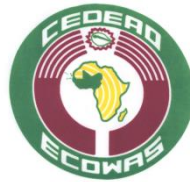


COMISSÃO DA CEDEAO

ECOWAS COMMISSION

COMMISSION DE LA CEDEAO



2016 ECOWAS Convergence Report

July 2017

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The Report was prepared by a team from the Directorate of Multilateral Surveillance made up of the following officials: Lissané KABORE (Director of Multilateral Surveillance), Peter Kofi DADZIE (Principal Programme Officer), Gideon GBAPPY (Principal Programme Officer), Iiyasu BOBBO (Principal Programme Officer), Kouenkoun MILLOGO (Programme Officer), Mendes Degol (Programme Officer), Aurel Omer FAVI and Chukwuma UKIWE (Officers In-Charge of Joint Technical Secretariat).

The editorial team would like to take this opportunity to thank all members of the National Coordinating Committees (NCCs), Joint Secretariat, Macroeconomic Policy Committee, and the Convergence Council for their important contributions to this macroeconomic convergence report.

INTRODUCTION

1. The ECOWAS Convergence report for 2016 provides a comprehensive account of the status of macroeconomic convergence in the ECOWAS region in 2016. The report essentially reviews the status of implementation of key activities undertaken under the ECOWAS Monetary Cooperation [programme (EMCP) in 2016. It also examines the economic and financial developments at the global, regional and national levels in the review period as well as the challenges that the countries and the region faced during the year. The report is based on Article 8 of the Supplementary Act A/SA.3/06/12 on the ECOWAS Multilateral Surveillance Mechanism which deals with Evaluation of Convergence and enjoins the ECOWAS Convergence Council to consider half-yearly reports prepared by the ECOWAS Commission.
2. The multilateral surveillance of the economic and financial policies of Member States is the basis for implementation of the ECOWAS monetary integration programme and creation of the ECOWAS Single Currency. It is accomplished through an assessment of the performance of Member States in relation to the macroeconomic convergence criteria defined for that purpose and the implementation of the activities contained in the roadmap for the ECOWAS single currency. It also serves as part of the mechanism for the continuous monitoring and assessment of the performance of the economies of ECOWAS Member States and progress being made by each Member State in meeting the convergence criteria.
3. The report was prepared with inputs, in the form of country economic reports, provided by the National Coordinating Committees (NCCs) of the respective ECOWAS Member States as well as information and data collected during the half-yearly joint multilateral surveillance missions of the ECOWAS Commission, WAMA and WAMI in 2016. The country reports of the NCCs were reviewed by the Joint Secretariat, an institutional organ of the Multilateral Surveillance Mechanism comprising the ECOWAS Commission and other regional institutions involved in the ECOWAS Multilateral Surveillance Mechanism namely, West African Monetary Agency (WAMA), West Africa Monetary Institute (WAMI), UEMOA Commission, and the ECOWAS Bank for Investment and Development (EBID). The reports were subsequently discussed at the regional meeting of the NCCs in Ouagadougou from 19 to 23 June 2017 before being consolidated into the convergence report.
4. During the course of 2016, the Commission facilitated the effective implementation of the EMCP through the organisation of regional meetings on the institutional framework of the ECOWAS Multilateral Surveillance Mechanism (EMSM) and the Roadmap for the ECOWAS Single Currency. Against this backdrop, ECOWAS Commission, in collaboration with the West African Monetary Agency (WAMA) and the West African Monetary Institute (WAMI), participated in the half-yearly Joint Multilateral Surveillance missions to ECOWAS Member States in April and September 2016. The joint missions held dialogue with key policymakers and other stakeholders

on recent macroeconomic developments in the Member States and the impact of macroeconomic policies on the resolution of challenges facing economic development.

5. The Commission also organised the Ninth Ordinary Session of the ECOWAS Convergence Council in Abuja on 9 December 2016 to consider and adopt the report of the 4th Meeting of the Technical Committee on Macroeconomic Policies held on 7 and 8 December 2016 in Abuja. The Council, among other things, recommended that the ECOWAS Commission should conduct a study to determine the feasibility or otherwise of the year 2020 target date for the launch of the single currency. The scope of the study should cover a review of the Roadmap of the Single Currency with the assistance of subject matter experts and national stakeholders and should include milestones, costing and funding of the activities. The Council also made several recommendations for the Member States including the need for continued efforts for the diversification of their economies with a view to withstanding external shocks.
6. In the area of integration, significant strides were made in policy harmonisation and implementation of activities geared towards the free movement of persons and goods in the Community. In the bid to enhance efforts at reducing non-tariff barriers that hinder intra-regional trade development, the Task Force on the ECOWAS Trade Liberalisation Scheme was officially inaugurated in May 2016 in Ouagadougou. With respect to peace and security, efforts made by the Heads of State and Government culminated in significant progress in the consolidation of peace in Member States and resolution of some crises. However, many challenges remain in the form of terrorist attacks that continue to hit hardworking populations particularly in Mali, Burkina Faso, Cote d'Ivoire, Niger and Nigeria.
7. On the economic front, the year 2016 was characterised by varying degrees of success in Member States. West Africa was the most severely hit by the slowdown in general activity of the continent in 2016. Real growth rate for ECOWAS was 0.2% in 2016 compared to 3.3% in 2015 and 6.1% in 2014. While growth remained robust in certain Member States such as Cote d'Ivoire and Senegal, it was, however, very slow, if not negative in other countries of the Community. The considerable drop in economic activity of the West African region was linked primarily to the sharp fall (-1.5) in real GDP of Nigeria, the region's largest economy and Africa's foremost oil producer.
8. This report is structured into four (4) sections. Section I on the External Environment analyses developments in the global economy in 2016 and its impact on the economic and financial performance of ECOWAS Member States. Section II provides an overview of the economic and financial situation of ECOWAS Member States in 2016 and analyses the performance of the individual economies during the period with implications for macroeconomic convergence. Section III assesses the status of macroeconomic convergence in 2016 and analyses the performance of each Member State with respect to meeting each of the convergence criteria and the number of

criteria met in 2016. Policy Harmonisation and Institutional Arrangements are discussed in Section IV, and the report ends with Conclusion and Recommendations.

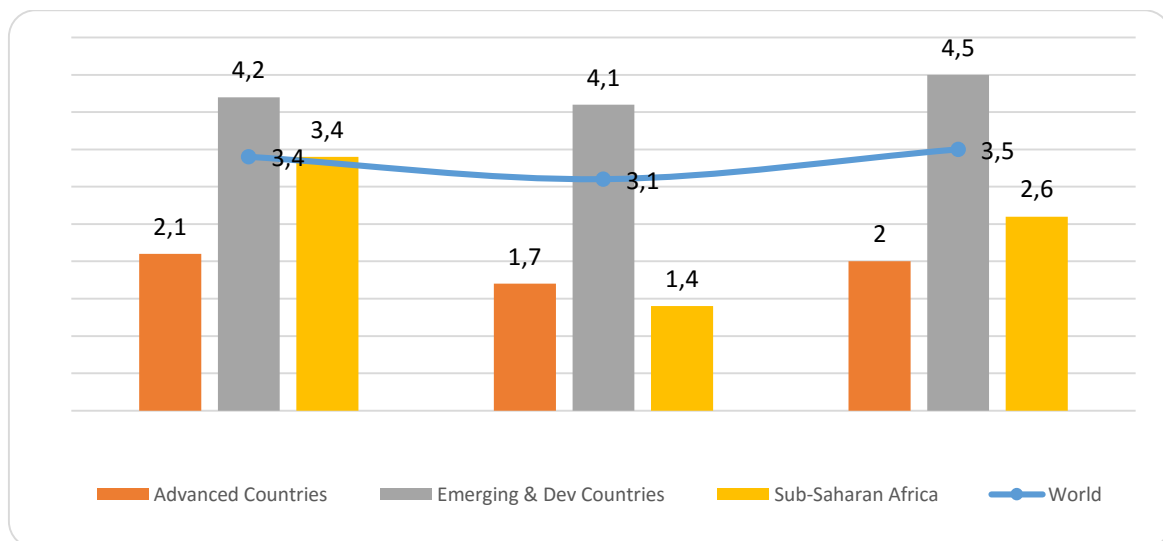
I. THE GLOBAL ECONOMIC ENVIRONMENT

9. The global economic environment in 2016 was characterised by a drop in oil prices, uncertainty over the impact of United Kingdom's withdrawal from the European Union (Brexit) decided on 23 June 2016, Implementation of accommodating monetary policies by the major Central Banks and the ongoing rebalancing in China from an investment- and export-driven economy to an economy based on services and consumption.

1.1 Global Economic Growth

10. In this context, economic activities in the world slowed down slightly to 3.1% in 2016 compared to 3.2% the previous year. The change is linked to the downtrend in the growth of advanced economies (1.6% against 2% in 2015) and emerging and developing economies (4.1% against 4.2% in 2015).

Figure 1.1: World Economic Growth Rate 2015-2017



Source: IMF, World Economic Outlook, updated in January 2017

11. In the United States of America, real GDP increased by 1.6% in 2016 compared to 2.6% in 2015, in connection with the appreciation of the Dollar and low level of investment by companies. In the Eurozone, due to the effects of Brexit, growth rate was 1.7% in 2016 compared to 2% the previous year, linked to the low level of consumption and private investment, notwithstanding the easing of funding conditions in the zone.
12. In Japan, the economic growth rate increased by 1% in 2016 compared to 1.2% in 2015, under the negative effects of the Japanese Yen appreciation against the American Dollar and notwithstanding budget recovery measures introduced in the past years in order to relaunch the economy and check deflation.

13. Regarding emerging countries, a slight downturn was recorded in 2016 with the economic growth rate standing at 4.1% compared to 4.2% the previous year. The change is as a result of the recession in Brazil and Russia and the growth decline in China, India and South Africa. In Brazil, the recession continues with a fall of 3.6% in real GDP in 2016, following a 3.8% decline in 2015, in connection with the lingering political crisis and drop in commodity prices. Russia is struggling to come out of recession with a 0.3% contraction in GDP following a 3.7% decline in 2015.
14. In China, growth slowed down to 6.7% in 2016 compared to 6.9% the previous year, against the backdrop of adjustments in the Chinese economy, aimed at making domestic consumption and services the engine for economic growth. In India, real GDP rose by 6.6% in 2016 compared to 7.6% in 2015, following a decline in investment.
15. For sub-Saharan Africa, there was a fall in the momentum of the economy in connection to the drop in commodity prices, particularly oil, continued low level of demand in advanced countries, internal political tension, decline in net inflow of capital, negative impact of the weather on the economy, etc. Thus, real GDP increased by 1.4% compared to 4.1% the previous year.

Growth of the African economies

16. Africa witnessed a downtrend in growth in 2016 which stood at 1.7% compared to 3.3% in 2015, linked to the difficulties experienced by the major African economies (particularly Nigeria and South Africa), which still suffer the ripple effect of the fall in basic raw materials prices. The poor performance is observed in all the major regions¹ of the continent, although the extent of contraction of overall activity is fairly uniform (Figure 1.2).
17. West Africa, representing about 30% of Africa's population, was the region the most affected by the downturn in overall activity in 2016, with economic growth of hardly 0.2%, due essentially to the economic recession in Nigeria, the continent's largest economy. Therefore, the region's fortunes are expected to stand at USD 571.4 billion

¹The geographical regions selected by the African Union, AfDB and OECD.

Southern Africa: Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia, Zimbabwe.

Central Africa: Cameroon, Central African Republic, Chad, Congo, Democratic Republic of du Congo, Equatorial Guinea, Gabon, Sao Tomé and Principe.

East Africa: Burundi, Comoros, Djibouti, Eritrea, Ethiopia, Kenya, Rwanda, Seychelles, Somalia, Sudan, South Sudan, Tanzania, Uganda.

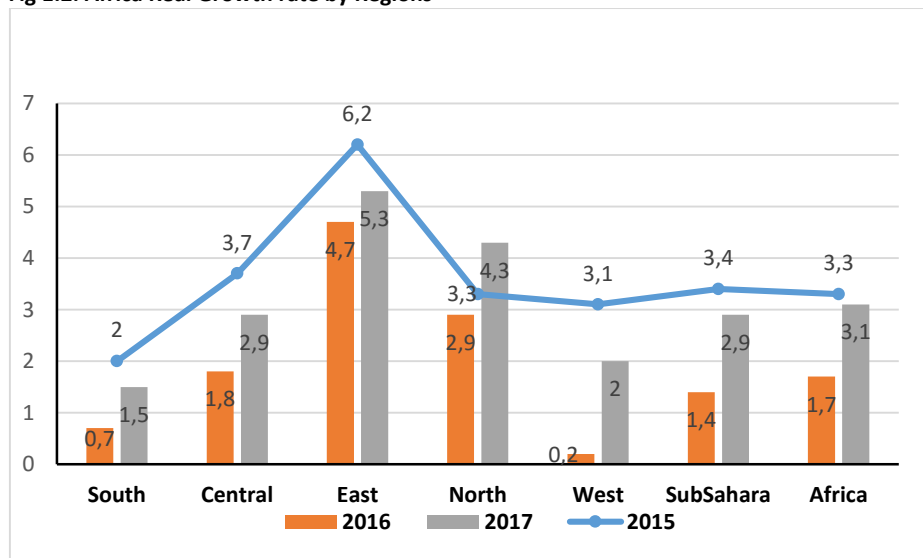
North Africa: Algeria, Egypt, Libya, Mauritania, Morocco, Tunisia

West Africa: Benin, Burkina Faso, Cabo Verde; Cote d'Ivoire, Gambia, Ghana, Guinea, Guinea Bissau, Liberia, Mali, Niger, Nigeria, Senegal, Sierra Leone, Togo

compared to USD 637.4 billion in 2015. As a result, the average income per ECOWAS inhabitant fell by nearly 13%, or USD 1629 in 2016 against USD 1866 in 2015. However, the generally negative situation of West Africa contrasts with the positive economic outcomes of most countries of the region.

18. Southern Africa, representing 17% of the population was the second region most affected, with a growth rate 0.7% in 2016 compared to 2% in 2015. The slowdown is due primarily to the economic difficulties of South Africa which recorded real growth of 0.3% in 2016 compared to 1.3%. Similarly, the stagnation of the Angolan economy in 2016, following the fall in oil prices, also contributed to the region's poor performance.

Fig 1.2: Africa Real Growth rate by Regions



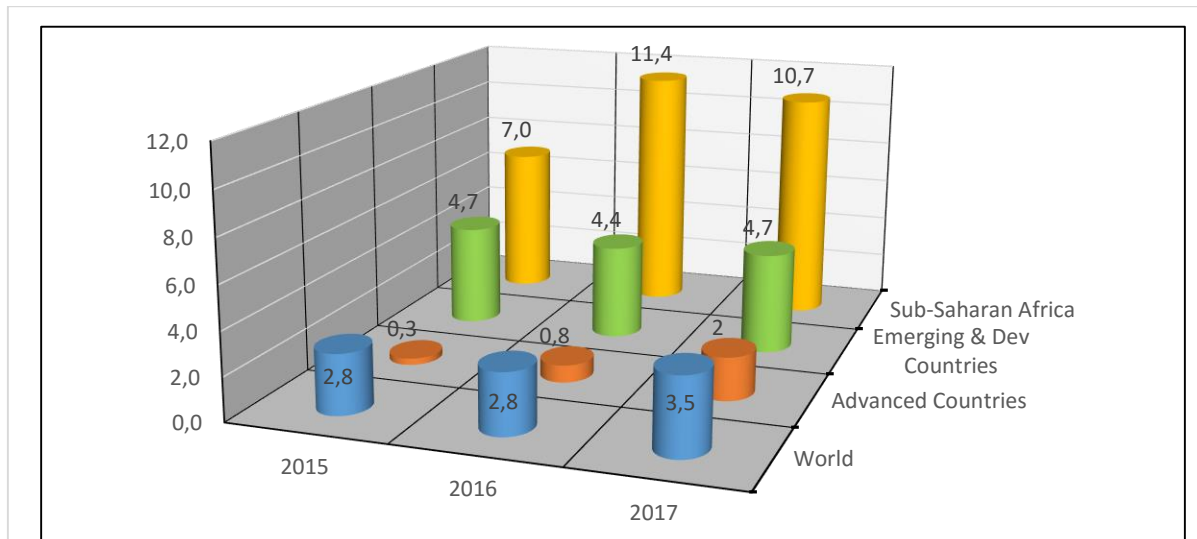
19. Central Africa representing 11% of the population is the third most affected region, with growth a rate of 1.8% in 2016 compared to 3.7% in 2015, following the recession in oil producing countries like Equatorial Guinea (-10%), Chad (-6.4%) and Congo (-2.7%) and the economic downturn in Democratic Republic of Congo (2.4%).
20. North Africa, which represents 16% of Africa's population, was the second least affected sub-region with economic growth rate of 2.9% compared to 3.3% in 2015. This development is linked to the growth recovery of Egypt (3.8% against 4.2% in 2015), Tunisia (1.5% in 2016 compared to 0.8% in 2015) and Algeria (3.6% in 2016 against 3.9% in 2015). In contrast, the continued crisis in Libya has mitigated the effects of the dynamism of the regional economy.
21. Finally, East Africa consolidated its position as the most dynamic sub-region of the continent in the past years, especially after the downturn observed in West Africa. Although in decline, its real growth was sustained in 2016 at 4.2% after 6.2% in 2015.

The change is due mainly to the robustness and dynamism of the economies of Ethiopia (6.5% in 2016 compared to 10.2% in 2015), Kenya (6% against 5.6% in 2015) and Tanzania (7.2% in 2016 against 7% in 2015).

1.2 Inflation

22. Average global inflation remained stable at 2.8% in 2016 as 2015 given the slowdown of economic activity, modest increase in salaries and low commodity prices. For advanced economies, inflation rose from 0.3% in 2015 to 0.8% in 2016, in connection to the low cost of energy. In emerging economies and developing countries, inflation was 4.4% in 2016 compared to 4.7% in 2015. The highest inflationist pressure was recorded in sub-Saharan Africa with an average general price increase of 11.4% in 2016 compared to 7% the previous year.

Fig 1.3: Annual Average inflation rate

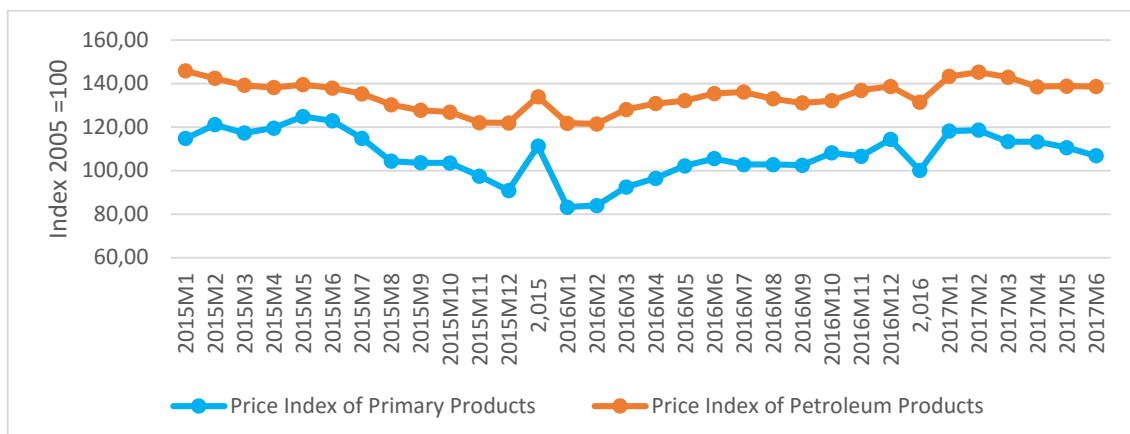


Source: Derived from PEM/IMF Data, 2016

1.3 Cost of basic raw materials

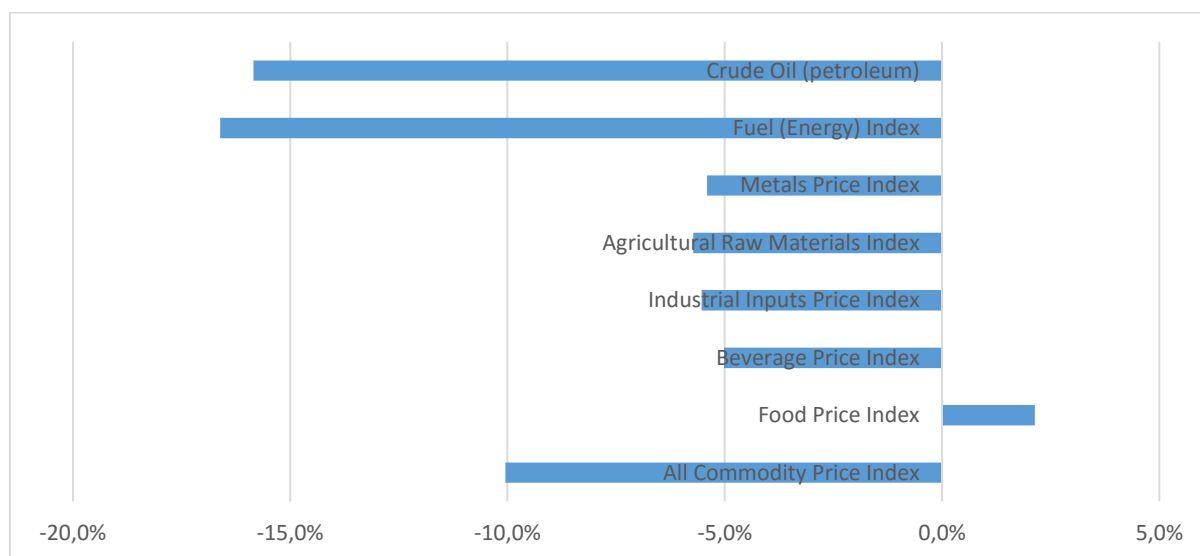
23. The downward trend in basic raw materials prices which started in the second half of 2015 continued in 2016, putting the raw materials price index at 100.8 on the average in 2016 compared to 111.3 in 2015. However, a reversal in the trend has been observed since April 2016. Changes in basic raw materials prices was a result of uncertainties linked to global economic recovery, fluctuations in the foreign exchange rate as well as demand and supply of different products.

Fig 1. 4: Changes in the Raw Material Price Index



24. The calculations made based on the indices published by the IMF indicate, on a yearly average, a decline of 16.8% in the prices of energy products following the 15.9% fall in oil prices, linked to the rise in oil supply driven by the increased stock in the United States and the return of Iranian oil to the international market. In contrast, the foodstuff index rose by 1.9%, linked to the upturn in the cashew nut indices (+13.3%), following increased demand for cashew nuts in particular. Similarly, the indices for palm oil (+13.8%), palm kernel oil (+21.7%), gold (+8%) cotton (+3.3%) linked to the drop in world reserves of palm oil and palm kernel oil.

Fig 1. 5: Changes in the indices of major basic raw materials



1.4 Monetary and Financial markets

25. In the monetary and financial market, there was an increase in nominal and real interest rates over the long term in 2016, particularly in the United Kingdom and United States, under the effects of Brexit and the election of a new American President.

An increase of 60 basis points was recorded starting in August 2016, on the nominal return on the rates of 10-year bonds of the American Treasury, thus reflecting the fact that an expansionist budget policy is expected. In the Eurozone, an increase in the rates of return was also observed, although this was a more modest increase. In emerging countries, the financial conditions were tightened generally, with a rise in long-term interest rates for bonds in local currency.

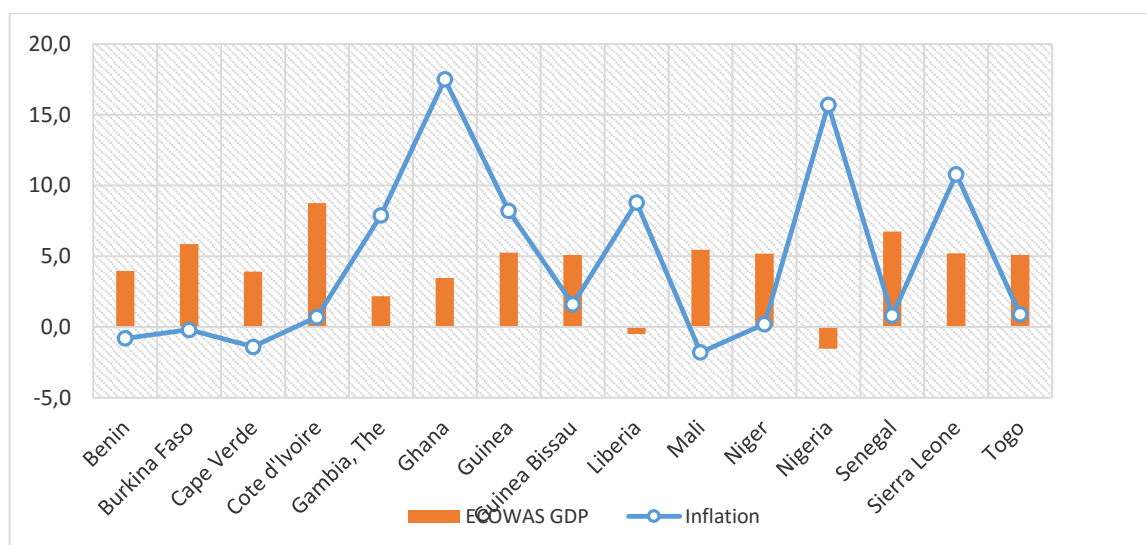
26. In the foreign exchange market, the American Dollar appreciated in real value by more than 6% since April 2016. However, the Euro and the Yen continued to depreciate.

I. ECONOMIC AND FINANCIAL SITUATION IN ECOWAS MEMBER STATES IN 2015

2.0 Overview

27. **GDP Growth:** Generally, the economies of the region continued to be resilient in 2016, even though a few downturns were observed. Growth rates varied from -1.5 percent to 8.8 percent. Most of the countries (nine out of fifteen) recorded growth rates that were slightly higher than that recorded in 2015. Four countries, however, recorded positive but slower growth, while two (Nigeria and Liberia) recorded negative growth rates. It should be emphasized that while Nigeria officially declared that the economy was in recession, Liberia's case was not considered as such. Cote d'Ivoire continued to be the best performing economy in terms of growth, recording growth of 8.8 percent in 2016. This performance, however, fell below the 9.2 percent recorded in the previous year partly on account of the drop in the price of the country's main export commodity, cocoa, as well as a slowdown in activities related to infrastructure.

Fig 2.0.1: Annual Average Inflation Rate and Real GDP Growth Rate

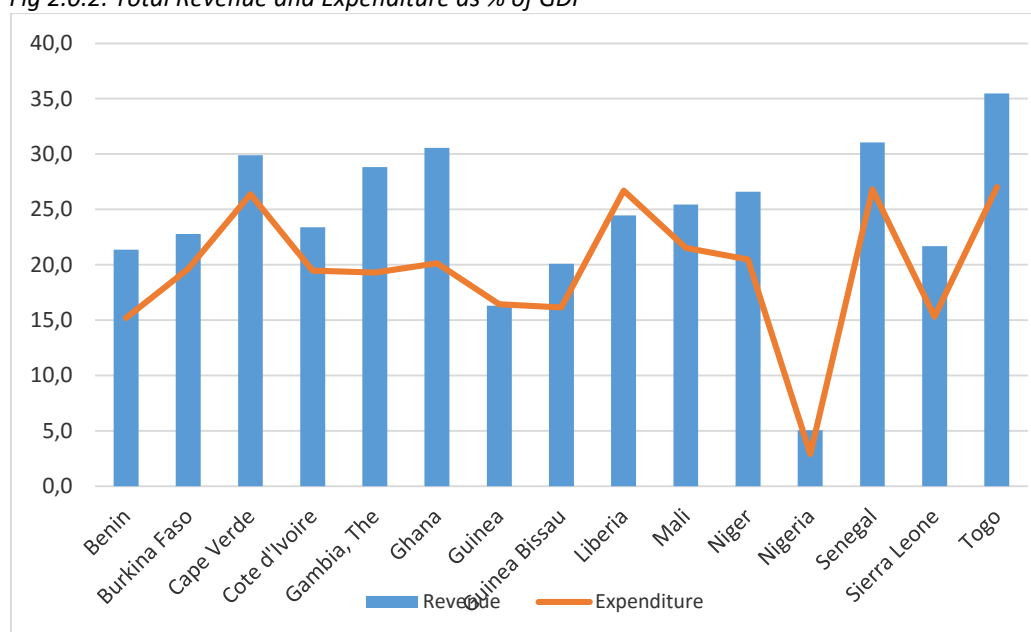


28. **Inflation:** Inflationary pressures appear relatively subdued in most economies during the review period. Even in countries where the rates of inflation remained high, such as in Ghana, they exhibited a declining trend. Inflation rates (annual average) in the region varied from -1.8 percent (Mali) to 17.5 percent (Ghana). In nine of the countries, the rates recorded in 2016 were lower than what prevailed in 2015, while in five others the reverse occurred. In Guinea, the rate of inflation remained the same in both years. Unlike 2015 when only one country (Ghana) recorded double digits inflation, the number increased to three (Ghana, Nigeria, Sierra Leone) in 2016.

29. **Public Finance:** Government fiscal operations remain the Achilles heels of most countries in the region as relatively large budget deficits were recorded in 2016, albeit

on a declining trend. Excluding grants, the budgets of all Member States, except Liberia, recorded deficits, with the magnitude of the deficits in relative terms varying from 1.1 percent of GDP (Guinea) to 11.4 percent of GDP (Togo). Including grants, however, two countries (Guinea and Liberia) recorded surpluses. Nine countries recorded budget deficits larger than the previous year's, compared to four in 2015. With respect to resource mobilization, the performance of the countries as a whole did not much change compared to the previous year. Two countries in 2016 had the revenue to GDP ratio exceeding the benchmark.

Fig 2.0.2: Total Revenue and Expenditure as % of GDP

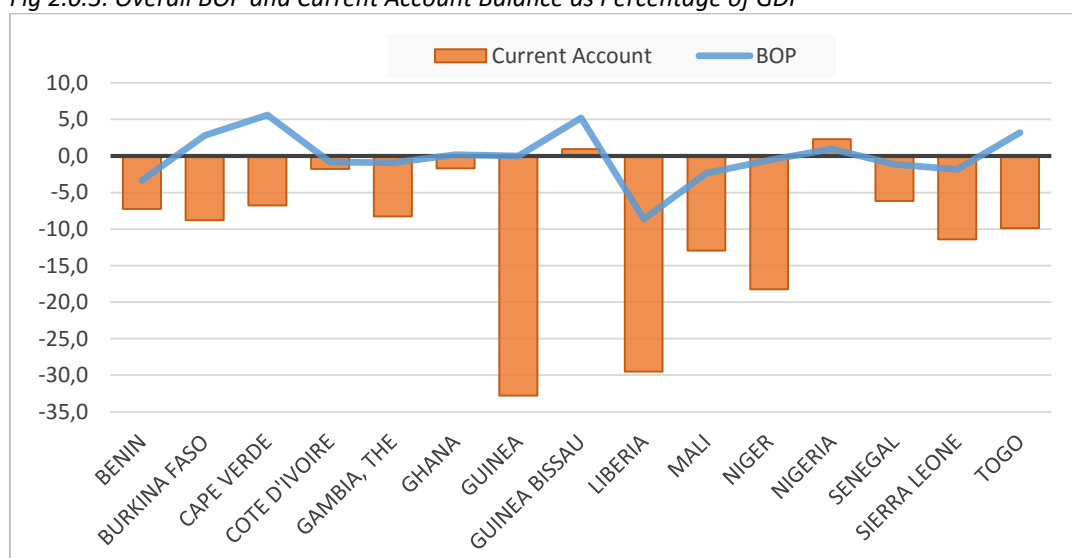


30. Recurrent expenditure continues to be the largest component of government expenditure in all the Member States, accounting more than 80 percent of total spending in most countries in 2016. In relation to GDP, recurrent expenditure varied between 4.5 percent (Nigeria) and 22.8 percent (Liberia). On the other hand, capital expenditure composed a relatively small fraction of government expenditure, less than 20 percent in most cases. In relation to GDP it varied between 1.7 percent (Liberia) and 12.9 percent (Togo) in 2016, with only three countries recording ratios that exceeded 10 percent. The stock of public debt saw appreciable increase in most countries of the region. Expressed as a percentage of GDP, the public debt varied between 17.1 percent (Nigeria) and 128.6 percent (Cabo Verde), with the ratio falling below the 70 percent regional threshold in 11 countries.
31. **External Sector:** The volatility of the external sector continued to exert influence on the economies of the region. In particular, the fallen international prices of most commodities from the region affected the trade balance, and consequently, the current account of commodity exporting countries. Apart from Guinea Bissau and Nigeria, the current account of most of the countries in the region remained in deficit.

Despite recording deficits, the current account of most countries actually experienced improvement compared to 2015. Indeed, only four countries recorded deterioration of their current accounts, compared to 2015.

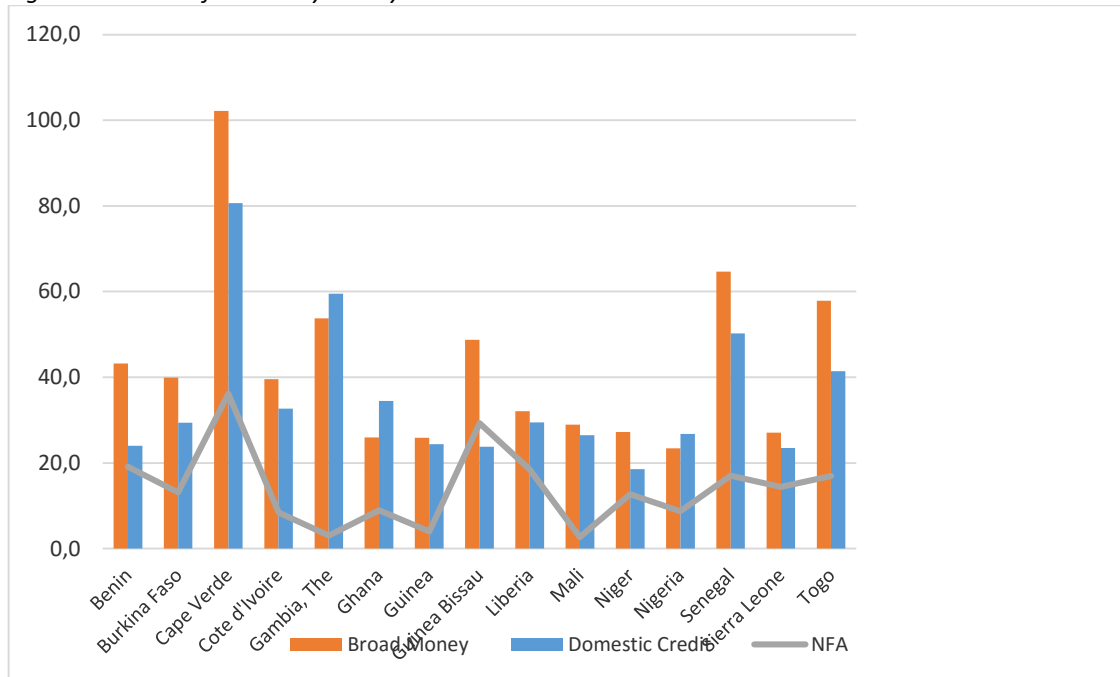
32. Regarding the overall balance of payments, there was a slight improvement in 2016. Whereas six countries recorded deficits in the overall balance of payments, seven recorded surpluses while two recorded zero balances. The deficits varied from 0.6 percent of GDP (Niger) to 8.7 percent of GDP (Liberia), while the surplus varied between 1.0 percent (Nigeria) and 5.2 percent (Guinea Bissau). However, it should be noted that a surplus or deficit balance of payments does not tell the full picture of the actual performance of a country in qualitative terms. In fact, compared to 2015, only seven countries recorded improvements in the balance of payments, while in eight it deteriorated.

Fig 2.0.3: Overall BOP and Current Account Balance as Percentage of GDP



33. **Exchange Rates:** Most currencies in the region enjoyed a greater degree of stability in 2016 than in the previous year, with most variations falling within the plus or minus 10 percent band. Three currencies (Guinean Franc, Naira, Leone), however, had variations exceeding this band. Apart from the CFA Franc and ESCUDO which appreciated (by 0.5 percent), all the other currencies depreciated against the major trading currencies, with the depreciation varying between 3.3 percent (Dalasi) and 23.5 percent (Naira).

Fig 2.0.4: Ration of Monetary Survey to GDP

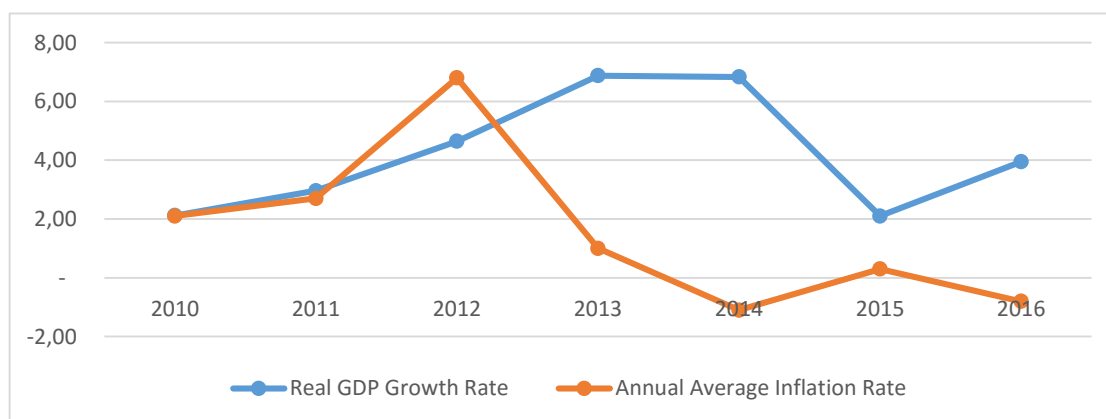


34. **Monetary Sector:** Most monetary authorities in the region continued to take tight monetary policy stance in an effort to curtail fully inflationary pressures. Consequently, money supply witnessed modest growth. As a ratio of GDP money supply fell between 23.4 percent (Nigeria) and 102.2 percent (Cabo Verde). Mirroring the money supply growth Net Foreign Assets of most countries underwent sluggish growth. In relative terms NFA varied between 2.7 percent of GDP (Mali) and 36.2 percent of GDP (Cabo Verde). Similarly credit expansion was quite modest, increasing less than 4 percentage points in most countries.

2.1 Economic and Financial Situation in Benin in 2016

35. In 2016, the pace of economic activity in Benin picked up with a recorded growth rate of 4% compared to 2.1% in 2015. The growth was driven by all sectors. Economic growth was led among others, by: (i) improvement in agricultural output following an increase in cultivated acreage; (ii) improvement in energy supply in relation to measures taken by the Government to address outages; (iii) dynamism in the telecommunications sector; (iv) enhancement of anti-fraud measures and tax evasion control.

Fig 2.1.1: Real GDP Growth Rate and Inflation Rate of Benin



2.1.1 Real Sector

36. Growth in the primary sector increased by 9.1% in 2016 compared to -7.2% in 2015. Growth rate of the value-added in the agricultural sub-sector increased by 12.5% in 2016 compared to a decline of 10.7% in 2015, linked to the increase in cultivated area and good rainfall. Cotton production was estimated at 350,000 tons. Regarding food crop production, the country continued implementation of reform programmes aimed at boosting productivity such as the supply of specific inputs, mechanisation of agriculture and development of river basins. The livestock farming sub-sector for its part was stable in 2016 comparatively to 2015 with a growth rate of 0.3%. The fishing, forestry and hunting sub-sectors grew by 2% in 2016.
37. The secondary sector recorded a 4.4% increase in value added compared to 10.1% in 2015. The downturn was caused by the extractive industry which increased by 2.8% compared to 10.7% in 2015. Activity in other manufacturing industries grew by 3.5% due to an improvement in power supply. Growth in the “Electricity and Water” subsector dropped to 2.5% from 3.3% in 2015. In the construction subsector, growth increased by 2% in 2016.
38. In the tertiary sector, growth declined to 3.6% from 4.2% in 2015. The downtrend is explained by the ‘wait-and-see’ attitude adopted by economic agents at the beginning

of 2016 in connection with the Presidential elections in Benin and Nigeria, as well as the economic recession in the latter.

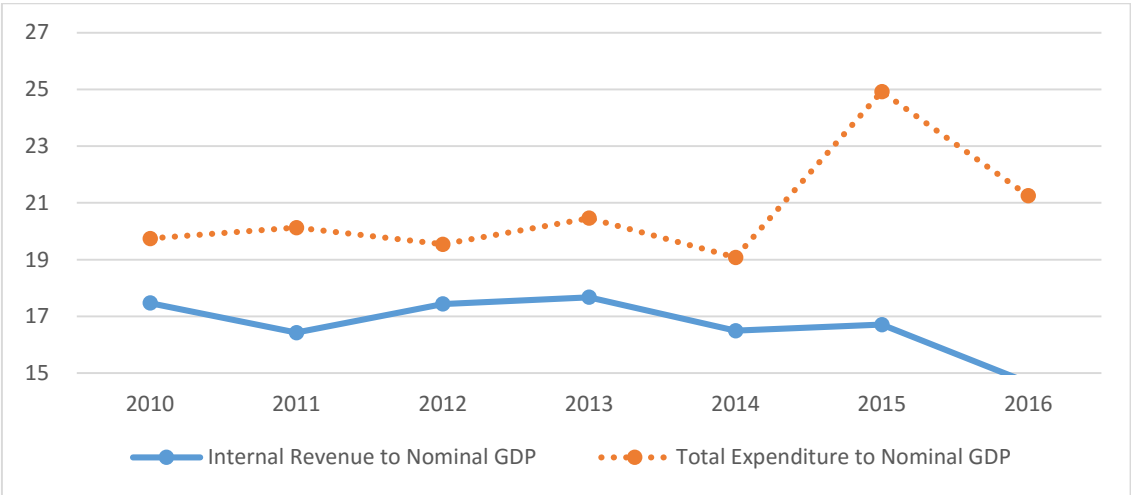
39. The transport and telecommunications sub-sector grew by 2.5% in 2016, compared to 4% in 2015, primarily as a result of the good performance of the telecommunications sector.
40. Aggregate demand in the economy was in 2016 driven essentially by final consumption. Under the impuse of final household consumption which represents more than 80% of total consumption, final consumption grew by 2.2% in 2016. Its contribution to GDP growth stood at 1.8%. Conversely, investments in 2016 declined by 1.5% following the 3.8% recorded in 2015, linked particularly with the fall in public investment. The contribution of investment to growth stood at negative 0.5%.
41. Concerning final consumption specifically, it grew by 2.2% in 2016 compared to 2.8% in 2015, with household and government final consumption expenditure increasing by 2.2% and 1.8% respectively. Increased expenditure on final consumption was fostered mainly by improved domestic demand due to the relatively low rate of inflation.
42. With respect to foreign trade, imports fell by 11.7% in 2016 following the 20.1% drop in 2015. Also, exports fell by 19.3% in 2016 following the 21.5% drop in 2015. The decline in exports was, among others, due to the suspension of wood exports in the second quarter of the year and the poor performance of cotton in the 2014/2015 crop season. The fall in imports is explained by the effects of the presidential elections in Benin and measures taken by Nigeria in the area of trade policy.
43. The annual average inflation rate stood at -0.8% in 2016 compared to +0.3% in 2015, a rate substantially below the ECOWAS convergence criteria set at 10%. The change is due essentially to the 4% fall in price for the “transports” function, -0.9% fall for “shoes and clothing items” and -0.8% for “housing, water, gas, electricity and other fuels”. The “foodstuff and non-alcoholic beverages” function fell by 0.5% while “alcoholic beverages”, “tobacco and drugs” increased by 0.3%.

2.1.2 Public Finance and Public Debt

44. The Government’s economic policy for 2016 fell within the framework of the Government Action Programme (PAG) with the overall objective of the “sustainable launch of the economic and social development of Benin”. The 2016 Budget was therefore aimed at the implementation of the PAG, accompanied by a massive investment programme. To support the programme, the priority projects concerned: (i) tourism and culture, (ii) agriculture, (iii) living conditions, (iv) infrastructure and transport, (v) digital technology, (vi) human capital and (vii) energy and water.

- 45. Total revenue and grants amounted to FCFA 771.8 billion in 2016, compared to FCFA 848.3 billion in 2015, representing a drop of 9%, caused by a fall in both domestic revenue and grants. Total domestic revenue fell by 6.5% to FCFA 745.7 billion compared to FCFA 797.4 billion in 2015 and represented 93.5% of total revenue. Grants fell by 9.4% to FCFA 26.1 billion at the end of December 2016, compared to FCFA 28.8 billion in 2015, linked solely to the decline in project grants.
- 46. Tax revenue fell in by 10.1% from FCFA 713.1 billion in 2015 to FCFA 641.1 billion in 2016, caused mainly by the fall in customs revenue which was linked to the economic recession in Nigeria.
- 47. Non-tax revenues amounted to FCFA 104.6 billion in 2016 compared to FCFA 84.3 billion in 2015, representing an increase of 24.1%.

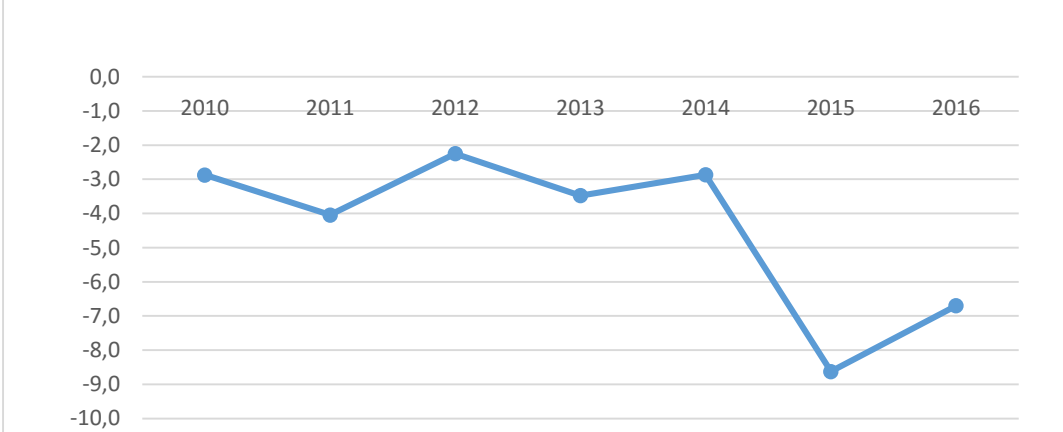
Fig 2.1.2: Total Revenue and Expenditure as % of GDP



- 48. Total expenditure and net lending fell by 12.6% to stand at 21.4% of GDP, compared to 25.3% in 2015. In nominal value, these rose to FCFA 1 086.3 billion in 2016 compared to FCFA 1 242.3 billion in 2015. The situation is explained by the decline in recurrent expenditure by 7.6% and capital expenditure by 24.1%.
- 49. Recurrent expenditure amounted to FCFA 781.1 billion in 2016 compared to FCFA 845.3 billion in 2015, representing a decrease of 7.6%, on account of a fall in spending on goods and services by 24.4% and transfers and grants by 42.8%. The wage bill grew by 3% in 2016. The three main components of recurrent expenditure in 2016 were the wage bill, purchases of goods and services and transfers and grants which respectively represented 46.2%, 11% and 24.2%.
- 50. Investment expenditure followed the same trend as recurrent expenditure with a 24.1% drop in 2016 compared to a 50% increase in 2015, amounting to FCFA 299.6 billion, of which 61.6% was financed from domestic sources and 38.4 % from foreign funds.

51. Overall, the Government’s financial operations in 2016 led to a deficit excluding grants on commitment basis, of FCFA 340.6 billion (6.7% of GDP) compared to a deficit of FCFA 422.9 billion (8.6% of GDP) in 2015, representing a slight improvement. Taking grants into account, the overall deficit stood at FCFA 314.5 billion (6.2% of GDP) compared to FCFA 394 billion (8% of GDP) in 2015.

Fig 2.1.3: Overall Budget Deficit Excluding Grants to GDP

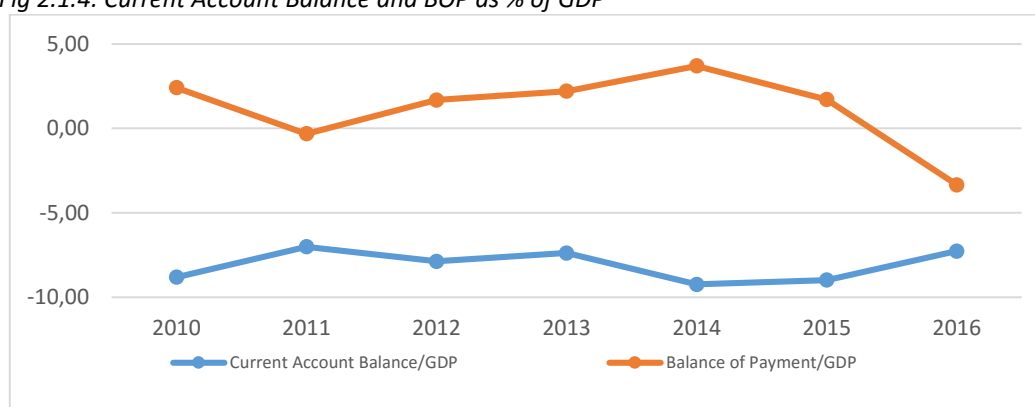


- 52. Benin’s outstanding public debt at the end of December 2016 rose to FCFA 2 513.1 billion (49.4% of GDP) compared to FCFA 2 080.5 billion (42.4% of GDP) in 2015, representing an increase of 20.8%, driven mainly by a substantial increase in domestic debt. In 2016, domestic debt accounted for 54.7% of total public debt while foreign debt represented 45.3%.
- 53. Outstanding foreign debt at the end of December 2016 amounted to FCFA 1 139.6 billion, being an increase of 9.2% compared to FCFA 1 043.6 billion in 2015. Bilateral debt constituted 20.1% of the outstanding foreign debt at FCFA 229.8 billion, being an increase of 3.1% relative to the FCFA 222.1 billion recorded at the end of December 2015. On the other hand, the debt held by multilateral institutions rose by 10.9% from FCFA 821.4 billion at the end of December 2015 to FCFA 910.7 billion at the end of December 2016, representing 79.9 % of the outstanding foreign debt.
- 54. Outstanding domestic debt increased substantially by 32.5% in 2016, to FCFA 1373.4 billion at the end of December compared to FCFA 1 036.9 billion in late December 2015. Treasury bills fell by about 30.3%, from FCFA 231.7 billion in 2015 to FCFA 161.5 billion in 2016.
- 55. Although the total amount of public debt in 2016 increased in relation to 2015, debt servicing declined in 2016 relative to 2015. Debt servicing dropped to FCFA 299.8 billion in 2016, compared to FCFA 327.2 billion in 2015, constituting a reduction of 8.4%. However, interest paid on the debt rose by 55% to stand at FCFA 63.3 billion in 2016 compared to FCFA 40.9 billion.

