

51 Finally, according to WAMA, the number of countries that met the criterion (inflation rate Ò5%) rose from eight (8) to ten (10) between the first half-year of 2012 and the first half-year of 2013. At the first half-year of 2013, the following countries had met the criterion: Burkina Faso, Cape Verde, Ivory Coast, Gambia, Guinea-Bissau, Niger, Senegal, Togo, Benin and Mali. Three countries, namely Guinea, Nigeria and Sierra Leone, recorded double-digit inflation.

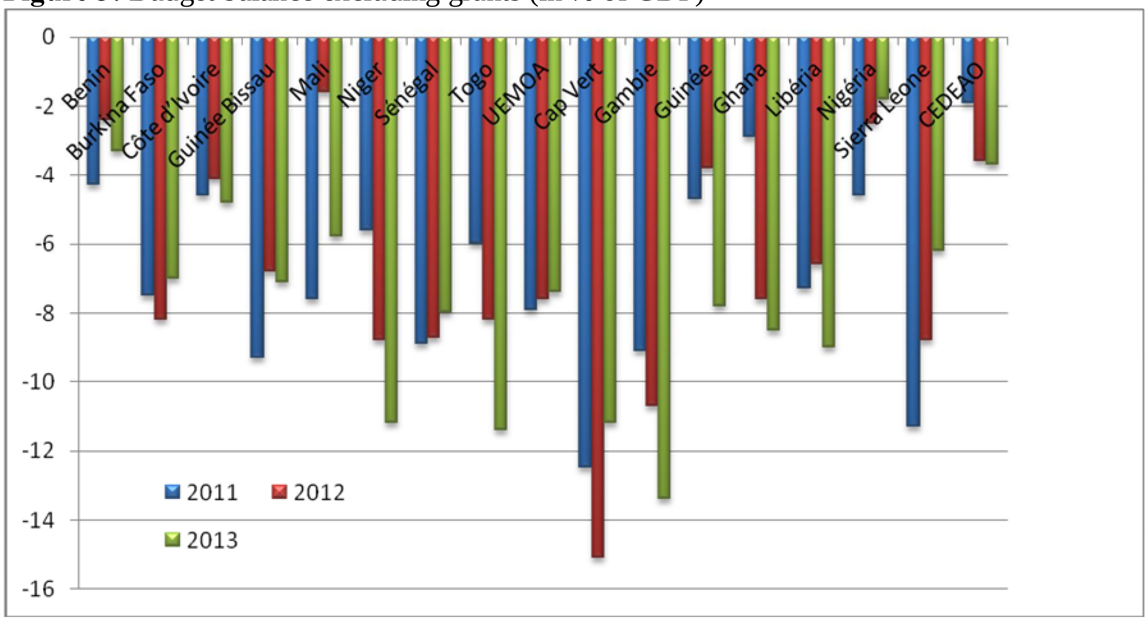
II.3 Public finances

52 In **2012**, the Community narrowed its budget deficit from 4.4% in 2011 to 3% in 2012, thanks to efforts by some countries, namely Nigeria, Liberia and Ivory Coast. The budget balances of the three countries fell from 5%, -0.6% and 4.3% of GDP in 2011 respectively to 2.6%, -4.2% and 3.2% of GDP in 2012. Budget deficits dropped in Mali, Senegal and Benin from 3.7%, 6.7% and 1.8% in 2011 respectively to 0.1%, 5.6% and 0.5% in 2012. Amongst the countries that widened their deficits, Ghana and Togo were the worst performers with rates growing from 0.9% and 1.1% in 2011 respectively to 6.0% and 6.2% in 2012 (IMF). Ghanaôs increased deficit in 2012, a year of elections, was marked by favorable economic conditions and massive tax revenues, but also by a sharp upsurge in spending. Public finances in 2012 in the **UEMOA** area were marked by a decline in budget deficits driven by the very strong revenue growth in Ivory Coast. In the Union, spending increased considerably, especially due to catch-up efforts in Ivory Coast and the members Statesô ambition to maintain the upward trend in public spending on infrastructure.

53 Actually, budget revenues grew by 22.3%, accounting for 18.9% of GDP, a growth driven by both fiscal and non-fiscal revenues. This growth in fiscal revenues was achieved by all countries, excluding Guinea-Bissau, and driven primarily by an improvement of revenues in Ivory Coast (48.2%) following the normalization of the socioeconomic situation and strong growth in Burkina Faso (+28%). Meantime, non-fiscal revenues improved by 47.6%, accounting for 1.9% of GDP against 1.4% in 2011. This growth was achieved by all

countries, excluding Guinea-Bissau and Senegal. Grants fells by 2.4%, accounting for 2.3% of GDP against 2.6% 2011. This decline was mainly due to the drop in grants to Mali and, to a lesser extent, Guinea-Bissau and Togo. The drop in Mali stemmed from the suspension of aid by most of its technical and financial partners owing to the socio-political situation in the country. Overall spending and net lending grew by 15.2%, accounting for 24.6% of GDP, primarily driven by the combined effects of investment spending and increase in current expenditures, especially the 16.8% growth in the wage bill driven by sharp growth in Ivory Coast (29.9%) due to new recruitments, consideration of the financial incidence of changes in administrative statuses and payment of salary arrears on category promotions. The wage bill growth happened in all member States, especially Ivory Coast (+29.9%), Togo (+15.1%), Burkina Faso (+14.5%) and Benin (+10.3%). Capital expenditure rose by 18.9%, driven primarily by the component funded internally that grew by 32.2%. This growth was achieved by all member States, excluding Benin, Guinea-Bissau and Mali. All in all, the overall deficit, excluding grants, and the overall deficit contracted, accounted for 5.7% of GDP and 3.3% respectively against 6.4% and 3.8% of GDP in 2011.

Figure 5: Budget balance excluding grants (in % of GDP)



Sources: BCEAO, UEMOA, WAMA 2012, IMF, databases of African Department (October 8, 2013)

54 In 2012, **Public debt** in ECOWAS countries has improved in recent years thanks to the cancellations obtained by several countries under the HIPC initiatives and the MDRI. Outstanding public debt stood at 28.8% against 30.15% in 2011. For UEMOA, by 2012 ending, the public debt stock accounted for 33.2% of GDP against 43.8% in 2011. This favorable development stems especially from the cancellation of Ivory Coastôs debt in 2012, which cut down the ratio dramatically from 50% of GDP at 2011 to 43.1% in 2012. By contrast, in the WAMZ countries, the outstanding debt grew from 20% of GDP in 2011 to 21.2% in 2012. However, the external component contracted slightly with a rate of 11.5% of GDP in 2012 against 12% in 2011, owing not only to efficient debt management in some countries, but also to debt cancellation initiatives. This was combined with Nigeriaôs low debt levels, at a stable outstanding amount (5.4% of GDP in 2011 and 2012). In Cape Verde, foreign debt remained high in 2012, standing at 74.7% of GDP as in 2011. This may be due to financing of the widening budget deficit.

