ASSOCIATION DES BANQUES CENTRALES AFRICAINES
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SECRETARIAT PERMANENT / EXECUTIVE SECRETARIAT

SUMMARY PROGRESS REPORT ON THE IMPLEMENTATION OF THE AFRICAN MONETARY COOPERATION PROGRAMME IN 2009

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ADDRESS BY THE AACB CHAIRMAN

The Assembly of Governors of the Association of African Central Banks (AACB), adopted the African Monetary Cooperation Programme (AMCP) at its 26th ordinary meeting held in Algiers on 4 September 2002. This programme, in line with African leaders' vision of stronger economic integration, aims at creating one currency and one Central Bank for Africa by 2021, after a successful convergence process. For Africa to achieve monetary union, the AMCP requires that at least 51% of AACB Member States meet the four primary convergence criteria.

The 2009 report, that I am pleased and honoured to present, is the sixth assessment of AMCP implementation. The report holds particular interest because it reviews year one of the third of the six stages of the AMCP. This third stage is characterized by tighter convergence criteria.

The analysis of Member States' performances shows that convergence criteria are still on the deteriorating trend first seen in 2008. This poor showing comes mainly from the international environment, which took a downward course in 2009 as recession began to hit most of the advanced economies. But it also reflects the measures some African States have taken to mitigate the effects of the international economic crisis on their economies. In the light of this situation, AACB Member States need to step up their reforms, especially at a time when they are entering a new stage of convergence.

Despite difficulties still lying ahead due to the vulnerability of the continent's economies to external shocks, there are reasons to hope that Africa will institute a single currency in the set time period. These reasons relate to the resilience of many African economies during the recent international economic crisis, that mirrors the positive showing in the continent's average growth rate in 2009. They lie also in the manifest will of African States to carry on reforms for stronger economies and sustained economic growth.

In short, the drop in African States' performances against convergence indicators in 2009 ought not to undermine their commitment to establishing a single African currency. Some tangible elements such as the consensus on the advantages of integration and the progressive ownership of requisite economic reforms in African States show that the goal of having one currency can be achieved.

It is in this respect that I wish to share my deep conviction that, though our task proves tedious and our path seems to have no end to it, AACB will meet its goals and Africa will fulfill its aspiration to unity as well as to financial, and monetary integration.

Philippe-Henri DACOURY-TABLEY
Chairman of the AACB
Governor of the Banque Centrale
des Etats de l'Afrique de l'Ouest

PRESENTATION OF THE ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

The creation of the Association of African Central Banks (AACB) follows the decision by the Heads of State and Government of the Organization of African Unity (OAU) held on May, 25, 1963 in Addis Ababa, Ethiopia, for the establishment of an Economic Preparatory Committee. This Committee was to study a series of monetary and financial issues, in collaboration with Governments and in consultation with the United Nations Economic Commission for Africa (ECA).

The first meeting of the AACB's Assembly of Governors was held in Addis Ababa from 15 to 22 February 1965, primarily to discuss a mechanism for cooperation and related organs. Since that date, the Association has organized 34 ordinary meetings, in addition to extraordinary ones.

The objectives of the Association, at the end of Article 2 of its statutes, are :

- to promote co-operation in the monetary, banking and financial spheres in the African region ;
- to assist in the formulation of guidelines along which agreements among African countries in the monetary, banking and financial fields shall be reached ;
- to help strengthening all efforts aimed at bringing about and maintaining price stability and financial stability in the African region ;
- to examine the effectiveness of international economic

and financial institutions in which African countries have an interest and suggest ways of possible improvement ;

• to envisage, following a well-timed and sequenced convergence process, the advent of a single currency and a common central bank in Africa.

With respect to the objective of creating the single currency, the Association adopted in Septembler 4, 2002 in Algiers, the African Monetary Cooperation Program (AMCP). This program provides for the advent of the single currency in 2021. However, following consultations, the Assembly of Governors decided in its meeting held on August 15, 2007 in Tripoli, Libya, to form with the African Union Commission (AUC), a joint committee to develop a common strategy for the creation of the African Central Bank (ACB). The terms of reference of this strategy were defined in 2008. Further at the end of its 34th meeting held on August 20, 2010 in Dakar, Senegal the Assembly decided that the strategy shall be crafted by a Study Group made up of representatives of the AUC and those of the AACB.