2.1.3 External Sector

56. External transactions in 2016 resulted in an overall deficit of FCFA 170.3 billion compared to a surplus of FCFA 83.6 billion in 2015. This development is explained by a decline in net foreign capital inflows, as the the current account deteriorated.
57. The current account deficit excluding grants stood at 7.3% of GDP in 2016, against the 9% of GDP recorded the previous year, caused by the positive balance of services and secondary income, in spite of a deterioration in the balance for goods.
58. The primary income balance improved slightly to stand at –FCFA 38 billion in 2016 against – FCFA 38.8 billion in 2015. The secondary income rose by 11% in 2016 to FCFA 94 billion compared to a 41.6% drop the previous year.

Fig 2.1.4: Current Account Balance and BOP as % of GDP

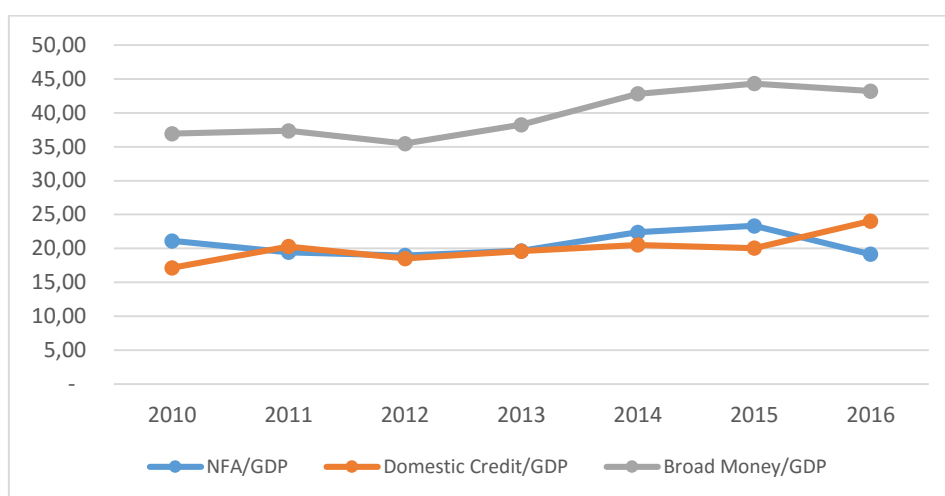


59. The trade deficit deteriorated to FCFA 339.5 billion (6.7% of GDP) in 2016 against FCFA 298.5 billion (6.1% of GDP) in 2015. The development was due to the larger decline in exports by 19.3% than in imports which was 11.7%.
60. The services account deficit improved in 2016 to FCFA 86.04 billion compared to a deficit of FCFA 187.8 billion in 2015.
61. The surplus in the capital and financial account reduced by F322.5 billion in 2016 to stand at FCFA 199.3 billion, compared to FCFA 521.7 billion in 2015.

2.1.4 Monetary Sector

62. At the end of December 2016, money supply was FCFA 2 197 billion, an increase of FCFA 23.7 billion over 2015. The change was linked to the growth in bank deposits (FCFA 105.7 billion) which was partially offset by the decline in currency in circulation (FCFA 82 billion).
63. Net foreign assets fell from FCFA 1143.7 billion at the end of December 2015, to FCFA 973.4 billion at end- December 2016, representing a drop of 14.9%, due to the considerable fall in the net foreign assets of the Central Bank by 90.2%, while the net foreign assets of commercial banks increased by 12.2% in 2016 to FCFA 943.8 billion compared to FCFA 841.5 billion in 2015.

Fig 2.1.5: Net Foreign Assets, Domestic Credit and Broad Money as % of GDP



64. Domestic credit rose to FCFA 1221.9 billion in 2016, compared to FCFA 983.6 billion in 2015 due to a reduction in net liabilities to the government sector and a rise in loans to the private sector. Loans to the private sector considerably offset the fall in credit to the government sector.

2.1.5 Macroeconomic Convergence in 2016

65. In the area of macroeconomic convergence, Benin met five convergence criteria in 2016 compared to four in 2015. The criterion on the ratio of budget deficit to GDP improved in 2016 compared to 2015. The table below presents the performance of Benin in the area of convergence in 2015 and 2016.

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	≤3%	- 0.4	- 2.6	- 1.9	- 8.0	- 6.2	Not Achieved
Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	6.8	1.0	- 1.1	0.3	- 0.8	Achieved
Central Bank Financing of Budget Deficit	≤10% of previous years tax revenue	0.00	0.00	0.00	0.00	0.00	Achieved
Gross External Reserves	≥ 3 months of imports	5.3	4.7	5	5	4.4	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤70%	26.8	25.4	30.9	42.4	49.4	Achieved
Nominal Exchange rate variation	± 10%	- 4.8	4.1	0.1	- 9.3	0.5	Achieved
Number of Criteria Respected		6	6	6	5	5	

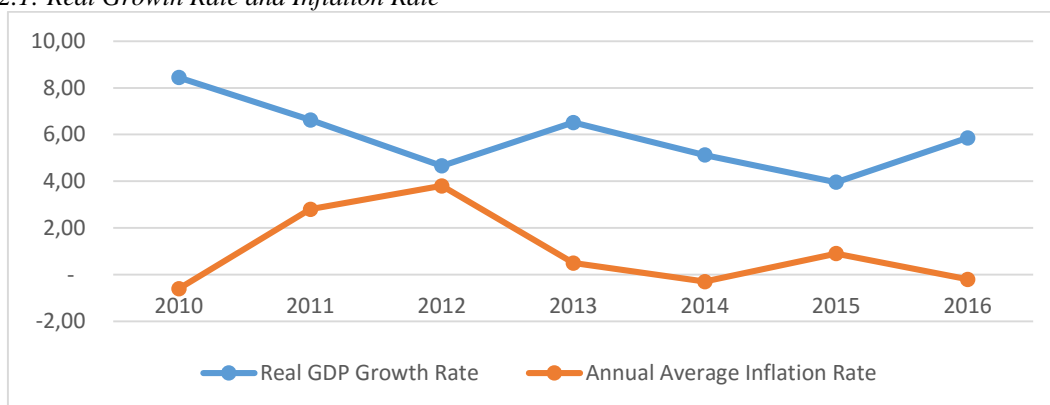
2.1.6 Conclusion and Recommendations

66. Economic activity in Benin accelerated in 2016 with growth of 4% compared to 2.1% in 2015. The growth may improve in the medium to long term if the government speeds up the implementation of the pilot projects contained in its Action Programme. Regarding future prospects, economic growth is expected to reach 5.4% in late 2017, representing a growth gain of 1.4 percentage points compared to 2016, driven by: (i) good 2016/2017 cotton season, (ii) improved food-crop production, (iii) improved prospects for the 2017/2018 cotton season, (v) encouraging outlook for the services sector in relation to the improved economic situation in Nigeria, among others.
67. To consolidate the economic and financial situation of Benin, the following recommendations are proposed:
- take suitable measures to reduce the vulnerability of the Beninese economy to external shocks,
 - strengthen measures for enhanced mobilisation of domestic resources, particularly through taxes, in order to cover recurrent expenditure and support investment.

2.2 Economic and Financial Situation in Burkina Faso in 2016

68. The Burkina Faso economy in 2016 was set against the backdrop of the new Government taking office following the transition period. The year was also characterised by heated social movements, in addition to the adoption, in July 2016, of the National Economic and Social Development Plan (PNDES) for the 2016-2020 period with the overall goal of structural transformation of the Burkinabe economy, for strong, resilient and inclusive growth which will create decent employment for all. Against this backdrop, growth accelerated in 2016 relative to 2015, being 5.9%. The growth was driven by the tertiary sector with 3.7 points. The primary and secondary sectors respectively contributed 1.2 points and 1 point.

Fig 2.2.1: Real Growth Rate and Inflation Rate



2.2.1 Real Sector

69. In 2016, the primary sector recorded an increase of 4.9% in value added compared to a decline of 0.9% the previous year. The performance was driven primarily by agriculture - both food and cash crops. Cereal production increased by 9% while cash crops, particularly cotton, grew by 18% as a result of efforts to maintain the price paid to farmers of FCFA 235 per kilogramme and intensification of support and guidance to farmers for more effective control of parasites due to the return of farmers to traditional cotton.
70. The primary sector contributed 23.7% to GDP compared to 23.9% in 2015. The sector's contribution to growth was 1.2 points compared to the negative contribution of 0.2% the previous year.
71. Regarding the secondary sector, growth was 5.5% in 2016 compared to 4.6% in 2015. The improvement was driven by mining activities which recorded an increase of 5.8% following 0.4% in 2015. The upturn in mining activities was due mainly to the production of gold and zinc which increased by 6% and 13.4% compared to 2015. Manufacturing increased by 5.3% while electricity, gas and water production and construction activities rose respectively by 8.4% and 5%.
72. The contribution of the secondary sector to GDP stood at 18.2% in 2016 compared to 18.3% in 2015. Its contribution to growth was 1 point in 2016 compared to 0.8 in 2015.

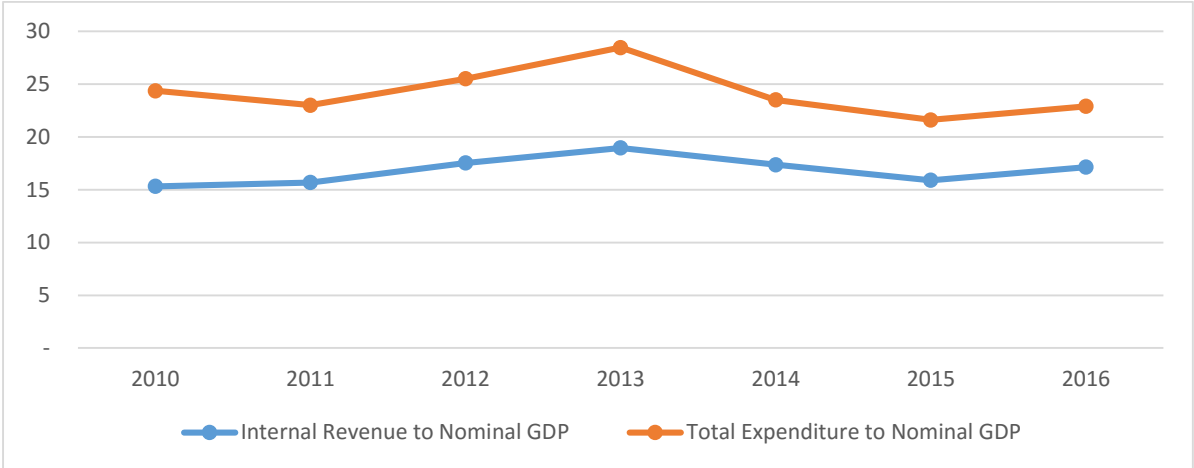
73. Growth in the tertiary sector in 2016 stood at 5.9% compared to 6% in 2015. The increase is driven by tradable and non-tradable services. Development in tradable services was driven by trade (+6.3%), transport and communication (+7.4%) and financial activities (+6.4%). Non-tradable services recorded an increase of 5.4% under the effects of the continued implementation of measures taken the Government to implement Law 081 relating to the reclassification of public servants on the new salary scale and the taking over of independent staff of the Ministry of Justice.
74. In terms of contribution to growth, the tertiary sector recorded 3.7 in 2015 compared to 3.3 a year earlier.
75. Regarding demand, final consumption increased by 1.5% in 2016, a downtrend compared to the 7.3% recorded in 2015. The slowdown is explained by private final consumption (6.2% in 2015 compared to -0.1% in 2016) as well as public final consumption (10.3% in 2015 compared to 5.9% in 2016). Investment, driven by Gross Fixed Capital Formation (GFCF) slowed down in 2016 to 3.9% compared to 8.6% in 2015. The slowdown was driven by the public GFCF (4.4% against 8.3% in 2015) as well as private GFCF (1.7% compared to 7.8% in 2015). The 4.4% rise in public investment was due to continued investment by the Government with the support of technical and financial partners (administrative infrastructure, road construction, infrastructure built within the framework of the independence celebrations in Kaya, etc.). In the area of trade, exports increased by 0.6% in 2016 as in 2015 while imports fell by 5.7% compared to an increase of 13.2% in 2015.
76. From the demand side, growth was primarily driven by trade which contributed 2.9 points while consumption and investment contributed respectively 1.4 point and 1.6 point.
77. Concerning developments in prices, annual average inflation was -0.2% in December 2016 compared to 0.9% in December 2015. This development was due essentially to the fall in prices of the functions "housing, water, gas, electricity and other fuels" (-0.7%), "restaurants and hotels" (-0.1%) and "transport" (-4.1%) in spite of the increase in the functions "food stuff and non-alcoholic beverages" (+1%) and "alcoholic beverages, tobacco and drugs" (0.7%) caused by the drop in cereal production in the 2015/2016 crop year.

2.2.2 Fiscal Sector

78. Government's financial operations in 2016 were carried out in an environment characterised by numerous social actions, implementation of some priority commitments made by the Government during the transition period following the terrorist threat. Consequently, the Government's financial operations at the end of December 2016 closed with a worsening of the overall budget deficit. The overall deficit stood at 3.1% of GDP in 2016 compared to 2% of GDP in 2015. The worsening of the deficit resulted from a 15.9% increase in total expenditure and net lending which offset a 10.4% increase in total revenues and grants.

79. Total revenue and grants mobilised in 2016 amounted to FCFA 1 410.7 billion, an increase of FCFA 132.7 billion in relation revenue mobilisation in 2015. The increase was due solely to total domestic revenue which saw an increase of 17.4%, as grants declined by 21.7%. The increase in domestic revenue was driven by a rise in tax revenue of 15.7% and non-tax revenue of 30.7%. The higher tax revenue, in turn, was driven by taxes on income, profit and capital gains (+21.9%), levies and domestic taxes on goods and services (+13.8%). The improved performance in tax revenue is explained by measures taken relative to taxes and customs which included:
- *Regarding Customs:* operationalisation of SYDONIA World and SYLVIE, provision of scanners in the main customs clearing offices, installation of a satellite monitoring system for goods in transit along the major transit corridors, activation of field 44 in SYDONIA World for more effective checks on the different taxation components (value, origin, type, quantity), checks on warehouses and the final destination of goods exempt from customs duties and taxes;
 - *Regarding tax:* continued implementation of the new segmentation of businesses by raising the VAT thresholds, ongoing broadening of tax base by collating and crosschecking information, capacity building of officers through in-service training, optimisation strategy for communication and sensitisation of tax payers on tax compliance, intensification of checks, *recovery activities* and the fight against tax fraud, enhancing the collaboration between the Tax Directorate General and other agencies with information that may prove useful to it (DGD, CNSS, COTECNA.).
80. With respect to non-tax revenue, the performance was due mainly to the measures taken by the Treasury department and the public accounting system to ensure improved revenue collection from services.

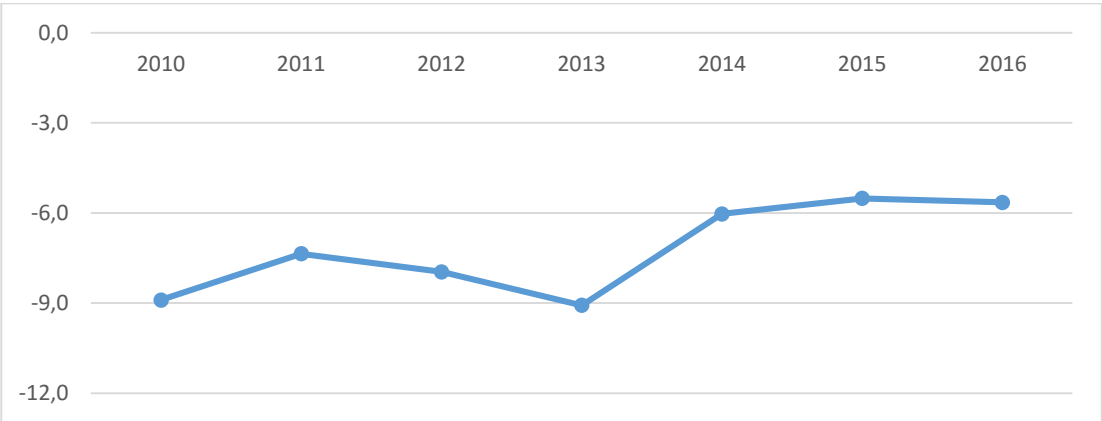
Fig 2.2.2: Total Revenue and Expenditure as % of GDP



81. Grants mobilised in 2016 stood at FCFA 180.2 billion compared to FCFA 230 billion a year earlier, representing a fall of FCFA 49.9 billion. The downturn was driven mainly by a decline in programme grants by 35% and to a lesser extent, project grants by 5.9%.

- 82. Total expenditure and net lending amounted to FCFA 1 636.4 billion in 2016 compared to FCFA 1.411 billion in 2015, representing an increase of FCFA 224.9 billion. The increase was due primarily to recurrent expenditure which increased by 21.2%; capital expenditure grew only by 5.1%.
- 83. The rise in recurrent expenditure is explained mainly by spending on wages and salaries amounting to FCFA 85.9 billion (18.3%) and transfers and subsidies of CFA 69.5 billion (23%). Expenditure on goods and services as well as interest due rose respectively by 16.9% and 49.4% relative to 2015. The increase in wages and salaries expenditure was mostly related to additional staff costs, statutory increments and the financial impact of Law n°081-2015/CNT of 24 November 2015 on the general status of the public service, financial impact of implementing independent statuses and the national development service (SND). Regarding the interest on debt, this was due to the growing share of domestic debt following the issues of treasury bills and bonds. In 2016, the interest due on domestic debt increased by FCFA 20.7 billion or 74.1%, while interest on external debt only increased by FCFA 0.9 billion.
- 84. Investment expenditure at the end of 2016 stood at FCFA 526.4 billion compared to FCFA 500.9 billion in 2015, being an absolute increase of FCFA 25.5 billion. The increase resulted partly from the rise of 19.3% and 11.9% in capital expenditure from external and internal resources respectively and also from the 85.1% fall in capital transfers.

Fig 2.2.3: Overall Budget Deficit Excluding Grants to GDP



- 85. The country’s outstanding public debt at 31 December 2016 was CFA 2.459.4 billion (34.2% of GDP), an increase of 13.9% relative to the outstanding debt at the end of December 2015. The increase was mainly due the growth of domestic debt by 23.7%, foreign debt having increased by 9.2%. The increase in domestic debt was due primarily to four (4) bond issues with a cumulative amount of FCFA 165 billion and average maturity of 5 years and eight (8) issuances of treasury bills amounting to FCFA 303.5 billion. The increase in foreign debt is explained by the effect of disbursements mainly from multilateral debts, combined with the rise in the exchange rates of the main trading currencies making up the debt portfolio. In terms of structure, domestic debt

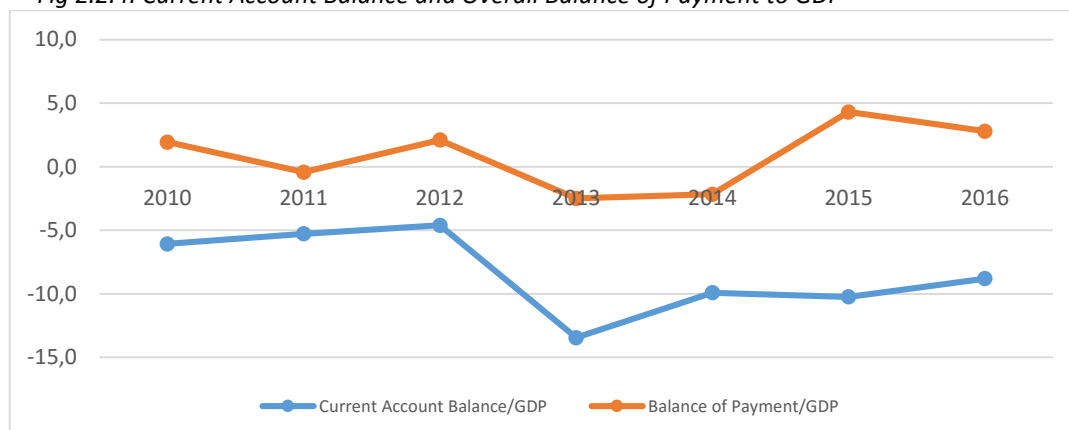
made up 35% of overall outstanding debt in 2016 compared to 32.5% the previous year.

86. At the end of 2016, debt service payments amounted to FCFA 216.7 billion, spread between external and local creditors respectively at FCFA 58.4 billion and FCFA 158.2 billion.

2.2.3 External Sector

87. Burkina Faso's balance of payments estimates for 2016 showed a surplus of FCFA 200.8 billion (2.8% of GDP) against a surplus of FCFA 283.6 billion (4.3% of GDP) recorded in 2015. This was due to a 8.6% decline in the capital account balance and financial transactions and a worsening of the current account by 8.1%.
88. The current account deficit excluding grants in 2016 amounted to FCFA 632.0 billion (8.8% of GDP), down from FCFA 675.2 billion (10.2% of GDP) in 2015. This reduction was due to the drop in goods deficit (109.3 billion in 2016 against 142.7 billion in 2015) and a decrease in the primary income deficit (176.7 billion CFA in 2016 against CFA 199.5 billion in 2015). On the other hand, the surplus of the secondary income balance dropped to FCFA 228.5 billion in 2016 compared to FCFA 271.6 billion in 2015, while the deficit of the services balance increased to FCFA 476.2 billion in 2016 against FCFA -458.7 billion in 2015.
89. The trade balance stood at a deficit of FCFA 109.3 billion in 2016 (1.5% of GDP), a reduction of 23.4% compared to the deficit of FCFA 142.7 billion (2.2% of GDP) recorded in 2015. This improvement is due to a 10% increase in exports which more than offset the 6.9% increase in imports. The increase in exports was driven mainly by exports of non-monetary gold, which fetched FCFA 960.6 billion in export earning in 2016, compared to FCFA 875.8 billion in 2015. This resulted from the increase in world prices and quantity exported. As regards imports, the increase was driven by capital goods amounting to FCFA 77.6 billion, intermediate goods in the amount of FCFA 57.4 billion (related notably to the construction of new gold mines) and food products totalling FCFA +9.6 billion (due to the decline in cereal production in the 2015/2016 crop year). As a share of GDP, exports grew from 21.2% in 2015 to 21.4% in 2016, while imports represented 22.9% of GDP in 2016, compared with 23.4% in 2015.

Fig 2.2.4: Current Account Balance and Overall Balance of Payment to GDP



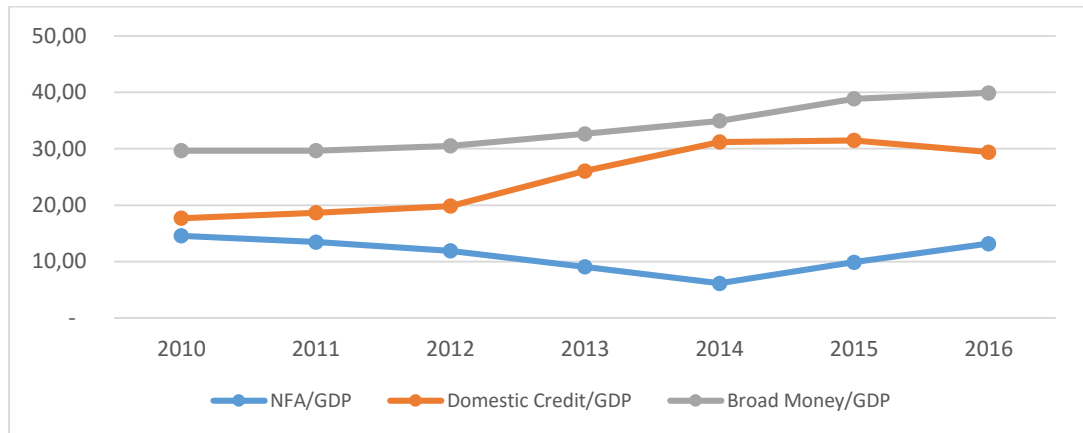
90. The services account deficit worsened by 3.8% in 2016 compared to 2015 to stand at FCFA 476.2 billion, against FCFA 458.7 billion in 2015 on account of an increase in the costs of other services, including financial and insurance, provided by non-residents. The primary income balance improved by 11.4%, arising from lower payments of income from investments, while the secondary income balance decreased by 15.9% in 2016, reflecting a decline in budgetary support.
91. The capital account and financial account surplus decreased by 8.6% in 2016 to FCFA 738.9 billion in 2016, against FCFA 808.6 billion in 2015, due to drops in the capital account (2.4%) and financial account (10.1%) respectively.

2.2.4 Monetary Sector

92. The monetary situation was characterised by a 45.1% increase in Net Foreign Assets (NFA) and a 1.8% increase in domestic credit, leading to an increase of 11.9% in money supply.
93. Net Foreign Assets grew from FCFA 651.9 billion (9.9% of GDP) at the end of December 2015 to FCFA 996.2 billion (13.2% of GDP) at the end of June 2016, representing an increase of FCFA 294.3 billion. The growth was exclusively due to commercial banks, whose NFA increased by FCFA 305.9 billion. The Central Bank's NFA on the other hand deteriorated by FCFA 11.6 billion during the same period. The increase in the NFAs of commercial banks was the result of the expansion in their gross debts over the non-residents debts that more than offset their short-term external liabilities. With respect to the contraction of the NFA of the Central Bank, this could be explained by a higher-than-projected increase in external liabilities compared to its foreign assets between 2015 and 2016.
94. Domestic credit stood at FCFA 2113.4 billion (29.4% of GDP) at the end of December 2016, against FCFA 2076.6 billion (31.5% of GDP) at the end of December 2015, representing an increase of FCFA 37.1 billion. This growth was due to the increase in credits to the economy to the tune of FCFA 142.5 billion. The Government's Net Position (GNP) improved by FCFA 105.4 billion. Credit to the private sector grew by

7.5% following the 7.0% in 2015 and reached FCFA 2039.7 billion, or 28.4% of GDP, compared with 28.8% a year earlier.

Fig 2.2.5: Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



95. Following developments of its counterparts, money supply grew by FCFA 305.1 billion or 11.9% between December 2015 and June 2016. This increase was reflected only in deposits (+19.0%), as currency in circulation decreased by 6.2% in 2015 and 2016. As a proportion of GDP, money supply represented 39, 9% in 2016 against 38.9% in 2015.

2.2.5 Macroeconomic Convergence in 2016

96. In 2016, Burkina Faso met five (5) convergence criteria, compared with six (6) on 2015. The criterion on budget deficit as a percentage of GDP was not met. For the 2015 and 2016, the situation is presented as follows:

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	≤3%	- 3.10	- 3.58	- 1.85	- 2.03	- 3.14	Not Achieved
Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	3.80	0.50	- 0.30	0.90	- 0.20	Achieved
Central Bank Financing of Budget Deficit	≤ 10% of previous years tax revenue	0.00	0.00	0.00	0.00	0.00	Achieved
Gross external Reserves	≥ 3 months	5.3	4.7	5	5	4.4	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤70%	27.96	28.58	30.79	32.75	34.23	Achieved
Nominal Exchange rate variation	± 10%	- 4.78	4.12	0.09	- 9.33	0.50	Achieved
Number of Criteria Respected		5	5	6	6	5	

2.2.6 Conclusion and Recommendations

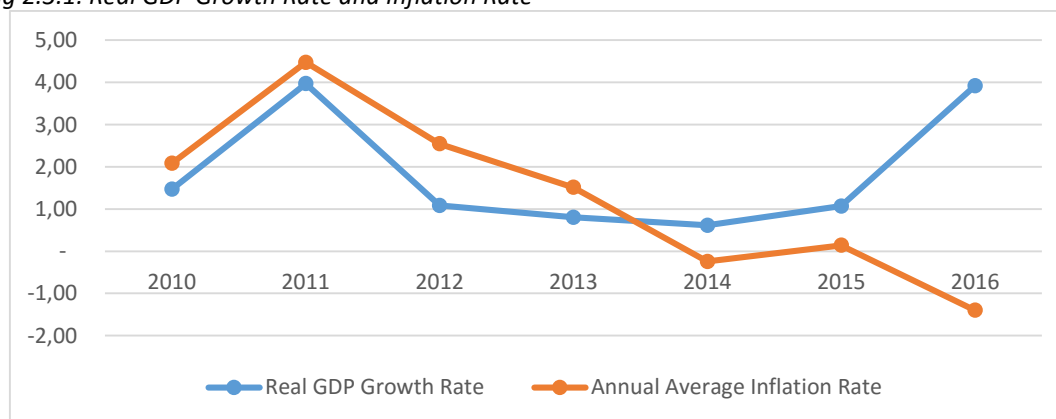
97. The year 2016 was marked by the adoption of a new policy document known as National Economic and Social Development Plan (PNDES) covering the period 2016-2020 with the overarching goal of achieving a structural transformation of economy of Burkina Faso, for a strong, resilient and inclusive growth that creates decent jobs for all. The year was equally marked by several strike actions in the public service which had a negative impact on the overall performance of government. However, the efforts made resulted in a GDP growth of 5.9%, representing an increase of 1.9 percentage point compared to 2015.
98. With regard to convergence, the country's performance worsened compared to 2015. On the whole, five criteria were met in 2016 against six in 2015.
99. To consolidate and strengthen the country's macroeconomic situation, the following recommendations are worth considering:
 - Continue and sustain measures to ensure security within the country and across the borders, targeted by terrorist groups;
 - Take steps to ease social tension;
 - Continue and sustain measures/actions and strategies for domestic resource mobilisation;
 - Continue and sustain measures to contain government spending;
 - Specifically monitor recurrent government expenditure, in particular the wage bill.

2.3 Economic and Financial Situation in Cabo Verde in 2016

2.3.1 Real Sector

100. In a context marked by the conduct of three elections (legislative, local and presidential), economic activity in Cabo Verde picked up with a real GDP growth rate of 3.9% against 1.1% a year earlier. This was mainly due to the performance of the public service, contributing 1.4 percentage point to growth, and manufacturing and agriculture, contributing 0.6 percentage point each.
101. On the demand side, economic growth was mainly driven by consumption, investment and exports of services, in a context marked by the return to confidence among economic operators, increase in FDIs and credit to the economy. However, the impact of these gains was mitigated by reductions in net external demand during the period under review. This was due to higher imports of goods and services, and reduced exports of goods.

Fig 2.3.1: Real GDP Growth Rate and Inflation Rate



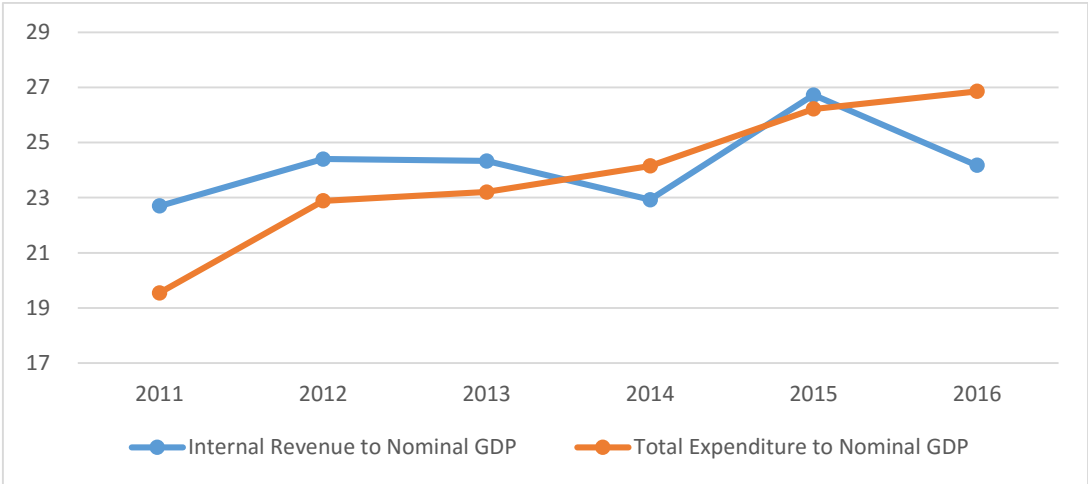
102. Economic activity took place in an environment of low inflation. Annual average inflation stood at -1.4% in 2016 against 0.1% in the previous year, on account of the fall in prices of imported and agricultural products, as well as the cancellation of the exceptional increase of 0.5 percentage point of VAT (which rose from 15% to 15.5% in 2015).

2.3.2 Fiscal Sector

103. The conduct of government's financial operations for the year 2016 ended up in a fiscal deficit on a cash basis, including grants of CVE 5797.4 million against CVE 6057.5 million in 2015, representing 3.5% of GDP against 3.9% in 2015 respectively.

104. Total revenue stood at CVE 43220 million in 2016 compared to CVE 41826.8 million in 2015, representing an increase of CVE 1393 million (3.3%), mainly on account of the 6.8% rise in tax revenues spurred by tax reforms introduced since 2013.

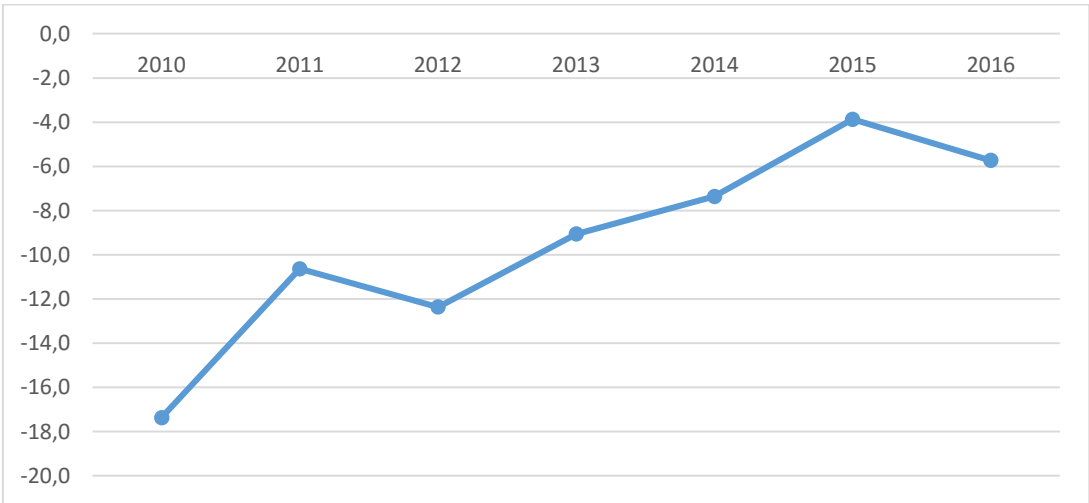
Fig 2.3.2: Total Revenue and Expenditure as Percentage of GDP



105. Total expenditure stood at CVE 49017.4 million compared to CVE 47884.0 million in 2015, representing an increase of CVE 1133 million (2.4%). This was mainly due to an 8.1% rise in operating expenditure, on account of the increase in the salaries of teachers, national police and reinsertion allowance for members of the former government. However, the gains of this increase were mitigated by the 27% reduction in public investment expenditure.

106. Funding needs were met by 68.4% through domestic debt and 31.6% through external resources.

Fig 2.3.3: Overall Budget Balance Excluding Grants to GDP



107. As a result of these developments, total outstanding public debt stood at CVE 210726.0 million (129.5% of GDP) in 2016 compared to CVE 197372.6 million (127.8% of GDP) the previous year, of which domestic debt amounted to CVE 52 516.3 million (24.9% of total public debt). This was due to the financing of the Public Investment Programme and the appreciation of the dollar.

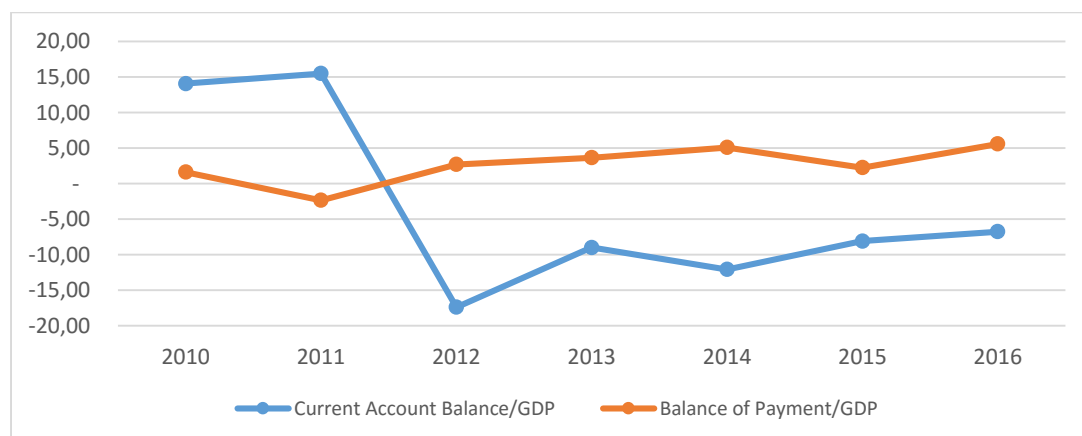
2.3.3 External Sector

108. External transactions in 2016 resulted in a surplus of CVE 9 157.6 million (5.7% of GDP) compared to a surplus of CVE 3 523.6 million (3.2% of GDP) in 2015. This was mainly due to a reduction in the current account deficit and an improvement in the financial account balance.

109. The current account deficit stood at CVE 6114.2 million (3.8% of GDP) in 2016 compared to a deficit of CVE 7291.8 million (4.7% of GDP) a year earlier. This was due to the performance of the services balance (exceeding CVE 23625.5 million in 2016 compared to CVE 21053.8 million in 2015) and secondary income (exceeding CVE 30007.3 million in 2016 compared with CVE 25244,4 million in 2015), on account of the good performance of travel, transport and telecommunications services, as well as private transfers.

110. However, the gains of the improvement in current account was mitigated by a worsening trade balance, whose deficit rose from CVE 47838.6 million in 2015 to CVE 54113.1 million in 2016.

Fig 2.3.4: Current Account Balance and Overall Balance of Payment to GDP



111. The capital account recorded a slight decline from a surplus of CVE 1883.8 million in 2015 to CVE 1315.9 million in 2016.

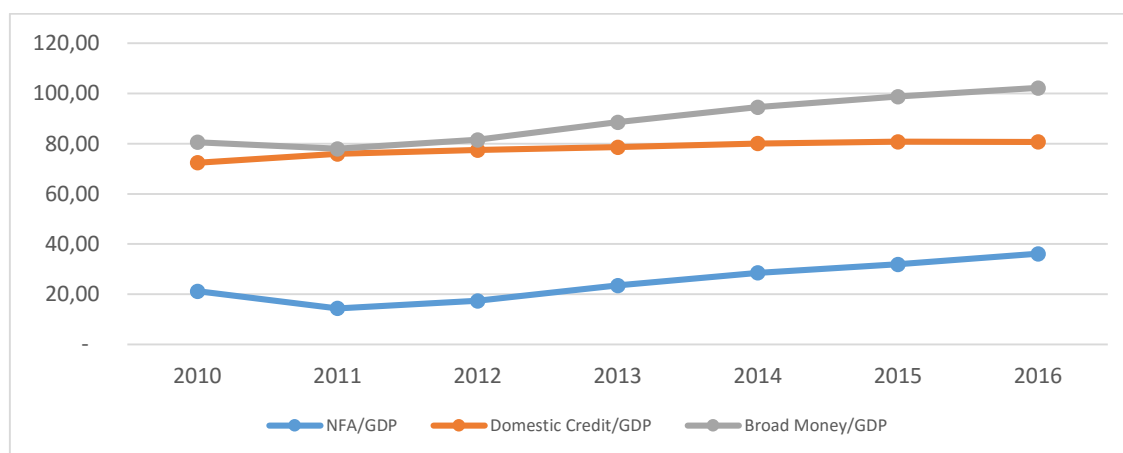
112. The financial account surplus rose from CVE 7843.9 million in 2015 to CVE 14900.9 million in 2016 on account of the increase in foreign direct investments, portfolio investment and other investments.

113. As a result of these developments, international reserves stood at 6.9 months of imports of goods and services compared with 6.4 months in 2015.

2.3.4 Monetary Sector

114. Against a backdrop of sustained monetary policy stance, the Banco de Cabo Verde maintained its policy rate at 3.50% and the minimum reserve requirement at 15%.
115. In this context, money supply increased by 8.4% in 2016 against 9.2% the previous year, on account of the rise in net foreign assets and domestic credit.
116. Net foreign assets stood at CVE 59259.4 million in 2016 compared with CVE 49949.5 million in 2015, representing a growth of 18.6%, mainly on account of the increase in the central bank's net foreign assets.
117. Domestic credit increased by 4.6% to stand at CVE 13227.7 million in 2016, against CVE 12643.0 million a year earlier, in relation to the consolidation of the 4.8% of credits to the economy and deterioration of 4.6% in government's net position.
118. The increase in money supply reflected on currency in circulation, overnight deposits and quasi money, which grew by 2.7%, 14.3% and 6.0% respectively. These changes did not affect the structure of money supply whose composition remained unchanged, representing 5% of currency in circulation, 32% of overnight deposits and 62% of quasi money.

Fig 2.3.5: Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



2.3.5 Macroeconomic Convergence in 2016

119. Cabo Verde's macroeconomic convergence situation remained unchanged since 2012. Since then, the country has met four (4) convergence criteria, namely three (3) primary criteria (Central Bank financing of budget deficit, Annual average inflation rate and Gross external reserves in months of imports of goods and services) and one (1) secondary criteria (Nominal exchange rate variation). However, difficulties were encountered in relation to the budget deficit criteria, including grants, as a percentage of GDP and public debt outstanding as a percentage of GDP. Whereas deficit shows a downward trend since 2015, public debt is steadily rising to stand at 129.5% of GDP against the Community standard set at 70%.

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	Lower than or Equal to 3%	- 12.4	- 8.8	- 7.2	- 3.9	- 3.5	Not Achieved
Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	2.5	1.5	- 0.2	0.1	-1.4	Achieved
Central Bank Financing of Budget Deficit	≤ 10% of previous years tax revenue	0,0	0,0	0,0	0,0	0,0	Achieved
Gross external Reserve	≥ 3 months	4.0	4.9	5.4	6.4	6.6	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤70%	91.1	102.5	115.0	126.1	128.6	Not Achieved
Nominal Exchange rate variation	± 10%	- 4.0	4.1	0.1	- 9.3	0.5	Achieved
Number of Criteria Respected		4	4	4	4	4	

2.3.6 Conclusion and Recommendations

120. In Cabo Verde, economic growth accelerated in 2016 in a context of deflation and increase in money supply driven by the consolidation of net foreign assets of the monetary system following a good performance of the foreign trade sector. Moreover, budget deficit improved, notwithstanding the rise in operating expenditure against a backdrop of a slowing down in the execution of public investment programme.
121. On the whole, Cabo Verde met four (4) out of the six (6) convergence criteria in 2016, including three (3) primary criteria.
122. With respect to institutional arrangements, it worth welcoming the establishment of the National Coordinating Committee (NCC) on 27 April 2017.
123. To enhance stability and improve ECOWAS macroeconomic convergence performance, the country's authorities should take into account the following recommendations:
- Control budget deficit and reduce the country's debt to ensure the sustainability of public debt;
 - Continue to promote the agricultural sector to improve its contribution to economic growth;
 - Revive the secondary sector by promoting the industry, manufacturing and construction sub-sectors;
 - Pursue efforts to enhance the competitiveness of the tourism sector and its ratchet effects on the other sectors.

2.4 Economic and Financial Situation in Côte d'Ivoire in 2016

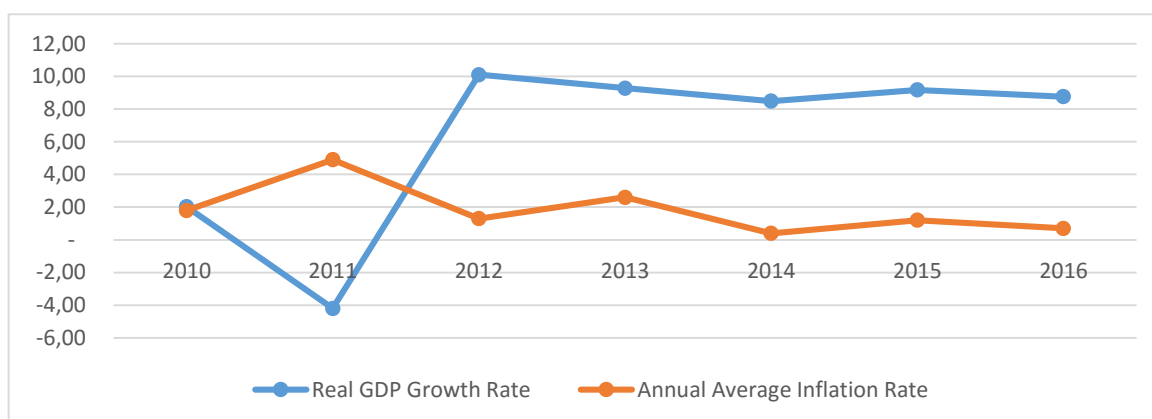
124. Economic activity in 2016 took place in a context marked by the beginning of the implementation of the 2016-2020 National Development Plan (NDP), whose overall objective is the structural transformation of the Ivorian economy based on the consolidation of macroeconomic stability, continued improvement of the business climate and a high level of productive public and private investments. Growth stood at 8.8% against 9.2% in 2015. This was mainly driven by the secondary and tertiary sectors, contributing 3.7 and 5.0 percentage point respectively. The primary sector contributed only 0.1 percentage point.

2.4.1 Real Sector

125. In 2016, economic growth was consolidated at 8.8% due mainly to the secondary and tertiary sectors. Developments in the various sectors are set out as follows:

126. Growth in the primary sector stood at 0.8%, down from the 2.8% increase recorded in 2015. This deceleration was due to the decline in value-added in agriculture (1.0% in 2016 against 2.9% in 2015) on account of the drop in agricultural exports (8.0%), particularly coffee (16.6%), cocoa (10.5%), pineapple (27%) and cashew (7.5%). This poor performance in agricultural exports was attributed to difficult weather conditions and plant diseases. However, food crops grew by 7.4% to mitigate the decline in agricultural exports. This stronger growth in food production was particularly related to the performance of cassava (20%) for tubers and maize (18.9%) for cereals.

Fig 2.4.1: Cote d’Ivoire Real GDP Growth Rate and Inflation Rate



127. The contribution of the primary sector to nominal GDP in 2016 was 19.0% compared with 20.1% in 2015. Its contribution to growth stood at 0.1 percentage point in 2016 against 0.6 percentage points in 2015.

128. The secondary sector continued to grow in 2016. Value added in the sector increased by 15.2% compared to 13.8% in 2015. This momentum was due to the performance recorded in mining activities (18.1% against 26.3% in 2015), manufacturing (7.4% in 2016 against 3.5% in 2015), water and electricity production and distribution (37.9% in

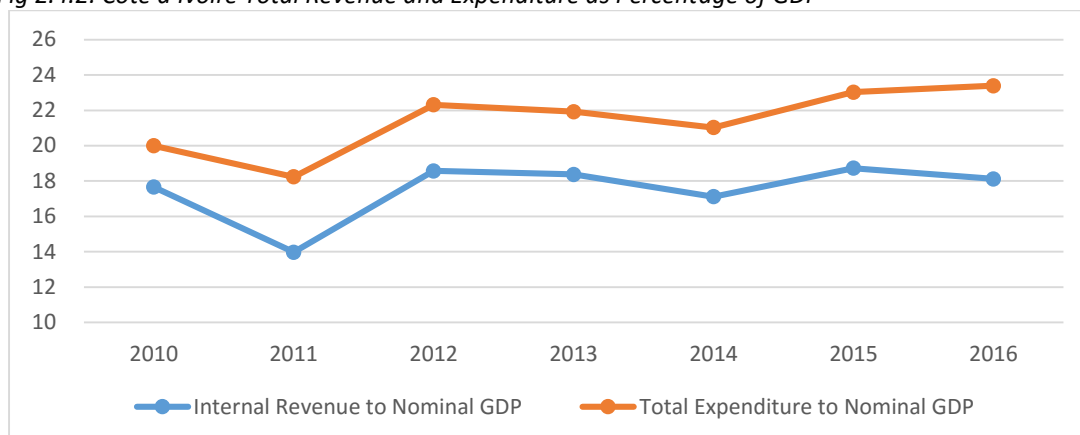
- 2016 compared to 23.7% in 2015), and construction and public works (22.1% in 2015 against 33.5% in 2015).
129. Growth in mining was related to 'the crude oil and natural gas extraction, and ancillary activities' sub-sector, which benefited from the opening of new wells. With regard to electricity, gas and water, improved electricity supply was due to thermal energy and hydropower. The good performance of thermal energy is attributed to the optimisation of AZITO ENERGIE and CIPREL thermal plants in 2016, while hydropower benefited from improved rainfall in the second half of 2016. The rise in construction works was due to growth in the consumption of 'cement', 'gravel', 'iron sheets and bins', as well as 'cables and wires'.
 130. The secondary sector contributed 30.0% to nominal GDP in 2016 compared with 28.3% in 2015. Its contribution to growth stood at 5.0 percentage point in 2016 against 3.2 percentage point in 2015.
 131. The tertiary sector saw a slowdown in growth in 2016 to 8.2%, from 9.3% a year earlier due to the downturn in the non-market sector (3.6% against 7.9% in 2015). The increase in value added of the market services sector by 10.2% compared to 9.9% in 2015 was driven by all its components. The rise in market services was 9.7% for trade, 9.2% for transport and communication and 11.3% for other market services. Growth in transport was related, *inter alia*, to the introduction and gradual rolling-out of the national carrier and improved traffic flow due to continued rehabilitation of existing road infrastructure, as well as the construction of new roads. Growth in telecommunications was as a result of growing subscribers and development of some mobile telephone service (internet, mobile money, 4G, etc).
 132. Taxes on products increased by 7.1% due to the good performance of household consumption which had a huge impact on VAT.
 133. The tertiary sector contributed 51.0% of nominal GDP in 2016 compared with 51.6% in 2015. Its contribution to growth stood at 4.2 percentage points in 2016 against 4.6 percentage point in 2015.
 134. On the demand side, growth was sustained both by final consumption (9.3% against 8.8%) and investment (17.1% against 17.6%) with a contribution of 7.3 percentage point and 4.1 percentage point respectively. Trade contributed negatively to GDP growth in 2016 by 2.6 percentage points.
 135. Final consumption (9.3%) remained buoyant on the one hand, due to a rise in household income whose purchasing power was strengthened by the low level of inflation (0.7 against 1.2% in 2015) and on the other hand, due to the good performance of public consumption.
 136. Investment increased by 17.1% compared to 17.6% in 2015, driven by the two components. Total investment rate reached 20.5% of GDP, due mainly to a decline in the prices of capital goods and a significant increase in credit to the private sector (15.4%). Private investment (13.9% of GDP) benefited from a more attractive business environment offering better conditions for profitability.

137. As regards external trade, the volume of exports of goods and services fell by 5.9%, due mainly to the decline in exports of cocoa beans (17.9%), processed cocoa (7.6%), petroleum products (20.8%), manufacturing products (10.2%) and non-factor services (5.1%). However, exports of mining products grew by 17.1% in relation to production (18.1%). Imports of goods and services grew slightly by 1.0%, due to final consumer goods, and capital and intermediate goods, including construction materials. In addition, the increase in imports was offset by lower imports of crude oil (10.1%). In relation to economic growth, import of services continued the normal upward trend by 2.5%.
138. Inflation remained modest at 0.7% due to reduction in the prices of imported consumer products (1.1%) and a better supply of food products.