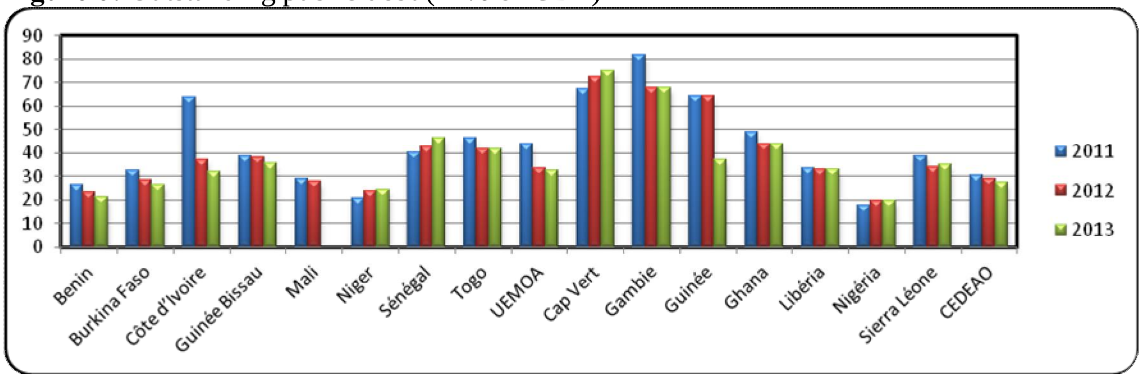
55 According to the IMF, in 2013, ECOWAS countries suffered an overall budget balance deficit of 3.7% of GDP against 3.6% of GDP in 2012, due to investments by most countries and declining public income rates that fell from 23.2% of GDP in 2012 to 22.5% of GDP in 2013. Liberia, (25.3% of GDP), Nigeria (24.5%), Cape Verde (21.8%) and Senegal (20.7%) were the only countries with income rates above 20% of GDP. This poor mobilization of budget revenues in the sub-region generally accounts for the widening of the overall deficit excluding grants, particularly in the UEMOA countries. Budget revenues reportedly grew by 10.5%, accounting for 18.9% of GDP, driven by the 10.3% rise in fiscal revenues, and thereby raising the fiscal pressure rate to 16.9% of GDP. This growth reportedly stems from efforts to recover and build on synergies between the taxation and customs authorities. It was reportedly achieved by all member States, with the strongest growths in Niger, Mali and Guinea-Bissau. Non-fiscal revenues reportedly grew by 12.9% in 2013, accounting for 1.9% of GDP in 2013. Grants reportedly increased by 8.4% in all member States, accounting for 3.2% of GDP. In 2013, total spending and net lending reportedly increased by 14.6%, accounting for 25.9% of GDP against 24.6% of GDP in 2012, driven primarily by capital expenditures that grew by 42%. Apart from Senegal that expected a 6.8% growth in capital expenditure in 2013, all other countries had forecast growth rates in excess of 20%. Meantime, current expenditure reportedly increased by 2.1%, despite the expected 7.1% wage bill rise and the 5.7% upsurge in operating expenditure. The increase in these items was mitigated by the 8.8% drop in remittances and subsidies. All in all, in 2013, the overall deficit, excluding grants, and the overall deficit reportedly accounted for 6.6% and 3.3% of GDP respectively.

56 In the WAMZ and WAMA, an overall deficit, excluding grants, of 2.3% of GDP in the first half-year of 2013 was recorded against 1.6% of GDP year-over-year. This downward spiral was due to poor performances in some countries, excluding Gambia and Sierra Leone.

57 In Cape Verde, the deficit excluding grants declined but remained high at 7.4% of GDP against 12.4% of GDP in the first half-year of 2012. This high deficit was primarily due to the Governmentôs desire to take advantage of low interest rates on the international market to raise the funds needed for priority public investments.

58 In 2013, the outstanding public debt for ECOWAS countries stood at 27.5% of GDP against 26.1% of GDP in 2012. Cape Verde (93.2% of GDP) and Gambia (79.5%) had rates that surpassed the Community standard. They were followed by Guinea-Bissau (59.2% of GDP) that suffered a breakdown in cooperation with development partners and Ghana (51.6% of GDP) that continued its program agreed with the IMF. A number of countries have embarked on a moderate re-indebtedness process, except Senegal that has a quicker rate that grew from 21.8% of GDP in 2006 to 45.5% in 2013. Nigeria is the least indebted with 19.6% of GDP which, given its weight, pulled down the sub-regionôs level of indebtedness. Moreover, a more careful review shows that the average rate in **UEMOA** is higher than the Community average. Actually, the public debt stock was estimated at 32.2% of GDP, a trend that is expected to continue with Ivory Coastôs debt cancellation agreements.

Figure 6: Outstanding public debt (in % of GDP)



Sources: BCEAO, UEMOA, WAMA 2012, IMF, databases of African Department (October 8, 2013)

59 A comparison of performances for the different countries based on the convergence criteria gives the following results. For the budget deficit, including grants/GDP Ò 3%, over the 1st half-year of 2013, eleven (11) countries, i.e. two less than at the same period in 2012, were able to contain their budget deficits within the limits established by the convergence program. Whereas, Senegal and, to a lesser extent, Cape Verde and Guinea-Bissau, performed well in this area, the worst performances were recorded in Mali, Gambia and Ghana. Burkina, Faso, Ivory Coast and Nigeria remained stable. Concerning the Central Bank financing of the Budget Deficit / Fiscal revenues for the previous year Ò 10%., all ECOWAS countries met the criterion. Regarding level-two criteria on public finances, nine countries observed the ban on accumulation of new arrears and settlement of current arrears, one country derailed, while five have no assessment data. Regarding the criterion on Fiscal Revenues / GDP Ó 20%, only Liberia was able to observe it in the first half-year of 2013. For the criterion on Wage Bill / Fiscal Revenues Ò 35%, five (5) countries, namely one less than in the first half-year of 2012 observed it and only four (4) observed the criterion on Public Investments / Fiscal Revenues Ó 20% in the first half-year of 2013 against five at the same period the previous year. The strongest growths for this ratio were achieved by Nigeria, Togo and Liberia; whereas, the steepest drops were recorded by Benin, Ghana, Senegal and Sierra Leone. However, a substantial improvement is expected by 2013 ending given that in several countries, most investments were made in the second half-year.

60 With the foreign debt cancellations, especially under the HIPC initiative, most ECOWAS countries have a sustainable public debt profile (Public Debt / GDP Ò 70%). However, two countries (Cape Verde and Gambia) missed the target on the public debt on GDP ratio.