Organizationnally, the Article 5 of the Statutes of the Association establishes the following bodies :

• Assembly of Governors, the governing body, made up of all Governors of the Central Banks of the ABCA;

• Bureau composed of the Chairperson and the Vice-Chairperson of the Association, and the Chairpersons of sub-regional Committees ;

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1 - North Africa, West Africa, Central Africa, Southern Africa and East Africa.

• Sub-regional Committees composed of Governors of Central Banks of the five (5) sub-regions[1].

The Assembly of Governors[2], and sub-regional Committees meet at least once a year in ordinary or special meetings. As for the Bureau, it meets in ordinary meeting at least twice a year. The organization of the meetings of sub-regional committees is left to the initiative of their members.

In addition to the various organs of the AACB, the Governors decided at the end of their 25th ordinary meeting held on August 16, 2001 in Johannesburg, South Africa, to create a structure to be assigned with the Association meetings Secretariat and any other functions as the Assembly of Governors might decide. The Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) has been designated to host permanently, at its headquarters in Dakar, this Secretariat.

2 - The next (35th) Ordinary Meeting of the Assembly of Governors will be hosted in August 2011 by the Reserve Bank of Malawi.

SUMMARY PROGRESS REPORT ON THE IMPLEMENTATION OF THE AFRICAN MONETARY COOPERATION PROGRAMME (AMCP)[1] IN 2009

I – International economic environment

The year 2009 presented a gloomy economic outlook at the global level. The international financial crisis worsened, with devastating consequences for the real sector. Indeed, the financial market turbulence that rocked the United States of America and Europe severely affected conditions for financing the economy, pulling down demand and ushering recession into several OECD[2] Member States. Hence, even though some signs of recovery were seen by the end of the year, economic performance in the major groups of countries remained lower, in the period under review, than it had been the previous year. The International Monetary Fund (IMF)[3] estimates that the gross domestic product at the global level dropped in real terms by 0.6% in 2009, after increasing by 3.0% in 2008.

In the industrialized nations, real GDP dropped by 3.2% in 2009, after recording an increase of 0.5% in 2008. Economic performance in the emerging and developing countries recorded a growth rate of 2.4% in 2009, down from 6.1% in 2008. This was tied to the decline in exports, following the fall in the prices of raw materials and foreign direct investments. The Asian

1 - The full document is available on the AACB's website « www.aacb.org »
2 - Organization for Economic Co-operation and Development
3 - International Monetary Fund, World Economic Outlook, April 2010

countries showed better resilience in the face of the crisis, especially because of the vibrant nature of intra-regional trade.

The economic recession severely affected the job market, as attested by the situation in the major developed nations. Unemployment rate climbed to 9.3% in the United States of America in 2009, up from 5.8% in 2008. In the Euro zone, it increased from 7.6% in 2008 to 9.4% in 2009. In Japan and the United Kingdom, it stood respectively at 5.1% and 7.5%, up from 4.0% and 5.6% a year earlier.

The global inflation rate was at a moderate level. This was tied to the significant drop in demand and the decline in the prices of raw materials, particularly those of petroleum and food products, following the sharp increase observed in the two previous years. In the economies of the advanced countries, the inflation rate, measured by the movements in retail price levels, stood, over a period of twelve months, at 0.1% in December 2009, against 3.4% in December 2008. In the emerging and developing countries, a relative decline in inflation was witnessed even though the level attained was still relatively high (5.2% in December 2009 against 9.2% in December 2008), due to strong demand at the domestic level.

In this context of economic crisis described above, the central banks in the major industrialized and emerging nations adopted a more flexible monetary policy in order to support economic activity.

The foreign exchange market trends, for most of 2009, were influenced particularly by the deteriorating situation of the American financial system, tied to the global crisis and the American Federal Reserve's resolutely expansionary monetary policy that lowered investors' interest in American assets. While these factors made a considerable impact on the dollar rate for most of 2009, a vigorous trend reversal was observed in the last quarter of the year, tied to the signs of economic recovery in the USA.

On the financial market, stock market indices appreciated considerably, thanks to the ambitious recovery plans put in place, particularly by the major developed countries.

As regards raw materials, the average prices of key raw materials dropped in 2009 from their levels in 2008, except for cocoa and gold. However, the hope of witnessing rapid recovery in global economic activity triggered a reverse trend in the prices of most of these products, particularly from the second semester of 2009.