2.4.2 Fiscal Sector

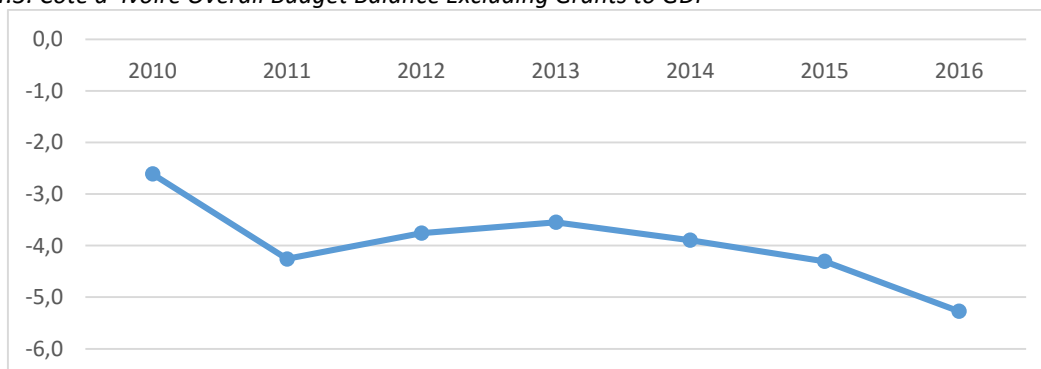
139. The conduct of government's financial operations in 2016 was characterised by a 6.6% increase in consolidated revenue and grants and a 12.2% rise in total expenditure and net lending. The overall deficit widened to 3.9% of GDP against 2.8% a year earlier. Excluding grants, the overall deficit rose from 4.3% in 2015 to 5.3% in 2016.
140. Total revenue and grants amounted to FCFA 4,176.6 billion (19.5% of GDP) in 2016 compared to FCFA 3,916.8 billion (+20.2% of GDP) in 2015, representing an increase of 6.6%. This was the result of the 6.9% increase in total revenue, as grants decreased by 10.2%.
141. The increase in total revenue was due to tax receipts which grew by 13.5% in 2016 to FCFA 3,352.6 billion (15.6% of GDP). This performance was linked, in particular, to income taxes, taxes on wages and salaries, the Value Added Tax (VAT), as well as coffee and cocoa registration fees. In the case of income taxes, these developments were due to the higher taxable profits of companies operating in the trade, industry and services sectors. Regarding taxes on wages and salaries, the performance was attributed, on the one hand, to the unfreezing of salaries and, on the other hand, to the offsetting of tax arrears of some National Public Institutions. With respect to the VAT, the performance was mainly due to the positive growth in economic activity, as well as recovery efforts and the fight against fraud. Lastly, concerning import duties and taxes, the growth was driven by taxes on petroleum products, due to an increase in consumption (diesel and super) on the one hand and, due to higher taxation in 2015, on the other hand.
142. Non-tax revenue, on its part, decreased by 21.8%, due mainly to other non-tax revenue (FCFA 207.9 billion) as a result of payments made in 2015 for the renewal of mobile telephony licenses.

Fig 2.4.2: Cote d'Ivoire Total Revenue and Expenditure as Percentage of GDP



143. In 2016, grant mobilisation decreased by 10.2% to stand at FCFA 253.5 billion, from FCFA 282.2 billion in 2015.
144. Total expenditure and net lending increased by 12.2% to reach FCFA 5014.6 billion (23.4% of GDP) in 2016 compared to FCFA 4469.8 billion (23.8% of GDP) in 2015. This increase was due to recurrent expenditure (5.7%) and capital expenditure (12.9%).
145. Recurrent expenditure amounted to FCFA 3,250.5 billion (15.2% of GDP) in 2016 against FCFA 3,074.7 billion (15.8% of GDP) in 2015. This was driven by staff costs (5.2%), operating costs (9.1%), and interest payments (21.0%). The increase in staff costs was due to recruitment for administrative purposes, as well as wage adjustments arising from the implementation of the payroll management strategy. As regards the operating costs, the situation is attributable to the strengthening and creation of new services. Finally, the rise in interest payments was due mainly to the Eurobond maturities.
146. Capital expenditure stood at FCFA 1,408.7 billion in 2016 compared to FCFA 1,247.3 billion in 2015, driven by capital expenditure financed from domestic sources (33.3%). Capital expenditure financed from external resources decreased by 22.3% compared to 2015.

Fig 2.4.3: Cote d'Ivoire Overall Budget Balance Excluding Grants to GDP



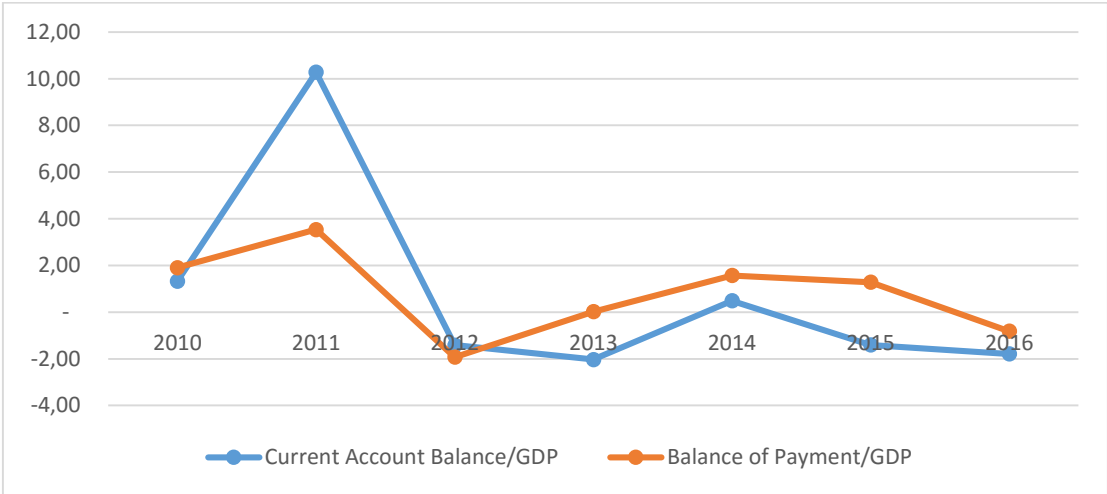
147. With regard to public debt, debt stock at the end of 2016 (including the Debt-Reduction and Development Contract - C2D) stood at FCFA 9444.4 billion, comprising FCFA 4 049.1 billion of domestic debt and FCFA 6 080.3 billion of external debt. Public debt service amounted FCFA 1642.7 billion, against FCFA 1 334.4 billion at the end of 2015.

2.4.3 External Sector

148. Transactions with the outside world in 2016 resulted in an overall deficit of FCFA 175.6 billion compared to a surplus of FCFA 248.5 billion in 2015. This deterioration in the balance of payments was due mainly to a sharp reduction in the surplus on capital and financial account combined with a worsening current account deficit excluding grants.

149. The current account deficit excluding official transfers in 2016 amounted to FCFA 383.8 billion against a deficit of FCFA 272.7 billion in 2015. This deterioration was mainly driven by deficits in the primary income balance (FCFA 595.5 billion in 2015 to FCFA 662.4 billion in 2016), and in the secondary income balance (FCFA 232.7 billion in 2016 against FCFA 203.7 billion in 2015).

Fig 2.4.4: Cote D'Ivoire Current Account Balance and Overall Balance of Payment to GDP



150. The capital and financial accounts showed a sharp decline in its positive balance to FCFA 60.6 billion in 2016, from FCFA 406.7 billion in 2015.

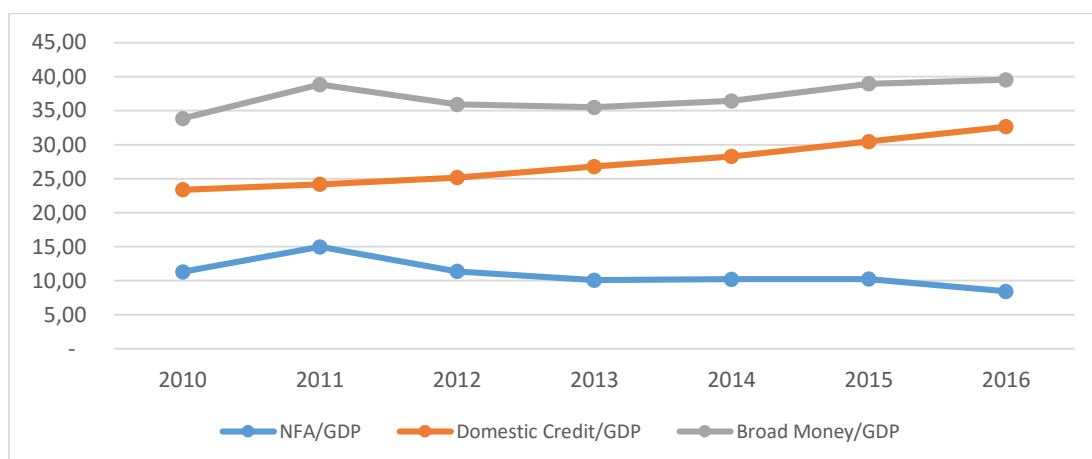
2.4.4 Monetary Sector

151. The monetary situation was characterised at the end of December 2016 by an increase of 12.1% in money supply (FCFA 915.6 billion), under the combined effect of increased domestic credits FCFA 1089.4 billion (18.4%) and reduced net foreign assets FCFA180.1 billion (9.1%)

152. Net foreign assets decreased by 9.1% to reach FCFA 1808.9 billion, resulting of a 13.3% fall in the Central Bank’s external assets (FCFA 238.9 billion) and an increase of 29.7%

in Commercial Bank's external assets (FCFA 58.8 billion). The reduction in net foreign assets reflects an overall balance of payments deficit.

Fig 2.4.5: Cote d'Ivoire Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



153. Domestic credit stood at FCFA 7001.0 billion, a growth of 18.4% (FCFA 1 089.4 billion), driven by both the Government's Net Position, which grew by 27.8% (FCFA 401.6 billion) to reach FCFA 1846.6 billion and the net credit to the economy rising by 15.4% (FCFA 687.7 billion). This deterioration in net credit to the State reflects changes in the Treasury's commitments to the banking system, with respect to financing government's restructuring projects.
154. Money supply reflecting changes in its counterparts rose to 12.1% to stand at FCFA 8,477.4 billion (39.5% of GDP) against FCFA 7,561.8 billion (39.0% GDP) in 2015.

2.4.5 Macroeconomic Convergence in 2016

155. Cote d'Ivoire met five (5) convergence criteria in 2016, as in 2015. The budget deficit criterion was not met. The macroeconomic convergence situation from 2015 to 2016 is presented follows:

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	Lower than or Equal to 3%	- 3.2	- 2.2	- 2.2	- 2.9	- 3.9	Not Achieved
Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	1.3	2.6	0.4	1.2	0.7	Achieved
Central Bank Financing of Budget Deficit	≤ 10% of previous years tax revenue	0.0	0.0	0.0	0.0	0.0	Achieved
Gross external Reserve	≥ 3 months	5.3	4.7	5	5	4.4	Achieved

Secondary Criteria							
Ratio of total public debt to GDP	≤70%	34.2	34.0	36.9	40.8	42.1	Achieved
Nominal Exchange rate variation	± 10%	- 4.8	4.1	0.1	- 9.3	0.50	Achieved
Number of Criteria Respected		5	6	6	6	5	

2.4.6 Conclusion and Recommendations

156. Economic growth in Cote d'Ivoire remains strong above 8% since 2012. This was sustained by large investments in road and energy infrastructure, etc. As a positive outcome of these major projects, growth is expected to remain fairly strong in 2017 and beyond. As a result of these investments, however, the budget balance deteriorated sharply. The effects of sustained medium and long-term growth will help Cote d'Ivoire to substantially improve the living conditions of its citizens. This can only be effective in a serene social environment.
157. On the basis of Cote d'Ivoire's economic and financial developments, the following recommendations are proposed to consolidate the country's economic situation:
- Pursue and maintain peace and security, a guarantee for the effective implementation of development activities;
 - Continue to strengthen efforts to mobilise domestic revenue to meet rising expenditure.

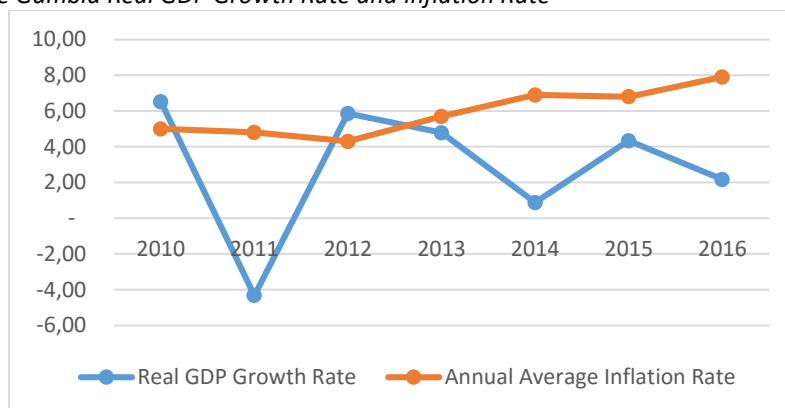
2.5 Economic and Financial Situation in The Gambia in 2016

158. The Programme for Accelerated Growth and Employment (PAGE), the country's medium term development strategy and investment programme which forms the bedrock of economic policies which was due to end in 2015 was extended for an additional year to allow for the formulation of a successor programme. The macroeconomic policy agenda for 2016 was therefore a continuation of the previous years' and embodied gradual fiscal adjustment to reduce interest costs and rollover risks, creation of fiscal space, tax and revenue administration reforms, strengthening public financial management and spurring private sector development.

2.5.1 Real Setor

159. Growth of the Gambian economy in 2016 was estimated at 2.2 percent, compared to 4.3 percent in 2015, reflecting low output growth in agriculture and contraction of industrial output. Real GDP increased from D24,163 million in 2015 to D24,687 million in 2016. The agricultural sector, a key driver of the economy, recorded growth of 0.5 percent in 2016, a decline from the 3.8 percent recorded in the previous year, resulting from the combined effects of a 3.4 percent contraction in crop production and lower growth performance of fisheries. Livestock, forestry and fishing grew by 3.2 percent, 3.0 percent and 3.5 percent respectively in 2016, compared to growth rates of 3.1 percent, 3.0 percent and 4.3 percent respectively in 2015.

Fig 2.5.1: The Gambia Real GDP Growth Rate and Inflation Rate



160. Industrial output contracted by 3.1 percent in 2016 compared to a growth of 8.2 percent in 2015 on account of contractions in the mining and quarrying and construction subsectors. The mining and quarrying sub-sector contracted further by 10.3 percent in 2016, having seen a contraction of 6.5 percent in the previous year, while construction recorded a -5.9 percent growth in 2016, compared to 24.1 per cent registered in 2015. The manufacturing and electricity, gas and water supply subsectors, on the other hand, recorded positive growths of 1.0 percent and 7.3 percent respectively in 2016.

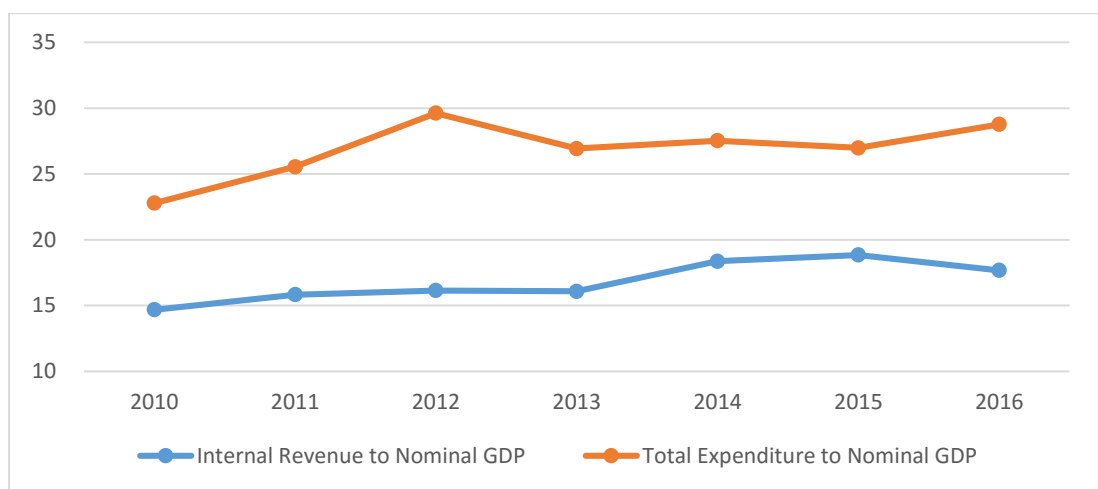
161. With all its subsectors registering significant growth rates, the service sector recorded growth of 5.1 percent in 2016 compared to 3.7 percent in 2015. Hotel and restaurants grew by 6.0 percent in 2016, compared to a contraction of 13.6 percent in 2015 due to the resurgence in tourism in the aftermath of the Ebola outbreak. Growth in services was also buoyed by public administration, education and communication where growths of 3.6 percent, 4.6 percent and 9.3 percent respectively were recorded.
162. In terms of contribution to GDP, services continued to be the dominant sector, accounting for about 66 percent of GDP during the period, with agriculture and industry contributing 21 percent and 14 percent respectively.
163. From the demand side, provisional estimates indicate an 8.3 percent increase in final consumption expenditure to reach D43, 034 million in 2016. This consisted of household consumption expenditure of D38, 347 million (89 percent of total final consumption) and government consumption expenditure of D4, 687 million. Total investment declined from D8354 million in 2015 to D8130 million in 2016, representing a drop of 2.7 percent. While investment in construction witnessed a marginal increase of 0.9 percent from D3389 million in 2015 to D3421 million in 2016, investment in durable capital goods fell by 5.1 percent to D4709 million in 2016, from D4965 million in 2015. Net exports of goods and services indicates recorded a year-on-year growth of 5.8 percent over the review period, rising from D1,627 million in 2015 to D1,722 million in 2016.
164. As regard price development; driven by the rising food prices and pass-through effect of exchange rate depreciation, inflationary pressures continued to sweep through the economy albeit, at a moderate rate. Annual average rate of inflation edged up slightly to 7.9 in 2016 from 6.8 percent in 2015. The end of year rate settled at 7.1 percent in December 2016 compared to 7.2 percent during the same period in 2015.
165. The food inflation, the main driver of the overall inflation rate in the Gambia, increased from 7.6 percent in 2015 to 8.8 percent in 2016, driven mainly by an increase in the prices of dairy products, oil and fat, fruits and nuts and vegetables, among others. Non-food inflation remained relatively subdued compared to food inflation, rising from 5.3 percent at end-December 2015 to 6.5 percent in the corresponding period in 2016, with textile, clothing and footwear and housing being the major contributors.

2.5.2 Public Finance and Public Debt

166. Government fiscal operations in the country continued to pose challenges as the budget deficit widened significantly in 2016 compared to the previous year.
167. Total revenue and grants increased marginally by 0.14 percent from D8, 342.95 million (21.9 per cent of GDP) in 2015 to D8, 354.32 million (19.7 percent of GDP) in 2016. In

relative terms however, revenue and grants declined from 21.9 percent of GDP in 2015 to 19.7 percent of GDP in 2016. Domestic revenue amounted to D7, 646.7 million (18.0 percent of GDP) constituting 91.5 percent of total revenue and grants, of which tax revenue totaled D7, 014.42 million (16.6 percent of GDP) and non-tax revenue D632.3 million (1.5 per cent of GDP). This outturn of domestic revenue represents a 1.5 percent increase over the outturn in 2015 when it stood at D7, 536.1 million (19.8 percent of GDP). Tax revenue grew by 2.7 percent, from the D6827.3 million recorded in 2015, mainly driven by indirect taxes which composed 74.2 percent of total tax revenue, with direct taxes accounting for 25.8 percent.

Fig 2.5.2: The Gambia Total Revenue and Expenditure as Percentage of Nominal GDP

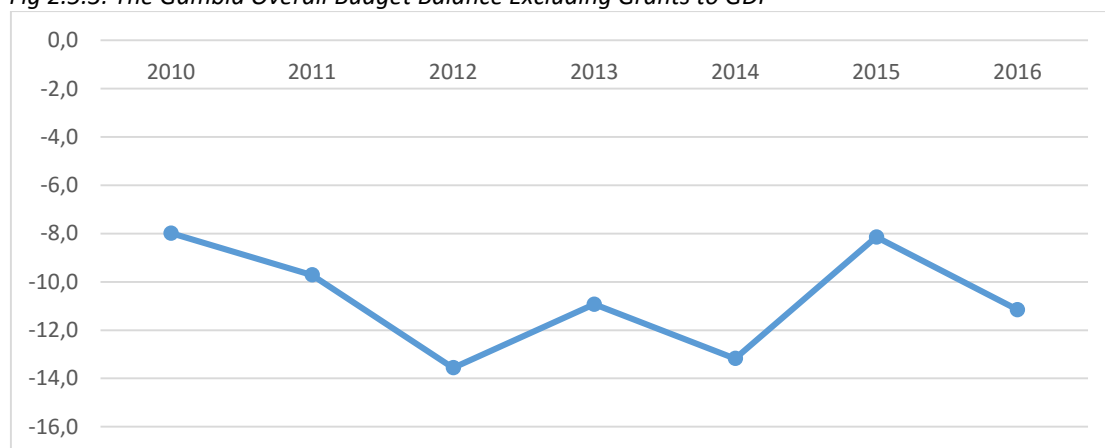


168. Grants disbursement in 2016 amounted to D707.6 million (8.5 percent of total revenue), representing a decline of 12.3 percent when compared with the D806.9 million (11.5 percent of total revenue) recorded in 2015.
169. Government expenditure experienced considerable growth in 2016, under the impulse of substantial growth in recurrent expenditure of which interest payments, wage bill and subsidies and transfers were the main contributors. Total expenditure and net lending amounted to D12, 472.6 million (29.4 percent of GDP), representing an increase of 13.2 percent compared to the D11, 014.3 million (28.9 percent of GDP) recorded in 2015. Recurrent expenditure amounted D9, 860.4 million (23.3 percent of GDP), constituting about 79.1 percent of total expenditure and net lending and representing an increase of 17.4 percent over the level in 2015. In relation to total revenue and grants, domestic and tax revenues, recurrent expenditure constituted 118.2 percent, 129 percent and 140.6 percent respectively. Capital expenditure stood at D2,612.2 million (6.2 percent of GDP), representing about 29 percent. Of recurrent expenditure, interest payments and the wage bill constituted the largest components, together accounting for more than 54 percent. Interest payments grew by 16.6 percent in 2016 to stand at D3261.3 million, composing 33.1 percent of recurrent expenditure and 46.5 percent of tax revenue. In turn, the wage bill amounted to D2100.3 million,

representing 21.3 percent of recurrent expenditure and 29.9 percent of tax revenue and growing at approximately 3.1 percent. Other Charges, another category of government expenditure recorded an appreciable increase, about 26.4 percent, from D3560.5 million in 2015 to D4498.9 million in 2016. Much of the increase was fuelled by a 32.9 percent rise in subsidies and transfers during the review period.

170. Capital expenditure and net lending amounted to D2, 612.2 million, compared to D2618.04 million in 2015, representing a decline of 0.2 percent. In relative terms this category of expenditure accounted for 20.9 per cent of total expenditure, down from the 23.8 percent recorded in the previous year. Capital expenditure was largely financed from foreign sources in the amount of D1, 954.0 million. a marginal increase of 0.6 percent from 2015. Domestically funded capital expenditure (Gambia Local Fund) amounted to D634.7 million (24.3 percent of capital expenditure), representing a 6.0 percent decline from the amount recorded in 2015.
171. The overall balance excluding grants in 2016 showed a deficit of D4, 846.24 million (11.4 per cent of GDP), compared to a deficit of D3, 478.20 million or 9.1 per cent of GDP in 2015. Similarly, the overall balance including grants also grew from a deficit of D2, 671.34 million in 2015 (7.0 per cent of GDP) to D4, 141.81 million in 2016 (9.8 per cent of GDP). The deficit was financed from domestic sources largely through bank borrowing and non-bank financing.

Fig 2.5.3: The Gambia Overall Budget Balance Excluding Grants to GDP



172. The total stock of public debt as at 31 December 2016 stood at D30, 455.5 million compares to D21, 915.6 million at end December 2015. The year on year growth was D8, 539.9 million. This increase was mainly attributed to an increased overdrawn position as at end of year 2016. As at end December 2016, the stock of domestic debt represents 70.4 percent of GDP, whilst while foreign debt constituted 51.4 per cent of GDP. In total, public debt to GDP stood at about 120 per cent of GDP. In absolute terms the domestic debt amounted to D30,455.5 million (70.4 percent of GDP) and mainly composed of instruments with short-term maturity. Treasury bills with maturities of one year or less

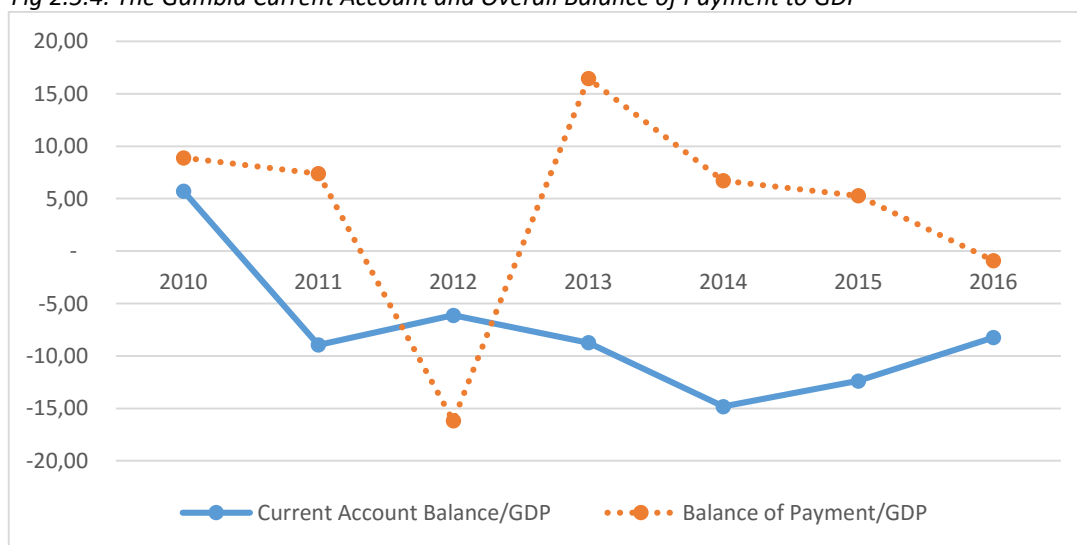
constitute about 56.3 percent of the total domestic debt stock while Sukuk Al-Salaam (SAS) Bills and Bonds and Advances accounted for 2.7 percent and 38.6 percent respectively.

173. Total external debt increased stood at US\$ 465.2 million at end December 2016, from USD430.3 million at end December 2015, representing an increase of 8.1 percent on account of improved disbursement from multilateral creditors. The bulk of the Gambia’s external debt stock is held by multilateral creditors who account for about 70.1 percent (US\$ 326.1 million) debt stock, while bilateral creditors hold about 29.9 percent (US\$ 139.1 million).

2.5.3 External Sector

174. Analysis of the external sector was done on the basis of data available for the first nine months of 2016. Provisional estimates of the country’s transactions with the rest of the world indicated a balance of payment deficit of US\$13.67million, down from a surplus of US\$8.7 million in 2015. The current account deficit declined to US\$55.9 million in 2016 from a deficit of US\$86.8 million in 2015 mainly on account of improvement in the terms of trade as imports recorded substantial decline.
175. The merchandise trade deficit narrowed from US\$ 192.7 million in 2015 to US\$148.9 million in 2016 as imports declined by 14.9 percent to US\$237.6 million, partly reflecting lower food imports and the depreciation of the local currency against the US Dollar.

Fig 2.5.4: The Gambia Current Account and Overall Balance of Payment to GDP



176. Exports increased by 2.6 percent to US\$88.7 million in 2016. The decline in exports could be explained by the impact of insufficient rainfalls on major export-related products such as groundnuts. Year-on-year estimates showed that proceeds from re-

exports contracted by 6.8 percent to US\$ 20.5 million in 2016. Goods procured in ports by carriers contracted by 24 per cent to US\$10.8 million in 2016.

177. The services, income and transfers accounts recorded a net surplus of US\$93 million representing a drop of 12.1 percent from the US\$105.9 million recorded in the same period the previous year. The reduction was driven by net payments in the services and income accounts as transfers remained relatively strong with a 19.5 percent growth.
178. The services account surplus dropped in 2016 to US\$1.4 million from US\$23.5 million in 2016, reflecting mainly, the decline in income from transportation, travels, communication, construction and insurance services. Income from travel services fell to US\$25.7 million in 2016 compared to US\$40.8 million in 2015. Tourism income amounted to US\$75.9 million compared to US\$80.3 million recorded in the previous year, reflecting mainly increased number of air chartered tourists.
179. The income account recorded a deficit of US\$37.6 million from US\$25.8 million in 2015 reflecting higher external interest payments. Current transfers amounted to US\$129.3 million in 2016 relative to US\$108.1 million recorded in 2015. Workers' remittances amounted to US\$155.5 compared to US\$110.9 million in 2015.
180. The capital and financial account recorded a surplus of US\$16.2 million in 2016, lower than the surplus of US\$115.7 million in 2015. The capital account surplus deteriorated to US\$7.0 million in 2016, from US\$14.5 million in 2015, indicating a decline of 51.7 percent. The decline in the combined accounts was attributed to the contraction in direct investment and other investment by 88.8 percent and 56.4 percent respectively.
181. As regard exchange rate, the dalasi depreciated against the USD and GBP in 2015 by 10 and 4 percent respectively. On the other hand, it appreciated against the Euro by 11 percent. As at end December 2016, the dalasi depreciated against the USD and EURO by 2 and 3 percent respectively. However, against the GBP, the dalasi appreciated by 9 percent. The imposition of fixed exchange rate by the government tended to reduce exchange rate volatility in 2016. The volatility of the dalasi against the US dollar reduced from 10.24 percent in 2015 to 2.23 percent in 2016.
182. Direction of trade: The country continued to trade with its traditional partners. Imports mainly originated from the European Union, Asia, ECOWAS region and the Americas. Imports from Asia and the EU increased by 3.5 percent and 30.7 percent respectively while imports from the ECOWAS region recorded a decline of 38.5 percent. The main destination of the Gambia's exports continues to be the ECOWAS region. Exports to the region increased by 4.0 percent, from D3, 102.8 million in 2015 to D3, 226.9 million in 2016. Exports to both EU and the Americas declined significantly by about 82.9 percent and 74.6 percent respectively, while exports to Asia, on the contrary, more

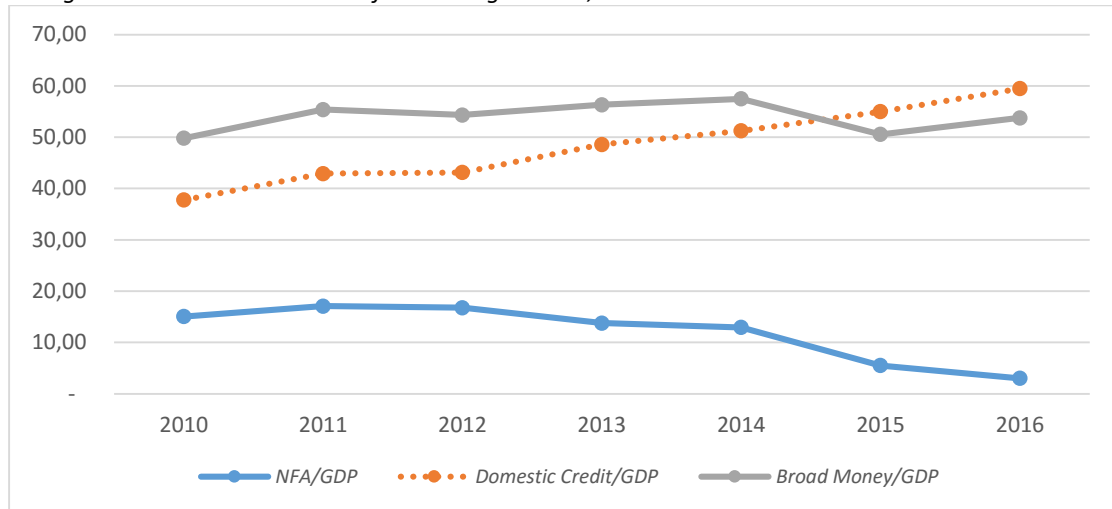
than doubled between the periods 2015 to 2016, recording a growth of 152.4 percent, with cashew nuts being the main export product.

183. However, this export is mainly re-exported which represent 80 per cent of total export to the region.
184. Trade with the ECOWAS region is quite important to the economy of the Gambia. The region is the third largest source of the Gambia's imports after Asia and serves as the main destination exports. Imports from the region amounted to D3,395.2 million in 2016 with Cote d'Ivoire and Senegal accounting for 93.5 percent of the total imports from the region. Petroleum products and cement dominate imports from the region and account for about 87.1 percent of imports. This import is mainly petroleum products accounting for 79 per cent of total imports. The volume of exports to the region amounted to D3517.5 million in 2016, with 80 percent of this amount being re-exports. The main destination was Guinea Bissau where more than 70 percent of the products were exported. Senegal and Mali constituted the next two import destinations. Together, the two countries absorbed about 19.1 percent of the country's exports to the region.

2.5.4 Monetary Sector

185. The Central Bank of the Gambia pursued a restrictive monetary policy stance throughout the review period aimed at restraining pressure on the general level of prices. Consequently, the monetary policy rate was maintained at 23 percent. Quasi money (M2) grew by 12 percent, reflecting the steady slowdown of credit expansion in the economy which began in 2015 and continued through 2016. The main causes in the growth of broad money was the combined effect of a 41 percent decline in net foreign assets and a marginal increase in net domestic assets of the banking system. Similarly, narrow money (M1) grew by 18 percent, from D10386.20 million in 2015 to D12270.37 million in 2016.
186. Regarding growth of the banking sector, the total liability of the banking industry grew by 5.8 percent in December 2016 when compared to the level in 2015, with savings and time deposits growing by 12.8 and 3.6 percent respectively, while demand deposits contracted by 0.3 percent. The net foreign assets (NFA) of the industry recorded a sharp contraction of 41 percent from D2, 204.57 million in 2015 to D1, 302.03 million as at end December 2016 on account of a sharp decrease in foreign assets which experienced successively negative growth of 17 and 12 percent in 2015 and 2016 respectively. Foreign liabilities also declined slightly from D3, 513.05 million in 2015 to D3, 510.52 million in 2016. The net domestic assets of the banking system increased from D17, 974.61 millions as at end December 2015 to D21, 957.34 million during the same period in 2016, representing a growth of 22 percent.

Fig 2.5.5: The Gambia Ratios of Net Foreign Assets, Domestic Credit and Broad



187. Domestic credit recorded a growth of 17 percent while claims on government grew by 22 percent. Claims on the public or state owned enterprises (SOEs) registered a significant increase of about 205 percent while claims on the private sector, on the other hand, experienced a downturn, recording a negative growth of 12 percent.

2.5.5 Macroeconomic Convergence in 2016

188. In 2016 The Gambia met two criteria, one primary and one secondary. The primary criterion met was the annual average inflation rate, while the secondary criterion met was the nominal exchange rate stability. The details of the country's performance under each criterion are presented below.

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	≤3%	- 4.6	- 8.7	- 9.6	- 6.3	- 9.5	Not Achieved
Annual Average Inflation rate	≤10% with objective of £5% in 2019	4.3	5.7	6.9	6.8	7.9	Achieved
Central Bank Financing of Budget Deficit	≤10% of previous years tax revenue	0.4	0.0	40.8	41.5	33.1	Not Achieved
Gross external Reserve	≥ 3 months	4.8	4.6	3.7	2.5	2.4	Not Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤70%	78.0	88.1	104.1	101.1	117.3	Not Achieved ⁵⁴
Nominal Exchange rate variation	± 10%	- 4.5	- 10.3	- 16.5	4.9	- 3.3	Achieved

Number of Criteria Respected	4	3	2	2	2	
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Primary Criteria:

- Ratio of budget deficit to GDP: This criterion was not met. The fiscal deficit was 11.4 percent of GDP in the year 2016 which far exceeded the target of 3 percent.
- Annual average inflation rate: The country met this criterion as indicated above. Annual average inflation rate was 7.9 percent, thus meeting the target of less than 10 percent.
- Central bank financing of the budget deficit: This criterion was not met. The budget deficit was financed by the Central Bank of the Gambia to the tune of 166.9 percent of previous year’s tax revenue, thus missing the required target of 10 percent.
- Gross external reserves: This criterion was also missed as gross external reserves were equivalent to only about 1.6 months of imports cover.

Secondary Criteria:

- o Ratio of public debt to GDP: The country missed this criterion. The stock of public debt increased from 101.1 percent in 2015 to 117.1 per cent in 2016.
- o Nominal exchange rate variation: The country’s domestic currency, dalasi depreciated about 3.3 percent against the US dollar in 2016 which fell within the variation band of +/- 10 percent variation.

2.5.6 Conclusion and Recommendations

189. The Gambian economy continued its gradual recovery in the first half of 2016 following the protracted effects of the Ebola Viral Disease (EVD) and the shortfall in rainfall in 2014. However, the country continued to grapple with excessive fiscal challenges mainly emanating from bailout of poor performing state owned enterprises. The banking system remain relatively sound and resilient following the cleansing exercise undertaken by the CBG which significantly reduced the level of NPLs in line with international standards. Even though the authorities initiated reform measures to address some of the challenges, external shocks and policy slippages may persist until sometime in 2017. For an enduring solution, the authorities are encouraged to adopt a more comprehensive reform agenda in addition to the following specific recommendations.

190. In light of the challenges observed, the following recommendations are required to be implemented:

- Governemnt should promote agriculture by investing more on irrigation and ensuring timely availability of farm inputs-such as drought resistance crops, high productivity seeds and fertilizers;

- Efforts should be made towards improving export of various commodities like cashew, sesame and other agricultural products in which the country has comparative advantage to reduce the over-dependence on groundnut and tourism;
- Improve the business environment by reducing the multiplicity of taxes and user charges as well as improve energy supply;
- There is the need to implement fiscal reforms as as rationalization of expenditure consistent with available resources, restructuring of state owned enterprises to align their structures to financially competitive business models to ensure financial viability and reduce their burden on the government budget;
- Government should restructure the domestic debt, by introducing long term debt instruments, in order to create savings for priority spending;

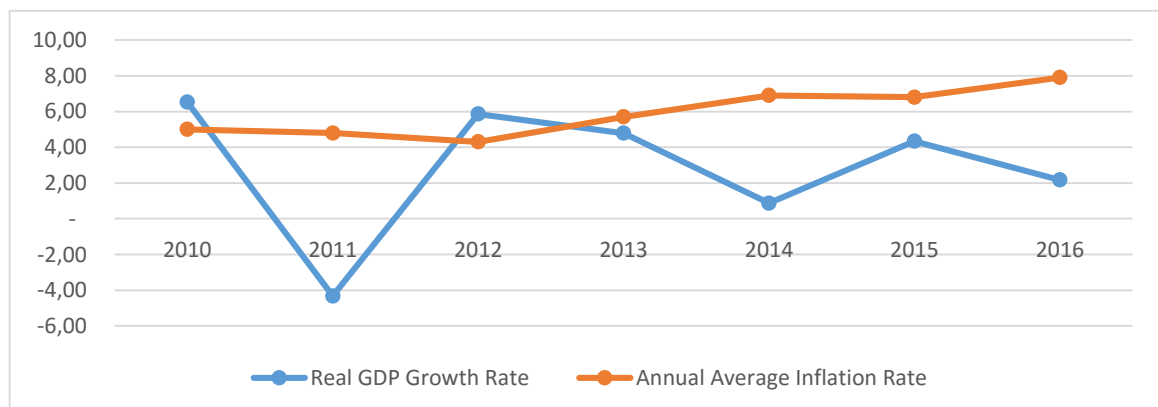
2.6 Economic and Financial Situation in Ghana in 2016

191. In 2016 fiscal, the Ghanaian authorities set out to achieve the following targets; overall real GDP growth of 4.1 percent, non-oil real GDP growth of 5.2 percent, an annual average inflation of 10.1 percent, overall budget deficit of not more than 5.0 percent of GDP; and finally accumulate an international reserves of not less than three months of import cover of goods and services. Below are details of the real performance of the economy during the review period.

2.6.1 Real Sector

192. The economy of Ghana recorded a moderate growth rate of 3.5 percent in 2016 representing a slight decline from the 3.8 percent in achieved in 2015, spurred by growth of the tertiary and primary sectors as the secondary sector registered a contraction. Non-oil real GDP growth in 2016 was comparatively higher, at 4.9 percent, compared to 4.0 percent in 2015, reflecting the effect of the slump in oil production on the growth of the economy. The primary sector recorded a marginal increase in growth from 2.8 percent in 2015 to 3.0 percent in 2016. Crops, including cocoa production, remained the largest agricultural activity, together accounting for 74.2 percent of the real output of the primary sector. The sub-sector as a whole recorded a growth rate of 2.5 percent. Cocoa production however, contracted by 7.0 percent. Fishing continued its upward trend growing at 5.7 percent, from 4.2 percent in 2015 while forestry and logging recorded growth of 2.5. In relation to contribution to GDP the share of the primary sector declined from 20.3 percent in 2015 to 19.1 percent in 2016.

Fig 2.6.1: Ghana Real GDP Growth Rate and Inflation Rate



193. The secondary sector continued to face challenges in 2016, even though the contraction in output narrowed considerably from -3 percent in 2015 to -1.4 in 2016, with this performance influenced principally by oil production. Excluding oil, the sector recorded growth of 3.6 percent and all the subsectors except Water and Sewerage, recorded positive growth, with Electricity and Mining and Quarrying recording the highest growth rates of 11.7 percent and 11.4(unconfirmed) percent respectively.

Including oil, however, growth of the Mining and Quarrying subsector turned negative, reflecting contraction in upstream petroleum output, as oil constitutes a greater share of the Mining and Quarrying subsector. The contraction in petroleum output was largely due to the downtime arising from the damage caused to the turret bearing of the FPSO Kwame Nkrumah. Manufacturing recovered slightly though growth remained sluggish at 2.7 percent, showing an improvement over the 2.2 percent recorded in 2015. Similarly, the construction sub sector experienced an improvement, with growth increasing from 2.2 percent in 2015 to 2.7 percent in 2016. The share of the secondary sector in GDP stood at 24.2 percent, making it the second largest sector of the economy.

194. The tertiary sector continues to be the most dynamic and vibrant sector of the economy of Ghana. Even though the sector's growth rate declined from 6.3 percent in 2015 to 5.7 percent in 2016, the performance was the highest. In addition, the sector's contribution to GDP increased from 54.6 percent in 2015 to 56.5 percent in 2016. Two of its subsectors, Information and Communication and Health and Social Work, recorded double digits growth rates of 21.7 percent and 16.8 percent respectively, induced by an increase in outbound calls and a rise in government expenditure on personal emoluments for the health sector by 9.6%. Education and Financial and Insurance Activities subsectors also recorded increases of 8.3 percent and 3.6 percent respectively.
195. Inflationary pressures eased slightly in the second half of 2016 resulting in a drop of the rate of inflation. The end of period rate declined from 17.7 percent at end-December 2015 to 15.4 percent in the same period of 2016, mainly driven by the relative stability of exchange rates and moderation in the increases of fuel and utility prices. The food and non-alcoholic beverages group recorded a year-on-year inflation rate of 9.7 percent, while the non-food group recorded a rate of 18.2 percent. Transport recorded the highest inflation rate of 27.2 percent, followed by Education, with 23.4 percent, Recreation and Culture with 20.3 percent, Housing, Water, Electricity, Gas and Other Fuels, with 20.2 percent, Furnishings, Household Equipment and Routine Maintenance, with 18.8 percent and Health, with 18.5 percent. Inflation was lowest in the Communication subgroup (10.8%).

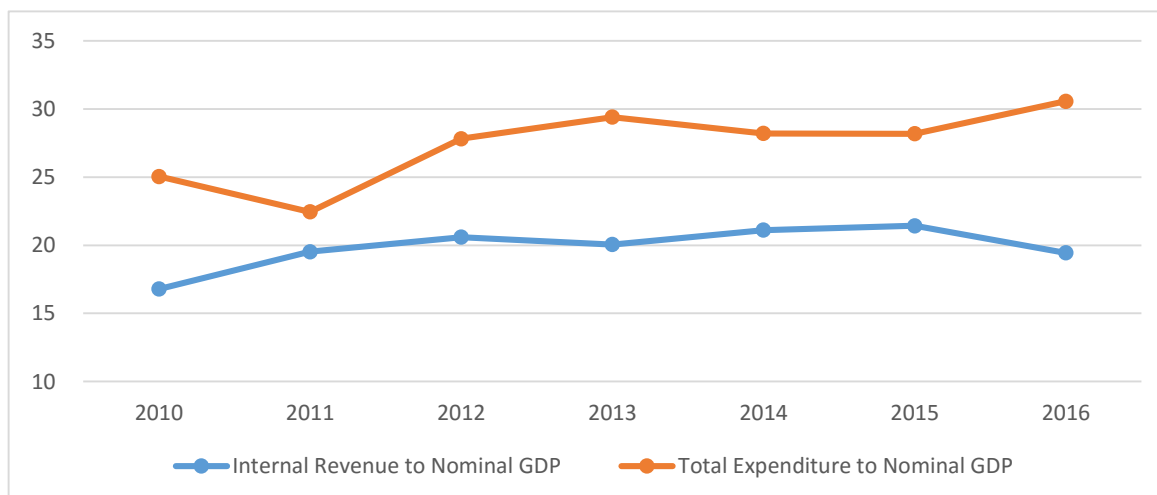
2.6.2 Public Finance and Public Debt

196. Government continued its fiscal consolidation agenda in 2016 with the objective of reducing fiscal deficit from 6.3 percent of GDP in 2015 to 5.0 percent of GDP in 2016 in line with the medium term plan of progressively achieving a fiscal deficit equivalent of 3.0 percent of GDP by 2018. Against this backdrop, fiscal policy was guided by implementation of revenue and expenditure measures which began in 2013, strengthening of revenue administration reforms, improvement in public financial management and expenditure rationalization to enhance the efficiency of public spending and implementation of new debt management strategies. The fiscal

operations however resulted in a deficit, on commitment basis of 10.3 percent of GDP and 8.7 percent of GDP on cash basis as both revenue and expenditure targets were missed.

197. Total revenue and grants in the amount of GH¢33,678.2 million (20.0 percent of GDP) missed the budget target of GH¢37,889.3 million (22.7 percent of GDP) by 11.1 percent, partly on account of lower than expected outturn of petroleum receipts, the impact of energy challenges on households and firms, non-realisation of proceeds from both tax and non-tax categories and weak tax compliance. Total tax revenue amounted to GH¢25,729 million (15.2 percent of GDP), representing 76.4 percent of total revenue and grants while non-tax revenue amounted to GH¢4,882.4 million. Grants disbursed during the period stood at GH¢1,140.7 million and constituted 14.5 percent of total revenue and grants.

Fig 2.6.2: Ghana Total Revenue and Expenditure as a percentage of GDP

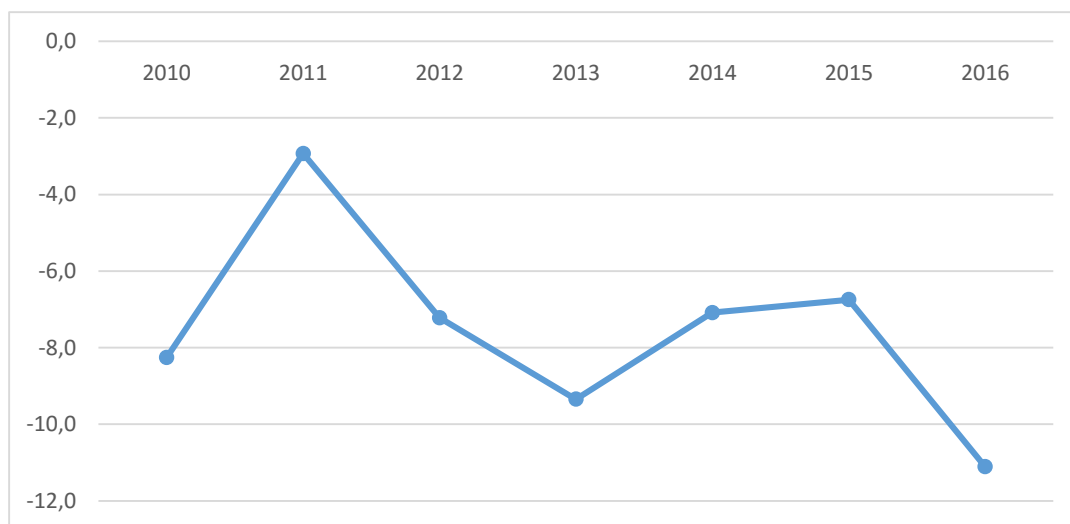


198. Total expenditure including outstanding obligations amounted to GH¢51,125.0 million, equivalent to 30.3 percent of GDP. The outstanding obligations, in the amount of GH¢5,035.6 million (3.0 percent of GDP), comprise MDA commitments with the Ministry of Finance as well as outstanding 2016 payments to Statutory Funds. Recurrent expenditure amounted to GH¢38,441 million, constituting 75.1 percent of total expenditure. The wage bill and interest payments continued to dominate recurrent expenditure, constituting 36.8 percent and 28.0 percent respectively. In relation to tax revenue the wage bill represented 55.1 percent while interest payments constituted 41.9 percent. Interest payments amounted to GH¢10,770 million of which domestic interest payment GH¢8,466.4 million or 78.6 percent
199. Grants to other government units, which include transfers to the District Assemblies Common Fund (DACF) and Ghana Education Trust Fund (GETFund), among others, amounted to GH¢8,607.3 million, against a budget estimate of GH¢10,489.9 million. A

component of government expenditure, Other Outstanding Expenditure Claims which is not classified under recurrent nor capital expenditure, amounted to GH¢ 5036 million, representing 9.9 percent of total expenditure.

200. Capital expenditure for the year amounted to GH¢7,678.1 million, representing 15 percent of total government expenditure and exceeding the budget target of GH¢6,393.0 million by 20.1 percent. Of this amount externally financed capital expenditure, in the form of project loan disbursement, constituted GH¢ 5630 million or 73.3 percent, while domestically financed capital expenditure amounted to GH¢2,048.5 million and constituted 26.7 percent. Percent of what?
201. The outturn for revenue and expenditure was an overall fiscal deficit on commitment basis of GH¢17,446.9 million (10.9percent of GDP) and on cash basis of GH¢14,731.6 million (8.7 percent of GDP) repeated in paragraph 5. The primary balance for the period, recorded a deficit of GH¢2,374.5 million (1.4 percent of GDP). The deficit was financed from both domestic and foreign sources, including proceeds from the 2016 Eurobond issuance. Total Net Domestic Financing (NDF), including Ghana Petroleum Funds, Sinking Fund and Contingency Fund, accounted for 77.5 percent of total financing and amounted to GH¢10,184.6 million, exceeding the budgeted target by 65.0 percent. Net Foreign Financing was GH¢2,960.3 million against a target of GH¢2,237.0 million.