II.4 Monetary conditions

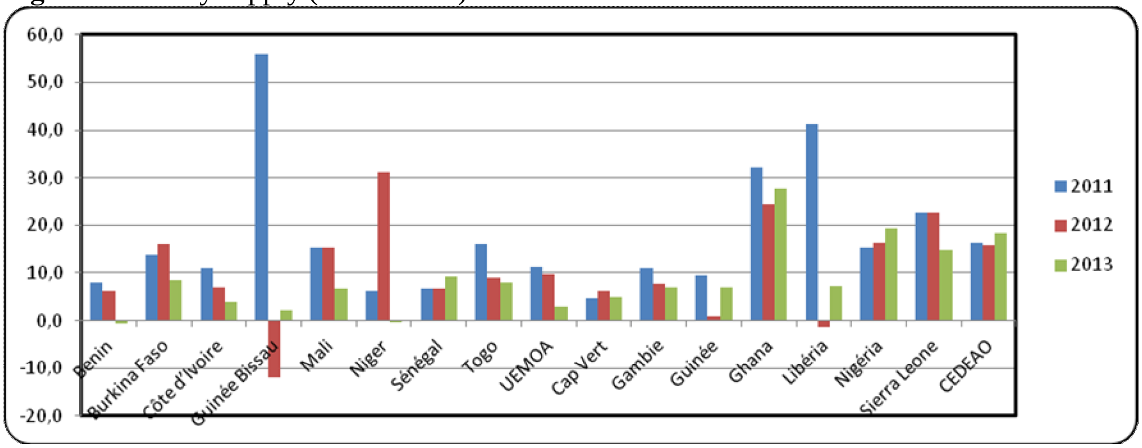
61 For **2012**, a deceleration, or even slight growth, marked the evolution of monetary policies within ECOWAS. The only countries that maintained strong growth in 2012 were Ghana (34.5%), Niger (19.6%), Sierra Leone (20.4%) and Ivory Coast (15.4%). These are mostly countries that took advantage of mining income and recovery of the Ivorian economy. To continue to contain inflation by controlling money supply, Sierra Leone lowered its prime rate, while Nigeria, Gambia, Liberia and Guinea maintained theirs. By contrast, Ghana and Cape Verde that sought to stabilize or defend their exchange rates, opted for a more stringent policy by raising their prime rates. In the UEMOA area, the monetary situation in 2012 was marked by growth in money supply following the expansion in domestic credit, with a 15.1% increase in its outstanding debt rate compared with levels at December 2011 ending. This

development stems from hikes in credits to the private sector and net claims by the banking sector on the States. The widening of the Governmentsô net asset position vis-à-vis the banking sector stems from an increase in government debt to the IMF and banks following the issuance of government securities, slightly mitigated by their growing deposits. The net foreign assets of the monetary institutions revealed a more substantial decline in the Central Bankõs net foreign assets than the growth in those of banks. Consequently, money supply grew by 9.7% at December 2012 ending. These developments derived from a UEMOA monetary policy characterized by a 25 base-points reduction of the BCEAOõs prime rates carried out in June 2012 and reflected in the monetary market rates. Consequently, interest rates fell. There was also an easing of interest rates on issuance of treasury bills, which obliged the BCEAO to maintain its prime rates throughout the year. The minimum interest rate to bid for liquidity injection tenders and the interest rate of the marginal lending window stayed at 3% and 4%. The incremental reserve requirement applicable to banks stayed at its 5% rate, effective since March 2012.

62 Consequently, the money supply within the Community, in the broad sense, expanded by 15.7%, thereby growing from 35.1% of GDP in 2011 to 36.6% of GDP in 2012. The level of claims on the non-financial private sector rose from 10.1% of GDP in 2011 to 11% in 2012. The actual effective rate index for the entire ECOWAS improved slightly from 128.1 to 137.2, whereas it declined in the UEMOA countries from 112.5 in 2011 to 109.3 in 2012. In number of months of importation, reserves represented 3.5 months in 2011 against 3.9 months in 2012, whereas for the entire UEMOA the number of months fell from 4.4 to 4.3 months (IMF).

63 In **2013**, monetary policies were primarily oriented towards consolidating achievements in containing inflation. Several countries, especially the WAMZ countries, are hardly meeting the 5% inflation criterion set by ECOWAS. The money supply growth in the broad sense (IMF) stood at 18.3% in 2013, thereby raising the ratio to GDP from 36.6% in 2012 to 38.7%. In the UEMOA countries, overall projections show a 10.3% expansion in money supply, basically due to a 12.9% increase in outstanding domestic credit.

Figure 7: Money supply (variation %)



Sources: IMF, databases of African Department (October 8, 2013)

64 Domestic credit variations stem from the steady growth in credits to the economy (13.3%) and the downturn in the governmentsô net asset position (+308.1 billion), reflecting the immense financing needs on the regional financial market. The projected 50 billion growth in net foreign assets is a consolidating factor for overall liquidity. As regards monetary conditions, the easing of interest rates on the various money market compartments is continuing. Consequently, the weighted average rate for one-week liquidity injection tenders stood at 2.54% at October 2013 ending, dropping by 27 base points compared with June 2013. On the one-week compartment of the interbank market, the weighted average rate for transactions fell from 3.13% in June 2013 to 3.05% at October 2013 ending. The same trend was recorded on the public debt market. The weighted average for one-year treasury bills declined by 26 base points to stand at 4.51% in October 2013. ECOWAS countriesô performances on Gross Foreign Reserves Ó 6 months covering imports, only Nigeria met the target at June 2013. However, with the expected improvement of UEMOA exchange reserves, nine (9) countries may meet the criterion at 2013 ending. For level-two criteria, thirteen (13) countries met the Positive Real Interest Rate in the first half-year of 2013. Consequently, for the period under review, twelve countries improved their real interest rate, notably Mali, Sierra Leone, Guinea and Benin. However, projections show a downturn in performance at 2013 ending. Likewise, regarding the Nominal Exchange Rate Stability ± 10%, in the first half-year of 2013, thirteen (13) countries met the Community standard, with ten (10) witnessing fluctuations in a range of +/-2%.

II.5 External accounts

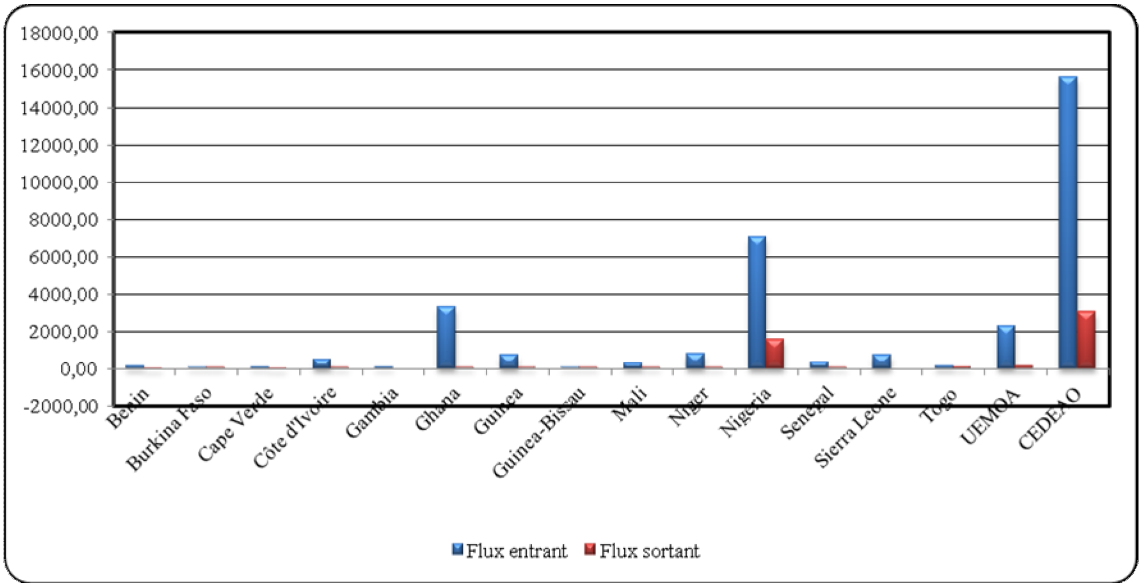
65 ECOWASôs current external account improved slightly from 0.3% of GDP in 2011 to 1.9% in **2012**, primarily thanks to surpluses in Nigeria and considerable current external deficit contractions in some countries like Sierra Leone, Guinea, Mali and Cape Verde. The persistent current transactions balance deficit in several countries mainly stems from high importation prices and a decline in the services bill as a drop in budget aids received by most ECOWAS member States and migrant remittances.