In this context, economic activity in Africa slowed down considerably, owing to the decline in the prices of raw materials during the last quarter of 2009. Indeed, the real GDP growth rate stood at 2.1% in 2009, as against 5.5% in 2008, whereas the minimum level required to achieve the Millennium Development Goals is estimated at 7%. Along with this slowdown in growth, there was a slight drop in inflation from 11.6% in 2008 to 10.6% in 2009. The external current account balance, as a percentage of the GDP, stood at -2.1%, as against 0.9% in 2008. Foreign reserves globally represented nearly 6 months of imports of goods and services, against about 5 months of imports in 2008. But this apparent upturn was tied much more to a drop in imports, rather than to an increase in reserves. For, these latter actually dropped by 5.3% from one year to the other. The five AACB sub-regions showed differential trends, as seen in the sections presented below.

II - Developments in the economic and financial situation of the Sub-regions

II.1 Northern Africa Sub-Region

The economic performances of most countries in the Northern Africa sub-region were severely affected in 2009 by the aftershocks of the economic recession in the developed countries. The sub-region's economic growth rate, in real terms, was generally on a declining trend compared to the previous level of performance. These results were induced by the downward growth trend seen in the major economic sectors in the sub-region, such as mining and extraction, industrials, tourism and hydrocarbons, as well as by the drop in investments and exports. However, the remedial measures taken to boost economic activity contributed to maintain positive economic growth rates in the sub-region between 2.4% (Algeria) and 6.2% (Sudan), the only exceptions being Mauritania (-1.1%) and Libya (-1.1%).

Inflation dropped or stayed at moderate levels, with the fall in external inflation pressure and domestic market prices, especially on foodstuffs and drinks, and the social policies implemented by the public authorities for the underprivileged. The lowest inflation rates were seen in Mauritania (2.2 %), Libya (2.4%) and Tunisia (3.7%). Egypt and Sudan recorded relatively high rates at 9.9% and 11.2% respectively, though on declining trend.

Public finance performances were affected generally by the measures taken to mitigate the effects of the international economic crisis, as well as by the drop in public revenue caused by this crisis. Budgetary deficit to GDP ratios stayed at a relatively high level in Egypt (7.7%) and Mauritania (8.0%), and at a quite low level in Tunisia and Sudan at 3.3% and 4.8% respectively. Algeria continued to record surpluses (6.6% in 2009 against 8.2% in 2008).

Available data on international transactions showed a decline in the external account in Egypt which recorded a deficit in 2009, after the surplus posted the year before. Similarly, Algeria's current account in terms of percentage of GDP dropped dramatically from 20.1% in 2008 to 0.03% in 2009. Conversely Tunisia registered improvements in its current account deficit. Mauritania saw its overall deficit drop, owing to net capital inflows and the decrease in the current account deficit.

With respect to financial sector reform, the countries in the sub-region began some new efforts, or pursued ongoing ones, with the goal of implementing the Basel II standards and further modernizing payment systems. In Egypt, for example, the Real Time Gross Settlement System (RTGS) became operational in 2009. The efforts for reform sought also to reinforce regulations for consolidating financial system stability. In this regard, Mauritania raised the minimum capital requirement for banks. Against this background, money supply (M2) increased in Egypt by 8.4% in 2009, against 15.7% in 2008. In Libya the expansion rate of this indicator was 23.4%.

II.2 Western Africa Sub-Region

The deteriorating global economic environment affected some sectors in the Member States of the Economics Community of West African States (ECOWAS). However, the sub-region recorded a slight increase in economic activity, brought by the favourable results obtained during the 2009/2010 crop year, the pursuit of economic reforms and investments in the infrastructure sector.

The ECOWAS region netted an economic growth rate of 5.7% in 2009, a percentage point higher than in 2008. In the majority of Member States, this showing was the outcome of good performances in the agricultural sector, owing to favourable weather conditions. In Nigeria, the economic growth was driven by the oil sector. On a country to country basis, some disparities were observed in the growth trend. In the Community's fifteen Member States, only seven, including Nigeria (6.0%), The Gambia (5.0%) and Ghana (4.7%), recorded growth rates above 4%.