Fig 2.6.3: Overall Budget Balance Excluding Grants to GDP



202. Ghana's public debt stock at end-December 2016 stood at GH¢122,263.00 million (US\$29,227.15 million), comprising external and domestic debt of GH¢68,859.62 million (US\$16,460.99 million) and GH¢53,403.39 million (US\$12,766.16 million), respectively. Domestic and external debt stood at 31.7 percent of GDP and 40.8

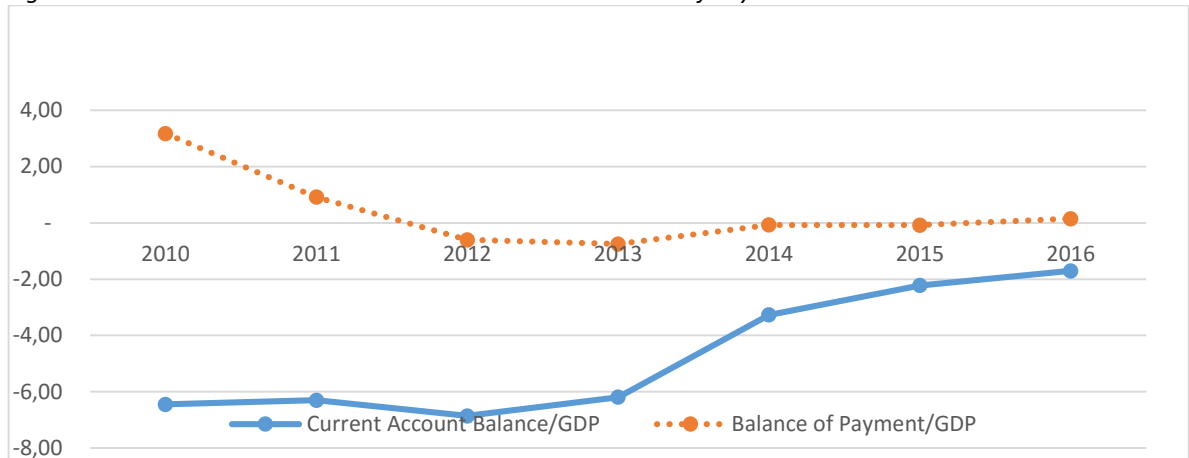
percent, respectively. In relative terms the public debt stock moved from 73.2 percent of GDP at end-December 2015 to 73.1 percent of GDP at end-December 2016.

203. Ghana's external debt stock which stood at GH¢59,912.81 million (US\$15,781.89 million) as of 2015, increased by 14.93 percent to GH¢68,859.62 million (US\$16,460.99 million) by end 2016. The increase was partly attributable to larger than planned net resource flows resulting from external project loans disbursement. In terms of GDP, however, total external debt declined from 43.2 percent 2015 to 40.8 percent in 2016.
204. The external debt stock comprised debt from three major sources - multilateral, bilateral, and commercial sources. Multilateral debt represented 33.7 percent of the total external debt stock, while bilateral and commercial debt represented 14.9 percent and 41 percent, respectively. Other concessional facilities constituted 10.5 percent of the remaining stock of external debt.
205. Similarly, the domestic debt stock increased from GH¢40,322.14 million (US\$10,621.43 million) at end-December 2015 to GH¢53,381.98 million (US\$12,761.04 million) at end-December 2016, representing an increase of 32.4 percent. In relation to GDP, this represented 31.6 percent in 2016.

2.6.3 External Sector

206. The overall balance of payments registered a surplus of US\$247.4 million at the end of 2016 compared to a deficit of US\$15.9 million in the same period of 2015.
207. The current account improved by US\$9.5 million to a deficit of US\$2,814.1 million (6.6 percent of GDP) in 2016 compared with a deficit of US\$2,823.6 million (7.5 percent of GDP) recorded in 2015. This development was the net result of a significant improvement in the trade balance but which was moderated by a worsening in services, income and current transfers account. Whilst the trade deficit improved by US\$1,454.7 million the services, income and transfers account, on the other hand, worsened by US\$1,445.1 million in the review period

Fig 2.6.4: Ghana Current Account Balance and Overall Balance of Payment to GDP



208. The trade balance for the year recorded a deficit of US\$1,689.2 million (4.0 percent of GDP), showing an improvement of US\$1,454.7 million when compared to the deficit of US\$3,143.9 million (8.3 percent of GDP) recorded in 2015. The value of merchandise exports stood at US\$11,060.7 million (25.9 percent of GDP), indicating an increase of 7.2 percent compared to the outturn of US\$10,321.19 million recorded in 2015.
209. Gold exports increased from US\$3,212.6 million in 2015 to US\$4,919.5 million in 2016 on account of increases in both volume exported and price. The average realized price increased by 10 percent to settle at US\$1,279.96 per fine ounce while the volume exported increased by 39.2 percent to 3,843,446 fine ounces.
210. The value of crude oil exported was estimated to have dropped to US\$1,413.4 million from US\$1,931.3 million in 2015 resulting from fallouts in both price and volume. Volume exported decreased by 17.1 percent to 30,802,414 barrels in 2016 from 37,167,225 barrels in 2015, while the average realized price decreased by 12.8 percent to US\$45.3 per barrel compared to US\$52.0 per barrel in 2015.
211. Earnings from cocoa beans and products exports totaled US\$2,424.0 million compared to US\$2,720.8 million for the same period in 2015, representing a decrease of 5.5 percent. Earnings from cocoa beans amounted to US\$1,775.1 million, a decrease of 2.4 percent below the level recorded in 2015. Prices of cocoa beans increased by 2.6 percent to settle at US\$3,094.6 per tonne while the volume exported decreased by 5.0 percent to settle at 621,500 tonnes. Earnings from the export of cocoa products decreased substantially by 13.5 percent to settle at US\$ 648.9 million on account of a 19.4 percent decrease in volume. Prices however increased by 7.4 percent.
212. Earnings from timber products exports recorded a substantial increase 28.4 percent from US\$208.8 million in 2015 to US\$268.1 million in 2016 on account of increases in both volume and prices. The average realized price of timber increased from US\$568.7 per cubic metre to US\$662.9 per cubic metre while the volume exported rose from 367,060 cubic metres to 404,464 cubic metres.

213. The value of “other” exports which is made up of non-traditional exports and other minerals (bauxite, diamond and manganese) was estimated at US\$2,036.1 million, which was 9.4 per cent lower than the outturn in 2015.
214. Total value of merchandise imports for 2016 amounted to US\$12,749.9 million, (32.2 percent of GDP) down by 5.3 percent or US\$715.1 million. The decline in imports was due to a decreases in the importation of both oil and non-oil goods. Total value of oil imports (including gas) amounted to US\$1,659.2 million which was a considerable decline when compared with the US\$2,046.7 million recorded in 2015.
215. Total non-oil merchandised imports (including electricity) declined by 3.0 percent in 2016 to reach US\$11,090.7 million, compared to an outturn of US\$11,418.3 million in 2015. The drop resulted from decreases in imports of Consumption and Intermediate goods. Imports of Capital and Other goods, however, increased marginally.
216. With respect to the destination of the country’s exports the Far East received the largest share of Ghana’s total exports in 2016, estimated at 24.2 percent. The other recipients were the European Union (21.2%), Other Economies (20.7%), Other European countries (16.6%), ECOWAS (8.7%), Rest of Africa (4.9%) and North America (3.7%). The United Arab Emirates was the leading destination of exports from Ghana, accounting for 16.7 percent. The other countries that absorbed significant parts of Ghana’s exports were Switzerland (15.3%), India (8.8%), China (8.7%), Netherlands (6.1%), South Africa (4.4%), USA (3.3%), United Kingdom (2.8%), France (2.3%), and Italy (2.3%).
217. Regarding origin of imports by geographical distribution, again the Far East was the leading source of imports accounting for 32.1 per cent of the total non -oil imports. The European Union followed with a share of 25.0 per cent, Other Economies (18.4%), North America (9.9%), Rest of Africa (5.5%), ECOWAS (5.1%), and Other Europe (4.0%). China was the leading source of Ghana’s imports with a share of 16.3 percent. Other major sources of imports were United States (7.1%), Belgium (4.9%), United Kingdom (4.5%), India (4.2%), South Africa (3.3%), Netherlands (3.2%), France (3.1%), Germany (2.9%) and Canada (2.6%).
218. The Services, Income and Transfers Account recorded a deficit of US\$1,124.9 million, compared to a surplus of US\$320.2 million recorded in 2015. The period witnessed an increase in net outflow (payments) in the services and income accounts, while the current transfers account recorded lesser inflows. The services accounts registered net outflows (payments) of US\$1,166.6 million and US\$1,351.6 million in 2015 and 2016 respectively. The income account recorded a net outflow of US\$1,231.1 million in 2016 compared to US\$1,110.9 million. In the current transfers’ account, private remittances

fell by 40 per cent to US\$1,431 million whilst official grants also fell from US\$222.4 million to US\$26.8 million.

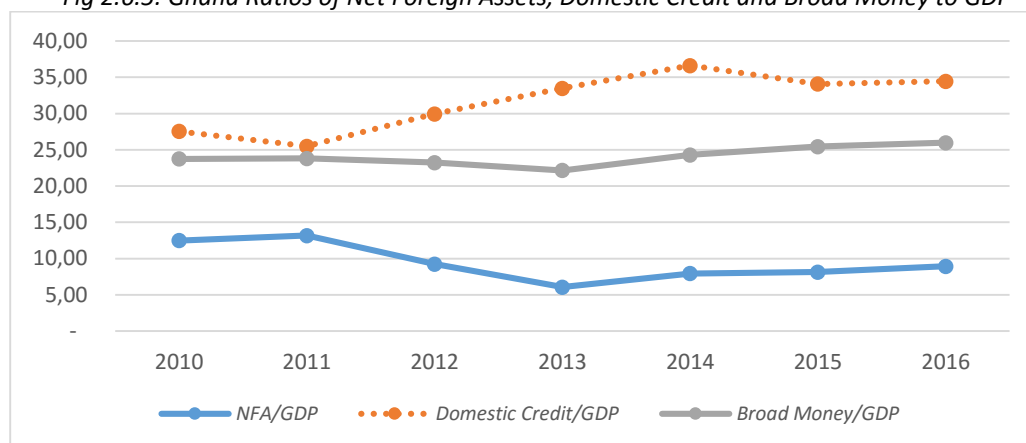
219. The capital and financial account recorded an inflow of US\$2,730.2 million, representing a decrease of 12.6 percent over the outturn in 2015. The capital account received an inflow of US\$274.3 million in 2016 compared to an inflow of US\$473.9 million in the same period 2015.
220. Transactions in the financial account recorded a net inflow of US\$2,455.9 million in 2016 compared to US\$2,649.4 million in 2015, resulting from declines in portfolio investments (net) and increased amortization of medium and long term loans.
221. As regarding the exchange rate developments, the Ghana cedi depreciated against the US dollar and the Euro in both the interbank market and forex bureau market but appreciated against the British Pound in the interbank market and depreciated in the forex bureau market at the end of 2016.
222. In the Interbank market, the Ghana cedi depreciated by 2.4 per cent and 0.4 per cent against the US dollar and the Euro respectively but appreciated against the Pound sterling by 4.1 per cent. This compared with depreciations of 13.4 per cent, 18.7 per cent and 16.2 per cent against the US dollar, the British Pound and the Euro respectively in the corresponding period of 2015.
223. Similarly, in the forex bureau market, the Ghana cedi traded weak during the year, depreciating by 1.7 per cent, 0.6 percent and 1.3 percent against the US dollar, the British Pound and the Euro respectively. This compared with the respective depreciations of 13.9 per cent, 15.7 per cent and 12.2 percent in 2015.
224. The cedi's depreciation was mainly fueled by increased demand pressures, particularly from non-oil imports and loan repayments as well as speculative activities associated with the general elections in 2016.
225. The stock of net international reserves (NIR) at the end of December, 2016 was estimated at US\$3,431.0 million; indicating an increase of US\$247.4 million from a stock position of US\$3,183.6 million at the end of December 2015. The country's gross international reserves also increased by US\$459.0 million to US\$4,862.1 million from a stock position of US\$4,403.1 million at the end of December 2015. This was sufficient to provide 2.8 months of imports cover compared to 2.6 months of imports cover at end-December 2015.

2.6.4 Monetary Sector

226. The Central Bank maintained a tight policy stance throughout 2016 with the objective of anchoring inflation expectations and ensuring the stability of the domestic currency.

The policy rate was kept at 26 percent from the beginning of the year to October 2016 as risks to inflation and growth were assessed as balanced. In November, the policy rate by was reduced by 50 basis points to 25.5 percent as inflationary pressures eased while domestic growth conditions continued to deteriorate.

Fig 2.6.5: Ghana Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



227. Broad money supply growth, including foreign currency deposits (M2+) declined in year-on-year terms. At the end of December 2016, M2+ recorded an annual growth of 22.0 percent compared with 26.1 percent in the same period of 2015. This was mainly driven by a moderate growth of 19.5 percent in Net Domestic Assets (NDA), against 25.5 per cent recorded in December 2015. The moderate pace of growth in the NDA offset the higher NFA growth of 29.8 percent in December 2016 (28.1% in December 2015).
228. In terms of components, the moderate growth in M2+ reflected in all of the components, with the exception of demand deposits which grew at 27.3 per cent in December 2016 compared to a growth of 20.8 per cent in December 2015. Foreign currency deposits growth declined to 14.2 per cent in December 2016, compared with 24.5 per cent recorded a year earlier. Broad money supply excluding foreign currency deposits (M2) grew by 24.6 per cent in December, a marginal decline when compared to a growth of 26.6 percent in 2015.
229. Banks' outstanding credit to the public and private institutions moderated further in December 2016 on the back of higher non-performing loans and tight monetary policy stance. Banks' total outstanding credit slowed to 17.6 per cent from 24.9 per cent recorded in the same period in 2015. Private sector credit growth was 14.4 per cent year-on-year against 24.5 percent in 2015. In real terms, private sector credit contracted by 0.8 per cent in December 2016, compared with a growth of 5.8 percent recorded in December 2015. Total outstanding credit stood at GH¢35,409.0 million at the end of December 2016, of which the private sector accounted for 84.7 per cent.

230. Interest rates showed mixed trends in the money market in 2016. The interbank weighted average rate inched up to 25.26 percent at end-December 2016, from 25.5 percent in December 2015. Short-dated treasury securities declined significantly in December 2016. On year-on-year basis, the 91-day, 182-day, 1-year and 2-year rates declined respectively to 16.81, 18.50, 21.50 and 22.50 per cent from 23.12, 24.40, 22.75 and 23.30 per cent in December 2015. However, the rates on 3-year, and 5-year securities increased respectively to 24.00 and 24.75 per cent, compared with 23.49, and 24.00 per cent in December 2015. The 7-year bond and a new 10-year bond (issued in November 2016) remained at 19 per cent in December 2016.
231. Deposit Money Banks' average 3-month time deposit rate remained unchanged at 13.00 per cent on annual basis while the savings rate declined on annual basis by 3bps to 6.05 per cent in December 2016. However, the average lending rate moved up to 31.21 percent in December 2016 from 27.50 percent in December 2015.
232. Total assets of the banking sector stood at GH¢81.22 billion at the end of December 2016, indicating a year-on-year growth of 28.1 percent. This compared with a year-on-year growth of 23.2 percent in the same period in 2015. The slight pickup in growth during the review period was on account of increases in banks' investment portfolio and foreign assets. Banks' foreign assets stood at GH¢7.28 billion, up by 37.1 percent year-on-year in December 2016 compared to a 12.1 percent growth in December 2015. Domestic assets amounted to GH¢73.94 billion accounting for 91.0 percent of total assets of the banking sector and an annual growth of 27.3 percent at the end of December 2016 (from 24.3% in December 2015). The main source of asset funding for the banking sector was total deposits, which stood at GH¢51.66 billion as at end-December 2016 and accounted for 63.6 percent of total assets.
233. The banking sector recorded a year-on-year growth of 16.6 percent in minimum paid-up capital to GH¢3.73 billion in December 2016 compared with a year-on-year growth of 20.7 percent in December 2015. The growth resulted from the injection of additional capital by some already existing banks to shore up their capital levels, as well as the introduction of fresh capital by newly licensed banks.
234. The annual growth in gross loans and advances moderated, in real terms, from 6.1 percent at end-December 2015 to 1.9 percent at end-December 2016. The deceleration in growth was due to the general slowdown in credit extension on the back of deteriorating asset quality. Also, real private sector credit contracted by 0.3 percent in December 2016, from a growth of 5.7 percent in December 2015, as credit to households continued to decline, registering a negative growth rate of 8.0 percent in December 2016.
235. Analysis of the composition of banks' credit portfolio by economic institutions showed that the largest proportion of loans went to the private sector, with a share of 85.1

percent at end-December 2016, down by 2.2 percent from a year earlier. Out of this, the share of household loans declined from 14.8 percent in December 2015 to 13.4 percent in December 2016, while that for private enterprises declined slightly from 71.1 percent to 70.1 percent. On the other hand, loans to the public sector increased from 12.7 percent in December 2015 to 14.9 percent at end-December 2016.

236. The indicators of asset quality at the end of December 2016 pointed to deterioration in the loan book of banks relative to the same period last year. The stock of NPLs increased from GH¢ 4.4 billion in December 2015 to GH¢ 6.2 billion in December 2016. The NPL ratio (the ratio of non-performing loans to gross loans) for the banking industry also increased from 14.7 percent in December 2015 to 17.3 percent in December 2016. The deterioration was partly explained by the slowdown in growth of loans and advances.

2.6.5 Macroeconomic Convergence in 2016

237. Out of the six (6) rationalized macroeconomic convergence criteria, Ghana met only one primary criterion and none of the secondary criteria. The primary criterion met was Central Bank financing of the budget deficit. The details of the performance are presented below.

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	Lower than or Equal to 3%	- 5.7	- 8.6	- 6.4	- 4.8	- 10.9	Not Achieved
Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	9.1	11.7	17.0	17.2	17.5	Not Achieved
Central Bank Financing of Budget Deficit	≤10% of previous years tax revenue	25.4	12.3	13.7	4.1	-	Achieved
Gross external Reserve	≥ 3 months	3.0	3.1	3.0	2.6	2.8	Not Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤ 70%	47.8	56.8	70.2	73.2	73.1	Not Achieved
Nominal Exchange rate variation	± 10%	- 4.4	- 7.4	- 31.5	- 15.7	- 4.2	Achieved
Number of Criteria Respected		3	3	1	1	2	

Primary Criteria

- Budget deficit (including grants)/GDP ratio ≤ 3percent: This criterion was not met. The overall fiscal balance on commitment basis amounted to GH¢17,446.9 million, equivalent to 10.3 percent of GDP.

- Average Inflation rate \leq 5 percent: The country did not achieve this criterion. Average annual inflation rate stood at 17.5 percent in 2016.
- Budget deficit financing by the Central Bank \leq 10 per cent of previous year's tax revenue (i.e. less or equal to 10 per cent of previous year's tax revenue): This criterion was met. The Central Bank did the finance the 2016 budget.
- Gross external reserve \geq (greater or equal to) 3 months import cover: This target was not met. Even though the country's Gross International Reserves increased by US\$459.01 million to US\$4,862.07 million in 2016, this was only sufficient to provide 2.8 months of imports cover.

Secondary Criteria

- Ratio of total debt to GDP \leq 70 percent: Ghana did not meet this criterion. Public debt as a ratio of GDP was 73 percent at end-December 2016.
- Nominal exchange rate stability (variation \pm 10 percent): Ghana met this criteria according WAUA. The Ghana cedi depreciated by 4.2 per cent and 15.7 in 2015..

2.6.6 Conclusion and Recommendations

238. Ghana's economic performance in 2016 indicates that growth weakened mainly on the back of disruptions in oil production, while non-oil economic activity slowed due to continued fiscal consolidation and adjustments under the IMF programme. The economy also experienced fiscal slippages mainly from revenue shortfalls and other challenges including weak commodity prices, shortfall in cocoa production and unreliable electricity supply. The country's total public debt to GDP ratio remained high, reaching 72.5 percent, resulting in high debt service costs.
239. In the short to medium, government is determine to direct efforts at reducing inflation and budget deficit to limits within the regional threshold in other to achieve the Rationalized Macroeconomic Convergence Criteria. Key policy priorities and flagship projects will therefore be put in place to put the economy back on track. These include: establishment of the Infrastructure for Poverty Eradication Project (IPEP), which allocates US\$1 million to each Constituency, implementation of the "One District One Factory" programme; and roll-out of the National Identification Scheme to facilitate the efficient delivery of public and private services and help formalize the economy.
240. The following recommendations were made:
- Government should prioritize spending, enhance revenue mobilization and strengthen fiscal institutions. Additionally public and financial management (PFM) reforms should be enforced to improve predictability and control in budget execution.

- Government should execute regular payroll audits and implement other wage containment measures to further reduce the wage-to-tax revenue ratio.
- Government should implement a detailed and time-bound action plan to regularly detect and remove 'ghost' workers. In addition, government should ensure strict control on new hiring and migrate all sub-vented agencies onto the mechanized payroll.
- Measures should be instituted to reduce the public debt burden as part of measures to ensure debt sustainability.

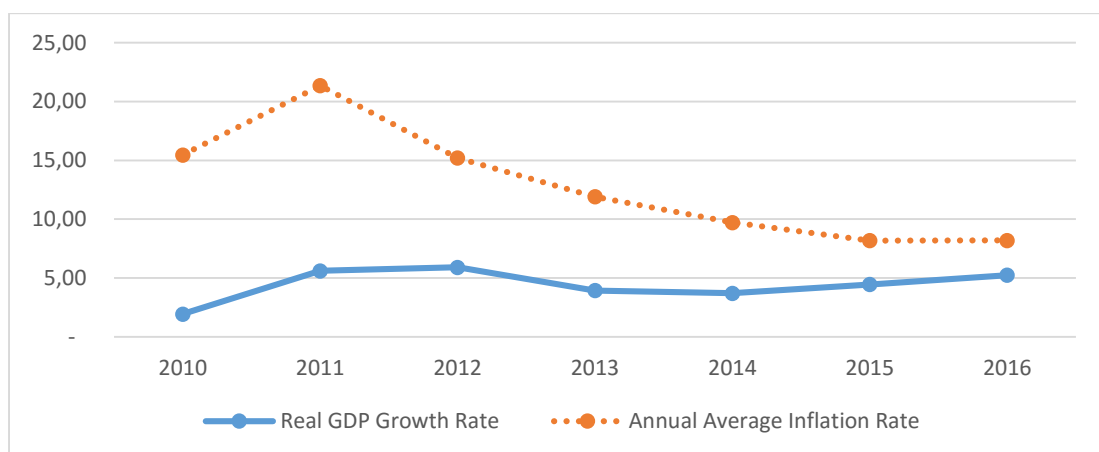
2.7 Economic and Financial Situation of Guinea in 2016

241. In 2016, the Ebola Virus Disease was completely eradicated in Guinea. The country adopted a policy document known as the National Economic and Social Development Plan (PNDES). The overall objective of the PNDES is to promote strong growth to improve the well-being of Guineans, structurally transform the economy, while putting the country on the path of sustainable development in a context of stable and credible macroeconomic framework. Also in 2016, the country conducted the final review of the three-year financial programme under IMF Extended Credit Facility (ECF). This is the first time a financial programme has been fully carried out in the Republic of Guinea.
242. Against this backdrop, growth stood at 5.2% compared to 4.5% in 2015. This accelerated growth was mainly driven by the good performance of the secondary sector.

2.7.1 Real Sector

243. The primary sector's value added increased by 3.7% in 2016 compared with 7.1% in 2015. This was due to the good performance of the agricultural sector owing to the expansion of areas under cultivation and yield increase as a result of efforts made by government to support production. Fishing activities also benefited from the effects of the lifting of sanctions by the European Union. The downturn in the previous year was on account of the poor performance of the livestock and forestry sectors.

Fig 2.7.1: Guinea Real GDP Growth Rate and Inflation Rate



244. The primary sector's contribution to GDP was 18.0% in 2016 against 18.3% in 2015. Its contribution to GDP growth was 0.7 percentage point in 2016 against 1.3 percentage point in 2015.
245. The secondary sector grew by 8.5% in 2016 after contracting by 5.2% in 2015. This significant boost was driven by the performance of the mining and energy sectors.

Mining-related activities went up by 17.2% in 2016, as a result of the increase in production of the mining company Boké, which largely exceeded initial forecasts. Similarly, the water-electricity-gas sub-sector grew by 10.0% in 2016 because the Kaléta dam operated throughout the year unlike in 2015, when it started production only in the 2nd quarter.

246. The secondary sector contributed 27.0% of GDP in 2016 compared to 26.1% in 2015. Its contribution to growth stood at 2.2 percentage points against a negative contribution of 1.5 percentage point in 2015.
247. The value added of the tertiary sector rose by 3.6% following an increase of 9.6% in 2015. In this sector, only trade remained buoyant due to the resumption of onshore trading activities with neighbouring countries following the eradication of the Ebola Virus Disease. On the whole, the tertiary sector contributed 2.3 percentage points to GDP growth.
248. On the demand side, developments were characterised by a slight increase of 0.5% in final consumption, a 17.9% rise in gross fixed capital, a growth of 5.5% in exports and 5.9% in imports. Investment contributed the most to growth in 2016 with 6.4 percentage points against a negative contribution in 2015. Consumption and trade contributed 0.6 percentage point and -1.7 percentage point respectively.
249. Regarding price development, annual average inflation was 8.2% in December 2016 as well as at end-December 2015, due mainly to rising food prices. This is attributed to the persistent deficit in the distribution channel of certain products such as fish and vegetables. This is in addition to the increase in the prices of imported products as a result of the upward adjustment of VAT from 18 to 20% on essential goods and services (water, electricity, health, etc.).

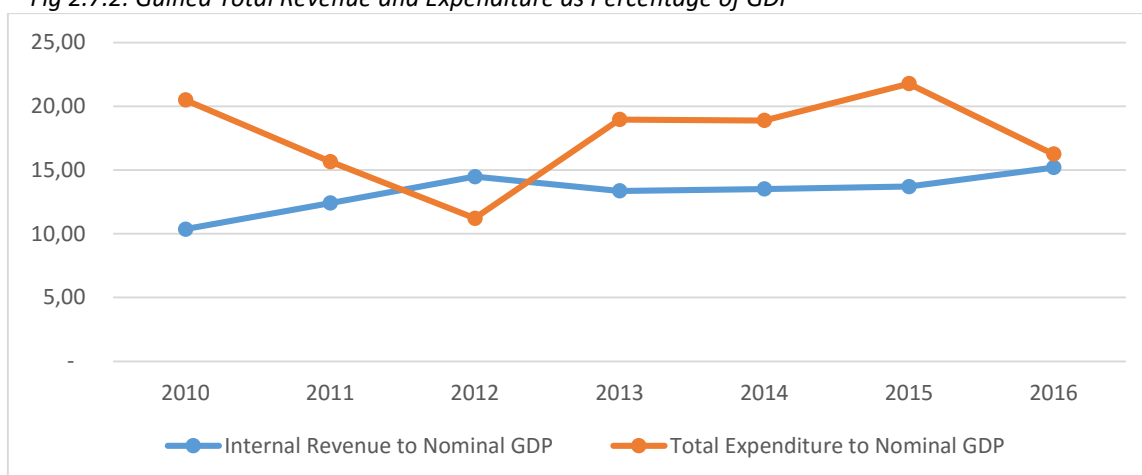
2.7.2 Public Finance and Public Debt

250. The conduct of government's financial operations in 2016 resulted in an overall surplus equivalent to 0.1% of GDP compared to the deficit of 6.9% recorded in 2015. This situation was due to a 26.4% increase in total revenue and grants combined with a 14.5% decrease in total expenditure and net lending. In nominal terms, total expenditure and net lending stood at GNF 12,325.7 billion (16.4% of GDP) compared to GNF 9,749.3 billion (14.9% of GDP) in 2015. Total spending and net lending declined from GNF 14,299.3 billion in 2015 to GNF 12,220.9 billion (16.3% of GDP) in 2015.
251. The increase in total revenue and grants in 2016 was driven by a rise in total revenue of 26.7% and grants of 22.8%. Total revenue, driven in particular by tax revenue (26.7%) and to a lesser extent by non-tax revenue (32.9%), increased by GNF 2,403.0 billion to GNF 11,391.4 billion (15.2% of GDP) compared to GNF 8,988.4 billion (13.7% of GDP) in 2015. Growth in tax revenue mobilisation was due to the performance of

income taxes, taxes on goods and services, as well as import duties and taxes. This performance is, among other things, a result of the implementation of the measures contained in the 2016 Financial Act, notably the rise in VAT rate from 18 to 20%, rise of two percentage points in the rates of excise duties initially set at 15% and 45% respectively. Other measures contributing to these changes include (i) operationalisation of the medium-sized enterprises, (ii) introduction of new telephone taxes, (iii) modernisation of port infrastructure equipment, (iv) awareness on the payment of taxes and involvement of the informal sector, and (v) measures to enhance the clearance of used vehicles and post-clearance controls. Tax revenue mobilisation resulted in a tax to GDP ratio of 14.1% in 2016, compared to 12.8% a year earlier.

252. Non-tax revenue grew from GNF 125.8 billion in 2016 to GNF 508.4 billion in 2016, compared to GNF 382.6 billion in 2015. This increase was attributed to the rise in proceeds from royalties and dividends, administrative fees and charges, fines and forfeitures.

Fig 2.7.2: Guinea Total Revenue and Expenditure as Percentage of GDP

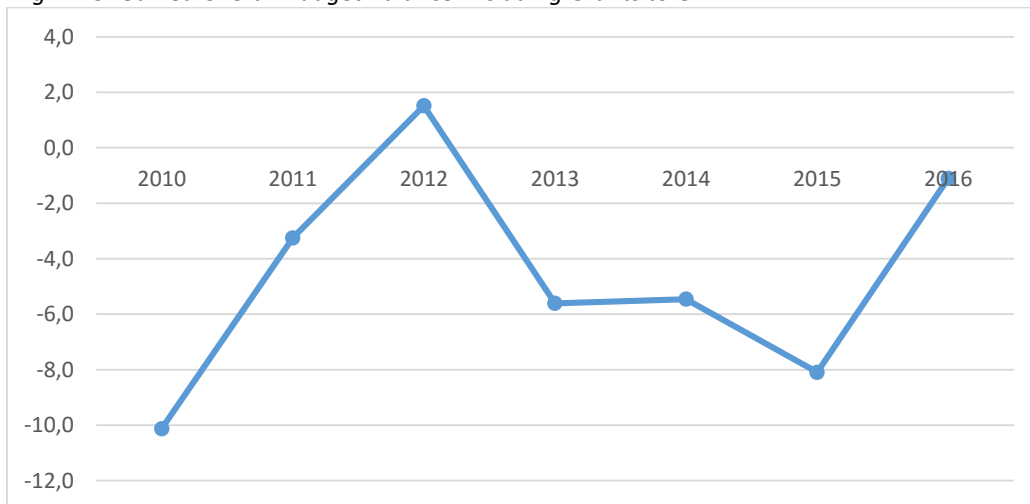


253. Grant mobilisation in 2016 amounted to GNF 934.3 billion against GNF 760.9 billion in 2015, representing 1.2% of GDP as in 2015.
254. Total expenditure and net lending declined sharply in 2016 compared to 2015. They stood at GNF 12,220.9 billion (16.3% of GDP), compared to GNF 14,299.3 billion (21.8% of GDP) in 2015. This decline was due to external capital expenditure which dropped by 82.3% and recurrent expenditure which fell by 5.2%.
255. Recurrent expenditure stood at GNF 8,362.2 billion at the end of 2016 against GNF 8,819.0 billion at the end of December 2015. The fall in recurrent expenditure was due to a contraction in (i) expenditure on goods and services by 9.6% (GNF 2,576.2 billion in December 2016 compared to GNF 2,849.2 billion by the end of 2015) and (ii) transfers and subsidies by 22.3% compared to 2015 (GNF 2,102.4 billion in 2016 against

GNF 2,706.9 billion in 2015). The contraction in expenditure resulted from measures taken by the Government to improve the reallocation of resources and improve the quality of spending. In addition, measures were taken in relation to missions outside the country, as well as a reminder through a circular, of the principles of eligibility and granting of subsidies. On the other hand, expenditure on wages and public debt interest increased by 7.9% and 37.8% respectively. The different claims by social partners for improved living and working conditions led the Government to sign a memorandum of understanding on wage increases.

256. Capital expenditure stood at GNF 3,648.8 billion at the end of December 2016 compared to GNF 4,990.2 billion at the end of 2015. Investment expenditure declined by GNF 1,341.4 billion in absolute value. This drop is attributed to investment expenditure financed from external sources which fell by 82.3% in 2016 to reach GNF 292.7 billion, compared to GNF 1,653.1 billion in 2015.

Fig 2.7.3: Guinea Overall Budget Balance Excluding Grants to GDP



257. Guinea's total public debt outstanding in 2016 rose by 13.6% to reach GNF 32,300.7 billion (43.1% of GDP) against GNF 28,423.2 billion (43.1% of GDP) in 2015. However, it should be noted that the outstanding amount does not include accumulated arrears from local suppliers as part of provision of services to the State that have not been paid.

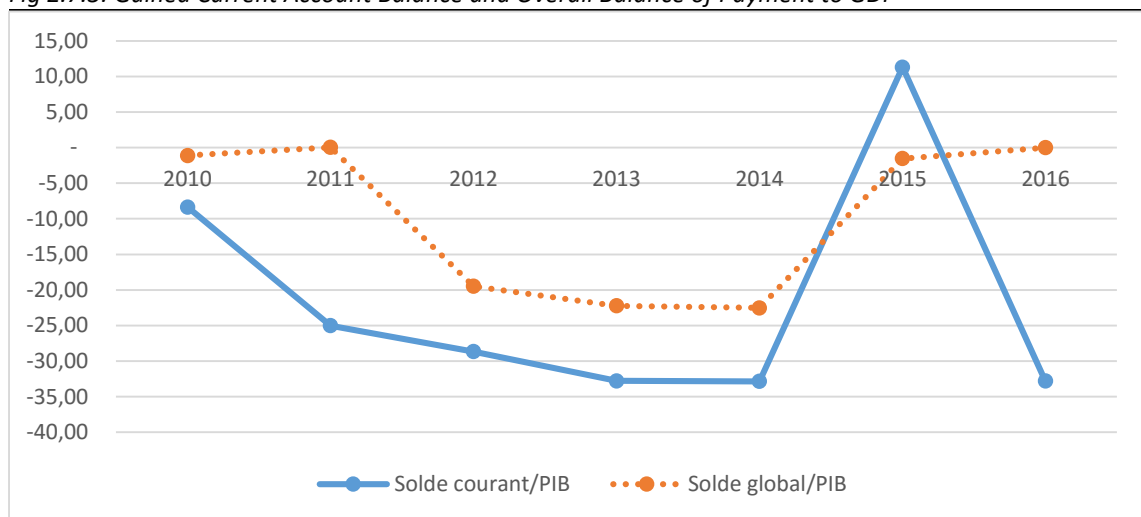
2.7.3 External Sector

258. In 2016, Guinea's transactions with the rest of the world resulted in an overall deficit of GNF 7.4 billion, down compared to the GNF 1.6 trillion deficit (-1.5% of the GDP) in 2015. This development in the overall deficit was a direct result of the capital and financial transactions account, which stood at a surplus of GNF 24.2 trillion compared to a deficit of GNF 8.2 trillion the previous year. The balance of recurrent transactions,

excluding official transfers, recorded a deficit of GNF 24.6 trillion, compared to GNF 7.3 trillion in 2015.

259. The trade balance deficit worsened significantly to GNF 18.1 trillion (24.1% of the GDP), from a deficit of 4.7% of GDP in 2015 or GNF 3.5 trillion. This situation was attributed mainly to the increased importation of equipment for the mining industry.
260. The structural deficit of the balance of services declined to GNF 5.3 trillion, from a deficit of GNF 6.6 trillion in 2015 due to increased spending of some of the services, particularly the transport services (all modes of transportation) and other public services. The primary income balance (investments income) stood at negative GNF 1.1 trillion in 2016, against negative GNF 2.4 trillion in 2015, while the secondary income balance (balance of transfers) rose by 20.7% to GNF 7.4 trillion in 2016, compared to GNF 6.3 trillion in 2015.

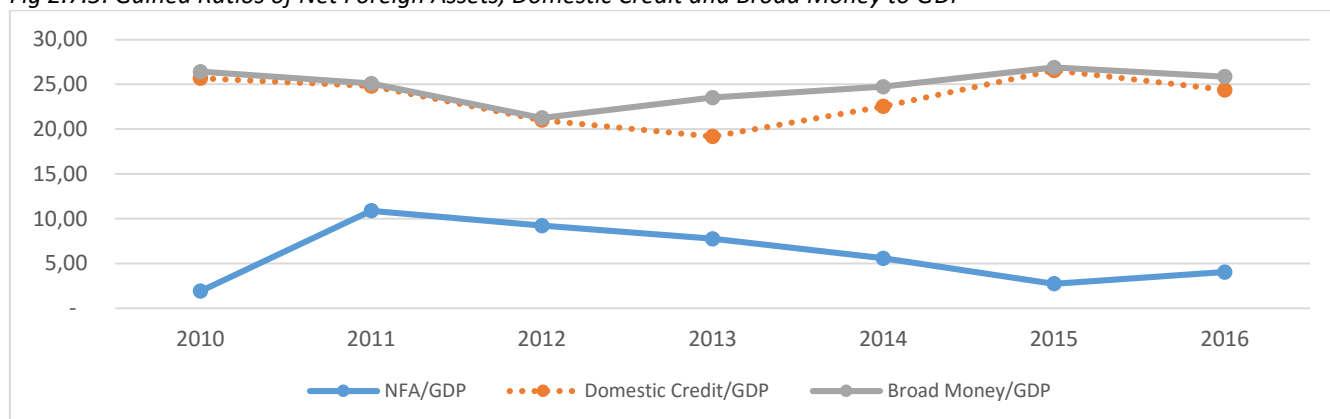
Fig 2.7.3: Guinea Current Account Balance and Overall Balance of Payment to GDP



2.7.4 Monetary Sector

261. The evolution of monetary aggregates in 2016 compared to 2015 was marked by a 69% increase in Net Foreign Assets and a 4.9% growth in domestic credit. The trend led to a 9.9% rise in money supply.
262. Net foreign assets grew to GNF 3.1 trillion (4% of GDP) in 2016 against GNF 1.6 trillion (2.7% of GDP) by end of December 2015, following the increase in the Central Bank's assets. In effect, the net foreign assets of the Central Bank increased 96.1% to GNF 2.7 trillion in 2016 compared to GNF 1.3 trillion in 2015 due to the impact of incentive measures taken by the authorities to encourage the repatriation of exports revenue from precious minerals particularly gold and diamonds. Commercial banks assets posted a 16% decline.

Fig 2.7.5: Guinea Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



263. Domestic credit rose by 4.9% due to the combined effect of the 3.4% decline in the government's net position and the 6.6% increase in private sector credit.

264. Corresponding to developments of its counterparts, broad money increased by 9.9% in 2016 to reach GNF 8 trillion (25.9% of GDP) against GNF 7.8 trillion (26.9% of GDP) in 2015.

2.7.5 Macroeconomic Convergence in 2016

265. Guinea met four convergence criteria in 2016 compared to three in 2015. The criteria not met included variation in the nominal exchange rate and gross external reserves. The convergence performance presented as follows:

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	≤3%	3.2	- 2.	- 3.56	- 6.9	0.1	Achieved
Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	15.2	11.9	9.7	8.2	8.2	Achieved
Central Bank Financing of Budget Deficit	≤ 10% of previous years tax revenue	0.00	0.01	0.00	0.26	0.01	Achieved
Gross external Reserve	≥ 3 months	2.4	2.9	3.2	2.2	1.4	Not Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤70%	42.2	44.5	73.5	43.3	43.1	Achieved
Nominal Exchange rate variation	± 10%	- 2.5	2.1	- 1.5	2.2	-16.4	Not Achieved
Number of Criteria Respected		3	4	4	4	4	

2.7.6 Conclusion and Recommendations

266. The year 2016 was marked by the eradication of the Ebola Virus disease that ravaged the country over the two preceding years. The year was also marked by the first normal completion of a programme organised with the International Monetary Fund. To enable the economy recover, the following recommendations are proposed:
- Speed up consultations in order to conclude a new programme with the IMF that will consolidate the macroeconomic framework and strengthen the trust of donors in supporting economic activity;
 - Continue with and expedite structural reforms aimed at enhancing the business climate;
 - Engage measures to control operational expenditure including transfers and subsidies by rationalizing public services and agencies;
 - Undertake measures to enhance the mobilization of domestic resources ;
 - Strengthen measures for the repatriation of exports revenue to increase the Central Bank's gross exchange reserves.

2.8 Economic and Financial Situation in Guinea Bissau in 2016

267. The country's economy was marked by the prolonged political crisis that began in August 2015 following the dissolution of the inclusive government formed by the April 2014 parliamentary elections. Since then, an air of uncertainty has prevailed, hampering the positive move created at the international partners' roundtable in Brussels in March 2015 and slowing down the implementation of reforms especially in the public finances sector and business environment. This notwithstanding, real GDP recorded a 5.1% increase in 2016 compared to 6.1% in 2015, given the reforms undertaken in 2014 and the smooth conduct of the cashew nut marketing campaign, which enabled farmers to benefit from the rise in export prices.

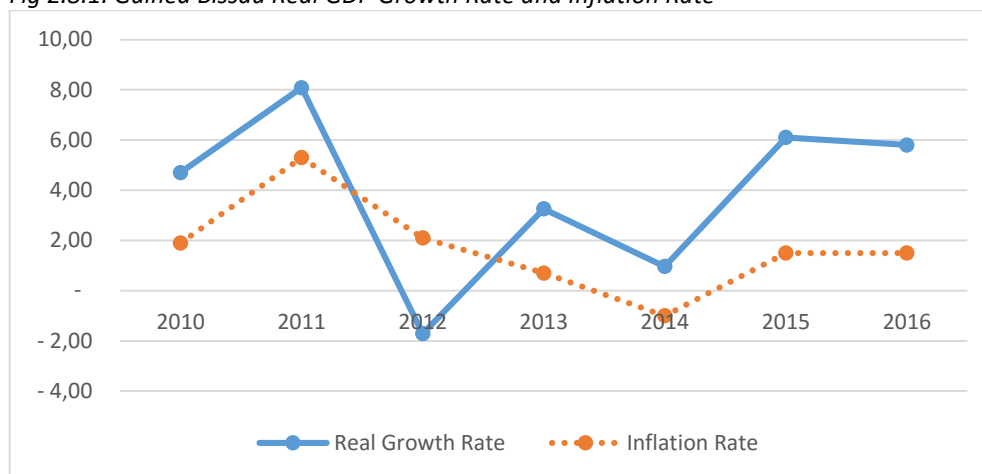
2.8.1 Real Sector

268. Guinea Bissau's economic renewal, which began in 2015 continued in 2016 propelled by all the sectors.

269. The primary sector recorded a 5.3% growth in 2016 compared to 2.9% in 2015, supported mainly by the increase in agricultural production and fishing activities. The upward trend of the agricultural sub sectors (food production and cash crops), is tied to the continued implementation of various agricultural sector support projects, good rainfall and the increase in grain fields. However, forestry activities experienced an 8.9% decline in 2016 following a 34.5% drop in 2015, linked to the Government's moratorium in 2014 to minimize the effects of overexploitation observed in 2012 and 2013.

270. The secondary sector recorded a 5.6% growth in 2016 against 5.1% in 2015, driven by all the sub sectors except the water and electricity sub sector. In effect, the agro food industry recorded a 7.5% rise in 2016 against 9.1% a year earlier; while the other industrial activities swung up 2,9% as in 2015. However, construction and public works activities posted a 17.8% decrease compared to a 23.7% downturn in 2015. Also, the water and electricity sub sector recorded a 3.1% reduction in 2016 compared to a 6.5% rise in 2015, which is a direct result of the challenges to managing the national water and electricity company (EAGB).

Fig 2.8.1: Guinea Bissau Real GDP Growth Rate and Inflation Rate



271. The tertiary sector recorded a growth rate of 4.7% in 2016 compared to 6.6% in 2015, driven by all the sub sectors. As such, the transport sub-sector experienced 8.1% increase compared to 25.1% in 2015 and the trade sector recorded 8.3% compared to 6.2%, boosted by the cashew nut marketing drive. Telecommunication activities recorded a 8.1% growth compared to 25.1% in 2015 while financial services posted a 1.5% growth, from a 11.9% downturn due to improved quality of banking services after Government's intervention in 2015 and 2016 to resolve problems arising from bad loans. Also, the activities of the public administration sub-sector showed a increase of 3.1% after an increase of 7.1% in 2015. These developments were due to the return to normalcy following the exceptional events of 2014, the elections, clearance of arrears owed workers and resumption of government services following the normalization of the political situation.
272. The growth occurred in an environment characterized by price stability. In effect, the annual average inflation stood at 1.5% in 2016 as in 2015

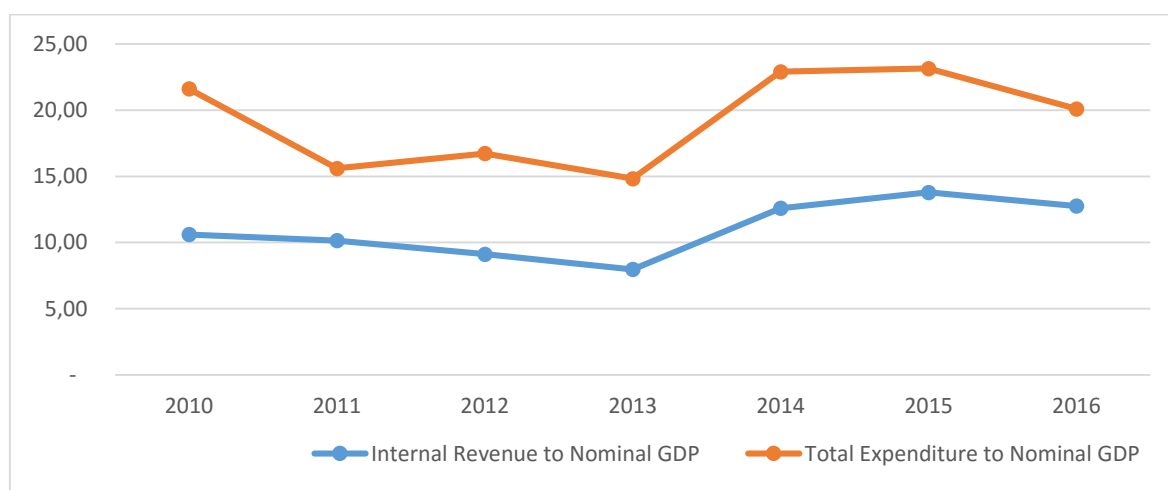
2.8.2 Public Finance and Public Debt

273. In a situation marked by prolonged political crisis which prevented the adoption of the budget, the financial operations of the State closed with a budget deficit of 4.0% of GDP compared to 2.7% in 2015. This situation was due to a significantly higher rise in total expenditure and net lending than in total revenue and grants.
274. In fact, total revenue and grants fell by 8,1% in 2016 compared to a 17.9% rise in 2015 following a 31.1% reduction in grants. Domestic revenue stood at FCFA 87.2 billion (12.6% of the GDP) compared to 84.8 billion (13.8% of the GDP) in 2015, due to a rise in tax revenue, notwithstanding the drop in non-tax revenue.
275. Tax revenue amounted to FCFA 66.1 billion compared to FCFA 61.9 billion in 2015, representing a 6.7% rise. The upward trend was due to the increased mobilisation of tax revenue aided by stronger fiscal measures and tax fraud control measures as well

as an increase in customs duty following the implementation of the ECOWAS CET in the last quarter of the year. Non-tax revenue recorded a 7.7% decline compared to a 7% increase in 2015.

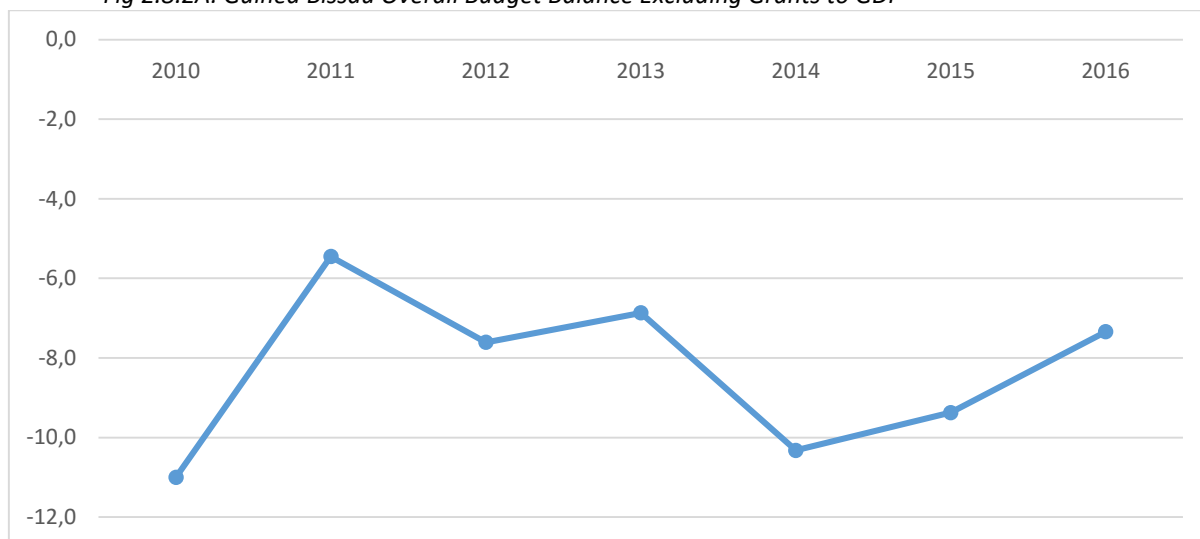
276. Grants received amounted to FCFA 27.6 billion compared to FCFA 40 billion in 2015 following the suspension of donor support.

Fig 2.8.2: Guinea Bissau Total Revenue and Expenditure as Percentage of GDP



277. Total expenditure and net lending increased by 0.9% to FCFA 141.2 billion (20.6% of GDP) in 2016 compared to FCFA 142.1 billion (23.0% of GDP) the previous year. This decline was due to the recurrent expenditure and capital.
278. Recurrent expenditure amounted to FCFA 99.6 billion (14.5% of GDP) compared to FCFA 92.7 billion (15.1% of GDP) the previous year, representing a 7.8% rise compared to a rise of 19.7% in 2015. The trend was due to the increase in transfers and subsidies and in wages and salaries, coupled with regularized wages for education and new recruits. The effect of this growth was reduced by a drop in expenditure on the procurement of goods and services.