66 Overall, member countries recorded a surplus external balance of payments, except Cape Verde. Consequently, the overall Community balance showed a surplus of 0.4% of GDP against 0.6% of GDP in 2011. In the **UEMOA** area, 2012 witnessed a drop in the foreign transactions profile. Actually, the evolution of foreign trade shows a sharp decline in the

current account, the effects of which are partly offset by an upturn in external financing flows. The current account deficit widened by 133.6%, owing to the decline in the balance of goods and services and net revenues, with growing net current transfers. This accounted for 6.5% of GDP in 2012 against 3% in 2011, driven by contraction of the trade surplus due to a sharp growth of imports (+17.4%) sustained by an upsurge in capital and intermediate goods acquisition, expansion of food supplies and other fast-moving consumer goods (food crisis management) and higher oil prices. It is worth noting the implementation of major economic and social infrastructure construction projects in Ivory Coast and development of new mining and oil projects in several member countries of the Union. Despite the commissioning of the Zinder Refinery (*Société de Raffinage de Zinder* or *SORAZ*), international market tensions and demand recovery in Ivory Coast account for the high oil prices.

67 Exports grew by 7.6% thanks to the sale of gold and cotton that helped to mitigate contractions of cocoa and oil exports. The fall in gold in Burkina Faso was immensely offset by the commissioning of a new mine in Mali and production recovery in Ivory Coast. For cotton, the high production in Mali with a 76% growth, combined with effective price control, boosted exportation. Cocoa suffered a price drop on the international market, while the natural depletion of some fields coupled with the discontinued maintenance of some wells accounted for the oil drop. The services balance deficit widened driven by growth in freight charges for goods and other services needed by the booming extractive and telecommunications industries. Tourism revenues dropped sharply due to security tensions. Net revenues fell owing to dividend payments by the leading export and telecommunications companies. By contrast, net current transfers rose driven by increased budget aids and assistance received under support programs for populations suffering from the food crisis in the Sahel countries. Remittances by workers equally maintained an upward trend, notwithstanding the economic crisis in the host countries providing support to distressed relatives. Compared to GDP, the current account deficit, excluding grants, stood at 7.6% in 2012 against 4.1% in 2011. By contrast, in the WAMZ countries, the current account surplus grew with 4.9% of GDP in 2012 against 1.5% in 2011, owing to the fact that Nigeria witnessed a 7.1% GDP surplus in 2012 against 3.6% in 2011. Most of the other countries suffered a declining current balance.

Figure 8: FDI flows in 2012 (in million US$)



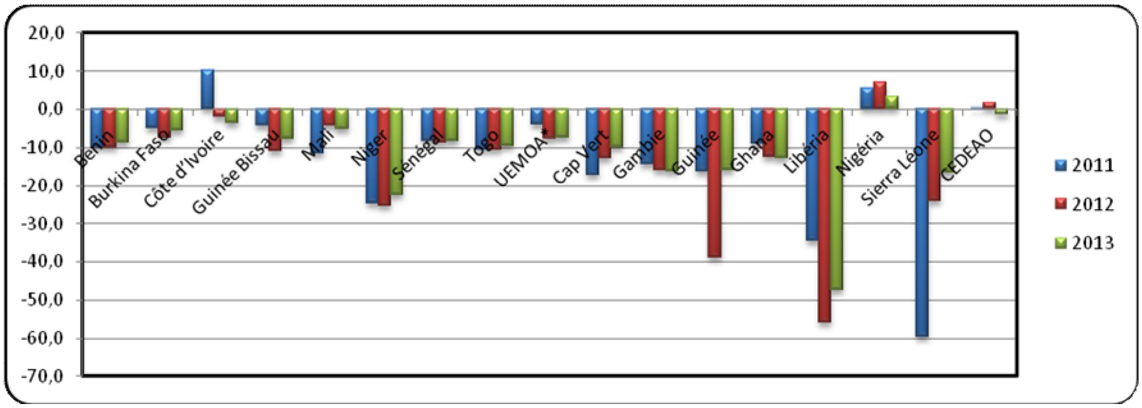
Source: UNCTAD, 2013

68 The ECOWAS countriesô room to maneuver externally, assessed by the cover ratio of imports by exchange reserves, stood at low levels in most countries. Only Nigeria achieved a cover ratio above the six-month standard with 7.5 months of importation in 2012. In UEMOA, all member countries, except Niger, suffered declining exchange reserves in 2012. On the exchange market, all currencies in the sub-region depreciated, excluding the Liberian dollar, the naira and the Leone. The cedi suffered the highest depreciation.

69 In **2013,** ECOWAS countries reportedly suffered a current external balance deficit of 1.3% of GDP for the first time since 2005, owing to the inability by Nigeriaǿs surplus to cover the deficit of all the other countries. It should be noted that all the other countries have chronic deficits, except Ivory Coast that sometimes has a surplus current balance, while only Nigeria has a structural surplus. In 2013, the Community however achieved a surplus goods trade balance of 4.9% of GDP, a surplus that declined for the goods and services balance due to a goods and services export rate of 33.2% of GDP and a goods and services import rate of 36.1% of GDP. The Communityǿs exchange terms index with 133 in 2013 against 134 in 2012 (IMF).

70 In the UEMOA countries facing a structural deficit, 2013 was marked by a consolidation of the capital account and financial transactions surplus, whereas the current transactions balance, excluding grants, is expected to decline to 7.4% of GDP.