The inflation rate fell in all the Member States, with an end-of-year showing of 9.0% in 2009 against 13.3% in 2008, in relation with fuel and foodstuff prices. But it remained on the high side in the West African Monetary Zone (WAMZ) at 12.2%, especially when compared to the West African Economic and Monetary Union (-1.6%) and non-Member States of these two zones (4%).

The Community's overall budget deficit (excluding grants) increased from 2.4% to 4.9% of GDP between 2008 and 2009, reflecting the persistent pressure on public treasury in all the countries. The outstanding external debt-to-GDP ratio for

Member States remained at a sustainable level of 12.2% in 2009, against 12.4% of GDP in 2008, thanks to the decline seen in the WAEMU countries' debt, after debt relief was granted to Senegal and Niger, and the cancellation of Togo's debt.

The global economic recession affected the Community's performances on external transactions. The current external account for 2009 showed a surplus equivalent to 6.3% of GDP, dropping by 5.0 percentage points from the level in 2008. Nigeria and Côte d'Ivoire recorded surpluses equivalent to 11.9% of GDP and 7.2% of GDP respectively, while all the other countries showed deficits. This poor performance, seen in the current account transactions of most Member States, was similar to the one in the balance of trade.

To stimulate economic activity in the sub-region, the central banks adopted more flexible monetary policy stances. However, the Community's monetary situation by the end of December 2009 showed a slowdown in growth of money supply (17.0%, as against 42.5% in 2008).

II.3 Central Africa Sub-Region

The Central Africa sub-region experienced a slowdown in economic activity during the period under review. GDP growth rate in CEMAC[4] Member States was 2% in 2009, against 4% in 2008. The situation in the oil sector (0.7% against 3.7% a year earlier) and the non-oil sector (2.4% in 2009 against 4.1% in 2008) played a key role in this showing. A close scrutiny of GDP

4 - Economic and Monetary Communuty of Central Africa components' contribution to growth showed that the poor economic performances observed were from the external sector, which put a strain on growth, taking it downwards by 4.8 percentage points. Conversely, domestic demand sustained growth by 6.9 points due to investments in the construction, public works and mobile telephone sectors. Beside Congo that saw growth climb to 6.4% in 2009, up from 5.2% in 2008, all the other countries experienced a slowdown in their economic growth pace. Equatorial Guinea was hardest hit in this regard and saw its growth rate tumble from 15.2% in 2008 to 4.6% in 2009, while Chad and Gabon recorded drops in real GDP by 1.4% and 0.2% respectively.

In the Democratic Republic of Congo (DRC), real GDP growth rate dropped from 6.2% in 2008 to 2.8% in 2009, sapped by the aftershocks of the global economic crisis. The country's economic slowdown resulted also from the poor show in exports and stagnating in private consumption. The downturn hit almost all branches. However, the relative buoyancy in the agricultural, commercial, mining, construction and public works sectors kept the country on the economic growth course observed in 2009. The 20.9% increase in gross fixed capital formation contributed also to the resilience of the Congolese economy.

In Sao Tome e Principe, economic growth rate dropped from 5.5% in 2008 to 4.5% in the period under review, due to a decline in investments and exports.

The average annual inflation rate in CEMAC Member States decreased from 5.9% in 2008 to 4.1% in 2009 due to stagnancy in demand. The DRC registered a reverse trend, with inflation skyrocketing to 46.1% in 2009, against 28.1% in 2008, as a result of increased public spending on security and the full financing of public sector deficit in the third quarter by the Central Bank. Increased public spending and scarcity of essential goods caused the inflation rate in Sao Tome e Principe to stay at a high level, although a relative decrease was observed (16% in 2009, against 24.8% in 2008).

On the whole, public finance results were lower than those in the previous year, except in the DRC. The CEMAC Zone's commitment-based budgetary surplus excluding grants, dropped from 11.5% in 2008 to 0.3% in 2009. This was due to a sharp fall (25.9%) in budgetary receipts caused by a 42.0 % decline in oil revenue. Deficits were recorded in Central African Republic, Chad and Equatorial Guinea, while surpluses were seen in the other countries. Sao Tome e Principe recorded an overall budget deficit equivalent to 8.4% of GDP in 2009, against 4.8% in 2008, because the increase in receipts did not offset that in spending. The DRC reported a consolidated surplus in the public sector, representing 1.3% of GDP, against a consolidated deficit of 0.4% of GDP in 2008.