Fig 2.8.2A: Guinea Bissau Overall Budget Balance Excluding Grants to GDP

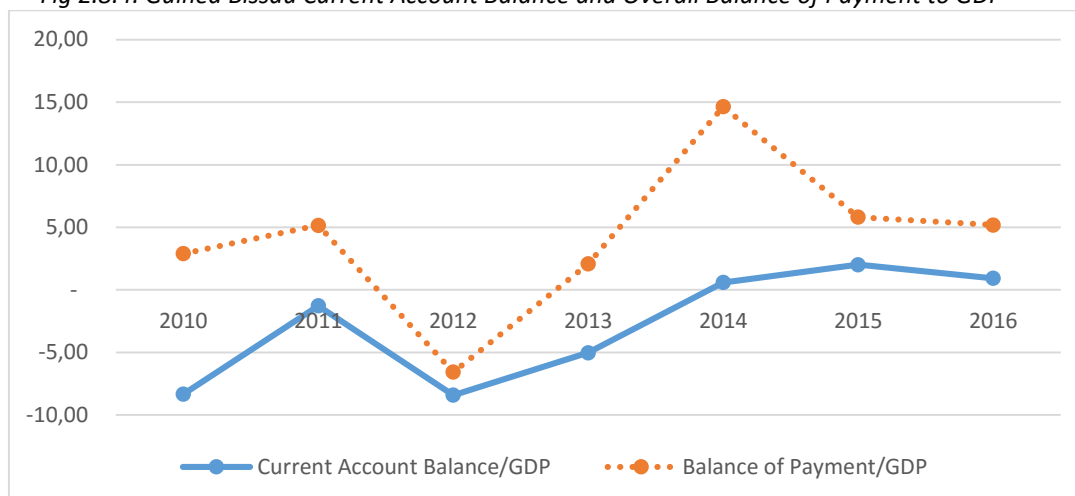


279. With a non-approved budget, capital expenditure declined by 12.2% to FCFA 37.1 billion (6.2% of GDP) compared to FCFA 48.4 billion (7.9% of GDP) in 2015.
280. Total public debt stood at FCFA 317 billion (41.4% of GDP) in 2016 compared to FCFA 287.7 billion (42.6% of GDP) in 2015.

2.8.3 External Sector

281. Transactions with the rest of the world in 2016 resulted in an increase of the surplus of the overall balance of payments from FCFA 35.2 billion (5.8% of GDP) in 2015 to FCFA 41.1 billion (6.0% of GDP), due to reduced surpluses on the balance of current account and the financial and capital account.
282. The current account recorded a surplus of FCFA 10.8 billion (0.2% of GDP) in 2016 compared to a surplus of FCFA 12.4 billion (1.6% of GDP) in 2015, triggered by reduced surpluses on primary and secondary income accounts, but with slightly minimised impact due to improved balance of goods.

Fig 2.8.4: Guinea Bissau Current Account Balance and Overall Balance of Payment to GDP

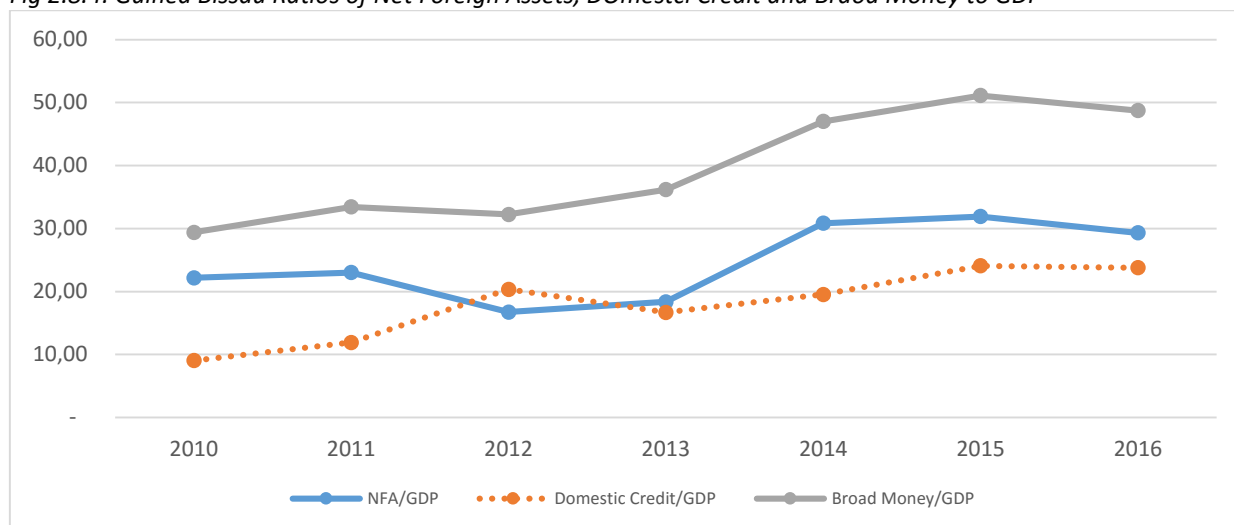


283. Also, the capital account surplus narrowed to FCFA 34 billion (4.9% of GDP) in 2016 compared to a FCFA 34.8 billion surplus (5.7% of GDP) in 2015. This trend was due to a 3.4% reduction in capital transfers amounting to FCFA 34.2 billion (5% of GDP), ultimately influenced by the reduction in project grants and direct investments. However, increased portfolio investments in government securities on the regional market slightly reduced the impact of this development.

2.8.4 Monetary Sector

284. The monetary situation as at end-December 2016 was marked by growth in money supply, due to the consolidation of net foreign assets and domestic credit.
285. Net foreign assets of monetary institutions increased by 21.3% to FCFA 203 billion at end-December 2016 compared to FCFA 167.4 billion the previous year, a direct result of the rise in revenue from cashew nut exports.
286. Domestic credit grew by 10% to FCFA 132.2 billion, compared to FCFA 124.6 billion the previous year, a direct result of GNP worsening by 11.8% to FCFA 69.1 billion, following treasury loans obtained from local banks. There was also a slight increase in loans to the economy from FCFA 62.8 billion in 2015 to FCFA 63 billion in 2016.

Fig 2.8.4: Guinea Bissau Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



287. As a result of this trend, broad money supply rose by 13.5%, resulting in a 23.2% as well as 0.2% increase in currency in circulation and sight deposits respectively.

2.8.5 Macroeconomic Convergence in 2016

288. Guinea-Bissau met five (5) criteria in 2016 as against six (6) in 2015. In 2016 the country did not meet the budget deficit criterion.

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	≤ 3%	- 2.1	- 3.4	- 2.6	- 2.7	- 4.0	Not Achieved
Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	2.1	0.7	- 1.0	1.4	1.5	Achieved
Central Bank Financing of Budget Deficit	≤ 10% of previous years tax revenue	0.00	0.00	0.00	0.00	0.00	Achieved
Gross External Reserve	≥ 3 months of import cover	5.3	4.7	5	5	4.4	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤ 70%	52.4	52.6	53.3	46.8	46.1	Achieved
Nominal Exchange rate variation	± 10%	- 4.8	4.1	0.1	- 9.3	0.5	Achieved
Number of Criteria Respected		6	5	6	6	5	

2.8.6 Conclusion and Recommendations

289. In view of the foregoing, the government should:

- Pursue efforts aimed at enhancing stability in the socio-political environment, which is required for economic take-off;
- Undertake a process of economic diversification to reduce its dependence on cashew nut production and exportation, while lessening vulnerability to exogenous shocks;
- Work towards enhancing public finance management and fiscal consolidation through broader domestic resource mobilisation and cost-cutting measures.

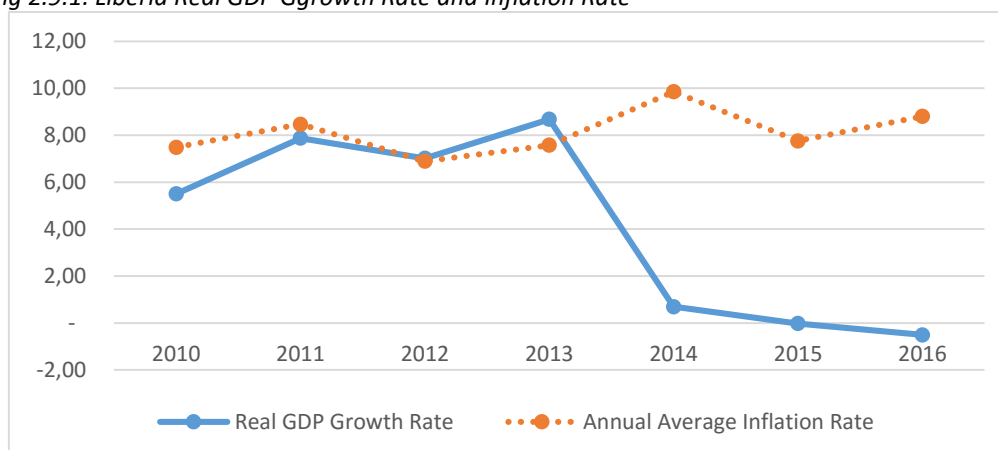
2.9 Economic and Financial Situation in Liberia in 2016

290. The developments in commodity prices, especially Iron ore, rubber and minerals (diamond and gold) as well as cocoa beans and other commodities did not translate positively on the economy of Liberia. Thus in 2016, in spite of the Government of Liberia's initiatives through the post Ebola Economic Stabilization and Recovery Plan, (ESRP) anchored on the Agenda for Transformation (AfT), the performance of the economy deteriorated mainly on account of poor infrastructure, low productivity in the real sector and drastic depreciation of Liberian Dollar.

2.9.1 Real Sector

291. Production outturn in 2016 was impacted by the weak performance of various sectors of the economy. On the whole, real GDP in 2016 declined by 0.5 percent compared to 0.0 percent in 2015. The contraction in real GDP was attributed to the dismal performance of forestry, mining and panning, manufacturing and services sectors.

Fig 2.9.1: Liberia Real GDP Ggrowth Rate and Inflation Rate



292. Primary sector recorded a slight improvement in 2016, reflecting growth of 2.17 percent compared to 1.1 percent in 2015. Agriculture and fisheries activities grew by 6.4 percent from 0.7 percent in 2015, mainly on account of the improvement in rice and cassava production together with the production of oil palm. Similarly, rubber output increased by 9.4 percent to 49,965 metric tons in 2016, from 45,657 metric tons in 2015. Coffee output also more than doubled, expanded to 162.0 metric tons in 2016 from 58 metric tons in 2015. Round Logs output expanded by 72.5 percent. The rise in output of these commodities was largely driven by the gradual recovery in global market prices.

293. The secondary sector declined by 16.5 percent in 2016 compared to a decline of 10.9 percent in 2015. As regard manufacturing, cement and paints outputs declined in 2016 by 13.1 percent and 31.4 percent respectively. These declines were partly attributed to the slowdown in construction activities during the year. However, drinks and

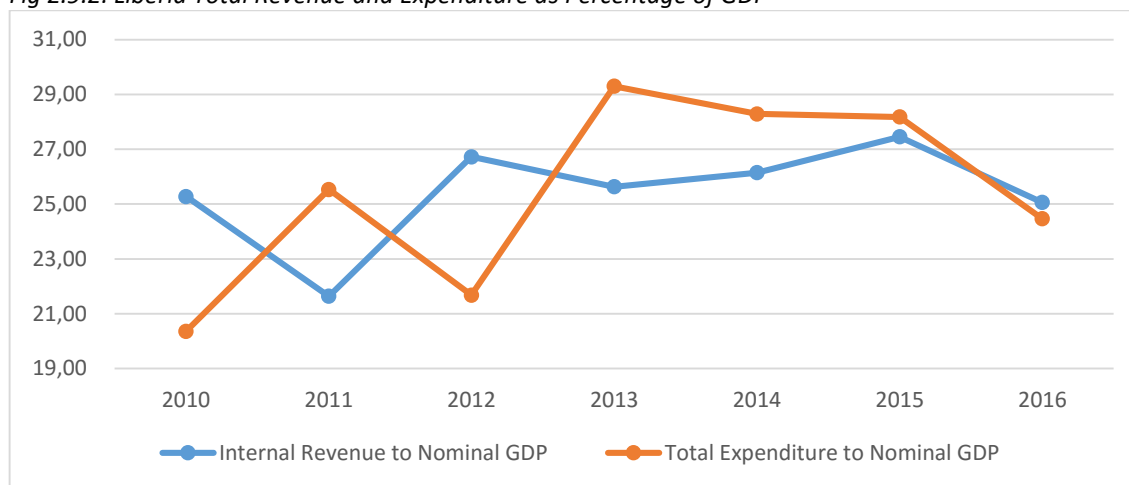
beverage production in 2016 went up by 10.0 percent to 25.2 million litres from 22.9 million litres in 2015 as a result of the installation of an additional facility that helped to boost output. However, the output of other manufacturing industries, including health and pharmaceutical products, recorded negative growth in 2016.

294. With respect to mining and panning, iron ore output declined by 66.4 percent in 2016, down to 1.5 million metric tons from 4.5 million metric tons in 2015 due to the slowdown of activities of one of the major concessionaires. Similarly, gold and diamond output contracted by 43.4 percent and 4.8 percent to 5,356 ounces and 62,827 carats respectively in 2016. The fall in output was a result of the low global prices, in spite of the gradual recovery.
295. The tertiary sector expanded by 3.9 percent in 2016, reflecting a slowdown compared to the 4.3 percent recorded in 2015.
296. GDP estimates for Liberia continued to be based on System of National Accounts (SNA) 1993 platform. GDP estimates using expenditure approach are not produced. However, there are plans to rebase the GDP estimates to 2011 current prices and expand the scope of the accounts to include expenditure and income approaches. This exercise is expected to be completed in 2019.
297. Annual average annual inflation in 2016 was 8.8 percent, up from 7.7 percent recorded in 2015. The 1.1 percentage point rise in inflation was largely explained by the depreciation of the Liberian dollar and sudden hike in energy cost. Similarly, end-period inflation increased to 12.5 percent in December 2016, from 8.0 percent in December 2015.

2.9.2 Public Finance and Public Debt

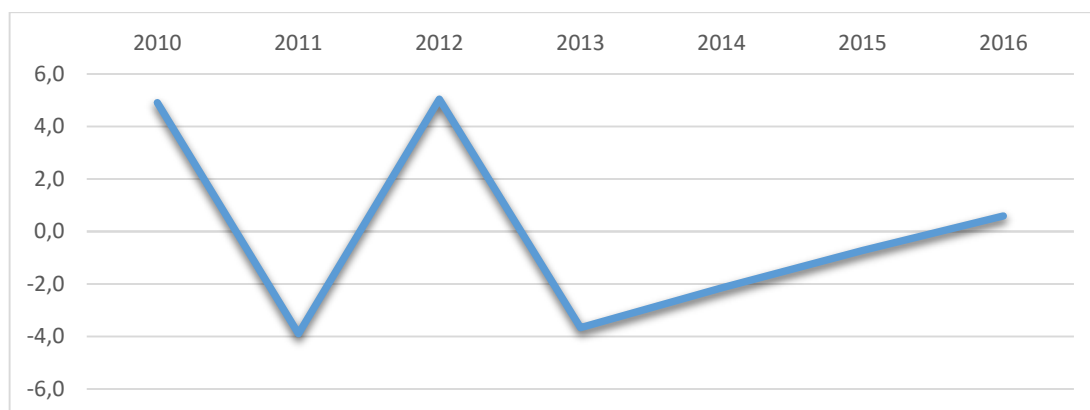
298. The Government of Liberia's fiscal operations in the review period showed improvement relative to the previous year. The overall fiscal balance remained in surplus, and increased to US\$42.0 million (3.9 percent of GDP) in 2016, from US\$33.2 million (1.6 percent of GDP) in 2015, mainly on account of fiscal consolidation, including the implementation of the new revenue measures, adherence to borrowing ceilings and expenditure cut by 5.0 percent across some non-essential items.
299. Total revenue and grants' receipts contracted by 7.8 percent to 26.7 percent of GDP in 2016, compared to 29.8 percent of GDP in 2015. The decline was mainly attributable to decreases in other receipts by 34.9 percent to 4.0 percent of GDP in 2016, from 6.3 percent of GDP in 2015, as well as decrease in import tax by 6.0 percent in 2015.

Fig 2.9.2: Liberia Total Revenue and Expenditure as Percentage of GDP



300. Total tax revenue in 2016 fell by 2.0 percent to 18.1 percent of GDP in 2016 against 19.0 percent of GDP in 2015. Domestic revenue constituted 67.8 percent of total revenue and grants for the period. The decline in total tax revenue in 2016 was occasioned by low revenue receipts on international trade, income and profit, as well as other tax revenues.
301. Taxes on income and profits in 2016 grew by 6.0 percent to 7.3 percent of GDP, from 7.0 percent of GDP in 2015 and constituted 27.2 percent of total revenue and grants at end-December, 2016.
302. Non-tax revenue during the review period amounted to 7.0 % of GDP, indicating that it plummeted by 15 percent down from 8.4 percent of GDP recorded at the end of December 2015. Grants in 2016 declined by 27.8 percent to 1.6 percent of GDP, against 2.3 percent of GDP in 2015.
303. Total expenditure and net lending declined to 24.5 percent of GDP in 2016, from 28.2 percent of GDP in 2015 due to declines in both the recurrent and capital expenditures.
304. Recurrent expenditure fell by 8.6 percent, to 22.6 percent of GDP due to declines in compensation of employees (salaries & allowances, and social contributions), interest on government debt and purchases of goods and services and transfers. Compensation of employees decreased by 4.4 percent to 10.4 percent of GDP, from 11.2 percent of GDP in 2015.
305. Capital expenditure which constituted 6.8 percent of total public expenditure declined by 32.0 percent to 1.7 percent of GDP, from 2.5 percent of GDP in 2015.

Fig 2.9.3: Liberia Overall Budget Balance Excluding Grants to GDP



306. Total stock of public debt was 36.7 percent of GDP, indicating a rise by 17.9 percent compared to 32.0 percent of GDP in 2015. The increase in public debt was largely due to ratification of previously signed Loan Agreements by the National Legislature.
307. External debt stock at end-December 2016 grew significantly by 31.4 percent to 24.0 percent of GDP, from 18.8 percent of GDP at end-December 2015, occasioned by 33.1 percent and 14.2 percent increases in multilateral and bilateral debt stocks, respectively.
308. Domestic debt stock at end-December 2016 marginally reduced by 0.4 percent to 12.7 percent of GDP, from 13.1 percent of GDP in 2015 due to a decline in domestic debt to financial institutions.

2.9.3 External Sector

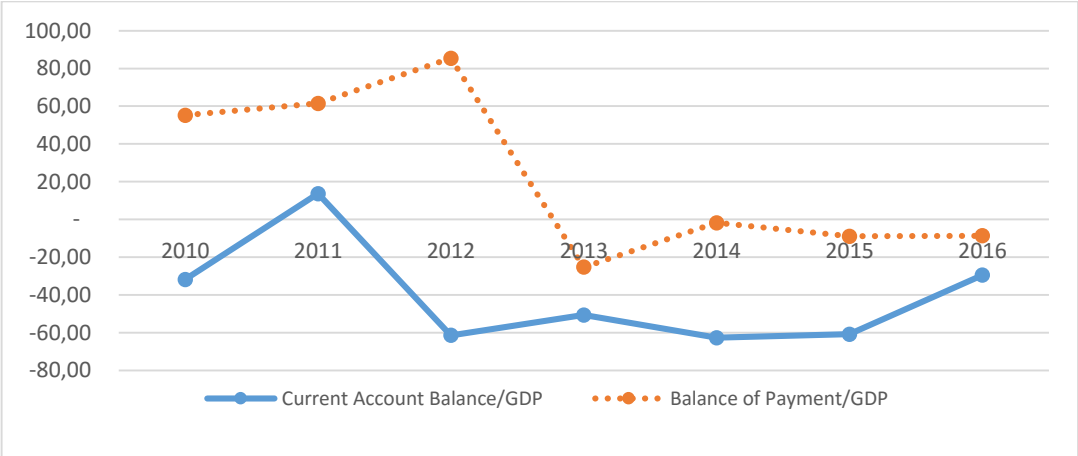
309. Export recorded a slump in 2016 by 36.1 percent, from 12.9 percent of GDP in 2015 to 8.0 percent of GDP in 2016. The decline in total export earnings was driven by the fall in all receipts from Liberia's major exports, notably iron ore. Iron ore proceeds during the review period declined by 65.0% to US\$49.6 million, from the US\$53.5 million recorded in the previous year, while rubber and mineral (especially gold) fell by 3.8% and 7.2%, respectively. The decline in iron ore proceeds was attributed mainly to supply constraints and low international price of the commodity, while the fall in the earnings of rubber and gold were significantly attributed to producers' decision as well as government regulation in the mineral industry.
310. Import payments in 2016 reduced by 22.0% to 57.3 percent of GDP, from 75.6 percent of GDP recorded in 2015. The fall in import payments in 2016 was driven by declines

in all of its main categories, namely, petroleum (20.8%), rice (22.6%), machinery and equipment (26.3%) and the other commodity exports (20.1%).

311. Liberia's trade balance performance improved by 19.1 percent to a deficit of US\$1,040.7 million (49.3 percent of GDP) during the review period, from a deficit of US\$1,286.1 million (62.7 percent of GDP) recorded in 2015. The improvement in the trade balance deficit during the year was occasioned by decline in import payments that outweighed decline in export earnings.
312. With respect to the direction of exports, the leading regions for Liberia's exports were Africa (especially ECOWAS), Europe (the Euro Zone) and North America (mainly the United States of America). In-2016, Africa's share accounted for 30.8 percent of total exports destination. Europe and North America's shares commanded 25.6 and 20.5 percent, respectively. The rise in trade in Africa was largely attributed to improvements in intra ECOWAS trade which continued to expand gradually since 2015. Trade with Europe declined by 45.8 percent, between 2015 and 2016.
313. Sources of Imports: In 2016, Asia (mainly China), Africa (especially ECOWAS) and Europe (especially the Euro Zone) were the top three regions which accounted for significant amount of import payments from Liberia. Asia (mainly China) accounted for 33.4 percent of total import payments, while Africa (especially ECOWAS) and Europe (especially the Euro Zone) constituted 28.9 percent and 17.9 percent, respectively.
314. The current account deficit narrowed by 50.08 percent to US\$623.5 million (29.5 percent of GDP) in 2016, from a deficit of US\$1,249.1 million (60.1 percent of GDP) in 2015. The improvement in the current account deficit was explained by improvements in the balances of trade, service account and income
315. The services account (net) deficit narrowed significantly by 37.3 percent to US\$80.4 million (3.8 percent of GDP) in 2016, from a deficit of US\$852.0 million (41.5 percent of GDP) in the preceding year. The improvement in net service receipts during the year was explained by reduction in service payments, offsetting the decrease in service receipts.
316. The deficit of the primary income (net) account narrowed significantly by 89.4 percent to US\$29.7 million (1.4 percent of GDP) in 2016, from a deficit of US\$280.0 million (13.6 percent of GDP) in 2015, explained by the significant fall in income payments..
317. The capital account balance declined by 59.7 percent to US\$285.0 million (13.5 percent of GDP) in 2016, from US\$707.0 million (34.4 percent of GDP) recorded in the preceding year, primarily driven by reduction in capital transfers to Liberia in 2016.

- 318. Direct investment in the Liberian economy declined by 30.4 percent to US\$501.7 million (23.4 percent of GDP) in 2016, from US\$720.9 million (35.1 percent of GDP) invested in 2015 due to the slowdown in investment-related projects to Liberia by investors, coupled with the effect of global commodity prices which affected the country's primary export commodities. Other investment (net) liabilities rose by 36.3 percent to US\$491.7 million (23.3 percent of GDP) in 2016, from US\$360.7 million (17.6 percent of GDP) in 2015, primarily occasioned by the rise in net acquisition of financial assets.
- 319. Liberia's gross international reserves position (including SDRs) in 2016 rose slightly by 4.8 percent to US\$587.6 million, from US\$560.6 million in 2015, owing to CBL's policy of reserves accretion. The gross official reserves in terms of months of import cover increased to 3.3 months of imports in 2016, from 2.3 months of imports in 2015.

Fig 2.9.4.: Liberia Current Account Balance and Overall Balance of Payment to GDP



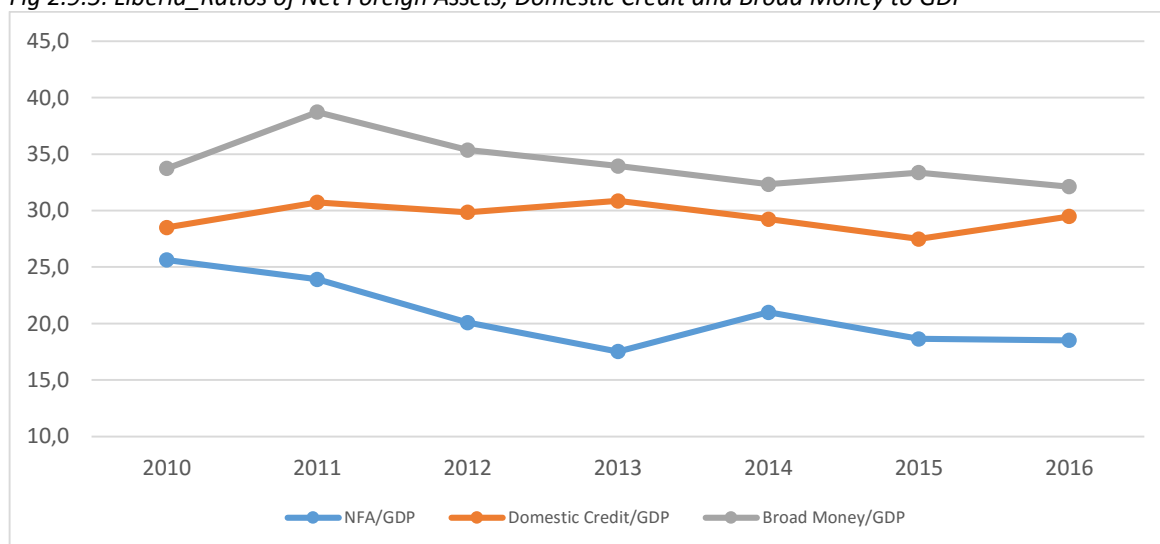
- 320. The overall balance of payments (BoP) deficit marginally deteriorated by 0.4 percent to US\$182.8 million (59 percent of GDP) in 2016, against the deficit of US\$182.4 million (26.4 percent of GDP) recorded in 2015. The slight widening in the overall balance of payments deficit, despite improvement in the current account deficit, was clearly reflective of Liberia's increasing dependence on external goods, services, income, and financial investment for domestic consumption.
- 321. Exchange Rate: Over the years, the domestic currency remained under immense pressure against the US dollar. Developments in the foreign exchange market relative to end of period and average showed that the Liberian dollar depreciated by double digits in 2016. The average exchange rate depreciated by 13.9 percent to L\$100.8/US\$1.00, from L\$88.5/US\$1.00 in 2015. The sustained depreciation of the domestic currency was largely due to high demand for forex to facilitate import payments, reflected by the continued oversubscription at the CBL's foreign exchange auction as well as limited supply of forex arising from dwindling exports receipts.

2.9.4 Monetary Sector

322. The Monetary Policy stance of the Central Bank of Liberia (CBL) remained focused on the attainment of price stability via broad exchange rate stability. In 2016, the CBL's intervention in the foreign exchange market was aimed at influencing domestic monetary conditions.

323. **Broad Money (M2):** In 2016, total liquidity in the banking system, (M2), grew by 10.0 percent to L\$66,711.9 million, from L\$60,627.3 million as at end-December 2015. The upsurge was triggered by a 23.3 percent increase in credit to the private sector. Narrow money supply (M1) grew by 10.7 percent to L\$45,418.0 million when compared with the L\$41,036.50 million recorded at end-December, 2015. The growth was mainly occasioned by the 22.7 percent and 7.0 percent expansion in both currency outside banks and demand deposit.

Fig 2.9.5: Liberia_ Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



324. Domestic credit rose significantly by 22.6 percent from LS\$ 49,943.1 million in 2015 to L\$61,231.9 million in 2016. Net claims on government equally expanded significantly from L\$10,651.1 million in 2015 to L\$12782.5 million in 2016, representing a rise by 20 percent. Similarly, claims on private sector increased by 23.3 percent from L\$39,290.6 million in 2015 to L\$48,449.4 million in 2016. However, the net foreign assets (NFA) also expanded by 14.0 percent following the decline by 2.8 percent in 2015, largely attributed to expansion in the asset of the Central Bank.

325. Quasi Money² recorded a growth of 8.7 percent to L\$21,293.9 million at end-December 2016, from LS\$19,590.8 million at end-December 2015. The growth in quasi

² Quasi Money is defined as time and savings deposits in both currencies

money was on account of the rise in time and savings deposits as well as other deposits.

326. The shares of US dollar and Liberian dollar components of broad money supply in 2016 stood at 67.0 percent and 33.0 percent respectively, The predominance of the US dollar component of broad money further explained the perverse dollarization of the economy.
327. Interest Rate: Interest rates in 2016 generally reflected a decline. The annual average lending rate declined by 0.02 percentage point to 13.59 percent in 2016, from 13.61 percent in 2015. Similarly, personal loan, mortgage and time deposits rates took downward trends. On the other hand, both the average rates of savings and certificate of deposits rose by 3.0 and 14.0 basis points, respectively. The spread between average lending and savings rates remained relatively stable, in spite of the decline to 11.56 percent compared with 11.61 percent in 2015.

2.9.5 Macroeconomic Convergence

328. The country's performance on the macroeconomic convergence scale improved in 2016, compared to 2015. The country satisfied all four of the four primary criteria against three in 2015: The criteria achieved were budget deficit, annual average inflation, gross external reserves and central bank financing. On the secondary convergence scale, the country met one of the two criteria in 2016. The country met public debt-to-GDP criterion, but missed the exchange rate criteria.

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	≤3%	7.5	-0.5	0.2	1.6	2.2	Achieved
Annual Average Inflation rate	10% with objective of 5% in 2019	6.9	7.6	9.8	7.8	8.8	Achieved
Central Bank Financing of Budget Deficit	10% of previous years tax revenue	0.0	0.0	0.0	0.0	0.0	Achieved
Gross external Reserve	≥ 3 months	2.8	2.8	2.5	2.3	3.3	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	70%	34.1	30.5	37.9	32.0	36.7	Achieved
Nominal Exchange rate variation	± 10%	1.3	-4.1	-9.0	7.2	-8.4	Achieved
Number of Criteria Respected		5	5	5	5	6	

Primary Criteria:

- **Fiscal Deficit (including grants)/GDP:** This criterion was achieved at -2.2 percent of GDP.
- **Annual Average inflation:** Despite rising inflation in 2016, the country met the benchmark of single digit at 8.8 percent compared to 7.9 percent in 2015.
- **Gross external reserves:** The targeted benchmark was achieved at 3.3 months of imports, from 2.4 months of imports in 2015.
- **Central Bank financing of the Fiscal deficit:** This criterion was met. The Central Bank of Liberia did not finance the operations of the government budget deficit during the review.

Secondary Criteria:

- **The ratio to the stock of public debt to GDP:** The country met the targeted benchmark of this criterion with a score 36.7 percent of GDP, from 32.0 percent of GDP.
- **Nominal Average exchange rate:** In relation to WAUA the country met this criterion as the Liberian dollar depreciated against this currency by 8.4 percent.

2.9.6 Conclusion and Recommendations

329. The continued slowdown in general economic activities, slow recovery in international commodity prices, adverse impact of the drawdown of UNMIL, as well as the risk aversion of investors due to the upcoming presidential and general elections in 2017, contributed to the contraction of the economy. However, performance on the convergence scale improved with the achievement of five (5) criteria compared to four (4) criteria in 2015.
330. The following recommendations were flagged for consideration by the Government of Liberia:
- strengthen the ongoing initiatives such as energy expansion, improved road connectivity, as well as conducive policy and institutional environment for reducing the high costs of doing business;
 - accelerate and sustain vertical diversification in the economy to improve product quality ladder (eg. palm oil, rubber, agricultural value chain) in the short run, while in the medium to long-term, structural transformation is required to diversify horizontally;
 - intensify efforts towards the pursuance of the de-dollarization programme by promoting the use of Liberian dollar and development of domestic debt market;
 - the CBL should accelerate effort to establish a formal interbank market to encourage greater financial deepening;

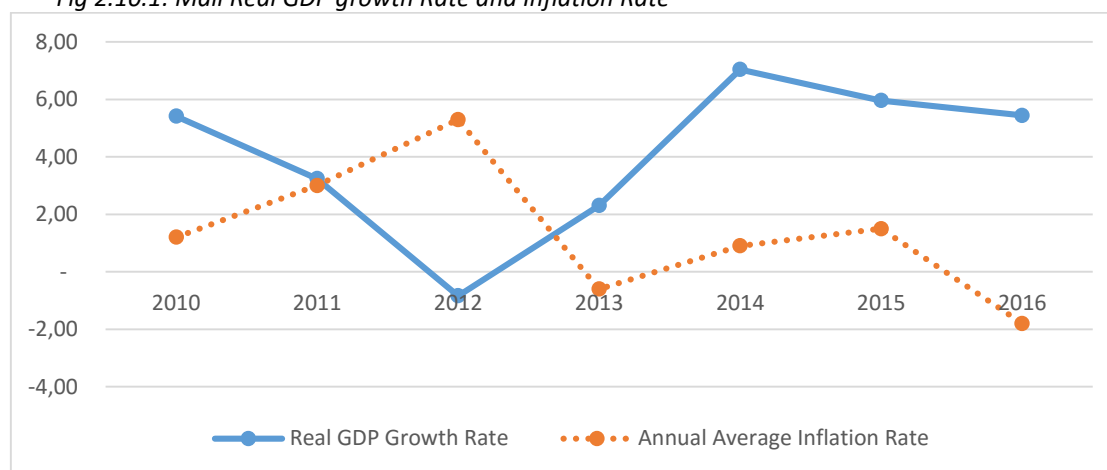
2.10 Economic and Financial Situation of Mali in 2016

331. With the implementation of the Algiers process' Agreement on Peace and Reconciliation, the Malian economy gradually grew by 5.4% in 2016, compared to 6% in 2015. Also, 2016 witnessed the implementation of the Strategic Framework for Economic Recovery and Sustainable Development CREDD (2016-2018), serving as the reference framework for all policies in Mali.

2.10.1 Real Sector

332. GDP growth stood at 5.4% in 2016, driven by all the sectors - primary, secondary and tertiary which grew at 5.8%, 3.4% and 6.3%, respectively.

Fig 2.10.1: Mali Real GDP growth Rate and Inflation Rate



333. The primary sector recorded a 5.8% growth rate compared to 7.5% in 2015. This slowdown stemmed mainly from the “food-crop production” sub-sector, which increased by 6.5% compared to 15.4% the previous year.

334. The secondary sector grew by 3.4% in 2016 compared to a 0.6% downturn in 2015, due to the outturn in the agro food sub-sector and « textile sub-sector » which had respective growth rates of 6.5% and 2.4% against -8.8% and -8.6% in 2015.

335. The tertiary sector recorded a 6.3% growth rate compared to 7% in 2015, due to the increase of activity in “trade”, “hotels and restaurants” and “public services” with a respective growth rate of 8.1%, 1.1% and 5% following growths of 5%, 0.4% and 3.2% respectively in 2015.

336. From the demand side, growth was driven by final consumption which increased by 5.5% compared to 7% in 2015, due to the low rise in private consumption (3.9% compared to 5.8% in 2015) and government consumption (7% against 8.1% in 2015). Growth rate of investments also slowed down from 7.5% in 2015 to 6.9% in 2016, resulting from the decline in private investment (4.6% in 2016 against 6.6% in 2015),

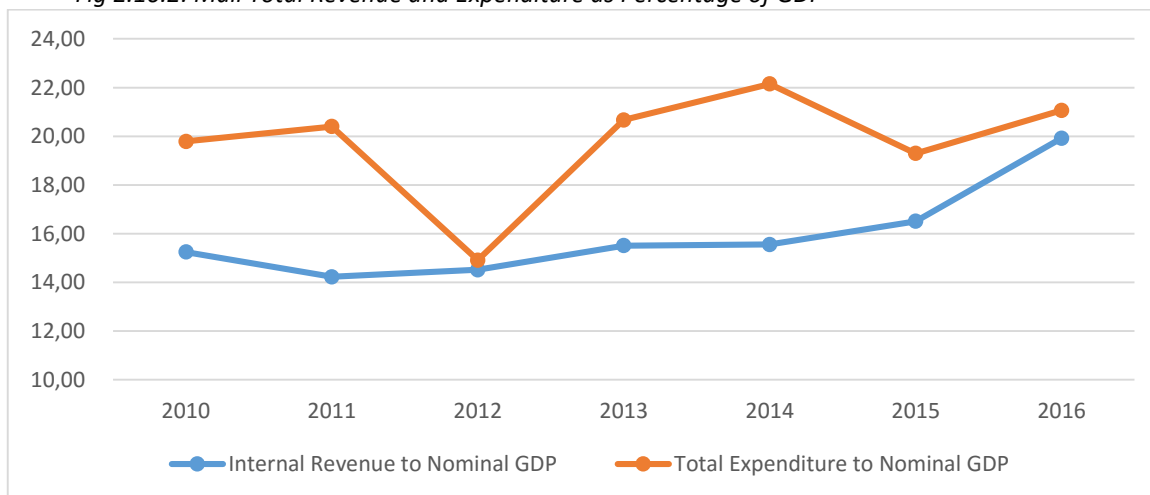
and an acceleration in public investment (9.2% in 2016 against 8.6% in 2015). Exports recorded a 4% growth against 4.7% the previous year due to the fall in the price of gold. Imports, increased by 3.5% against 5.7% a year earlier driven mainly by the importation of building materials for planned large investment projects.

337. Inflation stood at -1.8% in 2016, under the impulse of « food products and non-alcoholic beverages » (-0.7%), « housing, water, electricity», «transportation» (-0.8%) and «communication» (-6%).

2.10.2 Public Finance and Public Debt

338. The government’s fiscal operations in 2016 resulted in worsening the overall budget deficit, on account of the sharp increase in total expenditure.
339. Consequently, the overall budget deficit excluding grants stood at FCFA 453.8 billion, compared to FCFA 349.3 billion the previous year. In relative terms the deficit stood at 5.4% of GDP in 2016 compared to 5.9% in 2015.
340. Including grants, the overall deficit amounted to FCFA 321.2 billion, or 3.9% of GDP, compared to FCFA 141.7 billion in 2015.
341. On cash basis, the deficit including grants amounted to FCFA 330.6 billion, compared to a forecast of FCFA 359.6 billion. The previous year, the balance posted a deficit of FCFA 247.8 billion.

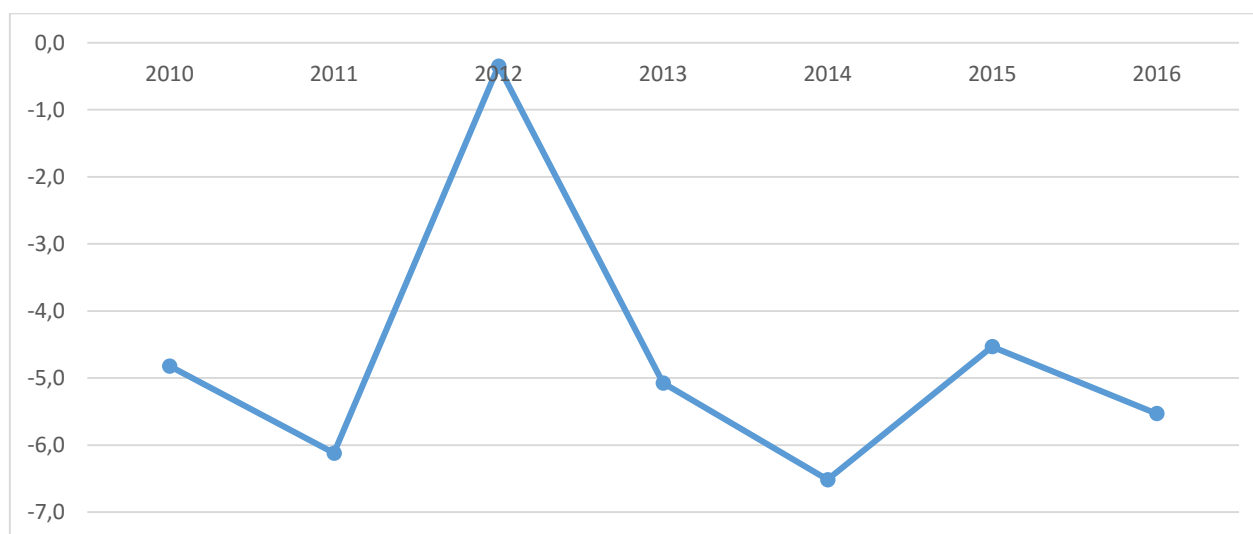
Fig 2.10.2: Mali Total Revenue and Expenditure as Percentage of GDP



342. Total revenue and grants amounted to FCFA 1.8 trillion (21.6% of GDP) against FCFA 1.5 trillion (17.8% of GDP) as at end-December 2015, representing an increase of FCFA 311.4 billion. This increase was due to both total revenue (+14.9%) and grants (+7.4%).

343. Total revenue stood at FCFA 1.7 trillion (19.9% of GDP) in 2016 against FCFA 1.3 trillion (16.4% of GDP) in 2015, representing an increase of FCFA 386.6 billion, driven by both tax and non-tax revenue. In fact, tax revenue stood at FCFA 1.2 trillion (14.9% of GDP) in 2016, against FCFA 1.1 trillion (14% of GDP) in 2015. Non-tax revenue dropped from FCFA 47.6 billion in 2015 to FCFA 37.9 billion in 2016, a clear FCFA 9.7 billion reduction. Grants recorded a 36.1% drop, representing FCFA 132.5 billion compared to FCFA 207.6 billion the previous year. Based on a budget of FCFA 167.1 billion, 79.3% of the grants was mobilized as at end-December 2016.
344. Total expenditure and net lending as at end-December 2016 amounted to FCFA 2.1 trillion (25.3% of GDP). Based on a FCFA 2.2 trillion budget, this represented a 96.2% execution rate. However, as at end-December 2015, it amounted to CFA 1.6 trillion, or a 30.2% increase. The budgetary expenditure however, stood at 1.7 trillion based on CFA 1.8 trillion budget, which represented a 96.2% execution rate.
345. Recurrent expenditure increased by 9.4%, resulting from increased expenditure on «transfers and subsidies» and personnel by 11.8% and 11% respectively. Increased transfers and subsidies was mainly due to the quality and provision of health services, the provision of care for certain diseases (cancer, AIDS, malaria...) and agricultural inputs. Increased expenditure on personnel stemmed from the annual recruitment and financial implication of the agreement with UNTM. Operational expenditure increased by 2.9%, due to the consolidation of gains in the social sector (health, education, and social development), the implementation of the Military Programming and Orientation Act and the Agreement on National Peace and Reconciliation from the Algiers process.
346. Investments grew by 30.7% to FCFA 739.9 billion (8.9% of GDP) against FCFA 565.9 billion in 2015. This rise was due to Government's continued effort to implement large-scale investment projects and socio-economic infrastructure projects for economic recovery. The domestically-financed component rose by 75.1% while that financed by external resources- project grants as well as project lending- dropped by 14.3%.

Fig 2.10.3: Overall Budget Balance Excluding Grants to GDP



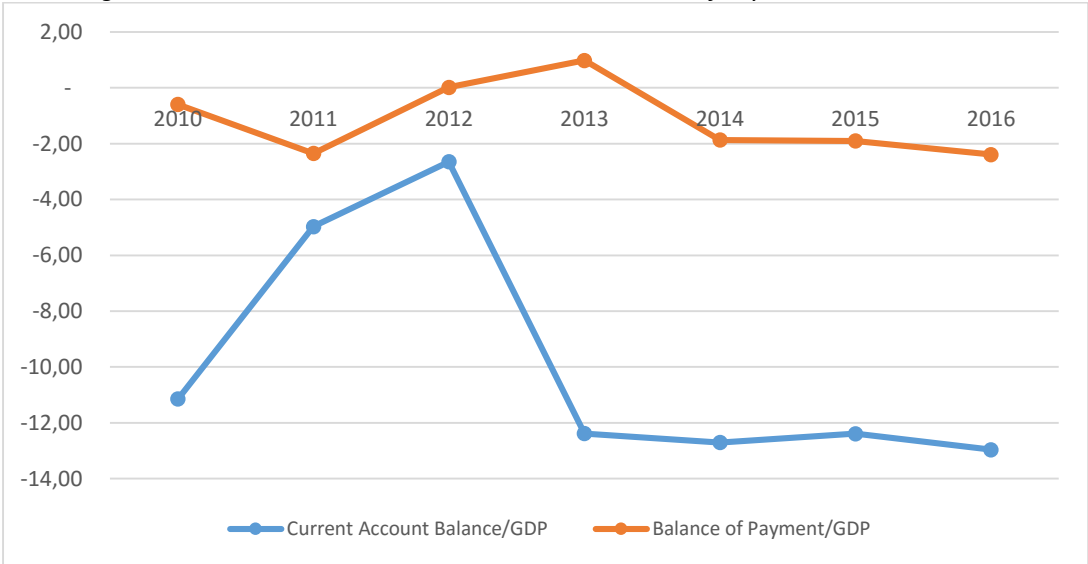
347. Public debt stock as at end-December 2016 amounted to FCFA 2.9 trillion (36% of GDP), against FCFA 2.4 trillion (30.7% of GDP) the previous year, representing a 25.6% growth. This growth was driven by both the external and domestic debt, which rose by 18.1% and 46.8% respectively when compared to 2015. The public debt stock as at end-December 2016 comprised 69.4% (FCFA 2.1 trillion) external debt and 30.6% (FCFA 9i2.5 billion) domestic debt. In 2015 the external and domestic components of the public debt stood at 73.8% and 18.2% respectively.
348. External debt is serviced regularly and as at 31 December 2016 amounted to FCFA 87.4 billion, compared to FCFA 120.5 billion the previous year.

2.10.3 External Sector

349. Mali's external transactions in 2016 closed with a deficit of FCFA 198.3 billion following a balance of negative FCFA146.5 billion the previous year. This deterioration was mainly due to the worsening of the current account from a deficit of FCFA 412.5 billion (5.3% of GDP) in 2015 to a deficit of FCFA 464.3 billion (5.6% of GDP) in 2016, representing a change of FCFA 51.8 billion. This development was due to the worsening of the balance of trade of FCFA -23.6 billion, services of FCFA 69.1 billion and income of FCFA 51.7 billion.
350. The trade balance was marked by a worsened deficit that stood at FCFA 304.9 billion in 2016, against a balance of FCFA 281.3 billion the previous year, due to the combined effect of the 6.6% and 6.8% rise in exports and imports respectively. In fact, exports rose from FCFA 1.5 trillion in 2015 to FCFA 1.7 trillion in 2016, while imports increased to FCFA 2.02 trillion in 2016 from FCFA 1.5 trillion in 2015.

351. The balance of services also deteriorated from a deficit of FCFA 923.6 billion in 2015 to FCFA 992.8 billion, or by FCFA 69.1 billion. The situation was mainly due to the increase in military services and freight. The worsening deficit is a direct result of increased military services.

Fig 2.10.4: Current Account Balance and Overall Balance of Payment to GDP



352. The surplus on capital transfers stood at FCFA 136.6 billion in 2016, down by 6 billion compared to 2015. Public capital transfers amounted to FCFA 111.4 billion in 2016, compared to 118.8 billion the previous year.

353. Other sector transfers stood at FCFA 25.2 billion in 2016, compared to FCFA 27.7 billion in 2015. The balance of the financial operations account amounted to FCFA 129.4 billion, compared to FCFA 161.9 billion the previous year, representing a downturn of FCFA 32.6 billion. The fall was due to the much lower mobilization of external resources, particularly budget support, which stood at FCFA 10.7 billion in 2016, against FCFA 64.7 billion in 2015.

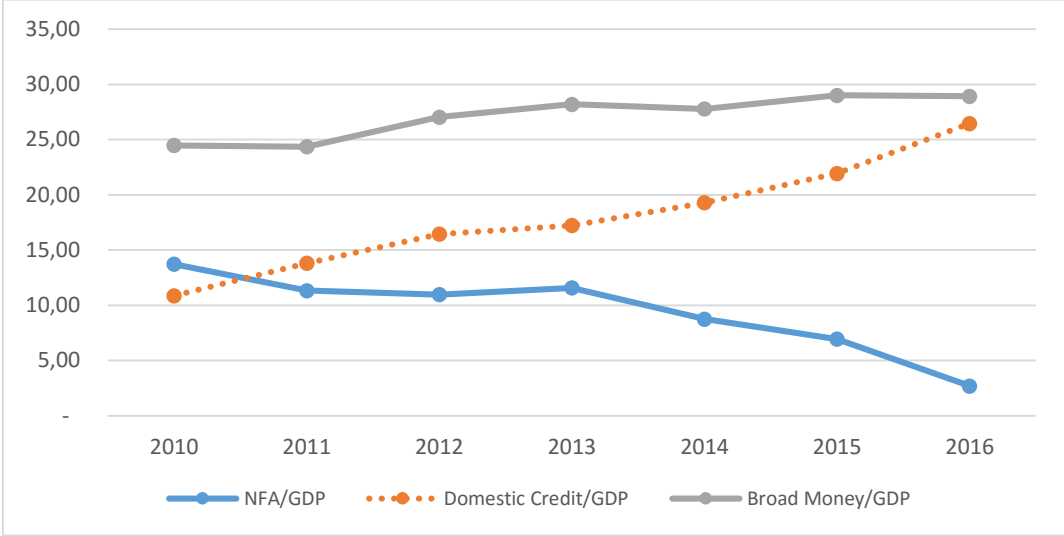
2.10.4 Monetary Sector

354. Money supply grew by FCFA 164.2 billion, from FCFA 2.2 trillion in 2015 to FCFA 2.4 trillion at end-December 2016. The increase in overall liquidity resulted in increased currency in circulation and bank deposits amounting to FCFA 37.3 billion (9.1%) and FCFA 126.9 billion (6.9%), respectively.

355. The percentage of private bank money in money supply stood at 81.5% as at end-December 2016 compared to 81.8% the previous year-end.

- 356. Term deposits amounted to FCFA 778.6 billion or 32.4% of the money supply at end-December 2016, against FCFA 577 billion or 25.8% of primary liquidity the previous year end.
- 357. It is worth noting that, as a rule, residents of Mali, as in other UEMOA countries, do not have domiciliary accounts.

Fig 2.10.5: Mali Ratios of Net Foreign Assets, Domestic Credit and Broad Moneyd to GDP



- 358. Outstanding domestic credit swung up to FCFA 2.2 trillion at end-December 2016, recording a FCFA 505.4 billion increase when compared to the previous year end. This trend is due to robust credits to the economy and the worsening GNP.
- 359. The outstanding credits to the economy stood at FCFA 2.1 trillion at December end 2016, up by FCFA 328.2 billion compared to end-December 2015. This rise was due primarily to the structures set up to encourage companies, particularly those involved in mining, energy, telecommunication as well as general trade and hydrocarbons.