Figure 9: Current external balance, excluding grants (in % of GDP)



Sources: BCEAO, UEMOA, WAMA 2012, IMF, databases of African Department (October 8, 2013)

71 The evolution of the trade balance reportedly reflects a higher increase in exports than imports. Goods exports grew thanks to an improvement of volume sales of oil products, gold, cotton and cocoa, the effects of which were tempered by the general price drops. Imports continued to grow thanks to public and private investment programs that generate substantial needs for capital and intermediate goods. Supplies for oil products and other consumer goods reportedly grew, owing to the accelerated economic activity, with an expected growth rate of 6.6% in 2013 up from 5.6% in 2012. The services balance deficit was reportedly due to high goods freight prices and higher consumption of various specialized services by companies of the extractive and telecommunications industries. Tourism activities recovered with the restoration of peace in Mali. Net incomes reportedly declined due to higher dividend payments by the highly dynamic export companies. The capital and financial account surplus is expected to rise by 14.7%, thanks to increased project grants, foreign direct investments and other private capital, primarily attributable to the normalization of the situation in Ivory Coast. However, this situation was reportedly mitigated by the fall in government drawdowns. Consequently, the overall balance of payments of UEMOA countries is expected to improve and produce a surplus of 50 billion following a deficit of 261.1 billion in 2012. A balance of payments surplus is expected in all countries, except Mali.

II.6 Economic and social outlook in ECOWAS countries for 2014

72 On the international arena, 2014 was marked by differences in growth between the advanced economies where recovery was consolidated and the emerging countries whose growth rates fell below the performances of previous years. Overall demand from African partners is not likely to drop. This ongoing process will therefore have little effect on growth in West African countries in 2014. From this mixed international landscape, the Communityôs economic outlook predicts a growth rate of 7.1% in 2014. These projections equally rely on favorable internal developments. For instance, Nigeriaôs oil production is expected to grow in 2014 and power sector reforms are progressing. **UEMOA** expects a growth rate of 7% thanks to continuous public investments as well as recovery expected in private investments.

73 **Inflation** should remain acceptable in the sub-region between 2013 and 2014, thanks to sustained disinflation in low-income countries with favorable projected food price trends. According to the BCEAO, the **UEMOAôs** medium-term outlook at both regional and

international levels do not predict any particular inflationary tensions. Recent projections set the Unionôs inflation rate at 1.7% year-over-year in the fourth quarter of 2014.

74 **In 2014, Public finances** will remain unstable due to the priority given to public investments in the social and infrastructure sectors amid a backdrop of stabilization or even a turnaround in commodity prices. The IMF predicts an overall budget balance, including grants and an overall balance, excluding grants of -2.8% of GDP and -3.7% of GDP respectively for the entire Community. In UEMOA, deficits for both balances are expected to stand at 3.4% of GDP and 6.9% of GDP respectively.

75 **Regarding monetary policy,** within UEMOA, the BCEAO intends to maintain the same conditions in 2014 as in 2013. The minimum rate to bid for liquidity injection tenders stays at 2.5% and that for the marginal lending window at 3.5%. The incremental reserve requirement applicable to the Unionôs banks stays at its 5% level in force since March 16, 2012. In 2014, the Central Bank will set up a ñspecial refinancing windowò for both public and private securities with a maturity in excess of 5 years. This measure stems from the Union countriesô determination to continue public investments through the sub-regional market on the basis of debt levels commensurate with long-term investments. In the other Community countries, the priority given to inflation control and exchange rate stability will guide the monetary policy. It will therefore be less expansionary.

76 Foreign trade projections for ECOWAS show an evolution comparable with that of 2013 with an external current balance deficit of 1.3% of GDP. Nigeria will remain the only country with a surplus. In UEMOA countries, the deficit may widen with the recovery of the Ivorian economy that recorded a rate of 7.7% of GDP.

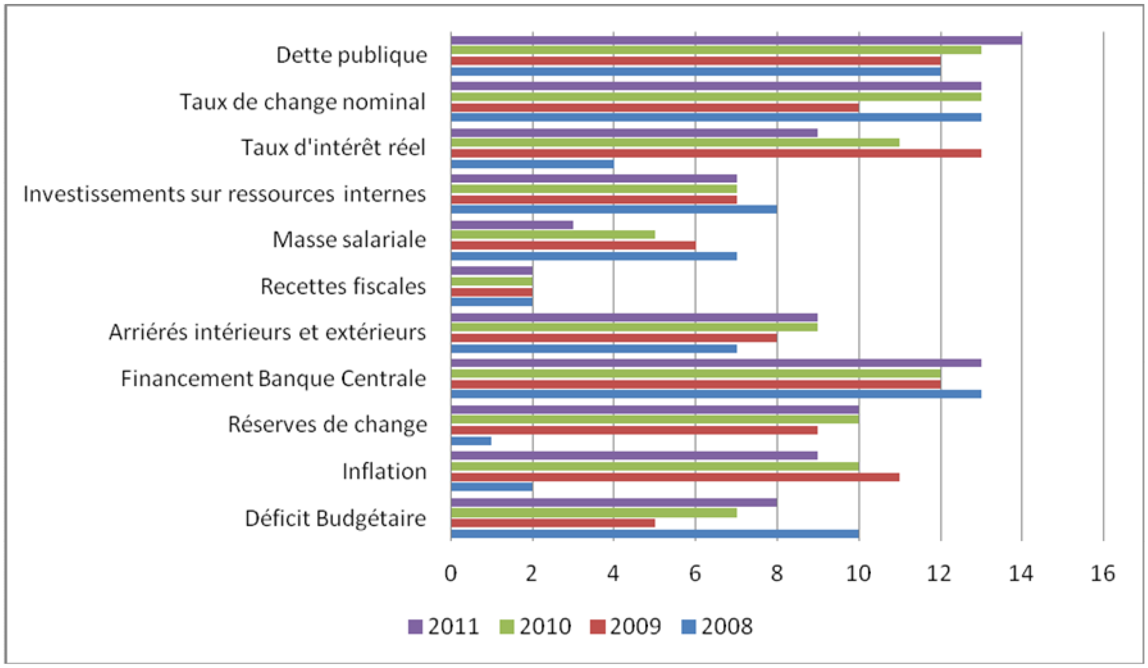
III. Macroeconomic convergence and policy harmonization

III.1 Macroeconomic convergence

77 The WAMA analysis on convergence criteria compliance reveals a sharp drop in the compliance level for the gross exchange reserves criterion. Overall, it emerges that performance levels compared with the same period in the previous year (June 2012) were maintained. Only performance on the gross exchange reserves criterion dropped considerably.

78 As regards level-one criteria, there was a slight improvement compared to inflation and budget deficit financing by the Central Bank. By contrast, there was a steep drop compared to gross exchange reserves due to the fact that the UEMOA countries failed to meet the standard. Likewise, the performance level in relation to the budget deficit criterion widened slightly as with two more countries missing the target.