As far as foreign transactions are concerned, CEMAC's current account recorded a substantial deficit equal to 8.5% of GDP, against a surplus worth 4.6% of GDP in 2008. This was an indication of the declining trade surplus and persistent degradation of the services and revenues accounts. In the DRC, where terms of trade improved, the trade deficit climbed to 829 million dollars in 2009 from 125 million dollars in 2008. In Sao Tome e Principe, the current deficit to-GDP ratio dropped from 60% in 2008 to 50% in 2009, due to the increase in the trade balance.

CEMAC's outstanding debt dropped by 3% between 2008 and 2009. This was in relation to debt relief granted to Central African Republic and Congo, after they both attained the HIPC Initiative completion point in 2009. However, the outstanding debt-to-GDP ratio increased to 20.2% from 18.1% in 2008, due to the sharp drop in nominal GDP. That of Sao Tomé e Principe remained very high. DRC paid only 47.4% of its normal debt installments thanks to a write-off by the Paris Club.

The BEAC and Banque Centrale de Sao Tomé e Principe adopted more flexible monetary policy stances to stimulate economic recovery. The Banque Centrale du Congo, on its part, applied a globally restrictive monetary policy to curb rising inflation. However, a relatively moderate increase was observed in money supply within the CEMAC zone and in Sao Tomé and Principe, with rates of 2.8% and 9% respectively, showing a slowdown in economic activity. Money supply in Congo increased at a rate of 48.3%.

II.4 Southern Africa Sub-Region

In the context of global economic recession, the economic performances of the Southern Africa sub-region declined in 2009. Several countries registered a slowdown in economic activity or a drop in production, affecting mainly the mining, as well as oil and manufacturing sectors. Zimbabwe however experienced a reverse trend of positive growth in 2009 at a rate of 4%, against -14.5% in

2008, which was in relation to improvements in the social environment. A marginal increase in growth was observed in Zambia, while Malawi (7.7%), Mozambique (6.3%) and Tanzania (6%) continued to post relatively high growth rates.

On the whole, inflation fell in the countries of the sub-region, as pressure on world market prices for foodstuff and oil decreased, and most of the economies slowed down. But inflation rates remained high, except in Mozambique.

The overall public finance performance was far from satisfactory. It showed a drop in tax revenues, induced by the slowdown in economic activity and the tax measures taken by some States to stimulate economic activity. Some specific factors, such as the elections in Malawi and the infrastructure investments ahead of the World Cup in South Africa, contributed also to weaken performance in public finance. However, improvements in the budget balance were seen in Zimbabwe, Madagascar and Zambia. In Zimbabwe, this improvement resulted from the rise in public revenue. In the other two countries, it was the outcome of the cuts made in public spending.

In the external sector, the sub-region's performances declined due to the global economic recession impact, particularly in the mineral and oil exporting countries, especially Angola, Botswana and Namibia. However, positive trends were observed in some of the countries, namely South Africa, Zambia and Madagascar. These countries recorded a drop in their current account deficits, thanks to the drop in imports or the good showing of their exports, in particular, towards the emerging countries (as in the case of Zambia).

To overcome the effects of the global economic recession, most of the central banks in the sub-region implemented flexible monetary policies, especially by lowering their key rates. But only Mozambique, Swaziland and Zimbabwe actually saw their money supply growth rate go upwards. The other countries experienced a drop in this regard because of the stagnancy or reduction in net foreign assets, as well as the fall in domestic credit tied to low domestic demand and the cautious attitude of the banking system.

II.5 Eastern Africa Sub-Region

The Eastern Africa sub-region, like the other sub-regions, was affected by the global economic recession. The crisis severely hit the export and tourism sectors. Available data show that it caused growth rate to drop, even though all the economies in the sub-region displayed some resilience. While this drop in growth was seen in some countries, the sub-region, as a whole, recorded growth rates still on the positive side. This trend was an outcome of the good performances of the primary sector, as well as the growth stimulating measures taken by the Governments and Central Banks. Uganda, at 5.6%, and Burundi, at 6%, recorded the highest growth rates.

Inflation decreased in the sub-region. This decrease came partly from world market trends for commodities. In several countries, it was also due to the good performances in food production, enhanced by favourable climatic conditions. Finally, it was the outcome of slow growth in money supply, the appreciation of some national currencies and the drop in domestic demand. However, beside Mauritius (2.5%) and Comoros (4.9%), the other countries had relatively high average annual inflation rates between 9.2% (Kenya) and 13% (Uganda).