2.10.5 Macroeconomic Convergence in 2016

- 360. The convergence situation in 2016 reveals that five criteria were met, similar to 2015. The country failed to meet the criterion on the ratio of budget deficit to nominal GDP.
- 361. The convergence situation in 2015 and 2016 is as follows :

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	≤ 3%	- 0.1	- 2.2	- 3.8	- 1.8	- 3.9	Not Achieved

Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	5.3	- 0.60	0.90	1.50	- 1.8	Achieved
Central Bank Financing of Budget Deficit	≤ 10% of previous years tax revenue	0.0	0.0	0.0	0.0	0.0	Achieved
Gross external Reserve	≥ 3 months	5.3	4.7	5	5	4.4	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤70%	24.3	26.0	27.1	30.8	36.0	Achieved
Nominal Exchange rate variation	± 10%	- 4.8	4.1	0.1	- 9.3	0.5	Achieved
Number of Criteria Respected		6	6	5	6	5	

2.10.6 Conclusion and Recommendations

362. The Malian economy has maintained the steady growth initiated after the 2012 crisis, posting a 7.9% real nominal GDP growth in 2016 against 5.4% in 2015 and a projected 5.3% for 2017.
363. However, building on the achievements would require a peaceful environment in Mali that is capable of fostering macroeconomic stability for inclusive and sustainable economic growth.
364. As a result, the Malian authorities should work towards finding lasting peace that will ensure the security of lives and property, a prerequisite for productive investments in the country.

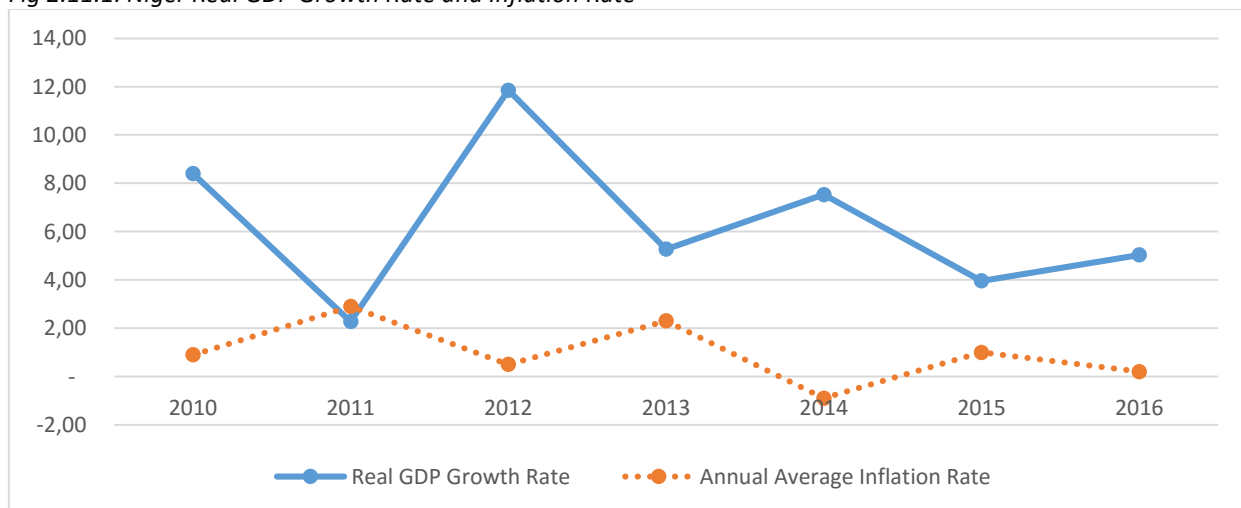
2.11 Economic and Financial Situation of Niger in 2016

365. In 2016, Niger's economic and financial activity was set against the backdrop of events such as the implementation of the Renaissance Programme on Government's Policies, Plans and sub-Programmes, including the Government's Policy Declaration (DPG), Economic and Social Development Plan (PDES 2012-2015) and the Action Plan for the 3N Initiative (Nigeriens Nourish Nigeriens). Niger worked towards the implementation of the Economic and Financial Programme (PEF 2012-2016), supported by the Expanded Credit Facility (FEC) and deployed considerable effort in managing the security of the region. Within this context, the growth rate stood at 5% against 4% a year earlier.

2.11.1 Real Sector

366. In 2016, economic activity witnessed a sharp growth, accelerating from 4% in 2015 to 5% in 2016, driven mainly by agricultural production and to a small extent, by crude oil production.

Fig 2.11.1: Niger Real GDP Growth Rate and Inflation Rate



367. The primary sector, Niger's main engine for economic growth, grew by 10.4% in 2016 and contributed 42.9% to GDP. This development was due mainly to the agricultural sector which grew by 14.5%. Increased agricultural production stemmed from irrigated farming (24.8%) as well as wet season farming (7.7%). The main agricultural produce with significantly high yield are millet, cowpea, rice, cassava, pepper, tomato, onion. However, there was a significantly low yield in sorghum and potato. The drop in fishing activity was due mainly to insecurity in the Lake Chad region (Diffa region), while the slowdown in forestry was related to the increasingly significant use of gas and coal as cooking fuel instead of firewood.

368. Following a 1.4% drop in 2015, the secondary sector grew by 4.4% and contributed 14.9% to GDP in 2016. This recovery in the secondary sector was the result of the

increase in crude oil production (10.2%), as the sector suffered a drawback from the decline in mining (15.5%) and energy (1.3%) subsectors.

369. With a contribution of 36.1% to GDP in 2016, the tertiary sector recorded a 3.3% growth rate compared to 6.9% in 2015. All the sub-sectors of this sector were responsible for the downturn. It was significantly evident in the communications sector which contracted by 5% compared to a growth of 9.4% in 2015 and public administration activities which slowed down to 5.5% compared to 11.3% in 2015.
370. Contributions to GDP growth in 2016 by the primary, secondary and tertiary sectors and duties and net taxes on products stand at 4.2 percentage points (pp), 0.7 pp, 0.1 pp respectively.
371. On the demand side, real GDP growth was mainly driven by household final consumption.
372. Final consumption increased by 2.5% in 2016 against 7.2% in 2015. The increase was driven by household final consumption, which rose by 5.1% in 2016 against 7.1% in 2015. The trend in household consumption was particularly a direct result of increased supply of products, following the surplus agricultural yield of the last two (2) years and boosted by the increase in income and the low prices of consumer products. Final consumption by public administration recorded an 8.1% reduction in 2016 as a result of some categories of public expenditure, hampered by the increased wage bill.
373. Investment shrank by 14.1% in 2016) following a 7.1% rise in 2015 and 11.2% in 2014. The drop in investment involved both private investment and public GFCF. The latter was due to the decline in investment expenditure on infrastructure, while the former was due to the completion (or suspension) of activities by some mining and oil companies.
374. With respect to external trade in 2016, imports dropped by 19.8% while exports declined by 2.8% due to reduced importation of equipment, sale of uranium and petroleum products. This development resulted in an improved foreign trade deficit from 22% of GDP in 2015 to 13.3% in 2016.
375. In all, contributions to GDP growth in 2016 by final consumption, investment and external trade stood at 2.1 percentage points, -5.1 percentage points and 8 percentage points respectively.
376. Concerning inflation, the high agricultural yield during the period under review combined with measures taken by the Government, particularly in the lean period, helped to arrest rising prices. The annual average inflation rate stood at 0.2% in 2016

compared to 1% in 2015 and -0.9% in 2014. This development was due mainly to the stability of « food products and non-alcoholic beverages» which represents 39.8% of the weights of products observed.

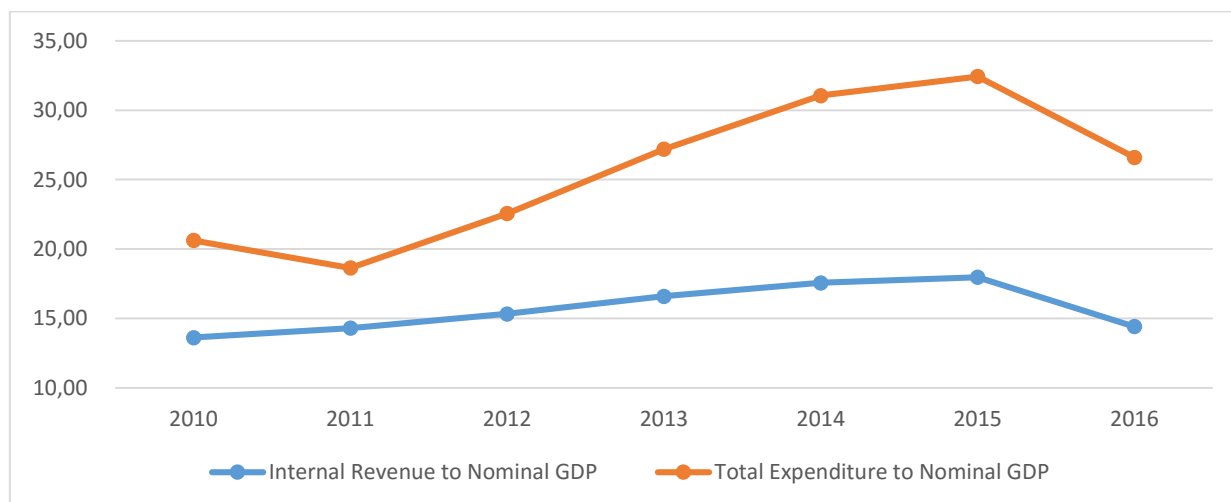
2.11.2 Public Finance and Public Debt

377. In 2016, the fiscal policy suffered from the poor performance of budget revenue mobilisation due mainly to the fall in the price of oil and uranium as well as the depreciation of the Naira. This situation resulted in a review of the budget framework to take into consideration the low revenue performance and the need to ensure a sustainable level of public expenditure. The overall deficit excluding grants and overall deficit including grants grew to reach 12.2% and 6.1% of the GDP in 2016 against 14.5% and 9.1% of the GDP in 2015 respectively, due to fiscal tightening in the course of the last quarter of the year.
378. Total revenue and grants (*excluding exemptions*) reduced by 8.6% in 2016, to FCFA 913.9 billion, compared to a 7.1% rise in 2015 and stagnation in 2014. This reduction stemmed exclusively from the total revenue which declined by 16.1% as grants increased by 16.2%. Total revenue fell by 16.1% to FCFA 643.6 billion, representing 14.4% of GDP, against a 7.4% rise in 2015 and 13.6% in 2014. The budget revenue's poor performance in 2016 was due to the decline in tax and non-tax revenue.
379. Tax revenue declined by 11.4% in 2016, after an 8.2% rise in 2015. The tax revenue's poor performance was due to revenue from domestic taxes as well as customs duties. In fact, all categories of domestic taxes recorded a slump, namely income tax (-6.7%), local duties and levies on goods and services (-5.2%) and other tax revenue (-45.6%).
380. Reasons for the poor performance include reduced activities of the mining and petroleum industry and the price slump (for the ISB). Moreover, for the IRVM, it has to do with effects of the fall in the price of crude oil and its products as well as export prices, leading to losses for SORAZ. As regards the levies on goods and services, the royalties on oil fields, mining, and the tax on oil imports (TIPP) posted capital losses due to difficulties in the mining and petroleum sector. The capital loss on VAT was due to the compensation mechanism to reduce VAT credits and the security situation, and the reduced trading in certain products requiring the payment of excise duties.
381. The poor performance of revenue from customs duties in 2016 arose from import tax coupled with the fall in the overall volume of consumer goods and the difficulties in migrating to Sydonia World. It also related to export tax, difficulties in re-exporting certain products to Nigeria, the fall in value of the Naira and reduced recovery of the statistical export charge (RSE) by the customs office of SORAZ.
382. Non-tax revenue and special Treasury accounts declined by 63% in 2016 following a 1.1% drop in 2015 and an increase of 65.2% in 2014. This reduction was due to the

capital losses recorded by mining and petroleum companies and revenue from the procurement of the 3G licence.

383. Grants, in 2016, amounted to FCFA 238.9 billion, being 5.3% of GDP. It was an increase of 2.7% from 2015. Project grants made up 63.6% of the total grants.

Fig 2.11.2: Niger Total Revenue and Expenditure as Percentage of GDP

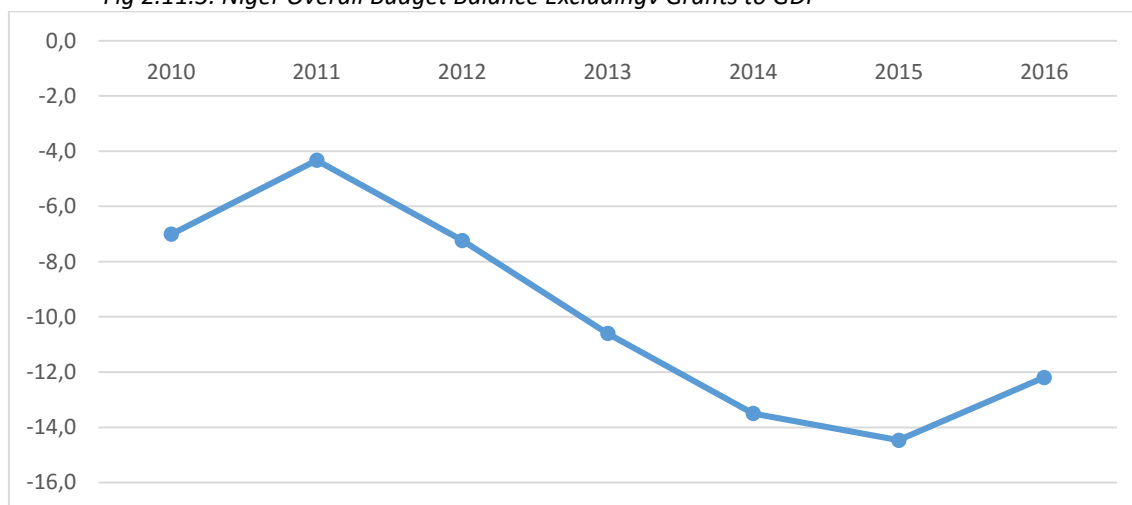


384. Total expenditure and net lending dropped as significantly as the revenue in 2016 by 14.2% against a 9.6% rise in 2015 and 22.7% in 2014. The ratio of total expenditure to GDP increased from 31.1% in 2014 to 32.4% in 2015 and then reduced to 26.6% in 2016. Total expenditure, including recurrent expenditure and investment expenditure, evolved at an annual rhythm of 6% from 2014-2016.

385. Recurrent expenditure dropped by 4% in 2016 on account of declines in administrative expenditure (32.2%) and expenditure on transfers and subsidies (3.3%) despite the presidential and legislative elections organised. Increases in the wage bill (by 5.9%) and interest payments (by 57.6%) affected the recurrent expenditure. From 2014 to 2016, current expenditure progressed at an annual rate of 7.6%.

386. Investment expenditure declined by 23.4% in 2016 to FCFA 556.6 billion, following a rise of 8.7% and 28.9% in 2015 and 2014, respectively. From 2014 to 2016, the annual growth rate stood at 4.7%. The reduction in investment expenditure was due to a 52.6% reduction in domestically-financed investment and a 17.5% rise in expenditure financed from external resources. The reduction in expenditure, for the most part, involved the social sector and economic infrastructure.

Fig 2.11.3: Niger Overall Budget Balance Excluding Grants to GDP



387. The public debt stock amounted to FCFA 1.8 trillion in 2016 against FCFA 1.5 trillion at end-December 2015, representing a 15.5% rise. This development was mainly due to the sharp increase in the domestic debt stock (21.6%), with the foreign debt stock increasing by only 6.9%. As such, the public debt stock to nominal GDP ratio recorded a 3.7 percentage point increase compared to the previous year, to stand at 39.7%.
388. It must be noted that the stock does not include that of the public debt secured by SORAZ, worth FCFA 89.1 billion.
389. The foreign debt stock amounted to FCFA 1.3 trillion or 71.8% of the total debt stock and 28.5% of GDP. The debt stock structure shows that much of the debt is owed multilateral creditors, worth FCFA 980 billion or 77% of the foreign debt and 55.3% of the total debt stock.

2.11.3 External Sector

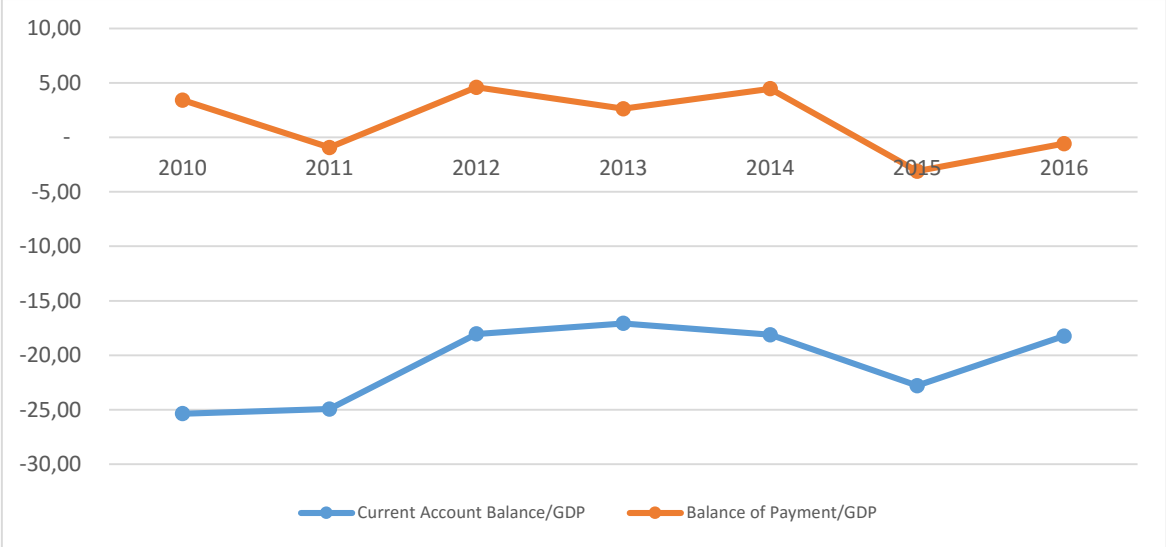
390. External transactions of the country in 2016 resulted in a deficit of the overall balance of payments on account of deficits of both current and capital accounts and mitigated a surplus of the financial account.
391. The current account deficit improved by FCFA 325.4 billion (37.0%) from a deficit of 878.7 billion in 2015 to FCFA 553.3 billion in 2016. This development was attributable to improvements in the goods and services accounts, which saw a shrinking of the deficits by FCFA 185.4 billion and FCFA 137.4 billion respectively, coupled with a surplus of FCFA 8.4 billion of the secondary income account. However, the primary income account deteriorated, affecting this profile of performance.
392. The improvement in the trade balance corresponded to a fall in imports. Indeed, imports shrunk by 17.8% in 2016 reflecting the developments in the major

components, particularly equipment and intermediary goods, which witnessed a drop in demand in 2016 caused by the slowdown in creation of new projects.

393. Furthermore, exports dropped by 3.4% as a result of a fall in the sale of uranium and certain agro-pastoral products. By contrast, exports in refined petroleum products rose to FCFA 98.6 billion, from FCFA 88.7 billion in 2015. This was essentially due to the resumption of external sales of petroleum products after the stoppage of production by SORAZ for some months in 2015. With respect to gold export, Gold export witnessed some consolidation due to the intensification of activities at the Djado gold-field.
394. The net service deficit saw a reduction, linked with lower freight and service deliveries (studies, engineering) to mining and oil companies as well as public and private construction works.
395. The surplus of the secondary income balance stood at FCFA 183.9 billion in 2016, against FCFA 175.6 billion in 2015, representing an increase of FCFA 8.4 billion, mainly attributed to budget supports received by the Government.
396. In addition, the primary income balance worsened as a result of interest charges and remittances of expatriates workers and dividends from mining, oil and telecommunication companies.
397. The current account deficit, as a percentage of GDP excluding grants dropped from 20.6% in 2015 to 12.4% in 2016.
398. The capital account recorded a surplus of FCFA 178.2 billion, representing an annual increase of 1.8%, and was attributed to improvements in the mobilisation of transfers from other sectors, particularly following the projects undertaken by the Niger BID (Investment Development Bank).
399. Thus, there was a deficit in current and capital transactions of FCFA 375.1 billion, which was an improvement of FCFA 329.7 billion, compared to 2015.
400. The balance of the financial account stood at FCFA 362.3 billion in 2016 due to the reduction in its components. Indeed, other investments stood at FCFA 175.3 billion against FCFA 200.5 billion in 2015, basically as a result of a downturn in public withdrawals. Portfolio investments dropped by FCFA 52.4 billion compared to 2015 as a result of the issuance of treasury bills and bonds by the Government of Niger. Inflow of foreign direct investment was amounted to FCFA 155.5 billion, reflecting the slowdown in large investments in infrastructure, construction, mineral and petroleum explorations (railways, mines and oil, etc.).

401. Under these conditions, there was a FCFA 12.8 billion overall balance of payments deficit in 2016, as compared with the FCFA 132.6 billion deficit in the previous year.

Fig 2.11.4: Niger Current Account Balance and Overall Balance of Payment to GDP



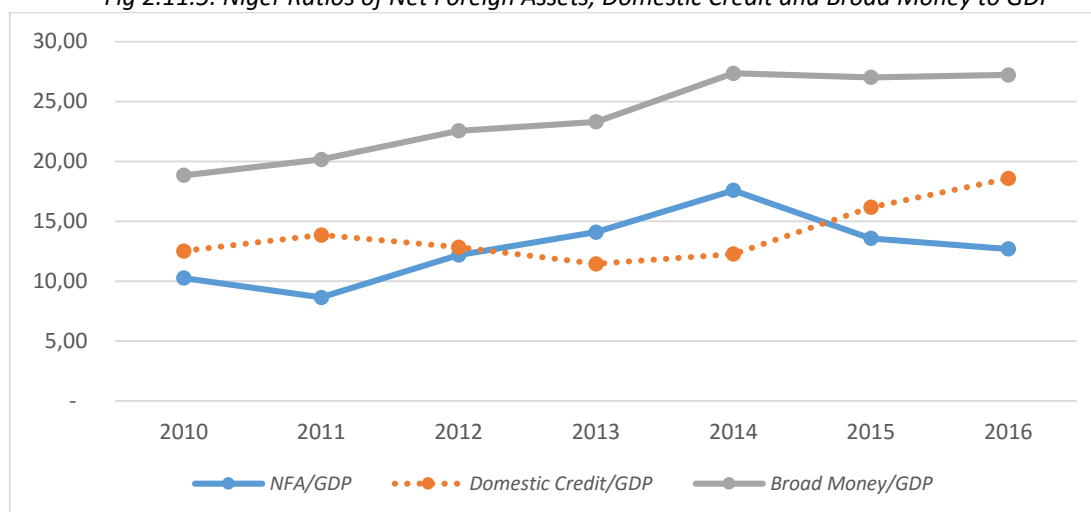
2.11.4 Monetary Sector

402. The monetary situation as at the end of December 2016 was characterised by a contraction in net foreign assets and an increase in domestic credit and money supply.

403. Net foreign assets fell by FCFA 12.8 billion, reaching FCFA 566.2 billion at the end of December 2016. This contraction was due to the FCFA 14.2 billion decline in the net foreign assets of the Central bank, in contrast to the FCFA 1.4 billion increase in the net foreign assets of the commercial banks.

404. At the end of December 2016, the cumulative outstanding domestic credits rose to FCFA 828.4 billion; domestic credit thus increased by FCFA 138.3 billion, or a 20.1% increase compared to the month of December 2015. This was as a result of a downturn in the government’s net position of FCFA 44.0 billion, as against FCFA 40.0 billion at the end of December 2015, due to the FCFA 20.1 billion fall in government credits and an increase in its commitments to the banking sector, which amounted to FCFA 23.9 billion. Similarly, outstanding loans to the economy increased by 14.5%, reaching FCFA 743.5 billion at the end of December 2016 as a result of the upsurge in the stock of net outstanding loans and liabilities. The rise in advances is explained by net disbursements received by the various sectors of activities, other than mining, transport and telecommunication sectors. The increase in short and long-term loans was linked to the net credits extended mainly to the oil, transport and telecommunication distribution services as well as trading companies and the building and public works sector. The increase in outstanding liabilities was largely due to delays in debt service payments by the mining companies as well as trading companies and the building and public works sector.

Fig 2.11.5: Niger Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



405. Growth in money supply reflected developments in its components and recorded an increase of FCFA 62.0 billion, compared to December 2015, or grew by 5.4% in relative value, reaching FCFA 1,215.2 billion at the end of December 2016. This situation occurred mainly as a result of the FCFA 62.9 billion increase of currency in circulation.

2.11.5 Macroeconomic Convergence in 2016

406. The country met five (5) of the six (6) criteria for the macro-economic convergence criteria. The criterion of budget deficit as a percentage of GDP was not met. The convergence situation for 2015 and 2016 are presented as follows:

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	Lower than or Equal to 3%	- 1.1	- 2.6	- 8.1	- 9.0	- 6.1	Not Achieved
Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	0.5	2.3	- 0.9	1.0	0.2	Achieved
Central Bank Financing of Budget Deficit	≤ 10% of previous years tax revenue	0.00	0.00	0.00	0.00	0.00	Achieved
Gross external Reserve	≥ 3 months	5.3	4.7	5	5	4.4	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤70%	18.8	23.1	25.6	36.0	39.7	Achieved
Nominal Exchange rate variation	± 10%	- 4.8	4.1	0.1	- 9.3	0.5	Achieved
Number of Criteria Respected		6	5	5	5	5	

2.11.6 Conclusion and Recommendations

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407. In 2016, despite the decline in uranium production, economic growth rate stood at 5.0% in 2016 compared to 4.0% in 2015. The growth was obtained within the context

of a moderate rise in prices (0.2%) and intense fight against the Boko Haram terrorist sect. Considerable amounts of resources were committed to fighting off the sect which had a negative impact on the budget balance.

408. In the light of the foregoing, the following recommendations are made for the attention of the public authorities;
- Continue efforts in the fight against terrorist attacks for better economic activity;
 - Continue the tax revenue mobilisation effort and the control of current expenditure, while putting a limit to tax exemptions;
 - Continue the implementation of reforms initiated within the framework of Community policies;
 - Strengthening water management policy through the «3N» initiative and promotion of export products in order to strengthen the basis for economic growth and reduction of the current external balance deficit;
 - Enhance strong monitoring and management of domestic and foreign public debt.

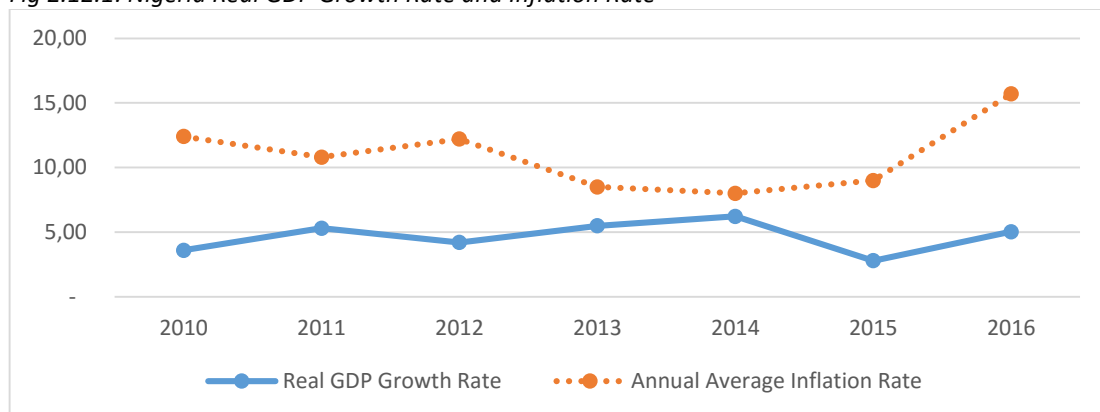
2.12 Economic and Financial Situation in Nigeria in 2016

409. The economy of Nigeria endured difficulty in 2016. Inflationary pressures soared, induced by weaker currency and high consumption demand amidst reduction of foreign reserves. Oil production was hampered by insecurity resulting from pipeline vandalism. The problem of fuel shortages and lower electricity generation impacted negatively on output growth in 2016.

2.12.1 Real Sector

410. The real Gross Domestic Product (GDP) contracted by 1.5 percent in 2016, compared to a 2.8 percent growth in 2015. The aggregate growth of the non-oil sector shrank to 0.22 percent in 2016, as against a growth rate of 3.75 percent in 2015. However, the oil sector recorded a negative growth rate of 13.7 percent in 2016, an exacerbation of the previous negative growth rate of 5.5 percent in 2015, on account of the slump in international prices of crude oil and oil pipeline vandalism in the oil producing region of the country.

Fig 2.12.1: Nigeria Real GDP Growth Rate and Inflation Rate



411. In value terms real GDP contracted by ₦1.1 trillion to ₦68.7 trillion in 2016, from ₦69.8 trillion in 2015. Real oil and non-oil sectors GDP stood at ₦5.73 trillion and ₦62.26 trillion in 2016, respectively, compared to ₦6.63 trillion and ₦62.39 trillion in 2015. This shows that output of the oil sector by ₦904.80 billion, while the non-oil declined by ₦134.94 billion.

412. The primary sector, comprising crop production, livestock, forestry and fishery expanded by ₦1.89 trillion in 2016 and contributed 24.4 percent to GDP compared to 23.1 percent in 2015. The real value added of agricultural sector rose to ₦16.6 trillion in 2016, from ₦16.0 trillion in 2015, representing a growth rate of 4.1 percent, compared to a growth rate of 3.7 percent in 2015.

413. Crop production led the growth in the primary sector with a contribution of 89.7 percent to the sector's output in 2016 and 2015, respectively, and grew by 4.3 percent

in 2016 compared to 3.5 percent in 2015, on account of the application of improved seedlings and farming techniques as well as successes recorded under the dry season farming initiative. The other sub-sectors (Livestock, Forestry and Fishing) constituted 10.3 percent and 10.5 percent of primary sector's output in 2016 and 2015, respectively.

414. Dominated by mining, particularly crude oil production, output of the secondary sector declined to ₦18.8 trillion in 2016, from ₦19.2 trillion in 2015. Growth of the sector contracted further from -2.2 percent in 2015 to -8.5 percent in 2016, while the sector's contribution to GDP fell slightly from 23.7 percent in 2015 to 22.0 percent in 2016.
415. While some of the subsectors recorded negative growth, cement, chemical and pharmaceutical products, water supply, sewage and waste management recorded positive double digit growth rates.
416. The performance of manufacturing was not impressive in 2016, contracting by 4.3 percent compared to a contraction of 1.5 percent in 2015, caused by the high costs of imported inputs arising from the high exchange rate, and higher energy costs. Its share to the overall GDP shrunk by 9.3 percent in 2016 compared with 9.54 percent in 2015
417. In nominal terms value added of the tertiary (service) sector expanded by ₦6.0 trillion to reach ₦61.3 trillion in 2016, from ₦55.3trillion in 2015, representing a growth rate of 0.8 percent compared to 4.8 percent in 2015. The sector's contribution to GDP edged up slightly to 53.6 percent, from 53.2 percent the previous year.
418. Output of the finance and insurance subsector increased from ₦3.3 trillion in 2015 to ₦3.6 trillion in 2016, translating into an increase of 10.2 percent compared to 7.1 percent in 2015. The subsector accounted for 6.0 percent of the sector's value added
419. The Wholesale & Retail Trade subsector increased in nominal terms by 14.2 percent to ₦20.7 trillion in 2016, from ₦18.9 trillion in 2015 and accounted for 35.2 percent of the sector's GDP.
420. The value added of the information and communication sub-sector stood at ₦11.7 trillion in 2016, up by about ₦700.0 billion, from ₦11.0 trillion in 2015. Its contribution to the GDP of the sector stood at 19.1 percent in 2016.
421. The Real Estate sub-sector's value added increased slightly to stand at ₦8.3 trillion in 2016, from ₦8.2 trillion in 2015, representing a growth of 1.9 percent. The subsector accounted for 13.6 percent of the sector's value added.
422. The increase in the general level of prices that was witnessed in 2015 fiscal year continued into 2016. However, unlike 2015 fiscal year when the rates were within

single digit, all months in 2016 fiscal year except, January, reported double digits inflation. All the inflation components increased during the review period. The increase in inflation was largely attributed to exchange rate pass through from imported goods and the high cost of electricity.

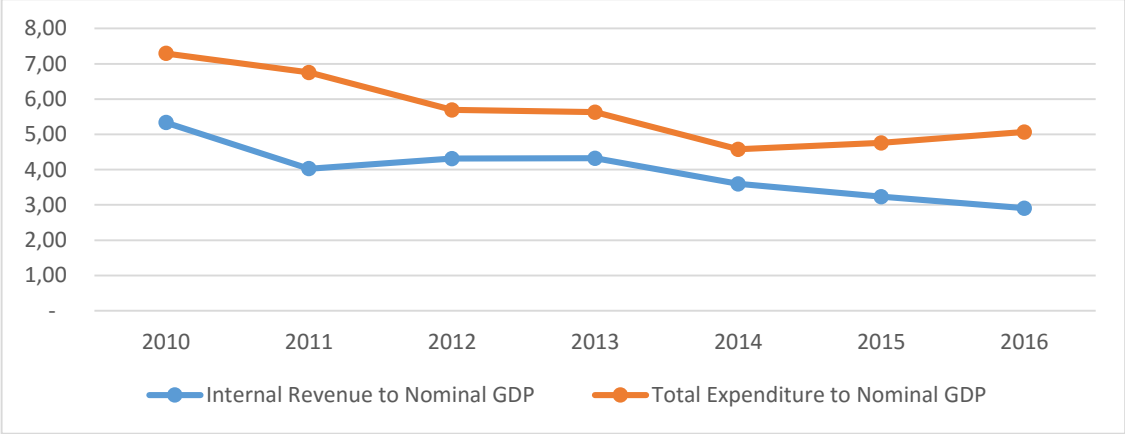
423. There was an upsurge in the inflation rate on 12-months average (Jan- Dec) compared to the rates in the corresponding period in 2015. Headline inflation rate on 12-months average basis increased significantly from 9.0 percent in 2015 to 15.7 percent 2016. Similarly, Core inflation followed the same upward trend, increasing from 8.2 percent in 2015 to 15.3 percent in 2016. The food component of inflation on 12-months average basis equally exhibited substantial increase during the review period. The rate stood at 9.9 percent in 2015, but leaped to 15 percent in 2016.

2.12.2 Public Finance and Public Debt

424. The impact of the falling oil prices on the international market impacted negatively on Nigeria's fiscal performance in the 2016 fiscal year. Oil revenue outturn, though recovering compared to 2015, continued to be lower than the pre-crisis period (2013-2014).
425. Gross federally collected revenue for 2016 stood at ₦ 5.8 trillion, indicating a decrease of ₦3.98 trillion or 42.9 percent below the 2016 budget estimate and ₦816.50 billion or 13.4 percent below the ₦6.1 trillion generated in 2015. The poor performance in revenue generation was due to persistently low oil prices in the international market and the adverse effect of the recent economic recession on non-oil revenue.
426. Gross oil revenue stood at ₦ 3.04 trillion, reflecting a below budget estimates performance by ₦839.40 billion or 23.8 percent in 2016. It also underperformed when compared with the oil revenue collection in 2015 by ₦1.1 trillion or 28.2 percent. This development was largely attributed to the low oil price in the international market and vandalism of oil facilities in the Niger Delta region, which adversely impacted oil production. Oil revenue started improving as a result of the recovery of oil prices in the international market and the normalization in the Niger Delta region particularly from the third quarter of 2016. Consequently, the share of oil revenue in total revenue fell to 50.9 percent in 2016, from 61.5 percent in 2015.
427. Non-oil receipts stood at ₦2.7 trillion, significantly falling short of the corresponding budget estimate of ₦5.74 trillion by ₦3.1 trillion or 54.8 percent in 2016. The figure was, however, higher than the 2015 non-oil revenue outturn by ₦241.7 billion or 10.3 percent. This also reflected in its share of total receipts of the Federation Government which rose to 49.1 percent in 2016, compared with 38.5 percent in 2015. The increase relative to the corresponding period of 2015 was mainly due to an increase in non-oil revenue of government.

- 428. A total of ₦3.3 trillion tax revenue was collected in 2016, of which oil taxes (PPT) accounted for ₦1.2 trillion or 35 percent while non-oil taxes contributed ₦2.2 trillion or 65 percent. The year on year performance indicated a decrease of 11.6 percent when compared with the ₦3.7 trillion realised in 2015. The shortfall resulted from the drop in the global crude oil prices to less than \$50 per barrel, as well as the drop in oil production to less than two(2) million barrels a day. The effects of the dwindling oil revenue manifested in exchange rate devaluation, high inflation rate, high interest rates, unemployment/job losses, as well as economic recession.
- 429. Similarly, non-oil tax revenue declined by ₦302.14 billion, or 12.32 percent, when compared with the ₦2.45 trillion mobilised in 2015.

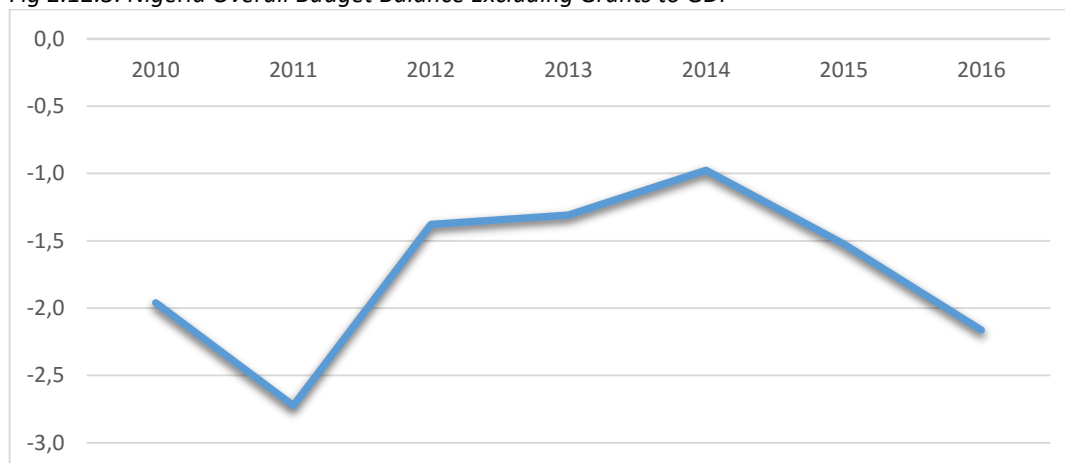
Fig 2.12.2: Nigeria Total Revenue and Expenditure as Percentage of GD



- 430. Total Federal Government expenditure in 2016 stood at ₦4.8 trillion, indicating a shortfall of ₦1.7 trillion or 27.5 percent of the budget estimate of ₦6.06 trillion for the period.
- 431. A breakdown of the total expenditure indicates that total recurrent expenditure stood at ₦ 4.2 trillion, indicating a decrease of ₦333.7 billion or 7.5 percent of the budget estimate. This includes non-debt recurrent expenditure of ₦ 2.8 trillion , (against a budget estimate of ₦2.65 trillion) and debt-related recurrent expenditure of ₦1.4 trillion.
- 432. Capital expenditure in 2016 stood at ₦ 615.4 billion, falling grossly below the budget estimate of ₦1.6 trillion by ₦991.6 billion or 62.5 percent.
- 433. The consolidated account (income and expenditure) of the Federal Government in 2016 resulted in a deficit of ₦2.2 trillion or 42.7 percent of total expenditure, representing 2.2 percent of GDP, compared to a deficit equivalent to 1.5 percent of GDP in 2015. The deficit was financed to the tune of ₦2.0 trillion, indicating a

financing shortfall of ₦224.4 billion or 10.2 percent of total deficit, mainly through domestic borrowing.

Fig 2.12.3: Nigeria Overall Budget Balance Excluding Grants to GDP

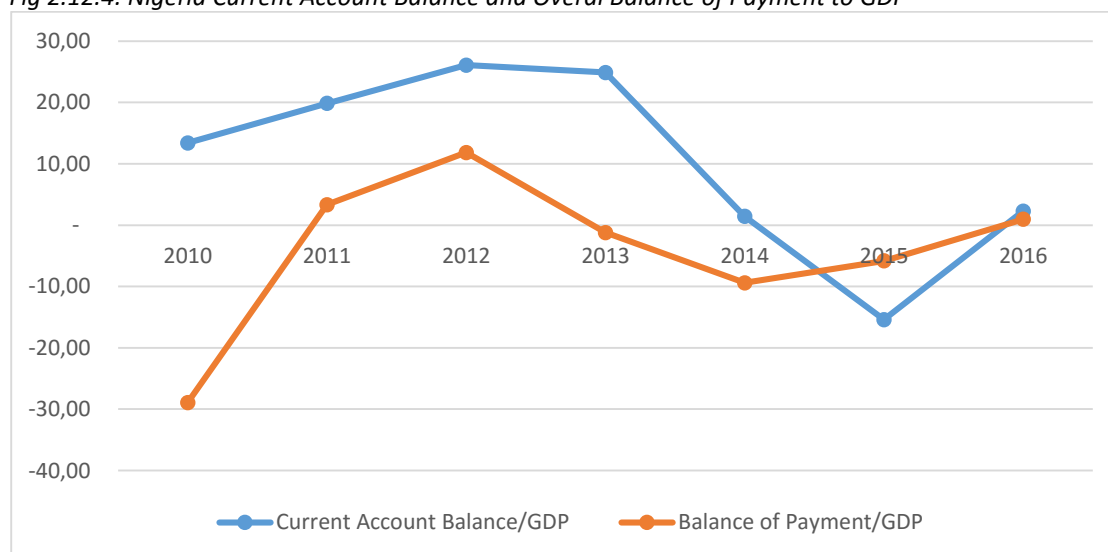


434. Nigeria's total outstanding public debt as at end-December 2016 was ₦17.1 trillion compared with ₦12.6 trillion at end-December 2015, representing an increase of ₦4.8 trillion or 37.7 percent. The total public debt stock as a percentage of GDP was 17.1 percent, higher than the 12.6 percent recorded in 2015, but within the ECOWAS Convergence threshold of 70.0 percent. Domestic debt accounted for 80.1 percent of the total public debt stock, while external debt was 19.9 percent.
435. Nigeria's external debt outstanding as at end-December, 2016 amounted to US\$11,406.3 million, compared with US\$10,718.4 million at end-December 2015. This represents an increase of US\$687.9 million or 6.4 percent in the period under review. The increase was attributed to additional disbursements of multilateral and bilateral loans. Multilateral debts accounted for US\$7,988.2 million, constituting 70.0 percent of the total external debt, while Non-Paris Bilateral debts accounted for US\$1,918.0 million or 16.8 percent. The balance of US\$1,500 million or 13.2 percent represented the commercial Eurobond in the International Capital Market (ICM).
436. The FGN's domestic debt stock outstanding increased from ₦8.84 trillion at end-December 2015, to ₦11.06 trillion at end-December 2016, representing an increase of ₦2.22 trillion or 25.14 percent. The increase in the stock of domestic debt was as a result of net issuances of FGN Bonds and Nigerian Treasury Bills (NTBs).
437. In 2016, the total public debt portfolio remained sustainable based on the output-based indicator (i.e. GDP) as the ratio of Total Public Debt-to-GDP was 17.1 percent. This fell sufficiently below the International Threshold of 56 percent for countries in Nigeria's peer group, as well as within the ECOWAS convergence threshold of 70 percent.

2.12.3 External Sector

438. Nigeria's balance of trade remained in deficit in 2016, although it was an improvement over the performance of 2015. on account of a more than proportionate decline in imports than the slump in exports. The trade performance followed global trend, largely attributed to the fall in the value of exports.
439. In 2016, exports declined by 24.4 percent to \$34.7 billion, from \$45.9 billion in 2015, while imports declined from \$52.3 billion in 2015 to about \$35.2 billion in 2016, or 32.7 percent. This development led to a deficit of the trade balance to the tune of \$536.1 million in 2016, compared to a deficit of \$6.5 billion in 2015, representing an improvement of about 91.7 percent. This was driven by the recovery in exports in the third and fourth quarters of 2016, as oil export volumes and prices improves.
440. Nigeria's trade recovered across the key trading Regions apart from Asia where trade moderated slightly. Trade with the ECOWAS sub-region however continued to worsen during the review period. Total trade, with the ECOWAS Region slightly dropped by ₦0.14 trillion or 16.60 percent to ₦0.68 trillion in 2016, from ₦0.81 trillion in 2015. The development resulted from the dip in both import and export during the period. Export slightly dropped by ₦0.02 trillion or 3.9 percent to ₦0.58 trillion in 2016 from ₦0.59 trillion in 2015, while import dipped by ₦0.11 trillion or 52.3 percent to ₦0.10 trillion in 2016. Trade with North America improved by 56.63 percent to ₦2.73 trillion reflecting improvements in trade with USA and Canada by 89.45 and 93.91 percent respectively, while trade with Europe recovered with a growth of 13.79 percent during the period.

Fig 2.12.4: Nigeria Current Account Balance and Overall Balance of Payment to GDP



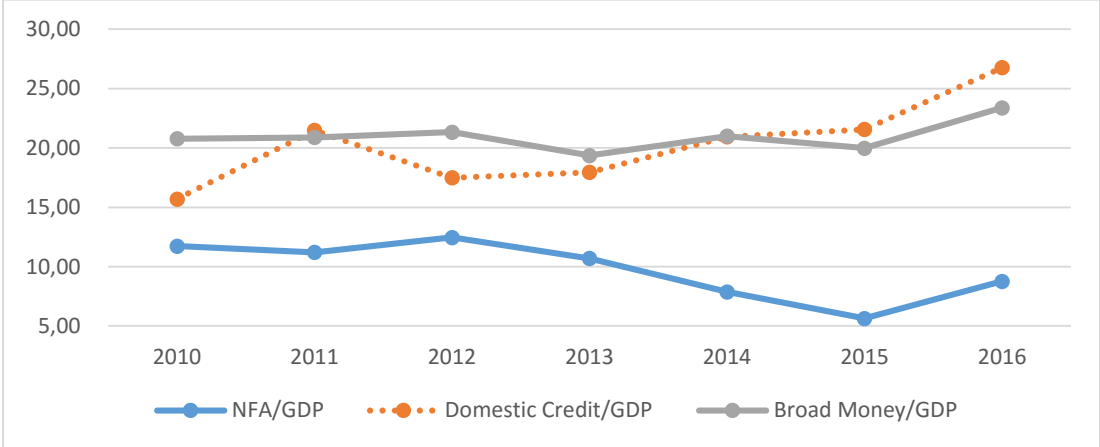
441. External sector performance improved in 2016 as the deficit in the overall balance improved from US\$ 5.9 billion (6.2 percent of GDP) in 2015 to US\$ 1.0 billion (1.0 percent of GDP) in 2016. The development was mainly due to improvements in both the current account balance and the financial accounts balance. The current account balance improved from a deficit of US\$ 15.44 billion (3.2 percent of GDP) in 2015 to a surplus of US\$ 2.72 billion (0.7 percent of GDP) in 2016 on account of improvements in all its four components. However, whereas the current transfers (net) improved from a deficit to a surplus in 2016, occasioned by the sustained inflow of workers' remittances, the trade balance, services (net) and income (net) remained in deficit, as in 2015.
442. The Financial Account recorded a net financial liability of US\$1.7 billion (0.4 percent of GDP) as against a net acquisition of financial assets of US\$ 1.0 billion (-0.2 percent of GDP) recorded in 2015. This was mainly on account of increased direct and portfolio investments. There was tremendous increase in investment flows, as direct and portfolio investments almost doubled by 93.0 and 99.2 per cent to US\$3.1 billion and US\$ 1.7 billion, respectively. However, other investment (net) significantly improved (narrowed) by 55.3 percent to a deficit of US\$4.7 billion in 2016, from a deficit of US\$9.3 billion in 2015, mainly on account of financing of trade credits.
443. Gross external reserves declined by 4.6 percent to US\$27.0 billion (8.2months of import-cover) at end-December 2016, from US\$28.28 billion (5.8 months of import cover) in the corresponding period of 2015. The increase in the months of import cover was a result of a 32.7 percent decrease in import payments.
444. Following the liberalization of the foreign exchange market, the Naira weakened across the two segments of the market in 2016. The exchange rate at the interbank market segment depreciated by 54.8 percent to ₦305.0/US\$ at end-December 2016, against ₦197.0/US\$ at end-December 2015 due to the normal market reaction to a new regulatory reform. Correspondingly, the naira depreciated at the Bureau-de-Change (BDC) by 83.5 percent to ₦490.0/US\$ at end-December 2016, from ₦267.0/US\$ in the corresponding period of 2015. The uncertainty surrounding the supply of foreign exchange as well as the huge demand, led to the widened margin experienced at end-December 2016. Some narrowing had occurred in the margin between the interbank and BDC rates immediately following the implementation of the flexible foreign exchange rate framework.

2.12.4 Monetary Sector

445. Monetary policy in 2016 was influenced by key developments in the global economy such as weak global growth, the continued reaction towards the Brexit vote, outcome of the United States (US) Presidential election and weak demand in emerging markets.

446. In 2016, monetary aggregates generally performed above their indicative benchmarks for the year. This development was largely attributed to significant increases in both the Net Foreign Assets (NFA) and the Net Domestic Assets (NDA) during the period. The expansion in the NFA was largely due to the firming up of oil prices, while the increase in NDA was mainly attributed to government borrowing to finance the expansionary budget.

Fig 2.12.4: Nigeria Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



447. As at end-December 2016, broad Money (M2) grew by 18.5 percent to N23.7 trillion compared with the end-December 2015 level of N20.0 trillion. The year-on-year growth in M2 of 18.5 percent was above the 2016 indicative growth target of 10.98 percent. Narrow Money (M1) grew by 29.5 percent to N11.1 trillion as at end-December 2016, from N8.6 trillion in 2015, which was above the indicative growth target of 11.3 percent. Similarly, Reserve Money (RM) increased by 8.4 percent to N12.6 trillion as at end-December 2016 from N11.5 trillion as at end-December 2015.

448. Net Foreign Assets (NFA) increased by 57.3 percent to N 8.89 trillion at end-December 2016, from N5.65 trillion at end-December 2015. The improved performance was attributed to improved oil receipts.

449. Net Domestic Credit (NDC) grew by 25.64 percent to N27.15 trillion at end-December 2016, from N21.61 trillion at end-December 2015, largely on account of substantial growth in credit to the government.

450. On a year-on-year basis, credit to government grew by 66.18 percent to N4.80 trillion, compared with N2.89 trillion at end-December 2015. The development was largely attributed to government borrowing to finance the budget deficit in the face of dwindling fiscal receipts.

451. Credit to the private sector (Cp) increased by 19.37 percent to N22.35 trillion at the end of December 2016, from N18.72 trillion at end -December 2015, with the

improvement being attributed to the sustained efforts by the Bank to channel credit to the real sector.

2.12.5 Macroeconomic Convergence in 2016

Primary Convergence Criteria

452. Nigeria met three primary criteria including fiscal deficit as a percentage of GDP ($\leq 3\%$); gross external reserve (≥ 6 months of import); and Central Bank financing of budget deficit ($\leq 10\%$ of previous year's tax revenue). The country, however, failed to meet the inflation rate ($\leq 10\%$) criterion. Performance under the primary criteria is highlighted as follows:

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	Lower than or Equal to 3%	-1.4	-1.3	-1.0	-1.5	-2.2	Achieved
Annual Average Inflation rate	$\leq 10\%$ with objective of $\leq 5\%$ in 2019	12.2	8.5	8.0	9.0	15.7	Not Achieved
Central Bank Financing of Budget Deficit	$\leq 10\%$ of previous years tax revenue	0.0	0.0	0.0	13.1	0.0	Achieved
Gross external Reserve	≥ 3 months	8.5	8.9	6	8.2	5.8	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	$\leq 70\%$	12.6	12.4	12.5	12.6	17.1	Achieved
Nominal Exchange rate variation	$\pm 10\%$	0.7	2.1	- 1.9	- 1.9	- 23.5	Not Achieved
Number of Criteria Respected		5	6	6	4	4	

- **Fiscal Deficit (including grants)/GDP ratio $\leq 3\%$:** Nigeria met this criterion during the review period as the fiscal deficit to GDP ratio though increased from 1.5 percent in 2015, to 2.2 percent in the review period, remained well within the convergence threshold.
- **Average inflation rate $\leq 10\%$:** Nigeria did not meet this criterion as annual average inflation rate rose to 15.7 percent.
- **Gross External Reserve (Months of Import) ≥ 3 months:** Nigeria met this criterion during the period under review. Gross external reserves stood at US\$27.0 billion, representing 8.2 months of import cover.
- **Central Bank Financing of Budget Deficit ($\leq 10\%$ of previous year's tax revenue) :** This criterion was met by Nigeria as the CBN financing of Government deficit was zero percent in the 2016 fiscal year.