Figure 10: Number of ECOWAS countries that met the convergence criteria

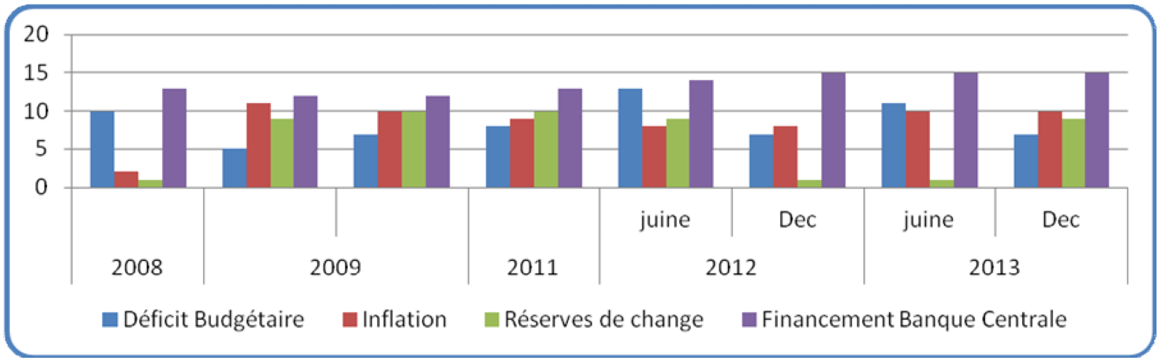


Source: WAMA (June 2013)

79 For level-two criteria, performance levels did not also change considerably compared with the same period for the previous year. There was an improvement in the real interest rate with two more countries meeting the standard and, to a lesser extent, the stability of the nominal exchange rate. By contrast, there was a slight downturn in the mobilization of tax revenues and internally-funded investments. The same performance level was maintained in relation to the other level-two criteria, namely non-accumulation of internal and external arrears, wage bill levels and public debt levels.

80 As shown on figure 11, none of the countries met all the convergence criteria in the first half-year of 2013. The best performers were Niger and Senegal that both met ten (10) on the eleven (11) convergence criteria. These countries were followed by Benin and Togo that both met nine (9) of the convergence criteria. The poorest performers were Cape Verde, Gambia, Ghana and Sierra Leone that met only four (4) of the convergence criteria. For the period under review, the strongest growth (+1 criterion met) was achieved by Ghana, Guinea and Mali. Meanwhile, the worst performers (-2 criteria met), were Niger, Nigeria and Togo.

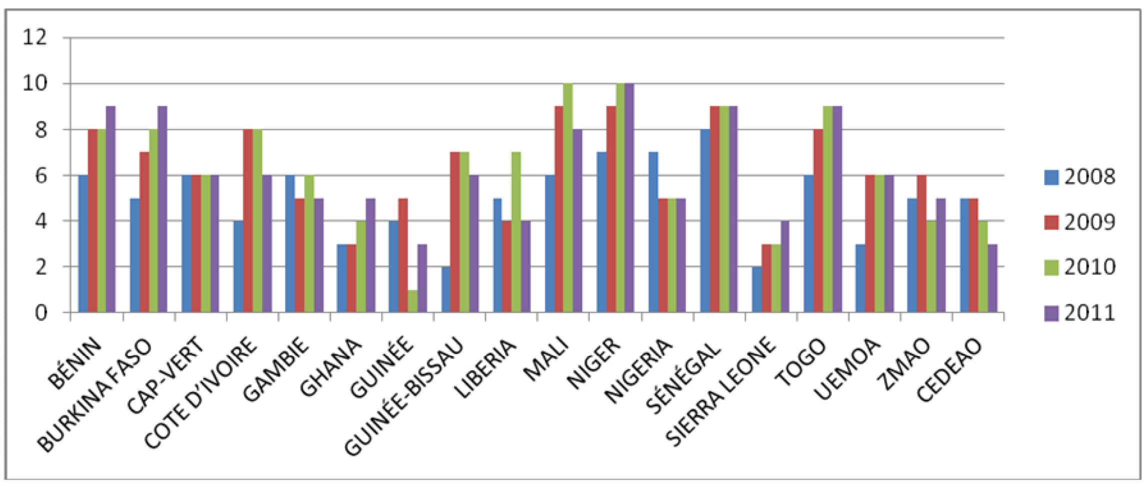
Figure 11: Performance of ECOWAS countries for first-level criteria



Sources: Central Banks, WAMA, drawn from WAMA Report

81 For the level-one criteria, no country met all the criteria. Eight (8) countries (Benin, Burkina Faso, Ivory Coast, Guinea-Bissau, Mali, Niger, Nigeria and Senegal) each met three (3) of the level-one criteria. The seven (7) others each met two (2) of the convergence criteria.

Figure 12: Total number of convergence criteria met



Source: WAMA, 2013

III.2 Policy harmonization and institutional arrangements within ECOWAS

82 Policy harmonization is a major phase on the roadmap to create a single ECOWAS currency adopted in May 2009. This section provides an overview of progress made in the various areas of policy harmonization at June 2013 ending, according to WAMA.

- **Exchange policy:** Harmonization is still inhibited by a major constraint, namely the presence of two main exchange systems, i.e. the fixed system used by UEMOA countries and Cape Verde, and the floating exchange system applicable in the other countries (Gambia, Ghana, Guinea, Liberia, Nigeria and Sierra Leone).

- **Monetary policy framework harmonization:** This process is equally ongoing with the organization of a workshop on the issue in Banjul in June 2013.
- **Harmonization of regulations** governing foreign financial relations: the process is equally underway with a workshop held in 2013. Experts focused on the success factors for a liberalization of current accounts and capital in the sub-region, and proposed a regulation framework harmonization matrix for current accounts and capital along with a timetable to speed up the implementation of enabling conditions.
- **Payment systems modernization:** In this regard, the UEMOA countries, Nigeria and Ghana are in the process of reconciling their systems.
- **Harmonization of regulation** and supervision of banks and other financial institutions: a workshop was organized with the aim of proposing a plan for harmonizing the frameworks for regulation and supervision of banks and other non-banking financial institutions in the sub-region, and set the terms and conditions for adopting a common platform. Specific action plans have been developed, together with timelines for harmonizing the frameworks for regulation and supervision of banks and non-banking financial institutions.
- **Harmonization of frameworks for accounting and reporting by banks** and other financial institutions: A workshop aimed at conducting a comparative analysis of frameworks for accounting and reporting by banks and non-banking financial institutions with a view to adopting a common framework within a reasonable timeline, had studied the issued.
- **Integration of financial market within ECOWAS:** a workshop to perform a comparative analysis of the frameworks for accounting and reporting by banks and non-banking financial institutions with a view to adopting a common framework, was held and the process underway.
- **ECOWAS trade liberalization plan:** The highlight here is the priority heads of State give to the establishment of the ECOWAS/CET, and ratifying the final structure of the CET as well as all of its regulatory instruments as adopted at the 70th Ordinary Meeting of the ECOWAS Council of Ministers and its Extraordinary Meeting held in Abidjan on September 30. It equally ratified the additional protective measures on the Import Adjustment Tax (IAT) and the Additional Protective Tax (APT) to allow for a gradual adjustment of the harmonious implementation of the CET as from January 1, 2015.

83 On customs instruments, progress has been made as regards harmonizing customs codes and values for duty. A draft ECOWAS customs code is being finalized. A study to design conventions on values for duty and preparation of a draft values for duty for ECOWAS goods has equally been carried out.