With regard to public finance, the ratio of public deficit to GDP in Uganda fell from 4.8% to 4.6% between 2008 and 2009. In Mauritius it increased slightly, but remained at a sustainable level (4.0% in 2009 against 3.0% in 2008). The indicators of the other countries in the sub-region deteriorated or remained at high levels, illustrating the economic recession's negative effects on public revenues, as well as the impact of economic recovery stimulating measures on spending. Outstanding external debt fell in Burundi and Kenya, but increased in Rwanda by 28.0% in two years, following debt relief granted to the country in 2006 under the Multilateral Debt Relief Initiative.

External transactions showed overall surpluses in the balance of payments. In most of the countries, this trend was induced by net capital inflows that offset the current account deficit. In Uganda's case specifically, the current account also made a good showing, with a boost from increasing exports to countries in the sub-region. The currency trends in the sub-region reflected those of external transactions and the trends observed on the global foreign exchange market. The Kenyan Shilling had a mixed performance against the major currencies. It depreciated against the Pound Sterling and the Euro, and appreciated against the Yen and the Dollar. The Rwandan Franc was relatively stable, while the Ugandan Shilling showed an uneven performance pattern.

The banks in the sub-region were relatively preserved from the effects of the international financial crisis, especially because they had no toxic assets in their portfolio. On the whole, they recorded an increase in their assets. Their financial structure indicators remained sound, an outcome of the efforts made to sustain and reinforce prudential regulation and supervision. The capital adequacy ratio, in particular, stayed on the high side. The banking system suffered no major liquidity problems, except in Rwanda, where the liquidity crisis seen in 2008 worsened in 2009, due to the massive withdrawals made by institutional investors. Kenya saw an increase in the rate of non-performing loans.

In this context, the efforts made by central banks were informed, in the majority of the countries, by the need to stimulate economic recovery while preserving macroeconomic stability. Apart from Bank of Uganda, whose efforts were aimed at fighting the resurgence of inflation, the other central banks adopted more flexible monetary policies by reducing their key rate and required reserve rate. Available data however suggest that money supply growth rates were relatively low for the countries in the sub-region, except Kenya.

III. AMCP Implementation in 2009

In the context described above, the performance of member countries against macroeconomic convergence declined significantly in 2009, which is the first year of the stage III of the AMCP implementation. Indeed, only 4 out of the 47 member countries which submitted their reports (i.e. 8.5 %) fulfilled the four primary criteria, compared to 13 countries (29.8%) and 20 countries (42.6%) in 2008 and 2007 respectively. This development resulted from poor performances against some criteria, namely those on budget deficit, inflation and to some extent, foreign assets. The situation regarding the observance of the criterion on Central Bank financing of the budget deficit remained relatively satisfactory (See table 1 and 2 in annex). Besides the impact of the international economic recession and weaknesses specific to African countries the particularly poor performance recorded in 2009 is also tied to the fact that standards became tougher with the transition to stage III of the AMCP implementation (See table 3 in annex).

With regard secondary criteria, the data available show that the results obtained are generally satisfactory on the aspects of exchange rate stability, the liquidation of arrears and, to some extent, investment financing with tax revenue. For the other criteria, performances differ from one region to the other. On the criterion relating to the ratio of tax revenue to GDP, for example, compliance has been poor in the majority of regions, except the Southern Africa sub-region. Compliance with the criterion limiting the ratio of tax revenue dedicated to salaries has been at a moderate level in Central and East Africa, and at a low level in West Africa. Because of the flexible policies implemented by Central Banks, performances on the requirement for positive real interest rates were low, except in West Africa.

With regard to qualitative criteria, progress was reported in efforts aimed at reforming payment systems and reinforcing the banking supervision system.

IV. Prospects for 2010

The early signs of economic recovery, seen in 2009, are expected to continue and improve in 2010, thanks especially, to the improving situation of financial markets and the turnaround in the declining trend of stocks. Hence, after the 0.6% drop in real GDP, observed in 2009, the global economic growth rate is expected to stand at 4.2% in 2010, and then at 4.3% in 2011, according to the IMF. In the developed countries, the growth rate is estimated at 2.3% in 2010 and 2.4% in 2011, with notable differences among countries. The United States of America, in particular (3.1% in 2010 and 2.4% in 2011), is expected to register relatively higher growth rates. The pace of economic growth is going to be lower in the Euro Zone (1.0% in 2010 and 1.5% in 2011). Because especially production capacity utilization rates will still be on the low side, the inflation rate is expected to stay at a relatively low level, i. e. 1.5% in 2010 and 1.4% in 2011, after they dropped to 0.1% in 2009.