Secondary Criteria

453. Nigeria met only the total public debt as percent of GDP of $\leq 70\%$ criterion, but failed to meet the stability of nominal exchange rate of $\pm 10\%$ criterion.
- **Total Public Debt as percentage of GDP $\leq 70\%$:** Nigeria achieved this criterion. The nation's public debt stock remained sustainable at 17.1 percent of GDP which was sufficiently below the international threshold of 56 percent for countries in Nigeria's peer group as well as the ECOWAS convergence threshold of 70 percent.
 - **Stability of the Nominal Exchange Rate $\pm 10\%$:** Nigeria did not meet this criterion in 2016. In relation to the WAUA, the Naira depreciated by 23.5 percent.

2.12.6 Conclusion and Recommendations

454. Though projected to recover in the near to medium term, overall macroeconomic environment of Nigeria remained fragile, given the negative growths in all four quarters of 2016 and persistence of some headwinds. There are upside and downside risks that would determine near term developments in the economy. Legacy issues including deepened reforms in various sectors of the economy particularly in the areas of fiscal management, renewed fight against corruption, continued fiscal consolidation, and innovative sectoral and activity-specific government interventions are expected to support economic growth and prosperity in the next two years. Conversely, a weak external environment, lower international prices as well as low production of crude oil, insecurity resulting from the continued threat of terrorism, and negative effects of climate change are some of the events that could pose a threat to the good outlook and prospects of the economy and could act as a drag on growth and prosperity
455. To address the above challenges, the following recommendations are proposed:
- To resuscitate the economy from recession and pave ways for recovery and growth, the Nigeria Authorities are urged to fast track the implementation of the Economic Recovery and Growth Plan (ERGP), which aimed at diversifying the Nigerian economy away from oil towards agriculture, manufacturing and improvement of macroeconomic stability;
 - The Authorities are encouraged to strengthen security, especially in North-Eastern Nigeria and the oil producing region, in an effort to improve the business environment, especially the performance of the agricultural sector, and enhance oil production;

- The Authorities should accelerate efforts to remove structural bottlenecks, improve electricity generation and strengthen the various development finance schemes;
- Although the current debt level is within sustainable threshold, the Authorities should limit borrowing from domestic sources in favour of low-interest and concessional external sources, given the rising trend of domestic interest rates, to reduce the cost of interest payments.
- The authorities are urged to sustain the current flexible exchange rate regime in order to narrow the gap between the official and BDC exchange rates, but should reconsider some existing restrictions to attract more foreign investors;
- The authorities are urged to strengthen the coordination of fiscal, monetary and trade policies to reduce policy conflicts and distortions that may slowdown economic recovery.

2.13 Economic and financial situation of Senegal in 2016

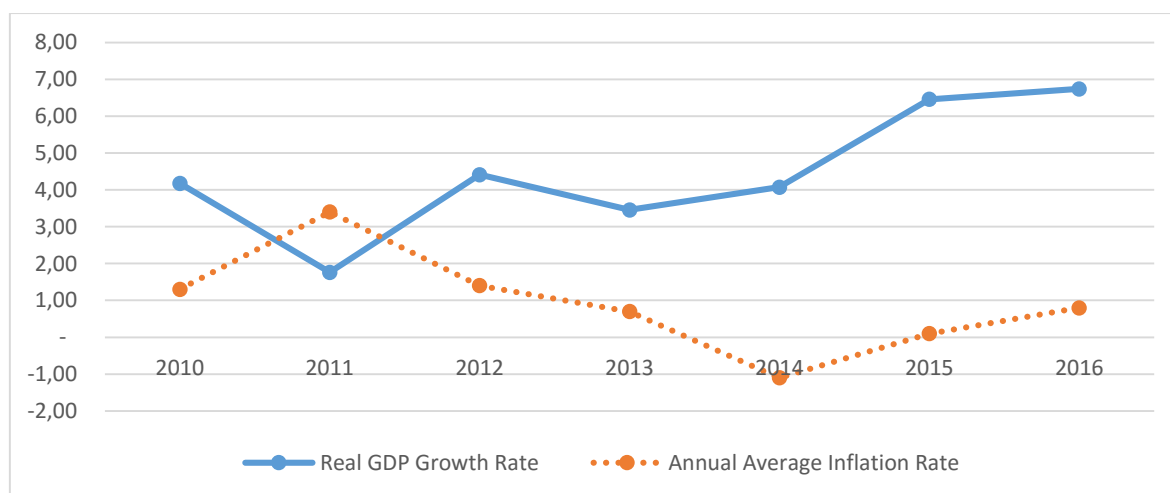
456. Within the context of the implementation of the Emerging Senegal Plan, GDP growth rate was estimated at 6.7% in 2016, reflecting the efforts made by the Government to maintain a strong and sustainable growth.

2.13.1 Real Sector

457. From the supply perspective, developments in the primary, secondary and tertiary sectors are presented as follows:

458. The primary sector witnessed a downturn, recording a 6.5% growth compared to 13.3% in the previous year on account of a slower expansion in the agricultural sub-sector of 6.3% when compared with 25.2% a year earlier as a result of the poorer performance of agro-industry. Indeed, the latter recorded a 4.3% decrease following an increase of 16.2% in 2015, mainly due to declines in the production of groundnut (1%), cotton (11%) and industrial tomatoes (44.5%) in 2016 with outputs of 991,427 tons, 15,160 tons and 32,000 tons respectively.

Fig 2.13.1: Senegal Real GDP Growth Rate and Inflation Rate



459. In the secondary sector, growth declined from 8.4% in 2015 to 6.7% in 2016, reflecting developments in mining activities (phosphate production (+56.7%) and gold (+24.3%)), production of chemical products connected with the production of phosphate, construction materials, BTP, energy and oil refinery.

460. Recovery of the tertiary sector continued with a 6.8% growth compared to 5.0% in 2015. Notably, there was a boost in such activities as trade, transport, post and telecommunications, lodging and restaurant, financial services and housing.

461. From the demand side, growth was recorded by all its components. Consequently, final consumption was estimated to have recorded an increase of 4.7% in 2016 against 4.8% in 2015 in line with increases in household (4.8% compared with 5.0% in 2015)

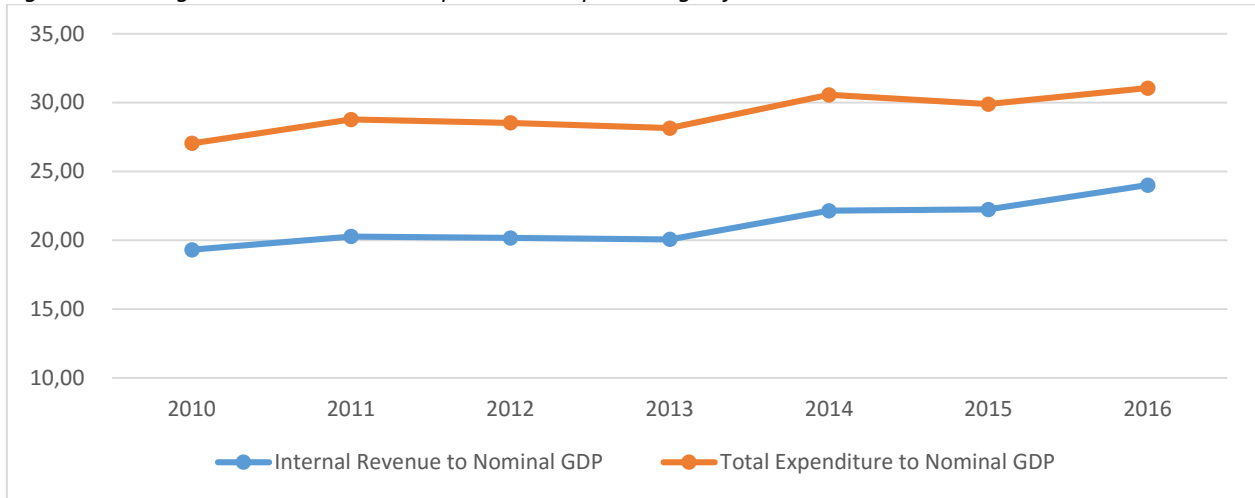
and public (3.8% compared with 3.3% in 2015) consumption. Gross fixed capital formation (GFCF) was estimated to have increased by 8.4% in 2016 against 6.8% in 2015 on account of increases in public investment (10.1% in 2016 against 8% in 2015) as well as private investment (7.9% against 6.5% in 2015). In relation to external demand, imports and exports of goods and services are estimated, in real terms, to have recorded, respectively, increases of 8.0% in 2016 (compared with 12.0% in 2015) and 8.6% in 2016 (compared with 12.7% in 2015).

462. Inflation measured by the harmonised consumer price index, stood at 0.8% owing to an increase in the prices of foodstuffs and non-alcoholic beverages (3.3%), which was however offset by lower prices in «housing, water, gas, electricity and other fuels» (-1.8%) as well as transport price (-1.5%).

2.13.2 Public Finance and Public Debt

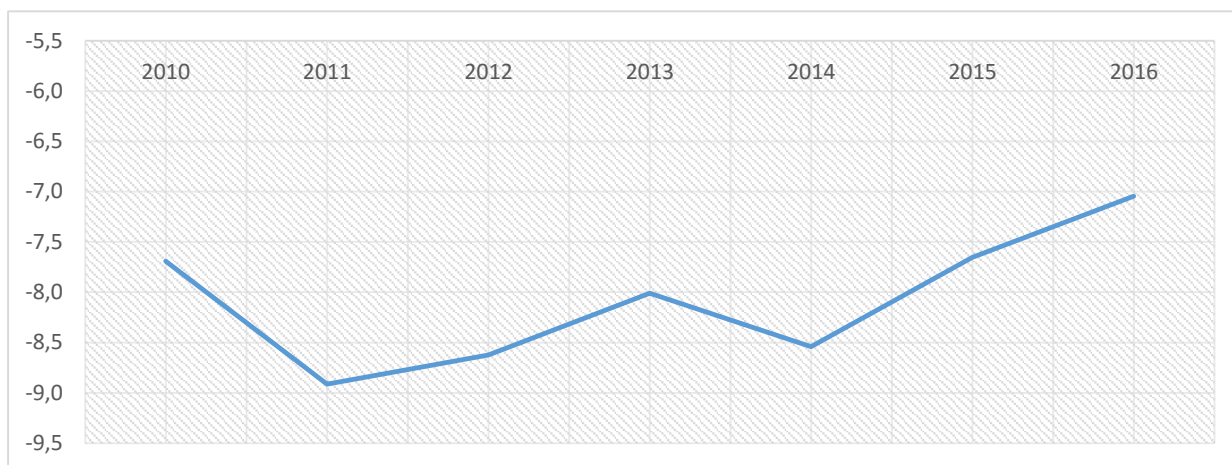
463. In 2016, government financial transactions recorded a deficit of FCFA 369.3 billion (4.2% of GDP) against FCFA 387.2 billion (4.8% of GDP) in 2015. This was as a result of the increased mobilization of budget resources as well as the implementation of the rationalization policy on administrative expenses.
464. Total revenue and grants recorded an increase of 15.2% and stood at FCFA 2334.6 billion in 2016 compared with FCFA 2026.1 billion in 2015, arising from increases in tax revenue, grants and exceptional revenue, in an environment characterised by a diminishing of FSE funds (by FCFA 36.8 billion) and non-fiscal revenue.
465. The increase in total revenue was accounted for by increased tax revenue as a result of good performance of direct taxation (FCFA 78.2 billion), tax on domestic goods and services (FCFA 62.6 billion), oil revenue (FCFA 17.4 billion) and customs revenue (FCFA 7 billion). However, non-fiscal revenue dropped by 3% to reach FCFA 103.5 billion in 2016, as a result of tax recovery in areas associated with weakness in transfer commissions.
466. Grants increased by 5.3% to reach FCFA 244.4 billion compared with FCFA 232.0 billion the previous year. This increase stemmed from budgetary grants of FCFA 38 billion and capital flows of FCFA 206.4 billion reflecting an increase of FCFA 6.7 billion (21.5%) and FCFA 5.6 billion (2.8%) respectively. The budgetary grants were mobilised mainly from the European Union, Canada, and to a lesser extent, from Saudi Arabia and Luxembourg.

Fig 2.13.2: Senegal Total revenue and Expenditure as percentage of GDP



467. Total expenditure and net lending stood at FCFA 2703.9 billion at the end of 2016 against FCFA 2411.5 billion in the same period of 2015, representing an increase of 12.1%. The increase was as a result of investment expenditure and recurrent expenditure, which rose by 20.3% and 7.2%, respectively.
468. Recurrent expenditure rose from FCFA 1504.3 billion to FCFA 1612.8 billion between 2015 and 2016, representing a 7.2% increase due to the rise in interest rates on public debt (17.5%), staff expenses (8.8%) as well as operational expenses (4.2%).
469. Investment expenditure recorded a 20.3% increase, standing at FCFA 1091 billion in 2016. This was a significant increase and reflects, among other things, the effectiveness of the take-off of certain big investment projects within the framework of the PSE. The increase emanated from domestically financed investment which stood at FCFA 654.6 billion, representing an increase of 30.4% (or FCFA 152.5 billion) in relation to 2015. Capital expenditure financed from external sources reached FCFA 436.5 billion in 2016, representing an increase of 7.7% (or FCFA 31.4 billion).

Fig 2.13.3: Senegal Overall Budget Balance excluding Grants to GDP



470. Total outstanding public debt increased by 18.1% to reach FCFA 5428.5 billion in 2016 compared with FCFA 4597.7 billion in 2015, representing 62.3% of GDP in 2016 compared to 57% in the previous year. The outstanding debt was made up of FCFA 3830.8 billion as external debt and FCFA 1597.7 billion in domestic debt.
471. The external debt service position in 2016 represented 11% of budget revenue and 8.3% of exports of goods and services, respectively, as compared to 22% and 25% ceilings set, in the two cases, within the framework of the analysis of viability of public debt.

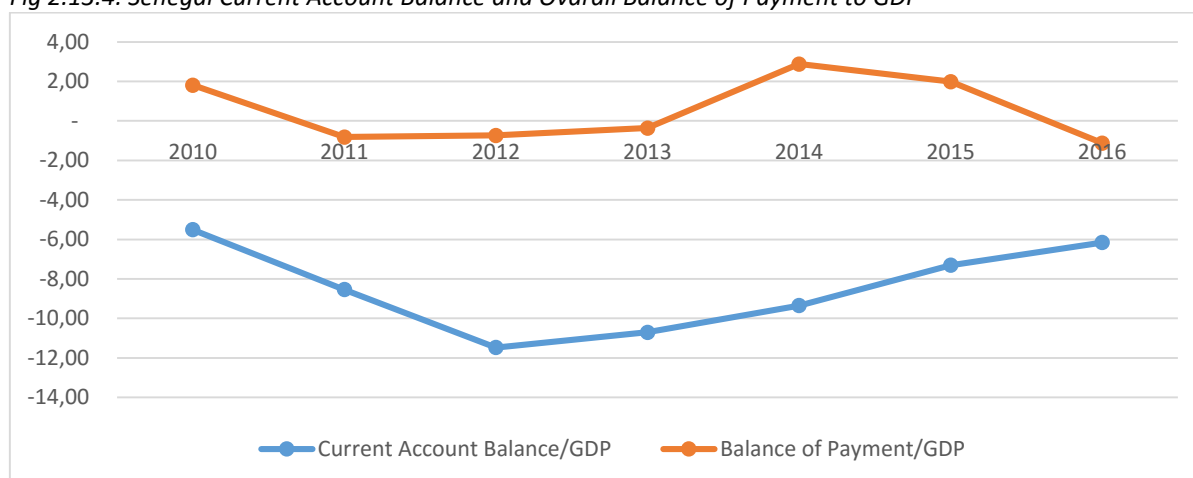
2.13.3 External Sector

472. External transactions of the country in 2016 resulted in an overall balance of payments deficit of FCFA 97.4 billion, following a surplus of FCFA 160.4 billion in 2015, resulting from the sustained pursuit of improving current account operations, despite the decrease in the surplus on the capital account and financial operations.
473. The current account deficit, excluding grants, was estimated at FCFA 536.3 billion (representing 6.2% of GDP) in 2016, compared to FCFA 589.9 billion (7.3% of GDP) in 2015, mainly reflecting improvements in the trade balance coupled with the strengthening of current transfers. Indeed, the balance of the goods account recorded a deficit of FCFA 1225.5 billion in 2016, as against FCFA 1274.2 billion in 2015. This was due to the combination of a reduction in imports by 1.5% and an increase in exports of 0.4% in nominal terms. Exports reached FCFA 1675.1 billion (19.2% of GDP) in 2016, compared with FCFA 1669.2 billion (20.7% of GDP) in 2015. This was led, principally, by external sales of cement (FCFA 31.9 billion), phosphoric acid (FCFA 21.5 billion), fishery products (FCFA 14.1 billion) and horticultural products (FCFA 6.5 billion). However, this favourable trend was adversely affected by the contraction experienced in exports of petroleum products (FCFA 46.1 billion), phosphates (FCFA 15.4 billion) and groundnut products (FCFA 10.8 billion). With regard to Senegalese exports to the

ECOWAS market, there was an increase of 2.5% (FCFA 11.3 billion) over the performance of the same period in 2015. Mali remained the main Senegalese customer in ECOWAS, with a market share of 37.7%, accounted for, principally, by its imports of cement.

474. Exports however declined by FCFA 43.0 billion, standing at FCFA 2900.6 billion (33.3% of GDP) in 2016 against FCFA 2943.6 (36.5% of GDP) billion in the previous year. This was in an environment dictated by lower global commodity prices. The decline was due, largely, to the imports of petroleum products (FCFA 140.3 billion) and foodstuffs (FCFA 11.3 billion). The fall in food products was due to the fall in rice imports (FCFA 35.1 billion), as a result of the positive impact of Government policy in encouraging local rice production. On the whole, imports of goods in Senegal from the ECOWAS zone rose to FCFA 23.7 billion (6.6%) compared to the same period in 2015. Nigeria was the leading supplier to Senegal in the ECOWAS region with a 74.7% share.
475. The services balance recorded an estimated deficit of FCFA 68.5 billion (0.7% of GDP) against FCFA 57.4 billion (0.8% of GDP) in 2015, notably due to the improvement of the « travel » account which benefitted from the upsurge in the tourism sector. In contrast, the deficit of income balance worsened by FCFA 59.4 billion, widening from FCFA 231.5 billion to FCFA 290.9 billion between 2015 and 2016. This development reflected the increase in interest payments on the public external debt (FCFA 14.0 billion) and a significant increase on repatriation abroad of income earned on direct investment (FCFA 32.3 billion).
476. Net current transfers stood at FCFA 1075.4 billion in 2016, representing an increase of 59.6%. This improvement resulted from more remittance of funds by migrants, estimated at FCFA 1099.0 billion in 2016, compared to FCFA 971.4 billion in the previous year, representing an increase of FCFA 127.6 billion.

Fig 2.13.4: Senegal Current Account Balance and Overall Balance of Payment to GDP

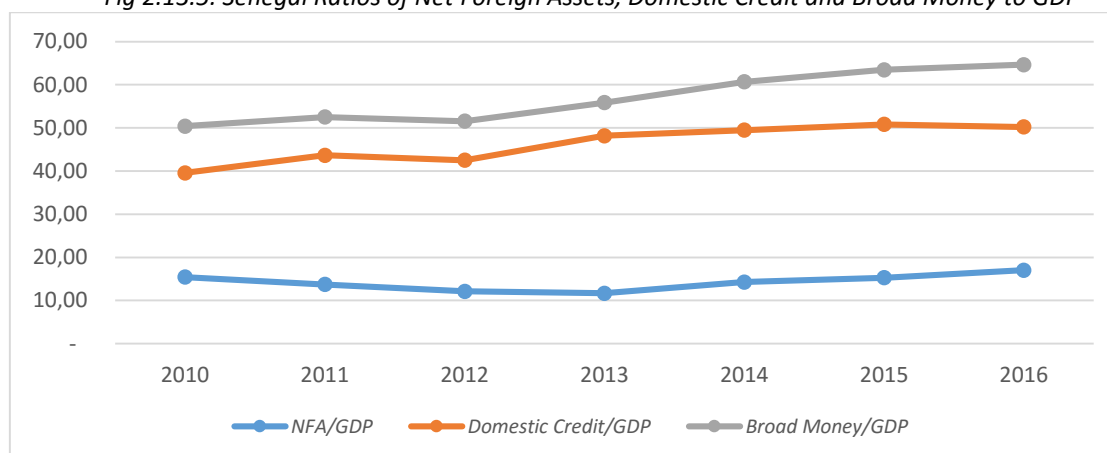


477. The capital account balance and financial operations recorded a surplus of FCFA 400.6 billion as against FCFA 714.5 billion in 2015, due largely to the financial operations account.
478. Indeed, the financial operations account balance was estimated at FCFA 188.5 billion in 2016, compared to FCFA 511.8 billion in the previous year, representing a decline of FCFA 323.3 billion, including private and public capital. Net public capital dropped by FCFA 116.7 billion as a result of portfolio investments. In the case of net private capital, the decline in 2016 was attributed to the major investment carried out by one of the local telephone operators in Sierra Leone.

2.13.4 Monetary Sector

479. The position of monetary institutions in 2016 revealed a reduction of FCFA 97.4 billion in net foreign assets, representing a 17.3% increase in domestic credit and 10.4% in money supply.
480. The net foreign assets of monetary institutions was estimated at FCFA 1135.5 billion in 2016, compared with FCFA 1232.9 billion in 2015, representing a withdrawal of FCFA 97.4 billion, indicating that the decline of the net foreign assets of BCEAO (FCFA 231.4 billion) led, however, to the increase of those from the commercial banks (FCFA 134.0 billion).
481. Outstanding domestic credit in 2016 was estimated at FCFA 3438.8 billion, against FCFA 2932.7 billion in 2015, representing an increase of FCFA 506.1 billion (17.3%), and reflecting the net decline of net government position (FCFA 279.7 billion), in addition to increased supply of funds into the economy (FCFA 226.4 billion). The increased government's commitment to the banks was as a result of more issuance of government securities, particularly taking over the implementation of investments. Loans to the economy were dominated by short-term loans, whose share stood at 55.0%. However, the share of long-term loans rose from 44.2% to 45.0%, representing an improvement of 0.8 percentage point. Overall, the rate of bank's funding of the economy was estimated at 34% in 2016, compared to 33.9% in the previous year.

Fig 2.13.5: Senegal Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



482. In line with developments of its component parts, money supply was estimated to have increased by 10.4% in 2016, compared to 13.4% in 2015. This increase in overall liquidity was reflected in an increase of bank deposits (FCFA 307.7 billion) and currency in circulation (FCFA 114.9 billion). Overall, the rate of liquidity of the economy rose from 49.0% in 2015 to 50.1% in 2016, indicating an improvement of 1.1 percentage point.

2.13.5 Macroeconomic Convergence in 2016

483. With respect to macro-economic convergence, Senegal met five convergence criteria in 2016, maintaining the 2015 figure. The criterion of budget deficit was not met. The convergence situation of the Senegalese economy is presented as follows:

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	Lower than or Equal to 3%	- 5.8	- 5.5	- 5.2	- 4.8	- 4.2	Not Achieved
Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	1.4	0.70	- 1.1	0.10	0.8	Achieved
Central Bank Financing of Budget Deficit	≤ 10% of previous years tax revenue	0,0	0,0	0,0	0,0	0,0	Achieved
Gross external Reserve	≥ 3 months	5.3	4.7	5	5	5.79	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤70%	36.7	30.7	35.4	29.1	55.7	Achieved
Nominal Exchange rate variation	± 10%	-4.8	4.1	0.1	- 9.3	0.50	Achieved

Number of Criteria Respected	5	5	5	5	5	
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2.13.6 Conclusion and Recommendations

484. Recommendations on the economic policies are as follows:

- Ensure good implementation of the Emerging Senegal Plan (ESP);
- Create an enabling environment to increase private investment and promote the effectiveness of public investment in order to attain the objectives of economic growth contained in the ESP;
- Further improvement of the business environment to encourage FDI and;
- Encourage the strengthening and improvement of production and distribution of electricity.

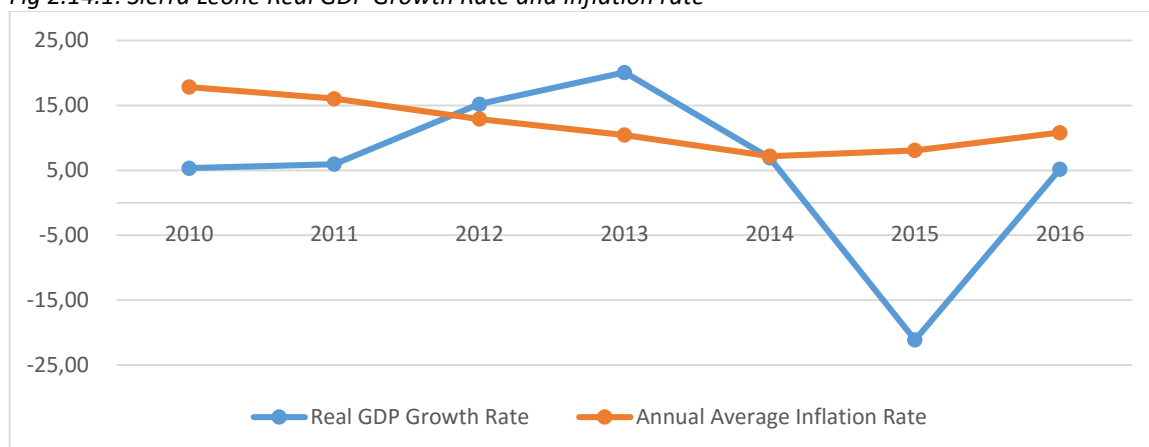
2.14 Economic and Financial Situation in Sierra Leone in 2016

485. The macroeconomic policy thrust of Sierra Leone in 2016 was focused on ensuring macroeconomic stability through the implementation of sound fiscal, monetary and external sector policies as well as the post-Ebola recovery strategy. Under the post Ebola recovery programme, the Government pursued the diversification scheme with increased support to various sectors and also provided a good environment for private investment including the provision of basic infrastructure such as roads, water, construction and electricity.
486. In view of the foregoing, the Sierra Leone economy commenced a gradual recovery process in 2016, underpinned by the resumption of iron ore exports as well as the improvements in agriculture, construction and services sectors. However, the economic recovery was challenged by the steep depreciation of the exchange rate owing to reduced inflows and increased demand for foreign exchange for the importation of essential commodities as well as rising consumer prices.

2.14.1 Real Sector

487. Real GDP grew by 6.1 percent in 2016 compared to the contraction of 20.6 percent in 2015. The growth was induced by the resumption of iron ore, coupled with upward movement in global commodity prices. Excluding iron ore, the economy grew by 4.3 percent from 3.2 percent in 2015 on account significant continued recovery in agriculture, mining, construction and services supported by improved electricity supply.

Fig 2.14.1: Sierra Leone Real GDP Growth Rate and Inflation rate



488. In terms of growth rates by sectors in 2016, the industry sector grew by 28.8 per cent (from contraction of 75.1 per cent in 2015), followed by services sector growth of 4.1 per cent (from 1.6 per cent in 2015) and agriculture growth of 3.4 per cent (from 3.1 per cent in 2015). Growth in the industrial sector was mainly on account of mining, in particular iron ore; services sector growth was mainly based on communication; while growth in agriculture was mainly based on rice. In terms of contribution to GDP,

agriculture contributed the highest accounting for 49.7 per cent, followed by services sector with 35.3 per cent and industry with 11.4 per cent.

489. The agricultural sector (primary sector), comprising crop production, livestock, forestry and fishing grew by 3.4 percent in 2016 from 3.1 percent in 2015. Crop outputs continued to grow with rice as the country's most cultivated and consumed staple food. The crop subsector grew by 4.4 percent in 2016 from 4.1 percent in 2015 as a result of several initiatives by the Government to increase output and productivity in rice production. These included efforts to develop agribusiness and deepen market access resulting in the rehabilitation of feeder roads, development of agricultural business centres and improving farm families' access to finance and farming skills. The livestock sub-sector also expanded by 2.9 percent in 2016 relative to 1.9 percent in 2015. The Fisheries sub-sector, which provides a major source of protein for a significant portion of the population, grew by 2.7 percent in 2016 from 2.1 percent in 2015 largely due to the enforcement of a 6 mile Inshore Exclusion Zone (IEZ) and applied satellite monitoring.
490. In the industry sector (Secondary sector), the manufacturing sub-sector experienced strong recovery in 2016 following the end of Ebola and the lifting of restrictions on social activities, bars and restaurants. The manufacturing sector grew by 4.6 percent in 2016 compared to 0.4 percent in 2015. Construction sub-sector proxied by cement and paint production expanded by 6.7 percent in 2016 from 5.1 percent in 2015, as various construction projects around the country continued throughout 2016 including the Matotoka-Sefadu road, Jomo-Kenyatta- Hill Cut road, Lumley-Tokeh road, Hill Side By Pass road, various township and city roads.
491. In the services sector (tertiary sector), trade and tourism grew by 4.0 percent in 2016 compared to a decline of 0.8 percent in 2015. The increase was largely driven by the pronouncement of the end of Ebola, resumption of international flights into the country and the image re-branding campaign by the National Tourist Board and the Ministry of Tourism and Culture. In the Banking industry, the number of commercial banks registered in the country remains at 13 but the number of bank branches increased to 103 at end 2016. Anecdotal evidence indicates that the number of mobile phone subscribers continued to increase with a reduction in the cost of communications. Transport, storage and communications sub-sector grew by 5.3 percent in 2016 from 1.7 percent in 2015.
492. In promoting a diversified economy and inclusive growth, the government and its development partners implemented various projects to expand and restore electricity supply across the country. Total electricity generated in 2016 amounted to 294.12Gw/hr, and was made up of 218.02Gw/hr from hydro power generation and 76.09Gw/hr from thermal plant generation. Of the hydro power generation, Bumbuna plant accounted for 93.8% while Guma contributed only 6.2% of the generation for the

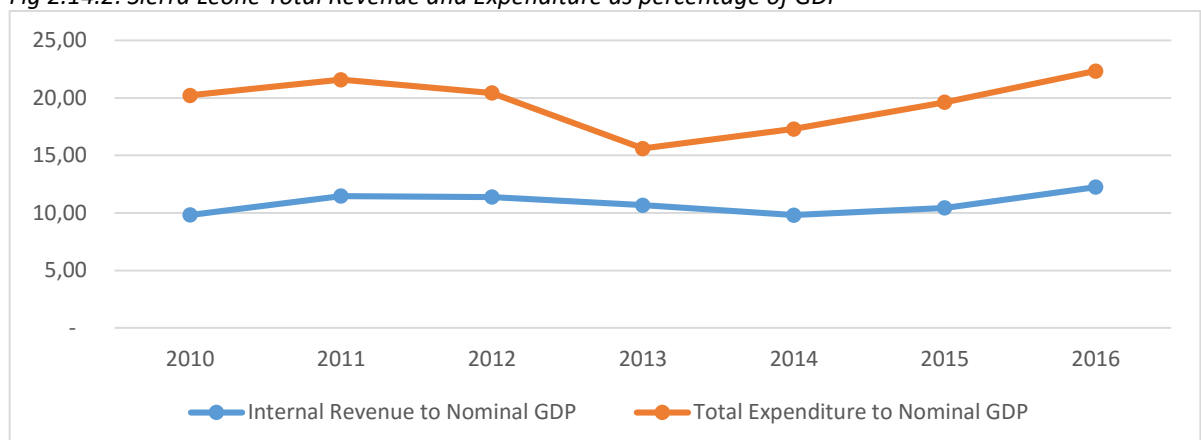
year. Of the thermal plant generation, Freetown plants contributed 78.2% while the provincial plants accounted for 21.8%.

493. Inflationary pressures heightened during the review period, driven by the continued depreciation of the Leone against major international currencies, upward adjustment in domestic fuel pump prices and the adjustment in electricity tariff. Thus, the year-on-year inflation increased to 17.4 percent at end-December 2016 from 8.9 percent at end-December 2015. The annual average inflation also increased to 10.8 percent in 2016 from 7.6 percent in 2015.
494. Food inflation increased to 18.63 per cent in December 2016 from 10.77 percent recorded in December 2015, mainly attributable to the increase in prices of imported food items arising from depreciation of the domestic currency (Leone). Similar trends were observed in the non-food inflation category which increased to 16.54 per cent in December 2016 from an inflation of 6.66 per cent in the previous year.
495. Core inflation (defined as inflation excluding food and energy) followed the gradual elevated trend of the headline inflation during the year. Core inflation increased from 9.41 percent in December 2015 to 17.76 percent in December 2016. This trend was indicative of the heightened pressures on the overall inflation in the economy.

2.14.2 Public Finance and Public Debt

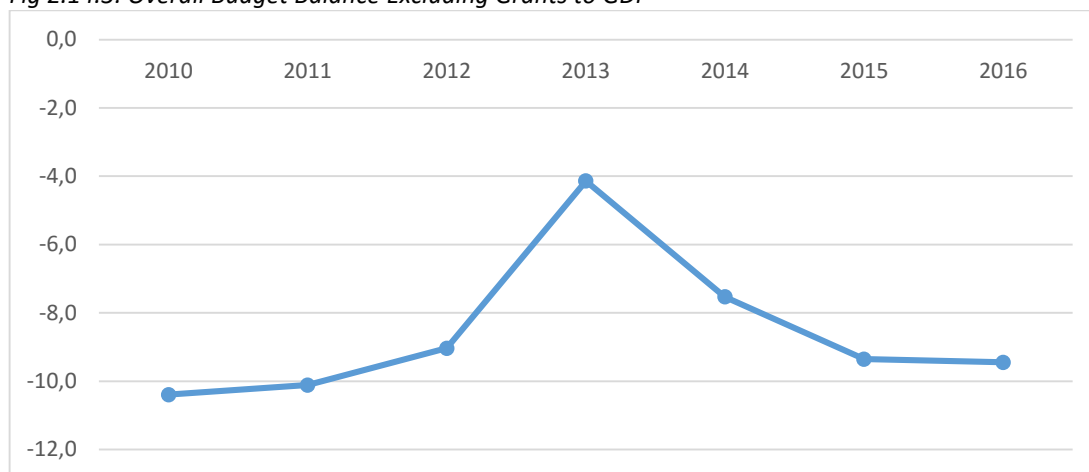
496. Fiscal operations remained under pressure in 2016 to address post-Ebola needs, as well as longer term development agenda. Performance in government fiscal operations deteriorated considerably during 2016, as the fiscal deficit widened from Le916.27 billion {(\$0.14mn (3.9 % of GDP))} during the first half of 2016 to Le1.95 trillion {(\$300mn (8.3% of GDP))} by the end of 2016, on account of a significant increase in total expenditure and a marked decrease in external grants received for budgetary support.

Fig 2.14.2: Sierra Leone Total Revenue and Expenditure as percentage of GDP



497. Total revenue and grants in 2016 amounted to Le3.62 trillion (15.3 percent of GDP) compared to { Le3.49 trillion (\$686.7mn) (14.8 % of GDP)} in 2015. The 2016 total consisted of Domestic Revenue (Le2.89trillion or \$444.62 mn (12.2% of GDP)) and Grants {(Le0.73 trillion or \$11.23 mn) (3.1% of GDP)}.
498. Total domestic revenue increased to Le2.89 trillion (12.2 percent of GDP) in 2016 from Le2.33 trillion in 2015 (10.8 percent of GDP), owing to the rise in both tax and non-tax revenue. Tax revenue rose to Le2.51 trillion (10.61 percent of GDP) from Le2.18 trillion (10.1 percent of GDP) in 2015, largely due to improved collection of taxes on income, goods and services and imports, reflecting the impact of the revenue enhancing measures by the National Revenue Authority (NRA). Non-tax revenue increased to Le383.38 billion (1.62 percent of GDP) from Le289.6 billion (1.3 percent of GDP) in the preceding year, mainly reflecting higher royalties and license fees from the mining sector.
499. Total grants received during the review period declined to Le727.00 billion (3.1 percent of GDP) compared to Le1.17 trillion (5.4 percent of GDP) in 2015, largely due to scale down of donor inflows and delays in disbursements for budget support. Total programme grants received during the review period amounted to Le201.00 billion, while project grants were Le525.00 billion.
500. Total expenditure and net lending increased to Le5.44 trillion (20.5 percent of GDP) from Le4.42 trillion (19.9 percent of GDP) in 2015. Recurrent expenditure increased to Le3.55 trillion (13.4 percent of GDP) from Le2.80 trillion (12.6 percent of GDP), driven largely by increased spending on goods and services and the high wage bill. Wages and salaries increased to Le1.81 trillion (6.8 percent of GDP) from Le1.59 trillion in 2015.
501. Total expenditure on elections and democratization significantly increased to Le28.66 billion (0.1 percent of GDP) from Le9.50 billion in 2015. The increase in elections costs increased the overall pressure on the budget while the increase in the interest on treasury bills, particularly the longer maturity bills, increased the costs for debt servicing. Total interest payment also increased to Le201.81 billion (0.8 percent of GDP) from Le174.57 billion in 2015. Capital expenditure also increased to Le2.04 trillion from Le1.62 trillion in 2015, largely due to increase in domestically financed expenditures.

Fig 2.14.3: Overall Budget Balance Excluding Grants to GDP



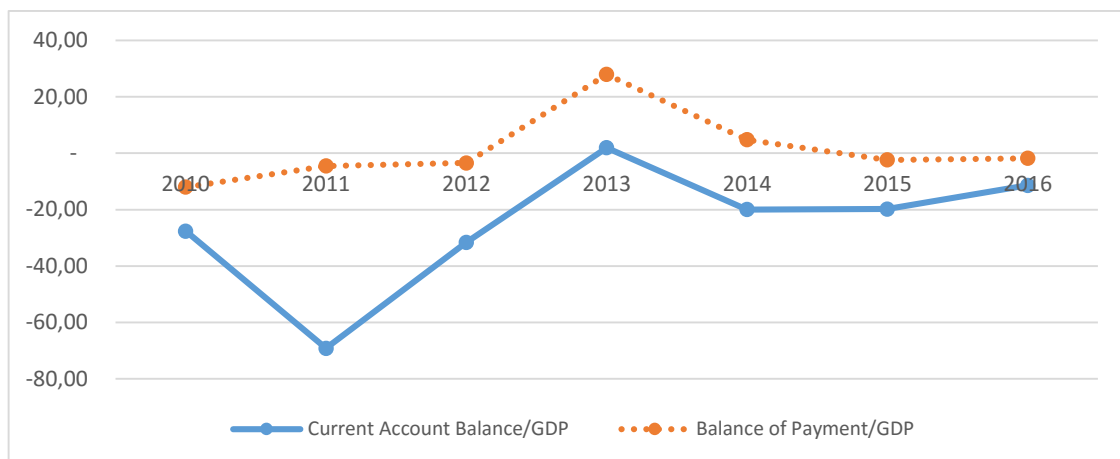
502. The overall deficit increased to Le1.94 trillion (8.23 percent of GDP) in the review period from Le1.02 trillion (4.6 percent of GDP) in 2015. The deficit was financed both from domestic (Le1.13 trillion) and foreign (Le375.63 billion) sources. From the domestic front, banking financing amounted to Le993.43 billion while non-bank was Le137.86 billion.
503. Public Debt: Total public debt stood at (Le13.14 trillion (\$2.02bn) (55.1 percent of GDP)) as at end-December 2016 compared to (Le9.7 trillion) (\$1.91bn) (45.4 percent of GDP) as at end-December 2015, triggered by the rise in both external and domestic debt. External debt increased to 40.9 percent of GDP as at end-December 2016 from 32.6 percent of GDP as at end-December 2015, due to increased borrowing from multilateral and bilateral creditors, especially the IMF and World Bank. Similarly, domestic debt rose to 14.8 percent of GDP from 12.7 percent of GDP at end-December 2015, partly attributable to increases in interest rates on domestic debt.

2.14.3 External Sector

504. On the external front, total exports grew by almost 15.3 percent to US\$ 670 million (Le4.36 trillion) during 2016 from US\$536.2 million (Le2.72 trillion) in 2015. Mineral exports continued to dominate exports accounting for 75.3 percent of total exports in 2016. Diamond exports amounted to US\$ 164 million (Le1.07 trillion); iron ore, US\$ 142.3 million (Le0.92 trillion); rutile, US\$ 106.95 million (Le0.70 trillion) and bauxite, US\$51.1 million (Le0.33trillion).
505. Total imports (fob) amounted to US\$1,316 million (Le8.55 trillion) during 2016 compared to US\$ 1,345 million (Le6.83 trillion) for 2015, a decline of almost 2.3 percent. Food imports amounted to US\$ 298.7 million (Le1.94 trillion), of which rice amounted to US\$95.9 million (Le0.62 trillion); machinery and transport equipment import amounted to US\$206.9 million (Le1.34 trillion) during the period under review;

mineral fuel and lubricants, US\$183.7 million (Le1.19 trillion), of which fuel, US\$176.6 million (Le1.15 trillion). The trade deficit narrowed to US\$472.9 million (12.47 percent of GDP) from US\$1,018.6 million (24.2 percent of GDP) in 2015, due to improved export earnings, especially mineral exports, and the huge reduction in the import bill.

Fig 2.14.4: Sierra Leone Current Account Balance and Overall Balance of Payment to GDP

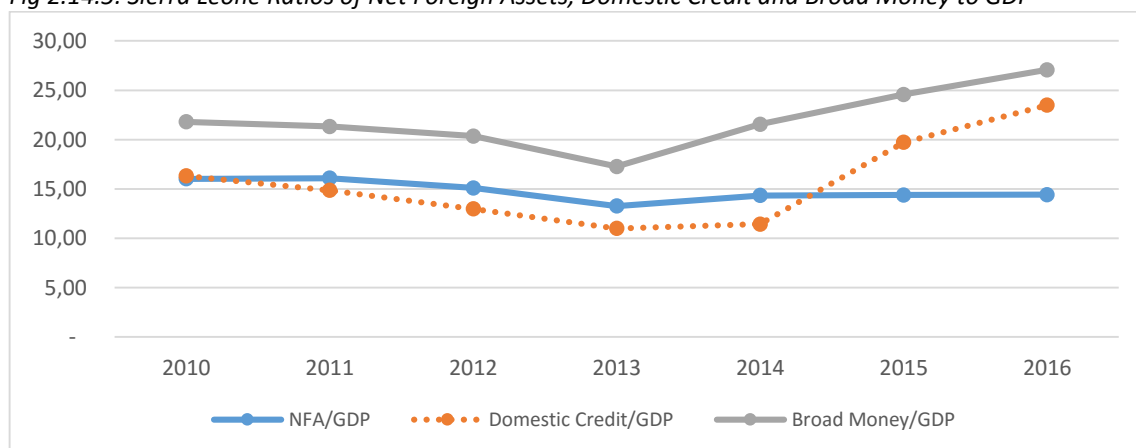


506. The current account deficit was projected to decline to US\$428.6 million (Le2.79 trillion) (11.3 percent of GDP) from US\$741.8 million (Le3.77 trillion) (17.6 percent of GDP) in 2015, mainly on account of improvement in the services account, reduction in import payments as well as increased export receipts. The financial account surplus was estimated to increase further to US\$378.2 million (Le2.46 trillion) (10.0 percent of GDP) in 2016, from US\$364.1 million (Le1.85 trillion) (8.6 percent of GDP) in 2015, principally due to increased net direct investment flows. The deficit in the overall balance of payments (BOP) narrowed to US\$68.8 million (Le0.45 trillion) (1.8 percent of GDP) in the review period compared to US\$104.9 million (Le0.53 trillion) (2.5 percent of GDP) in 2015.
507. Gross International Reserves: Gross external reserves declined over the period to US\$548.0 million (4.7 months of import) from US\$580.26 million (4.8 months of imports) attributable mainly to a reduction in donor inflows and the intervention by the BSL to dampen the impact of the depreciation in the exchange rate
508. Trends in Exchange Rates: The pressure on the domestic currency continued with the Leone depreciating by 21.6 percent against the US dollar in 2016, compared to a depreciation of 12.2 percent in 2015. This was driven by reduced foreign exchange inflows from key supply sources, reduction in post-Ebola donor inflows, speculative activities by market participants as well as the huge demand for foreign exchange to finance imports.

2.14.4 Monetary Sector

509. Monetary policy was severely challenged in 2016 by rising inflation due to the lingering effects of the 2014 and 2015 shocks, continued depreciation of the Leone, and significant increase in domestic interest rates. The Bank of Sierra Leone (BSL) adopted a tight monetary policy stance in the review period by increasing its monetary policy rate (MPR) twice, from 9.5 percent to 10.5 percent in September 2016 and 11.0 percent in December 2016. The objective was to control aggregate demand and moderate the pass-through effect of the depreciation of the exchange rate. Also, the BSL introduced a corridor around the MPR in a bid to boost liquidity management and enhance the effectiveness of monetary policy. The required reserve ratio (RRR), however, remained unchanged at 12.0 percent.
510. Trends in monetary aggregates: Broad Money (M2) growth during January-December 2016 was higher relative to the preceding period January-December 2015. M2 expanded by 16.49 per cent, which was higher than the 11.34 per cent growth rate recorded in the preceding year. The expansion in M2 was on account of the increase in Net Domestic Assets (NDA) of the banking system which more than offset the 8.57 per cent contraction in Net foreign Asset (NFA). NDA expanded by 49.69 per cent which was more than the 23.99 per cent recorded in the preceding year. The expansion in NDA contributed to 21.37 per cent in the growth in M2 and was mainly due to financing of fiscal operations by the banking system. The growth in NDA was also driven by the Le319.59bn increase in the holdings of Government Securities by Commercial Banks.

Fig 2.14.5: Sierra Leone Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



511. Net Foreign Assets: The contraction in NFA was due to significant outflows through sale of foreign exchange, payments for ongoing Government infrastructural projects, , debt services and revaluation effect on foreign assets and liabilities arising from the depreciation of the Leone against the US dollar and settlement of other foreign liabilities. The contraction in NFA was further reinforced by decrease in claims on overseas Banks by commercial banks. Despite the contraction in NFA, there were

significant inflows during the 2016 that are worth nothing. These include inflows from the International Monetary Fund (IMF) in respect of budgetary support and balance of payments (US\$67.74mn) and capital gain tax realized from the sale of Airtel to Orange (US\$30.00mn).

512. Credit: Private sector credit registered a 16.81 percent increase, far higher than the 2.15 per cent growth recorded in the preceding year of 2015. The significant growth in private sector credit from Le1, 090.83bn in January-December 2015 to Le1, 274.23bn in January-December 2016 suggests that commercial banks scaled up their intermediation level to the private sector. Sectorial distribution of the flow of Credit to the Private Sector during January-December 2016 suggests that the bulk of loans and advances were channelled to construction, trade and services sectors.
513. Reserve Money (RM): Reserve Money (RM) increased by 24.50 percent which was higher than the 10.38 percent growth recorded in 2015. The growth in RM mirrors the increases in Currency Issued (Le110.58bn) and Bankers' Deposits (Le294.11bn). RM growth was higher than the end year program target of 11.40 percent.
514. Interest Rates: The average annual yield on Government Securities trended upward in 2016. Interest rate on 3-months, 6-months and 12-months Treasury Bills expanded from 1.08 percent, 3.11 percent and 9.91 percent in December 2015 to 9.38 percent, 16.17 percent and 30.22 percent in December 2016, respectively. Interest rate on 12 months Treasury bond remained at 5 percent whilst that of 24-months increased from 13.50 percent to 14.38 percent. Government has taken a decision to remove this tenor out of the market beginning January 2017. Hence, all maturities of the 1-year Treasury Bond is redeemed and re-issued in the Treasury Bills window to minimize the distortion in the rates relative to the 364-day Treasury Bills rate.
515. The interest rate on Savings, 1-Months, 3 months and 6 months' Time Deposits declined from 2.54 per cent, 2.73 per cent, 2.98 per cent and 4.20 per cent to 2.38 per cent, 2.57 per cent, 2.87 per cent and 4.07 percent. Also Interest rate on Twelve months' Time Deposit slightly increased from 5.30 percent to 5.84 percent. The average lending rate of commercial banks moved down slightly from the range of 18.12-24.80 percent to 17.92-24.77 percent.
516. The banking system remained relatively stable during the review period, in spite of challenges in the macroeconomic environment. All, but one bank, met the minimum unimpaired paid up capital requirement of Le 30 billion. The average Capital Adequacy Ratio (CAR) of banks remained far above the 15.0 percent minimum requirement, although it declined to 30.7 percent from 33.9 percent as at end-December 2015, an indication that the loss absorption capacity of the industry was strong. However, two banks failed to meet the Capital Adequacy Ratio. Also, liquidity of the banking system remained robust as all banks met the overall minimum liquidity ratio of 30.0 percent

at end December 2016. However, the industry's non-performing loans remained high, though it declined from 31.7 percent as at December 2015 to 22.7 percent as at December 2016.

2.14.5 Macroeconomic Convergence in 2016

517. The country's performance on the primary convergence criteria deteriorated, satisfying only one of the four primary criteria during the review period, namely: gross external reserves in months of import cover, compared to three criteria achieved as at end-December 2015. The country did not meet the criteria on single digit inflation, central bank financing and fiscal deficit. In terms of the secondary convergence criteria, the country met only one criterion, namely the ratio of public debt to GDP.

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	Lower than or Equal to 3%	-5.2	-1.6	-3.3	-4.1	-6.4	Not Achieved
Annual Average Inflation rate	£10% with objective of £5% in 2019	12.9	10.4	7.2	8.1	10.8	Not Achieved
Central Bank Financing of Budget Deficit	£ 10% of previous years tax revenue	-37.7	1.7	7.2	-0.7	33.1	Not Achieved
Gross external Reserve	≥ 3 months	3.4	3.2	3.6	3.8	4.7	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	£ 70%	36.7	30.8	35.4	29.1	55.7	Achieved
Nominal Exchange rate variation	± 10%	3.3	1.1	-4.0	-3.1	-19.1	Not Achieved
Number of Criteria Respected		5	5	5	5	2	

Primary Criteria

- Fiscal Deficit (including grants)/GDP: This criterion was not met because it increased to 7.7 percent of GDP in 2016 from 4.3 percent recorded in 2015.
- Annual Average Inflation Rate: This criterion was not met because the annual average inflation increased to 10.8 percent from 7.6 percent in 2015
- Central Bank financing of the Fiscal deficit: The threshold of was not met because the criterion was 33.1 percent.
- Gross External Reserves: The country sustained its compliance on this criterion during the review period. Gross external reserves in months of imports stood at 4.7 months in 2016, compared to 3.8 months in 2015.