84 Regarding the free movement of persons, the countries are required to apply (i) Protocol A/P1/5/79 on the free movement of persons, right of residence and establishment, (ii) Decision A/DEC.2/7/85 of July 6, 1985, instituting an ECOWAS travel document (cf. Zatu No. 85- 014 of December 31, 1985), (iii) Resolution C/RES/4/5/90 on the reduction of road checkpoints in member countries. Regarding Protocol A/P1/5/79, it should be noted that most of the countries do not implement it. Actions therefore focus on organizing pilot units to fight against road-travel harassments at national borders, the establishment of the ECOWAS passport, international migration and cross-border cooperation.

85 Harmonization of statistics: The program to harmonize statistics tools is ongoing with the implementation of a series of regional programs focusing primarily on national accounts, consumer price indexes (CPI), foreign trade statistics, and balance of payments statistics. Regional methodology guides for national accounts and consumer prices indexes have been prepared and approved, while the related protocols are in the process of being adopted by the authorities.

IV. Social conditions in West Africa: Population dynamics

IV.1.Current demographic context

86 2012 projections by the United Nations Population division show that sub-Saharan Africa will have a population of 0.9 billion in 2013. West Africa is home to roughly 37% of sub-Saharan Africa's population and more than 2/3 of its population are concentrated in the three most population countries, namely Nigeria (52%), Ghana (8%) and Ivory Coast (6%). The sub-region has an average population growth rate of 2.7% equivalent to the average rate for sub-Saharan Africa and that of Nigeria. This population growth at a time when education and democratization levels are equally growing, accounts for the high pressures and demands from the society, a pressure that economic performances are yet to respond to over the short term. Actually, the economic growth rate hardly doubles the population growth rate.

87 West Africa's urban population proportion stands at 46%, slightly above that of sub-Saharan Africa. This proportion is higher than 50% in the sub-region's three most populated countries. The sub-region has a fertility rate of roughly 5.7 children per woman, higher than that of sub-Saharan Africa, namely 5.4 children per woman. At country level, Niger's women have the highest fertility rate with 7.6 children. The most populated countries also have quite high fertility rates: Nigeria (6.0 children/woman), Ghana (4.2 children/woman), Ivory Coast (4.9 children/woman). Less than 15 year-olds account for 44%, quite to the level for sub-Saharan Africa (43%). The proportion of people aged 60 and above account for merely 5% of the population, same level as that of sub-Saharan Africa.

88 Unemployment reportedly remain very high in several countries of the sub-region, hence the high prevalence of poverty amid a backdrop of low labor employability, especially amongst youths. This situation is due to the lack of appropriate technical and vocational training schools, as well as inadequate access to credits and production resources, especially amongst youths (SRO-WA), whereas the countries are doing their best to address the situation. For instance, Nigeria, West Africa's demographic giant with a population of approximately 167 million[1] choose as a top priority of its macroeconomic policy, job creation by stabilizing prices and expanding the external sector to ensure an inclusive and shared growth.

89 On the other hand, the mortality rate is 14 per thousand, slightly higher than that of sub-Saharan Africa. Life expectancy stands at 52 years, almost the sub-Saharan African average.

IV.2 Migratory movements

90 It is a foregone conclusion that migration is generally caused by the quest for a better well-being. This generally involves the quest for better earnings (income) or a better quality of life

[1] <http://www.afdb.org/fr/countries/west-africa/nigeria/>, January2014

(especially better healthcare or education facilities). Manpower mobility being equally a key factor in building the common market, economic communities have adopted agreements to properly control the movement of nationals of member countries. However, despite globalization, several factors still hinder the mobility of people and manpower. The quest for a better well-being can lead to the kind of tragedy frequently witnessed on the Mediterranean Sea during the numerous attempts by sub-Saharan African migrants to cross into Europe at the risk of their own lives.

91 In the sub-region, UEMOA and even ECOWAS countries have designed frameworks for mobility of people, thereby helping to foster intra-regional migration. This section of the report attempts to understand the motives for both regional and international migration, the magnitude of the phenomenon and, where possible, propose solutions.

IV.2.1 Migration causes

92 Migrations in West Africa originated from the following:

- Migrations have a far-reaching history in the sub-region, which had hosted large empires well before colonization and witnessed extensive interactions between different peoples thanks to the immense trading and exchanges amongst different populations. Also several countries share the same colonial history;
- Cross-border areas are very often occupied by the same ethnic groups with very close family ties that help them to obtain *de facto* or *de jure* dual nationality.

93 Generally, there are a number of external factors that may influence a personôs motivation to migrate (1).

- Economic factors: The growing divide in living conditions and income levels between countries acts as a magnet attracting migrants to countries with high living standards. Several studies have shown that differences in living conditions is a powerful motive for international migration, and the quest for decent work is a decisive factor in the decision to migrate.
- Governance and public services: Poor governance, corruption, lack of quality education and health services may motivate international migration. They may also be seen as factors that lead to poor economic conditions.
- Social and political freedoms: Lack of personal freedoms, religious, ethnic or gender discrimination may motivate migration.
- Demographic imbalances: These may take different forms, including manpower surplus or shortage caused by a change in the natural growth rate of the population. Manpower shortage may lead to underemployment and pressure on lands. On the other hand, the ageing population in most industrialized countries substantially strengthens the need for foreign workers.
- Conflicts: These may be ethnic, political or religious conflicts, economic inequalities or competition for natural resources.
- Environmental factors: Floods, coastal soil erosion, droughts due to climate change, earthquakes and industrial accidents.
- Transnational networks: The emergence of migrant communities in the host countries is a social and cultural ñpull factorò. The existence of an established network abroad helps to

cut down migration costs, thereby enabling migrants to settle in upon arrival by providing them with support.

94 These factors fully came into play in recent years with the increasing obstacles to international migration, generally to Europe. Governance issues have seriously besieged the sub-region leading to population displacements. Moreover, the integration process has eased the mobility of goods and people in the sub-region, especially with political democratization.

IV.2.2 Overview of migration in West Africa

95 At sub-regional level, the economic communities have actually set up a community framework for intra-regional migration. As mentioned in the Officeȭs last 2013 report on integration in the sub-region, ECOWAS has adopted a protocol on free movement of people, and rights of stay and establishment, which entitles member State nationals, inter alia, to enter, stay and carry out economic activities on member State territories. The countries are required to apply the laws on free movement of people, rights of stay and establishment, institution of a travel document for ECOWAS member States and passports bearing the ECOWAS seal. It should be noted that most countries do not apply the protocol.

96 Likewise, Articles 91 and 92 of the UEMOA Treaty: (i) confers the right to travel and stay on the territory of all member States; (ii) abolishes any nationality discrimination as regards searching for or taking up employment, excluding jobs in the civil service; (iii) grants access to carry out unpaid activities, as well as set up and manage businesses in compliance with the same host country laws as those established for the latterȭs nationals, subject to the limits justified by law and order, public security and public health reasons.

97 Additionally, in UEMOA countries, medical doctors and architects are entitled to free movement and establishment, together with chartered accountants, certified accountants and lawyers. This law was recently extended to veterinary doctors from UEMOA member countries under its sub-regional food security policy.