In the emerging and developing countries, the growth rate is expected to hit 6.3% in 2010 and 6.5% in 2011, thanks to direct investments and exports. Inflation is going to continue on a declining trend.

Economic activity on the African continent is expected to scale upwards in 2010 and 2011, with growth rates of 4.7% and 5.9% respectively. This trend is going to be driven by the good showing of exports that will grow by 27.1% and 10.0% respectively in 2010 and 2011, as well as the pursuit of net inflows of private investments. These latter are expected to increase by 11.4% and 21.3% in 2010 and 2011, while inflation is going to drop in 2010 (8.0% against 10.6% in 2009) and in 2011 (6.9%). Furthermore, the current account deficit, as a percentage of GDP, is expected to decline from 2.1% in 2009 to 1.7% in 2010, before climbing to 2% in 2011.

The risk of witnessing a deviation from the economic recovery trends described above still remains high, and is tied to developments in the public finance and financial sectors of the developed countries. Actually, as activities return progressively to normal in these countries, budgetary policies might become more restrictive. With concerns about keeping the debt burden under control, the budgetary measures taken to boost economic recovery might end prematurely. And as recovery continues to be seen, central banks might begin to tighten their monetary policy. Were these measures to be implemented, they would slow down progress towards full economic recovery. The confidence of households and investors in the ability of States to craft and implement rigorous programmes for a return to macroeconomic stability would drop, and this is going to pull down demand at the same time. As for banks, they still have huge commitments in the real estate sector, particularly in the United States and Europe. Furthermore, the scale of the reforms implemented in the finance sector limits the possibilities of making significant improvements in this sector within the short term.

If growth slows down in the developed countries, this would affect the growth prospects in the developing countries, particularly those in Africa, by reducing the demand for their exports as well as the official development assistance allocations for them. The other risks that may affect growth in African countries are the fluctuations in the prices of raw materials, which constitute the mainstay of most African economies, the over-reliance of African economies on climatic conditions, poor governance, the lack of an investment friendly business climate, and socio-political conflicts.

Under these circumstances, it is vital for African countries to increase their budget maneuverability by putting the emphasis on their medium term goals, and particularly infrastructure, health and education. It is important also for them to continue implementing policies for a healthy business climate, so that they can attract direct private investments. Likewise, States should take measures to improve their official aid absorption capacity and encourage reforms that increase production potential, especially by scaling up production and reinforcing foreign trade. Lastly, African countries must continue to develop the financial sector by making improvements to the regulatory framework and reinforcing surveillance.

As mentioned in earlier reports, it is important also to emphasize stronger economic integration at the sub-regional level by establishing or reinforcing the institutional framework set out in the AMCP, as well as harmonizing legislation on trade and customs tariffs. Efforts need to be made, as a matter of priority, to harmonize payment systems and harmonize statistics.

On the whole, this first year in phase III of AMCP implementation was marked by a decline in the performances of Member States. The unfavourable results seen in 2009 were, in large part, due to the adverse international context. They were tied also to the fact that standards became tougher. Moreover, the nature of certain criteria, particularly those on the budget deficit, excluding grants, that several countries have always found difficult to comply with, could have contributed to the results observed. While awaiting the review of convergence criteria, scheduled to take place during efforts to design the strategy for creating the African Central Bank, States are encouraged to pursue and consolidate reforms and efforts to attenuate the impact of exogenous shocks on their economies.