Secondary Criteria

- Public Debt/GDP: Performance on this criterion was sustained as the ratio of public debt to GDP remained below the 70.0 percent threshold. However, the ratio increased to 55.1 percent in 2016 from 45.4 percent in 2015
- Exchange Rate Stability: The country missed this criterion of nominal exchange rate variation. In relation to the WAUA the Leone depreciated by 19.1 percent in 2016, which is above the threshold of 10.0 percent.

2.14.6 Conclusion and Recommendations

518. Overall, the Sierra Leone economy started the path to recovery in 2016, driven by resumption of iron ore exports as well as the improvements in agriculture, construction and services. However, economic recovery was challenged by the steep depreciation of the domestic currency (Leone) owing to reduced inflows and increased demand for foreign exchange. Fiscal operations were also constrained by higher spending on wages and salaries goods and services and interest payments. As a result, the country's performance on the macroeconomic convergence scale deteriorated, as only two of the six convergence criteria were met during the review period. This underscores the need to consider the following recommendations proffered to boost macroeconomic performance and strengthen compliance with the convergence criteria.

519. To address the challenges identified, the following recommendations were made:

- In the real sector, Government should strengthen product diversification and explore new marketing opportunities, improve access to credit and accelerate the pace of infrastructure development.
- In the fiscal sector, the Government should strengthen tax administration, strengthen the expenditure rationalization process and streamline the procurement strategies, limit borrowing to ease the burden of interest payments and strengthen the wage reform policy aimed at rightsizing the public sector.
- in the monetary sector, the government should limit should limit the Central Bank Financing and strictly adhere to the 5% statutory limit as stipulated under the BSL Act, deepen the interbank market operations and ensure that all the commercial banks are adequately capitalized so that liquidity is not skewed to few banks.
- In the external sector, the Authorities should accelerate efforts to remove structural bottlenecks and facilitate diversification in favour of manufacturing.

in order to improve on the country's foreign exchange earning capacity and minimize the overreliance on the mineral enclave,

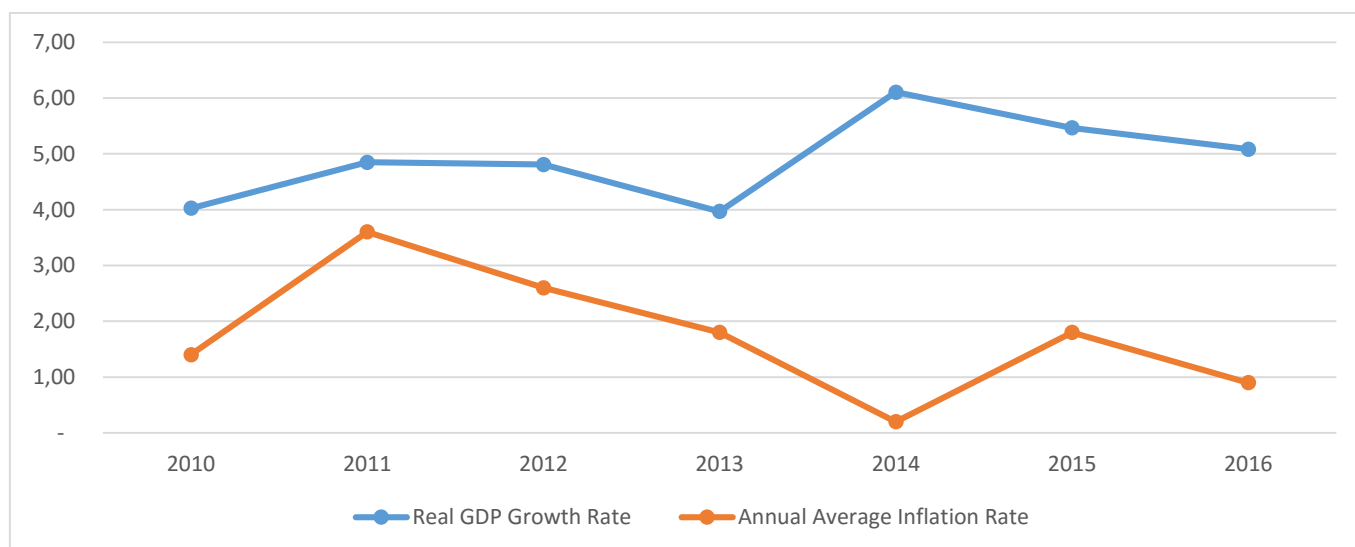
2.15 Economic and financial situation in Togo in 2016

520. Economic activity in 2016 took place within the context of further implementation of the strategy for accelerated growth and promotion of employment as well as implementation of support programmes and projects to the agricultural sector. GDP growth rate stood at 5.1% in 2016 against 5.5% in 2015.

2.15.1 Real Sector

521. From the supply side, growth of the real sector was accounted for by all sectors of the economy. The primary sector recovered from the decline in 2015, thanks to support measures by the Government, notably the timely supply of agricultural inputs and a good rainfall during the growing season. Its contribution to growth was 2.6 points. The tertiary sector was the second pillar of economic development. It contributed 1.3 percentage point, as a result of the good performance trade, transport and goods services. By contrast, the contribution of the secondary sector to growth was 1.1 percentage point, linked with the performance recorded in the manufacturing and mining, as well as the building and public works sectors.

Fig 2.15.1: Togo Real GDP Growth Rate and Inflation Rate



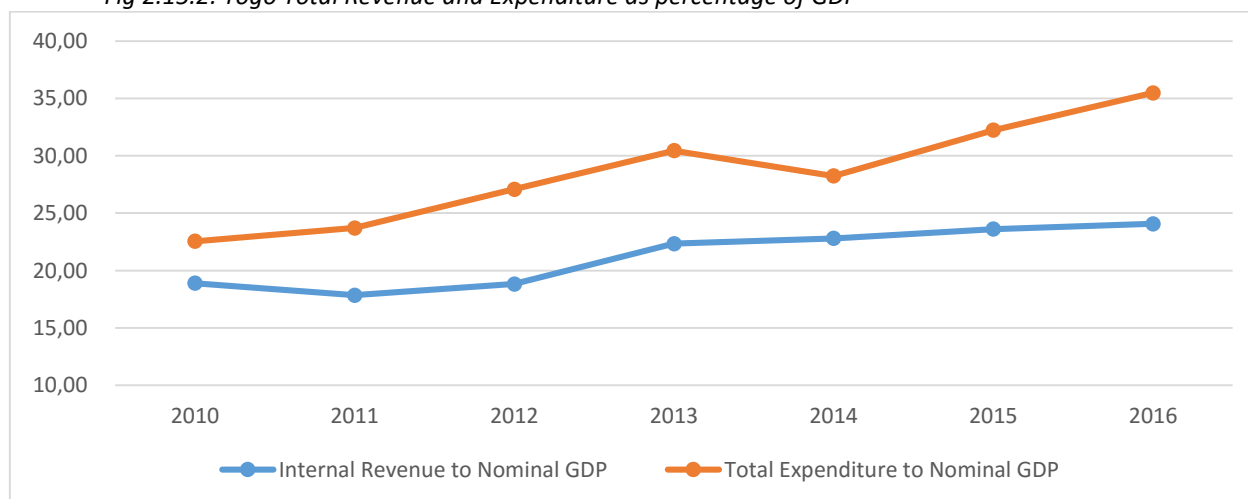
522. From the demand perspective, GDP growth rate of 5.1% was driven mainly by final public consumption and investment.

523. The general consumer price level rose less fast in 2016 than in 2015 because of an increase in food supply to the markets. The inflation rate measured by the harmonised consumer price index stood at 0.9% in 2016, compared to 1.8% in 2015.

2.15.2 Public Finance and Public Debt

524. The public finance situation was characterised by a 10.6% increase in total revenue and grants, which was less than the 16.9% increase in total expenditure and net lending. These developments gave rise to a worsening of the overall budget deficit which stood at 8.5% of GDP, compared to 6.3% in 2015.
525. Total revenue and grants stood at FCFA 695.02 billion (29.6% of GDP) in 2016, compared to FCFA 628.2 billion (27.0% of GDP) in 2015. This rise was due to an increase in both total revenue (8.5%) and grants (32.1%). Indeed, total tax revenue mobilised in 2016 stood at FCFA 568.5 billion (22.1% of GDP), compared with FCFA 516.3 billion (21.4% of GDP) in 2015, representing a 10.1% increase. Grants rose from FCFA 57.2 billion in 2015 to FCFA 75.6 billion in 2016.

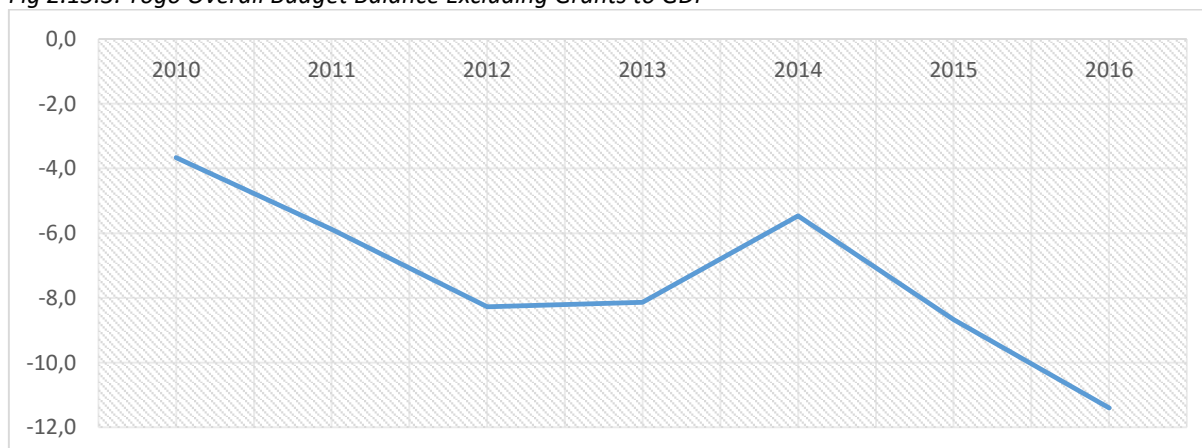
Fig 2.15.2: Togo Total Revenue and Expenditure as percentage of GDP



526. Total expenditure and net lending in 2016 increased by 16.9% to reach FCFA 912.7 billion (35.5% of GDP), against FCFA 780.6 billion (32.5% of GDP) in 2015. This increase was the combined effect of increases in recurrent expenditure (15.8%) and capital expenditure (19.7%).
527. The increase in recurrent expenditure was reflected essentially on the headings «other current expenditure» including the purchase of goods and services, servicing of loans and salaries. Indeed other recurrent expenditure increased by 26.7% while salaries shot up by 6.4%. It is noted that there were higher interest payments in 2015 and 2016 on the domestic debt which stood in 2015, at FCFA 11.7 billion, compared with FCFA 22.9 billion in 2016. The increase in interest payments was largely due to the adoption of pre-financing option for the construction of certain infrastructure, notably road in Togo during the past two years.
528. Capital expenditure stood at FCFA 332.4 billion in 2016, compared with FCFA 277.7 billion in the previous year, representing an increase, in absolute value, of FCFA 54.7 billion. The increase was as a result of investment expenditure financed from domestic

sources which rose from FCFA 139.2 billion in 2015 to FCFA 185.8 billion in 2016, representing an increase of 33.5%, as a result of the pre-financing scheme. Capital expenditure financed with external resources also increased, but at the slower rate of 5.8%.

Fig 2.15.3: Togo Overall Budget Balance Excluding Grants to GDP



529. Outstanding total public debt rose from FCFA 1,857.1 billion at the end of December 2015 to FCFA 2,042.7 billion at the end of December 2016, indicating an increase of 10.0%. The public debt in 2016 represented 79.4% of GDP.

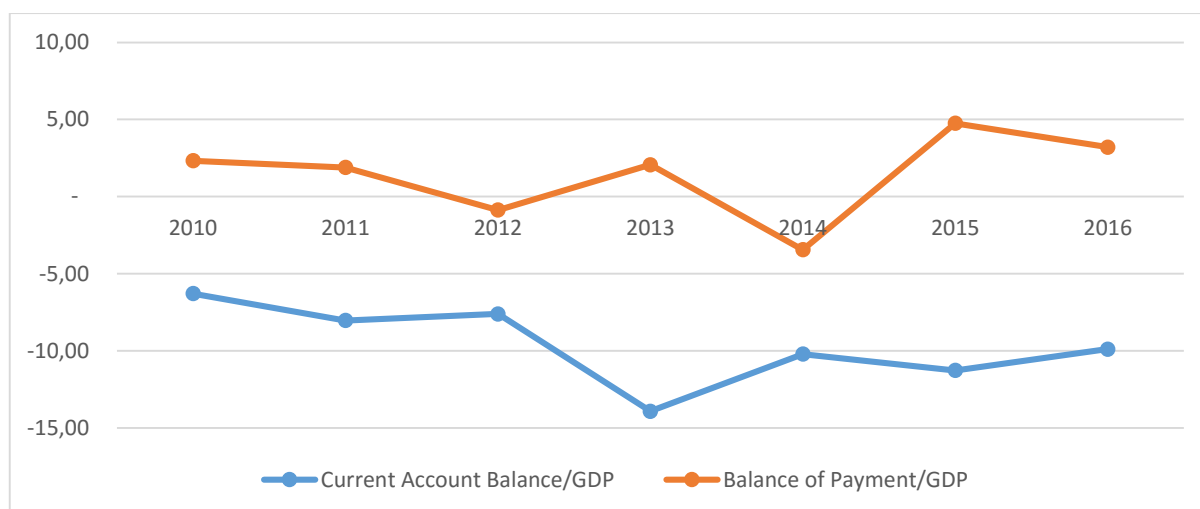
2.15.3 External Sector

530. External transactions of Togo with the rest of the world resulted in a surplus of the overall balance of payments of FCFA 82.5 billion, arising from a deficit of the current account of FCFA 254.7 billion, from a surplus of the capital account in the amount of FCFA 160.9 billion and a net liability of FCFA 176.3 billion on the financial account.

531. The current account deficit declined from FCFA 272.6 billion (11.3% of GDP) in 2015 to FCFA 254.7 billion (9.9% of GDP) in 2016, reflecting an improvement of FCFA 17.9 billion, mainly due to the reduction in the deficit of the balance of goods, improvements in the balance of services as well as the primary and secondary income accounts.

532. Deficit of the trade balance improved from FCFA 610.8 billion (25.3% of GDP) in 2015 to FCFA 602.4 billion (23.4% of GDP) in 2016, a decrease of 1.4% as a result of an increase in export by 13.4 billion (2.2%) which more than offset the increase in imports of FCFA 5.0 billion (0.4%).

Fig 2.15.4: Togo Current Account Balance and Overall Balance of Payment to GDP



533. The surplus of the balance of services increased by FCFA 2.9 billion (4.3%) mainly due to an increase in service supply. The balance of primary income rose by FCFA 1.1 billion to reach FCFA 84.3 billion in 2016, compared with FCFA 83.1 billion in 2015, linked mainly with the increase in net flow of workers' remunerations. The surplus of balance on secondary income stood at FCFA 192.7 billion in 2016, against FCFA 187.3 billion in 2015, representing an increase of 2.9%, following improvements in the transfer of funds by migrant workers.

2.15.4 Monetary Sector

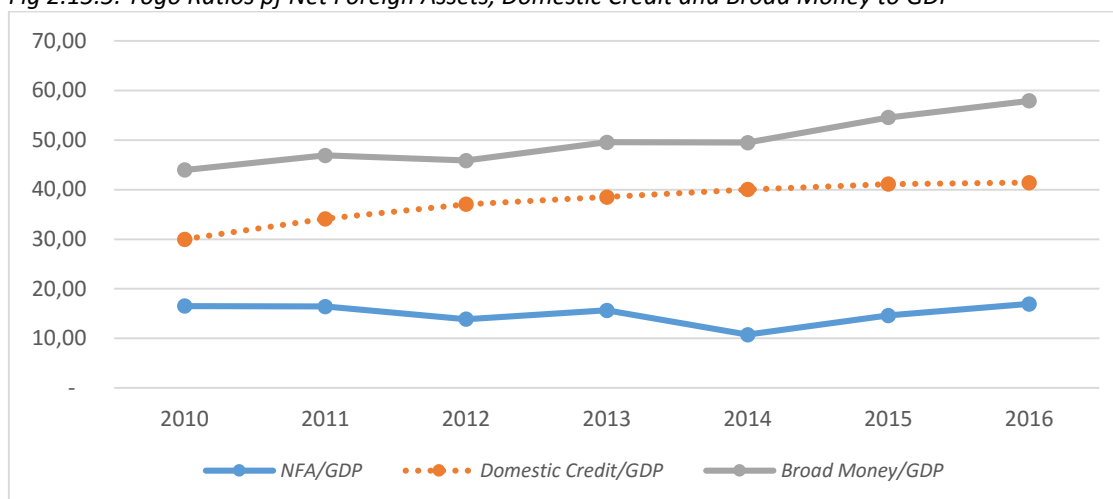
534. Regarding the monetary situation in 2016, net foreign assets rose by 23.3% and domestic credit by 7.2%. The money supply was therefore boosted by 12.9%.

535. The net foreign assets of the monetary institutions, as at the end of December 2016 stood at FCFA 436.4 billion compared to FCFA 353.9 billion in 2015, representing an increase of FCFA 82.5 billion, solely from commercial banks (74.2%), the central bank's net foreign assets having dropped by 42.6%. As a percentage of nominal GDP, net foreign assets stood at 16.2% in 2016, against 17.0% in 2015.

536. Outstanding total domestic credit as at end of December 2016 stood at FCFA 1,065.8 billion, reflecting an increase of FCFA 71.4 billion, compared to the FCFA 994.4 billion recorded in 2015. This increase is attributed to an increase of 16.7% of credit to the economy caused by an upsurge of 70.3% in net Government position. Indeed, private sector credits stood at FCFA 1,033.5 billion (40.2% of GDP) in 2016, against FCFA 886.0 billion (36.6% of GDP) in 2015. Net claims on government stood at FCFA 32.2 billion in 2016 against FCFA 108.4 billion in 2015 as a result, among other things, of an increase in government deposits in banks as well as increased deposits of government with the central bank. Regarding credit flow, credits to the private sector were mainly distributed to various economic sectors such as «electricity, gas and water », wholesale

and retail trading, restaurants and hotels» as well as services provided by communities, social and personal services».

Fig 2.15.5: Togo Ratios of Net Foreign Assets, Domestic Credit and Broad Money to GDP



537. Growth in money supply reflected developments in its components, and recorded an increase of 12.9%, standing at FCFA 1,489.4 billion, representing 57.9% of GDP, against 54.6% of GDP in 2015. This increase was mainly characterized by a 15.5% rise (FCFA 164.5 billion) in bank deposits and 2.0% increase (FCFA 4.7 billion) in currency in circulation.

2.15.5 Macroeconomic Convergence in 2016

538. Togo met four (4) convergence criteria in 2016 as in 2015. The criteria on budget deficit and public debt were not met in 2016.

539. The table below presents Togo's convergence situation:

Convergence Criteria	Standard	2012	2013	2014	2015	2016	Remark
Primary Criteria							
Ratio of Budget Deficit to Nominal GDP	Lower than or Equal to 3%	- 5.8	- 4.6	- 3.4	- 6.30	- 8.5	Not Achieved
Annual Average Inflation rate	≤10% with objective of ≤5% in 2019	2.6	1.8	0.20	1.8	0.90	Achieved
Central Bank Financing of Budget Deficit	≤ 10% of previous years tax revenue	0.00	0.00	0.00	0.00	0.00	Achieved
Gross external Reserve	≥ 3 months	5.3	4.7	5	5	4.4	Achieved
Secondary Criteria							
Ratio of total public debt to GDP	≤70%	44.0	45.3	66.9	76.8	79.40	Not Achieved
Nominal Exchange rate variation	± 10%	- 4.8	4.1	0.1	- 9.3	0.50	¹⁴³ Achieved
Number of Criteria Respected		5	4	5	4	4	

2.15.6 Conclusion and Recommendations

540. During the year, Togo's economy maintained the same growth trajectories by recording a growth rate of 5.1%, following the 2014 and 2015 rates of 6.1% and 5.5% respectively. Concerning public finance, it should be pointed out that the country made considerable progress in tax revenue mobilisation efforts to enable it attain a tax/GDP ratio of 22%. By contrast, expenditure recorded a more than proportional increase in resulting in a higher deficit in relation to GDP compared to 2015.
541. To strengthen the country's macro-economic stability and performance regarding the convergence criteria, the following recommendations are made for the attention of the authorities:
- Pursuit of efforts for increased mobilisation of revenue and management of expenditure; ;
 - Ensure a strong monitoring of the debt position;
 - Sustain the improvement of the business environment and economic governance;
 - Continue the implementation of its programme with the IMF.

II. MACROECONOMIC CONVERGENCE OF ECOWAS MEMBER STATES IN 2016

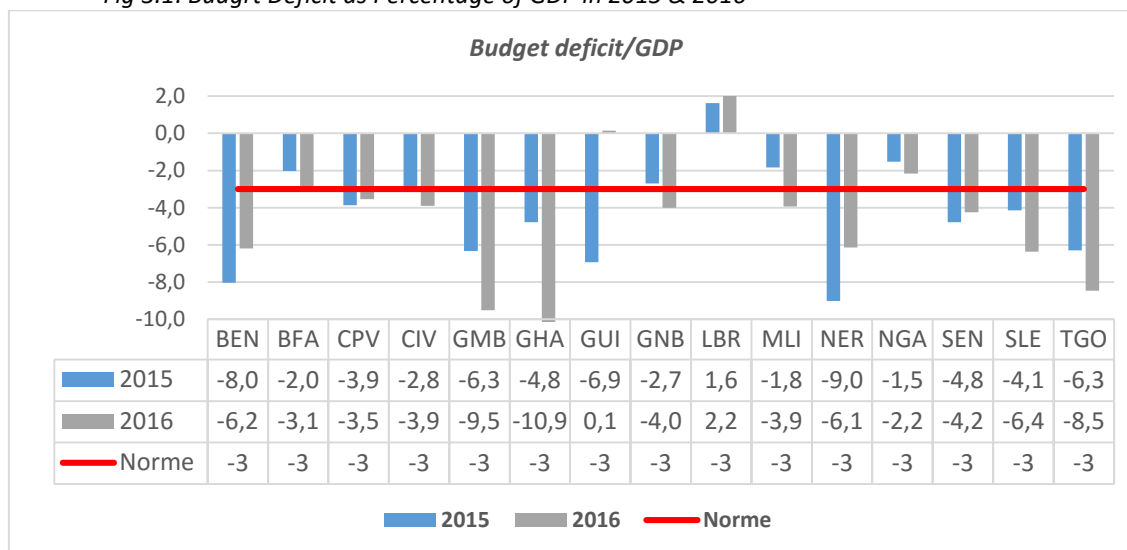
542. Member States continue to ensure that they meet the convergence criteria by implementing policies and programmes and/or measures. However, the results have not always yielded the much desired expectations as a result of internal and external shocks facing these countries over which they do not have much control.
543. The assessment of country performance under macroeconomic convergence is based on the current criteria, notably on the criteria adopted by the Authority of Heads of State and Government by virtue of Supplementary Act A/SA.01/12/15 of 16 December 2015 amending Supplementary Act A/SA.4/06/02 of 29 June 2012 on the Macroeconomic Convergence and Stability Pact between ECOWAS Member States.
544. The summary of the performance of Member States for each of the convergence criteria for 2015 and 2016 is presented as follows:

III.1 Primary criteria

- ***Ratio of Budget deficit (including grants) to GDP ($\leq 3\%$)***

545. In 2016, Member States' performance under this criterion worsened when compared with the performance in 2015. Only three (3) Member States, as opposed to six (6) in 2015, recorded an overall deficit below 3% of nominal GDP. This situation is explained mainly by a more than proportionate increase in expenditure compared to total revenue, which in some countries was as much as double, and a drop in grant receipts.
546. In 2016, eight (8) Member States, namely Burkina Faso, Côte d'Ivoire, Gambia, Ghana, Guinea Bissau, Mali, Nigeria, Sierra Leone and Togo recorded a deterioration of the deficit in relation to 2015. In the case of Côte d'Ivoire, Mali and Togo, the more than proportionate increase in total expenditure and net lending was caused by an increase in investment spending financed from domestic sources. In the case of Ghana, Sierra Leone and The Gambia, increase was spurred by increased purchases of goods and services while for Nigeria and Guinea Bissau, the rise of the deficit was attributed to a decline in total revenue and grants.
547. The performance of the individual Member States in relation to this criterion depicted below:

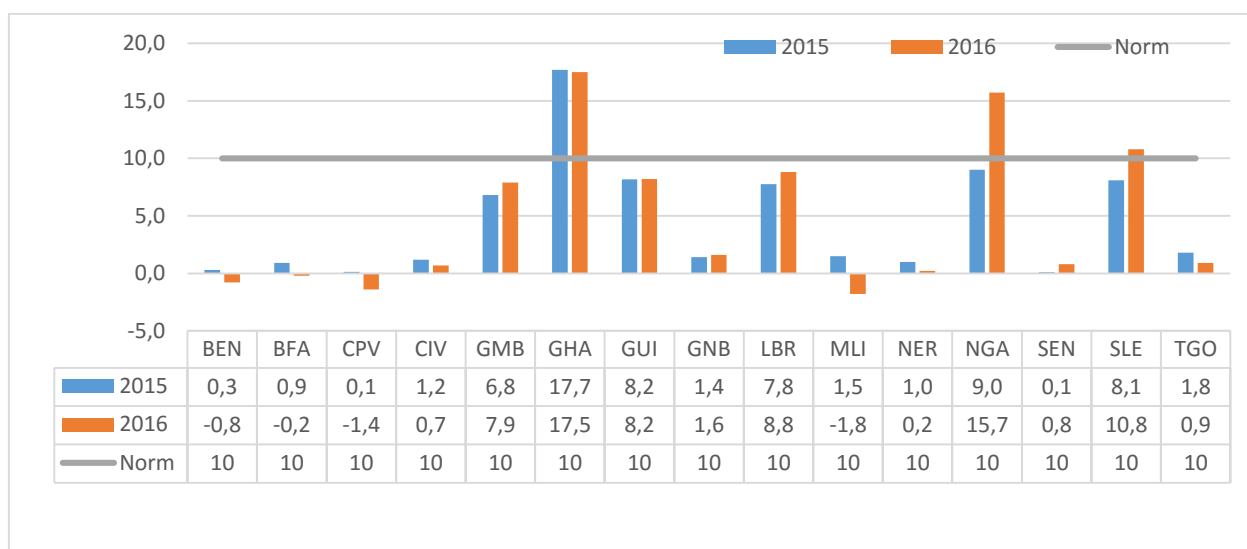
Fig 3.1: Budget Deficit as Percentage of GDP in 2015 & 2016



- **Annual average inflation rate ($\leq 10\%$)**

548. Analysis of the the overall performance in the ECOWAS region showed that fewer countries met the Community target of 10% in 2016 than in 2015. In fact, twelve (12) countries, as opposed to fourteen (14), met the target in 2016. In 2015, only Ghana recorded an inflation rate of exceeding 10%. However, in 2016, in addition to Ghana, Sierra Leone and Nigeria also witnessed high inflationary pressures, they recorded inflation rates that exceeded 10%, Sierra Leone reaching 10.8% and Nigeria recorded 15.7%. The increase in the general level of prices the two countries could be explained by the depreciation of their currencies in 2016.
549. Apart from the three (3) afore-mentioned Member States, the inflation rates recorded in the other three WAMZ Member States were above 5%: The Gambia (7.9% compared with 6.8% in 2015), Guinea (8.2% in both 2015 and 2016), and Liberia (8.8% compared with 7.8% in 2015). In the UEMOA countries, inflation ranged between -1.8% (Mali) and 1.6% (Guinea Bissau).
550. The chart below shows the inflation development of ECOWAS Member States in 2015 and 2016.

Fig 3.2: Annual Average Inflation rates of ECOWAS Member States in 2015 and 2016



- **Central Bank financing of the budget deficit**

551. The criterion of central bank financing of the budget deficit to a maximum of 10% of the previous year's tax revenue was met by thirteen (13) countries in 2016, compared to twelve (12) in 2015. Indeed, in 2016, only the Gambia (33.1%) and Sierra Leone (33.1%) borrowed from the central bank to finance their budget deficit more than the Community target of 10%.

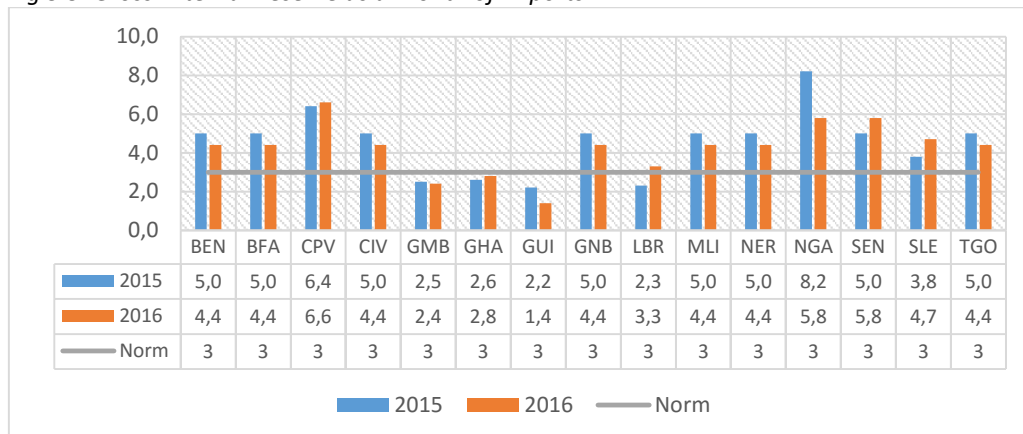
- **Gross external reserves (≥ 3 months of imports)**

552. In 2016, the gross external reserves of twelve Member States covered at least three months of their imports, as in 2015. The three countries whose reserves fell short of the three months of imports were The Gambia (2.4 months), Ghana (2.8 months) and Guinea (1.4 months).

553. For both 2016 and 2015, Nigeria (5.8 months) and Cabo Verde (6.6 months) had the largest coverage. For the UEMOA countries, gross external reserves at the end of 2016 covered 4.4 months of imports, compared with 5.0 months in 2015.

554. The chart below shows the countries in relation to their foreign exchange reserves in months of imports for the years 2015 and 2016.

Fig 3.3: Gross External Reserve as a Month of Imports

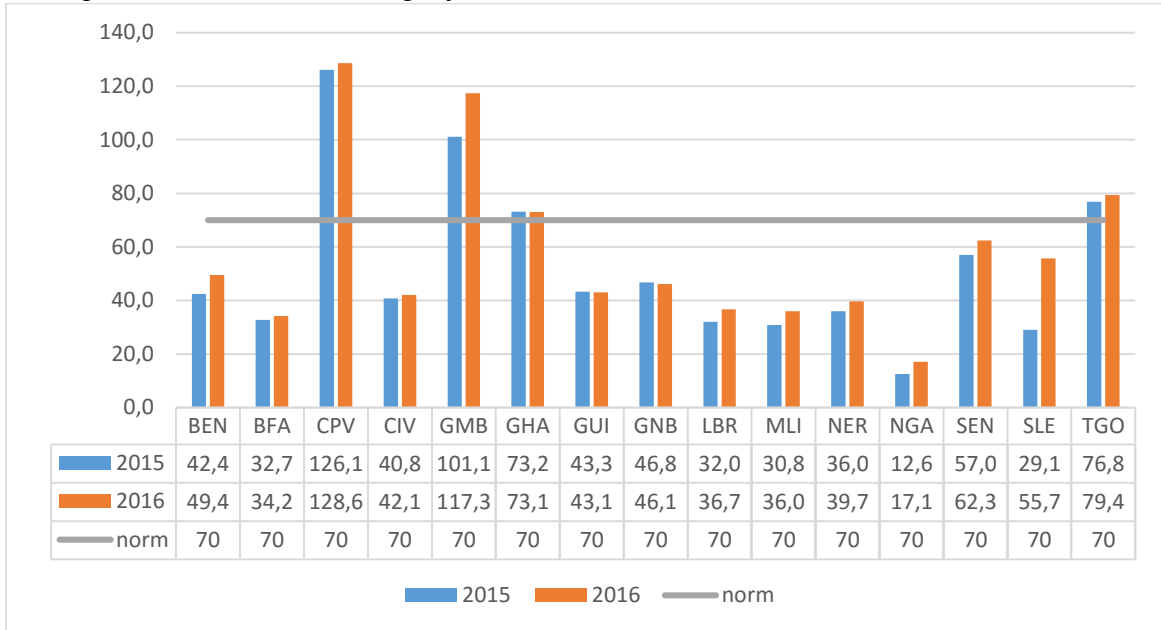


III.2 Secondary criteria

- **Debt-to-GDP ratio ($\leq 70\%$)**

555. With respect to the public's indebtedness, the chart below shows that the debt stock of nearly all the Member States increased compared to 2015. Four (4) Member States that recorded a debt ratio above 70% in 2015 as well as 2016 were as follows: Cabo Verde (128.6% compared with 121.2% in 2015), The Gambia (117.3%, compared with 101.1% in 2015), Ghana (73.1%, compared with 73.2% in 2015) and Togo (79.4%, compared with 76.8% in 2015).
556. The public debt situation of Member States as a percentage of nominal GDP in 2015 and 2016 is presented below:

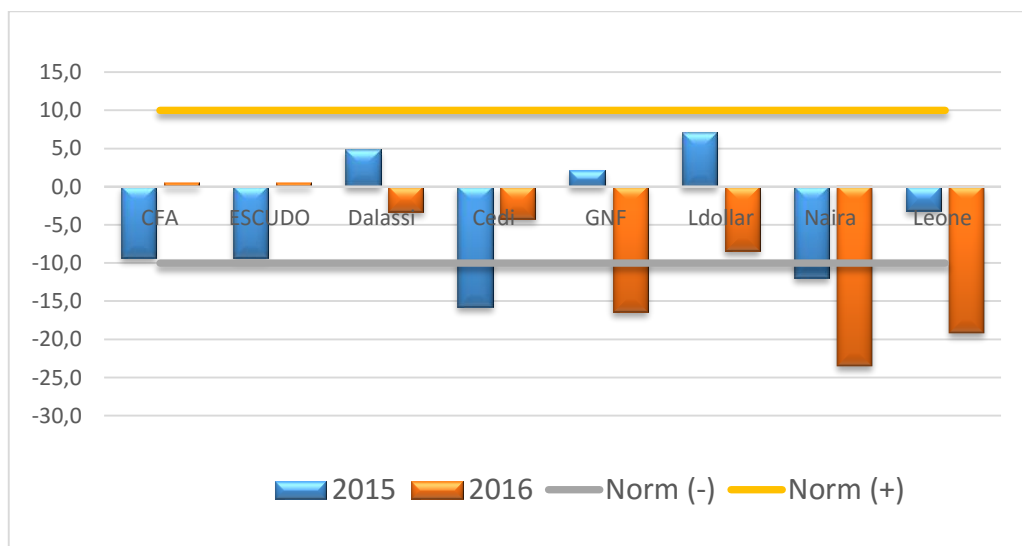
Fig 3.4: Public Debt as Percentage of GDP in 2015 and 2016



• **Nominal exchange rate variation ($\pm 10\%$)**

557. The nominal exchange rate variation for three currencies in relation to the WAUA experienced an average variation outside the $\pm 10\%$ band. The currencies in question are Guinea franc, Naira and Leone which depreciated on average by 16.4%, 23.5% and 19.1% respectively.
558. The nominal exchange rate variation for national currencies in relation to the WAUA in 2015 and 2016 is presented as follows:

Fig 3.5: Variation in Nominal Exchange Rate in 2015 and 2016



Status of convergence in 2015 and 2016

	Primary Criteria								Secondary Criteria				Number of criteria met by the country		Growth rate	
	Ratio of Budget Deficit to Nominal GDP equal or lower than 3%		Annual Average Inflation rate equal or lower than 10%		Financing of Budget Deficit lower than 10% of previous years tax revenue		Gross external Reserve equal or higher than 3 months of imports		Nominal Exchange rate variation: +/- 10%		Ratio of total public debt to GDP equal or lower than 70%					
	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016
Benin	-8,0	-6,2	0,3	-0,8	0,0	0,0	5,0	4,4	-9,3	0,5	42,4	49,4	5	5	2,1	4,0
Burkina Faso	-2,0	-3,1	0,9	-0,2	0,0	0,0	5,0	4,4	-9,3	0,5	32,7	34,2	6	5	4,0	5,9
Cabo Verde	-3,9	-3,5	0,1	-1,4	0,0	0,0	6,4	6,6	-9,3	0,5	126,1	128,6	4	4	1,1	3,9
Côte d'Ivoire	-2,8	-3,9	1,2	0,7	0,0	0,0	5,0	4,4	-9,3	0,5	40,8	42,1	6	5	9,2	8,8
The Gambia	-6,3	-9,5	6,8	7,9	41,5	33,1	2,5	2,4	4,9	-3,3	101,1	117,3	2	2	4,3	2,2
Ghana	-4,8	-10,9	17,2	17,5	4,1	0,0	2,6	2,8	-15,7	-4,2	73,2	73,1	1	2	3,8	3,5
Guinea	-6,9	0,1	8,2	8,2	25,6	1,3	2,2	1,4	2,2	-16,4	43,3	43,1	3	4	4,5	5,2
Guinea Bissau	-2,7	-4,0	1,4	1,6	0,0	0,0	5,0	4,4	-9,3	0,5	46,8	46,1	6	5	5,1	6,1
Liberia	1,6	2,2	7,8	8,8	0,0	0,0	2,3	3,3	7,2	-8,4	32,0	36,7	5	6	0,0	-0,5
Mali	-1,8	-3,9	1,5	-1,8	0,0	0,0	5,0	4,4	-9,3	0,5	30,8	36,0	6	5	6,0	5,4
Niger	-9,0	-6,1	1,0	0,2	0,0	0,0	5,0	4,4	-9,3	0,5	36,0	39,7	5	5	4,0	5,0
Nigeria	-1,5	-2,2	9,0	15,7	13,1	0,0	8,2	5,8	-11,9	-23,5	12,6	17,1	4	4	2,8	-1,6
Senegal	-4,8	-4,2	0,1	0,8	0,0	0,0	5,0	4,4	-9,3	0,5	57,0	62,3	5	5	6,5	6,7
Sierra Leone	-4,1	-6,4	8,1	10,8	-0,7	33,1	3,8	4,7	-3,1	-19,1	29,1	55,7	5	2	-21,1	5,2
Togo	-6,3	-8,5	1,8	0,9	0,0	0,0	5,0	4,4	-9,3	0,5	76,8	79,4	4	4	5,5	5,1
Number of countries that met the criterion	6	3	14	12	12	13	11	12	13	12	11	11				

III. POLICY HARMONISATION AND INSTITUTIONAL ARRANGEMENTS

IV.1 Ratification of Protocols, Conventions and Supplementary Acts

559. Several legal instruments have been adopted by the Authority of Heads of State and Government of the Community within the framework of the ECOWAS regional integration programme. These legal instruments principally consist of Protocols and Conventions which provide the bedrock of the legal framework for the operations of the various ECOWAS institutions and regional programmes as well as regulating the relationship between the institutions and Member States on one hand, and among the Member States on the other.
560. As at 1st November 2016, 54 Protocols and Conventions had been adopted and signed by the Authority of Heads of State and Government. However, the number of these legal instruments ratified by each Member State varied as shown in the table below.

Number of Protocols and Conventions signed as from 1978 to 31st December 2016 = 54

Countries	Number of Protocols and Conventions Ratified	Number of Protocols and Conventions not Ratified
Liberia	54	0
Burkina Faso	52	2
Niger	48	6
Ghana	44	10
The Gambia	44	10
Togo	43	11
Mali	43	11
Senegal	43	11
Sierra Leone	42	13
Nigeria	41	13
Benin	38	16
Guinea	37	17
Guinea Bissau	34	20
Cote d'Ivoire	31	23
Cape Verde	26	28

561. As at end-December 2016, Liberia had ratified all the 54 ECOWAS protocols, from the 25 ratified as at end December 2015. Followed by Burkina Faso that had ratified 52 out of the 54 Protocols and Conventions signed; while Niger Republic had ratified 48. Two countries, Republic of Ghana and Republic of The Gambia had ratified 44; three countries, Republic of Togo, Republic of Mali and Republic of Senegal had ratified 43

protocols and conventions; Republic of Sierra Leone, Republic of Nigeria had ratified 42 and 41 protocols and conventions respectively while Bénin, Guinea, Guinea Bissau, Côte d'Ivoire, Cabo Verde and Liberia had ratified 38, 37, 34, 31, 26 et 24 protocols and conventions respectively.

IV.2 National Coordination Committees (NCCs)

562. One of the most important organ of the Multilateral Surveillance mechanism is the National Coordination Committees. The organ is responsible for the collection, processing and analysis of data on the economic and financial situation of each Member States. The Committees responsibilities also include, among others, management of the multilateral surveillance database (ECOMAC), preparation of periodic reports on economic performance, monitoring economic policy and assessing their impact at the economic and financial levels. As at end-December 2016, all the fourteen Member States, except Cabo Verde, had effectively established NCCs which were operational. During the year, the Commission continued engagements and consultations with the authorities of Cabo Verde in relation to the establishment of the country's NCC.
563. In 2016, the ECOWAS Commission organised the regional meeting of the NCCs from 18 to 22 July 2016 in Ouagadougou, Burkina Faso. The regional meeting provided a platform for peer review of macroeconomic performance and status of macroeconomic convergence of the Member States based on the country economic and financial reports submitted by the NCCs.

IV.3 Conduct of Joint Multilateral Surveillance Missions

564. ECOWAS Commission in collaboration with the WAMA and WAMI carried out bi-annual joint surveillance missions to Member states. The missions assessed the recent macroeconomic developments and the status of macroeconomic convergence in Member States. The mission also reviewed programmes and projets related to policy harmonization and institutional frameworks that are necessary for the realisation of the ECOWAS monetary and economic union. Against this backdrop, the Commission visited all the Non-UEMOA Member States as well as Burkina Faso and Senegal to secure first hand assessments from BCEAO and UEMOA Commission.

IV.4 ECOWAS Common External Tariff (CET)

565. As at 31 December 2016, ten Member States would have started CET implementation, eight Member States (Benin, Burkina Faso, Cote d'Ivoire, Mali, Niger, Nigeria, Senegal and Togo) started implementation in 2015 while Ghana commenced on 1st February 2016. The last Member State to implement this Community instrument is Guinea Bissau which officially launched the CET on 24 October 2016. However, Sierra Leone is at its final stage of preparation and expected to commence implementation at the earliest possible date.

566. The Commission, has fielded monitoring and evaluation and support missions to all Member States to observe CET implementation at first-hand and make specific recommendations. The Member States who are behind schedule are committed to take all necessary measures to ensure speedy implementation of the CET in their respective countries.
567. The non-implementation of the ECOWAS CET by some Member States may adversely affect the establishment of the ECOWAS Customs Union. Thus, the ECOWAS Commission undertook several political and technical activities to assist the remaining Member States.

IV.5 ECOWAS Trade Liberalisation Scheme (ETLS)

568. With regard to the ECOWAS Trade Liberalisation Scheme (ETLS), During the year, approval applications were submitted by eleven of the fifteen Member States, namely Benin, Burkina Faso, Cote d'Ivoire, Ghana, Guinea, Guinea Bissau, Mali, Nigeria, Senegal, Sierra Leone and Togo. This bears evidence to the growing interest of companies for the ECOWAS sub-regional market. All in all, 90 companies and 273 industrial products were approved and notifications issued to the 15 ECOWAS Member States.
569. At the request of Member States, the ECOWAS Commission organised the 4th Annual Meeting of National Approval Committees in November 2016 to review and update the ETLS Protocol. The ultimate goal of the review was the unification of ECOWAS and UEMOA texts. A first version of the text was adopted at that meeting. The ECOWAS Commission has prepared a report on the text for submission to the forthcoming meeting of the Technical Committee on Trade, Customs and Free Movement for validation.
570. In order to improve the trade environment in the region and encourage Member States to implement the Protocols and Regulations on the ECOWAS Trade Liberalisation Scheme a Task Force on free movement of goods within ECOWAS was established. The Task Force chaired by Lt. General Salou Djibo, former Head of State of Niger and Chairman of the Salou Djibo Foundation (Fonsad) was officially inaugurated by the President of Burkina Faso in Ouagadougou on 20 May 2016.

IV.6 Harmonisation of Indirect Domestic Tax and Fiscal Transition

571. With regard to the harmonization of indirect domestic tax and fiscal transition, the ECOWAS Commission conducted a mission to Liberia in February 2016 to assess the status of preparations for the introduction of VAT in line with Directive C/DIR1./05/09. The mission held discussions with the relevant national authorities and identified a number of challenges, after which recommendations on the way forward were made.

572. In the area of capacity building for tax authorities and implementation of the priority activities of the ECOWAS fiscal transition programme, the Commission held training sessions for experts from ECOWAS and Member States on specific areas of domestic taxation. Thus, a training was organized with the support of the firm PricewaterhouseCoopers on modelling of tax revenue forecasts. Training on auditing telecom, mining and petroleum companies, bank and insurance firms was provided to experts from Member States.

IV.7 ECOWAS Single Currency Programme

573. During the review period some progress have been recorded with the implementation of the Single Currency road map activities and projects. With regard to harmonization of monetary policy frameworks, a diagnostic study on 'Mechanism for Transition to Inflation Targeting Lite as a Common Monetary Policy Framework in ECOWAS'. The study has been forwarded to the Central Banks for comments. Also, a comparative study has ready been concluded on harmonization of regulations governing current and capital account transactions within and outside of ecowas. The study has been validated and an implementation road drawn.

574. Other areas where progress were made in 2016 included the harmonization of regulatory and supervisory frameworks of banks and non-bank financial institutions in ecowas and harmonization and adoption of regional accounting and financial reporting frameworks of banks and non-bank financial institutions.

575. In the areas of harmonization of balance of payments statistics, the Commission and WAMA have preparation of the methodological guide for compiling balance of payments statistics in ECOWAS Member countries and trained Member States. A Guide for compilation of regional BOP and IIP, along with an action plan to ensure the migration to BPM6 by all Member States finalized.

576. Significant progress have also been made in harmonization of exchange rate regimes and exchange rate mechanism in ECOWAS, a common framework for determining exchange rates will soon be launch in the region. The regional payment system has already commenced in most Member States and common regulations governing payments systems in ecowas has been drafted.

CONCLUSION

577. The Global economy in 2016 was characterized by the sluggish recovery of commodity prices, deep uncertainty arising from BREXIT (the decision by the United Kingdom to leave the European Union), and pursuit of accommodative monetary policies by central banks of major advanced countries and developments in China. Under these influences, the growth in world output recorded a slight decline from 3.2 percent in 2015 to 3.1 percent in 2016. World inflation remained at 2.8 percent, as in 2015, on account of the slowdown in economic activities, modest increases in incomes and depressed international prices of raw materials.
578. Economies of ECOWAS Member States were not completely insulated from the adverse effects of developments in the global economies, even though in general the performance was encouraging. Growth rates within the region varied from -1.5 percent to 8.8 percent. While nine countries recorded growth rates slightly higher than that recorded in 2015, four recorded positive but slower growth and two saw negative growth rates.
579. Inflationary pressures appeared relatively subdued in most economies during the review period. Even in countries where the rate of inflation remained high, such as in Ghana (17.2 percent in 2015 compared to 17.5 percent in 2016). Inflation rates (annual average) in the region varied from -2.4 percent to 17.5 percent.
580. Government fiscal operations remain the Achilles heels of most countries in the region as relatively large budget deficits were recorded in 2016, albeit on a declining trend. Excluding grants, the budgets of all Member States, except Liberia, recorded deficits, with the magnitude of the deficits in relative terms varying from 1.1 percent of GDP (Guinea) to 12.2 percent of GDP (Togo). Including grants, however, two countries (Guinea and Liberia) recorded surpluses.
581. With respect to resource mobilization, the performance of the countries as a whole did not much compared to the previous year, with domestic resources being the main source of government revenue, accounting for more than 90 percent. In terms of GDP, however, most countries' revenue fell below 20 percent. As in 2015, only five countries had the total revenue to GDP ratio exceeding this benchmark.
582. Most countries appear to have been cautious with public spending in 2016. Measured in relation to GDP, government expenditure including net lending rose slightly in six countries, dropped in seven countries and remained same in two countries. The ratio varied between 5.0 percent and 35.5 percent of GDP.
583. The stock of public debt saw appreciable increase in most countries of the region. Expressed as a percentage of GDP, the public debt varied between 17.1 percent

(Nigeria) and 128.6 percent (Cabo Verde), with the ratio falling below the 70 percent regional threshold in most (11) countries.

584. The volatility of the external sector continued to exert influence on the economies of the region. In particular, the fallen international prices of most commodities from the region affected the trade balance, and consequently, the current account of commodity exporting countries. Apart from Guinea Bissau and Nigeria, the current account of most of the countries in the region remained in deficit, varying from 1.8 percent of GDP (Cote d'Ivoire) to 32.8 percent of GDP (Guinea).
585. Regarding the overall balance of payments, there was a slight improvement in 2016. Whereas six countries recorded deficits in the overall balance of payments, seven recorded surpluses while two recorded zero balances. The deficits varied from 0.3 percent of GDP (Niger) to 8.7 percent of GDP (Liberia), while the surplus varied between 0.1 percent (Ghana) and 5.6 percent (Cabo Verde).
586. Most currencies in the region enjoyed a greater degree of stability in 2016 than in the previous year, with most variations falling within the plus or minus 10 percent band. Three currencies (Guinean Franc, Naira, Leone), however, had variations exceeding this band. Apart from the CFA Franc and ESCUDO which appreciated (by 0.5 percent), all the other currencies depreciated against WAUA, with the depreciation varying between 3.3 percent (Dalasi) and 23.5 percent (Naira).
587. Monetary authorities in the region continued to take tight monetary policy stance in an effort to curtail fully inflationary pressures. Consequently, money supply witnessed only modest growth. As a ratio of GDP money supply fell between 23.4 percent (Nigeria) and 102.2 percent (Cabo Verde). Mirroring the money supply growth Net Foreign Assets of most countries underwent sluggish growth. In relative terms NFA varied between 2.7 percent of GDP (Mali) and 36.2 percent of GDP (Cabo Verde). Similarly credit expansion was quite modest, increasing less than 4 percentage points in most countries.
588. Concerning the status of macroeconomic convergence, one country met all the criteria in 2016, but no one criterion was met by all the countries. In a dynamic sense, that from year to year, most countries were inconsistent.
589. In the area of policy harmonization and institutional arrangements little progress was made in the ratification of protocols and conventions. Of the 54 existing protocols and conventions, only one country had ratified more than 50 as at 1er November 2016. The Commission has also pursued its efforts for the operationalisation of the National Coordinating Committees, which are the main stakeholders of the multilateral surveillance mechanism through the disbursement of the operating grant and the capacity building of their members.