98 However, there is still a need to harmonize national laws with regard to migration to ECOWAS countries, especially for nationals of the sub-region. There are still numerous political, socioeconomic and legal barriers to the effective implementation of the ECOWAS protocol. Movement remains an uphill task with the huge number of road gates and road blocks, as well as extortion of money from travelers. These constraints are harming intra-regional trade, a factor of endogenous growth, and hence job creation. To address the situation, ECOWAS intends to take action by organizing pilot units to fight road harassments at the borders, establishment of the ECOWAS passport, international migration and cross-border cooperation.

99 West Africa is home to several post-conflict or still unstable countries, especially Liberia, Sierra Leone, Ivory Coast and Mali. Nigeria remains a hotbed of instability with the numerous rebellions in the Delta region and terrorist attacks by Boko Haram. HCR operations in West Africa reveal that developments in Mali, especially its spillover effects on internal and external population displacements (to Burkina Faso, Niger and Mauritania), as well as continuation of the voluntary repatriation operation for Ivorian refugees and implementation of the cessation clause to Liberian and Rwandan refugees, have had a considerable impact on the zoneȭs demographic dynamics.

100 In Mali, the uprising had broken out in January 2013 at a particularly difficult time for the populations of the Sahel region, already beset by a severe drought and an acute food crisis. The crisis displaced some 205 000 people within Malian territory and the departure of roughly 100 000 refugees to other Sahel countries, particularly Burkina Faso and Niger. Some 168 000 refugees, mostly Ghanaian, Ivorians, Liberians, Mauritanians and Senegalese are scattered in urban and rural areas across several West African countries (HCR, December 2013).

100 The poor ecosystem in the Sahel region has equally created several environmental migrations. Droughts and floods have displaced countless populations within West Africa.

IV.2.3 Consequences

101 Promotion of migration within the sub-region is crucial given that establishment of the common market will require free movement of goods and people as well as capital. Generally, the impacts of international migration are felt through three different types of transfers (1):

102 Firstly, transfer of people (immigration, emigration and returns). Employment abroad may reduce unemployment in the country of origin, while helping to offset a possible manpower shortage in the host country. The migrant may equally cause family issues in the country of origin or create constraints on basic services and facilities in the host country due to a population increase.

103 Secondly, transfer of know-how and knowledge: By travelling, individuals take along ideas and knowledge, and acquire new skills and ideas abroad. This ñknowledge capitalò may circulate between the migrantôs host country and their country of origin through social networks. In return, migrants may pass on certain attitudes or values to the households and communities they left behind. These may be positive, for instance emphasis on health or education; or negative, for instance views that diverge from or conflict with ethnic or national norms.

104 Thirdly, transfer of financial assets that may take different forms: salaries, savings and remittances, as well as investments. Remittances back home may be a survival strategy for both migrants and the families they left behind. On the other hand, remittances may fuel inflation and widen inequalities amongst households receiving remittances and those that do not.

IV.2.4 Challenges

105 The main challenges include:

- Lack of data and indicators on migration that remains a major constraint in many countries.
- Lack of capacities, expertise and/or financial means to understand and respond to these nexuses, especially beyond purely economic dimensions. Lack of knowledge in the specialty of understanding the nexus between population trends and conditions, and other economic and social variables (such as availability of food and natural resources, health ï especially sexual and reproductive -, employment, housing, womenôs status, etc...).

- Migration is a fragmented portfolio, often assigned to several ministries (such finance, interior, labor, migration, health or foreign affairs). This may account for the fact the issue is overlooked or becomes a source of rivalry amongst different ministries. By contrast, where migration is assigned to a single ministry, this may trigger off a whole set of new issues in case migration is addressed from a one-dimensional perspective.
- Lack of cooperation and dialogue between countries of origin and host countries on migration and development issues.
- Migration is a politically-sensitive issue often addressed with emphasis on management and control rather than developing border areas.

V. Conclusions and Recommendations

106 The report reveals that West African economies are consolidating their performances, especially at macroeconomic level and in terms of laying down long-term foundations for growth. Despite their high dependence on the advanced economies that are battling to rebound, West Africa was able to maintain its momentum. To ensure sustainability of the process, it is crucial to continue investing in physical and social infrastructure, and building production capacities. Considering the ongoing economic developments on the global landscape that may be blighted by declining global commodity prices, public financing is very likely to run out in addition to the already rather substantial public deficits. It is therefore necessary to diversify sources of financing, so as to meet the enormous social demands. It is equally crucial to maintain a sound macroeconomic profile to continue enjoying access to financial markets. There is also a need for stronger promotion of public-private partnership.

107 It should also be noted that despite the countriesô commitment to integration, meeting the commitments as a whole, and the convergence criteria in particular, remains a weakness. The sub-regional economic communities are still unable to respect mutually-agreed timetables. The single currency scheduled for 2020 is very unlikely, although the community has witnessed a stabilization of its effective exchange rates. Actually, besides the convergence criteria, some key measures on the roadmap are yet to be implemented. The expected entry into force of the ECOWAS/UEMOA CET should take special advantage of compliance with the timetable for implementing these measures.

108 The importance of the common market process is equally warranted by the need to meet social demands. Adhering to the ECOWAS calls for the observance of agreements on free movement and establishment of people. The strong growth in the sub-region requires greater mobility of the labor factor and capital within the Community, whereas nearly all the relevant community regulations have been adopted. Since African countries need to take greater advantage of their sound performances, promoting intra-regional migration will be an effective driver thereof.

109 In view of the foregoing, the following recommendations are hereby made to the States:

1) To guarantee healthy and sustainable growth in the sub-region, there is need to maintain a viable macroeconomic environment, devise an effective debt strategy and build capacities to contain inflation.

2) To maintain the growth momentum, ECOWAS countries are advised to further diversify their investment financing sources, especially by promoting public-private partnership with a view to maintaining the pace as regards laying the foundations for long-term growth (Infrastructure and Human Capital).

3) To achieve the single currency goal, member States must accept a more active multilateral surveillance that will assign a role to ECOWAS, via WAMA, in devising finance laws and monitoring the execution of public finances.

4) In promoting employment, the countries are hereby reminded of the high employment-generating potential of the green economy in the natural resources sectors, especially agriculture, forestry, mining, fishery resources, renewable energy, water management as well as other sectors like transportation and waste management. Youth and women employment-generating strategies can therefore explore these sectors.

Regarding sub-regional economic commissions, there are two recommendations:

1) ECOWAS and UEMOA are requested to finalize the CDP for implementation and speed up integration projects, especially those retained by NEPAD and the African industrial development program.

2) ECOWAS and UEMOA are also encouraged to further popularize the integration laws adopted, especially those on implementation of the CET for it to be better understood by all stakeholders like the private sector, the society and media professionals.

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[i] The ñpioneer marketsò group considered here includes Ghana, Kenya, Mozambique, Nigeria, Senegal and Tanzania. However, it may equally include Ivory Coast, Namibia and Rwanda that have all issued sovereign bonds.