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- Table 9 – Compliance with the foreign reserves criterion

- Graph 6 – Compliance with the foreign reserves criterion

Table 1 - Countries' performances against primary criteria in 2009

	Budgetary Deficit / GDP ≤3%	Inflation<5%	Central Bank financing =0	External Reserves/ Imports ≥6 months
North Africa	**1**	**3**	**5**	**4**
1.Algérie (3)	6.6	5.7	0.0	36.4
2.Egypt (2)	*-7.7*	9.9	0.0	6.1
3.Libya (3)	n.d	*2.4*	0.0	44.0
4.Mauritanie (2)	*-6.2*	2.2	0.0	*2.2*
5.Sudan (0)	-4.8	*11.2*	32.3	*1.0*
6.Tunisie (3)	-3.3	3.7	0.0	6.0
West Africa	**2**	**10**	**12**	**11**
1.Bénin (3)	-7.2	-2.9	0.0	6.6
2.Burkina Faso (3)	*-13.4*	*2.4*	0.0	6.6
3.Cabo Verde (2)	*-11.6*	1.0	0.0	4.5
4.Côte d'Ivoire (4)	-2.0	-1.6	0.0	6.6
5.The Gambia (2)	-8.6	2.7	13.7	6.5
6.Ghana (1)	*-12.4*	*16.0*	*0.0*	*4.4*
7.Guinée (0)	-7.5	*7.9*	38.7	*1.4*
8.Guinée-Bissau (2)	*-13.9*	-6.4	0.0	6.6
9.Liberia (2)	-2.0	7.8	0.0	*0.7*
10.Mali (3)	*-7.8*	1.7	0.0	6.6
11.Niger (3)	*-9.2*	*-3.1*	0.0	6.6
12.Nigeria (3)	-3.3	*12.0*	0.0	17.7
13.Sénégal (3)	*-7.2*	-2.1	0.0	6.6
14.Sierra Leone (1)	*-11.0*	*12.0*	18.6	6.2
15.Togo (3)	-3.3	*-2.4*	0.0	6.6
Central Africa	4	3	7	6
1.Cameroun (4)	3.3	3.0	0.0	6.7
2.Centrafrique (2)	-3.5	6.0	0.0	6.0
3.Congo (4)	3.8	4.0	0.0	7.3
4.Gabon (4)	9.1	3.0	0.0	8.7
5.Guinée Equatoriale (2)	-9.8	5.5	0.0	6.7
6.Tchad (1)	-10.0	7.0	-0.5	1.9
7.Congo RDC (1)	-1.34	*46.1*	1.34	*1.5*
8.São Tome e Principe (2)	-8.4	*16.0*	0.0	9.3
Southern Africa	2	1	12	1
1.Angola (1)	-15.2	*14.0*	-	3.2
2.Botswana (2)	-14.0	*8.2*	-	20.7
3.Lesotho (1)	-4.7	*7.2*	-	1.9
4.Madagascar (3)	-1.9	9.3	-	3.1
5.Malawi (1)	*-5.8*	8.4	-	*1.8*
6.Moçambique (2)	-3.9	*3.3*	-	5.6
7.Namibia (1)	-3.3	*8.8*	-	4.8
8.South Africa (1)	-9.1	*7.1*	-	3.4
9.Swaziland (1)	-5.0	*7.5*	-	4.7
10.Tanzania (1)	-6.2	*12.1*	-	5.6
11.Zambia (2)	-2.6	*13.7*	-	*5.1*
12.Zimbabwe (2)	-3.3	*6.5*	-	*0.3*
East Africa	0	2	5	2
1.Burundi (2)	*-14.8*	*10.5*	-	6.6
2.Comores (1)	*-9.3*	4.9	*17.0*	5.9
3.Djibouti	...	...	...	...
4.Ethiopia	...	...	...	...
5.Eritrea *	...	...	...	...
6.Kenya (1)	-5.6	9.24	0.0	*4.1*
7.Mauritius (2)	-4.0	2.5	-3.7	5.1
8.Rwanda (2)	*-12.6*	*10.3*	0.0	6.2
9.Uganda (1)	-4.6	*13.0*	0.0	5.4
10.Seychelles	…	...	...	...
11.Somalia	...	...	...	...
Number of the countries' reports	47	47	47	47
Number of complying countries	9	19	41	24
Percentage	19.15%	40.43%	87.23%	51.06%

* Not yet a formal member

TABLE 2
NUMBER OF COUNTRIES WHICH OBSERVED THE PRIMARY CRITERIA IN 2009[1]

Sub- Regions	Budget deficit /GDP		Inflation rate		Central Bk Financing budg. Def.		Reserves /Import	
	2008	2009	2008	2009	2008	2009	2008	2009
Northern Africa (6 countries)	4	1	3	3	6	5	4	4
Western Africa (15 countries)	7	2	8	10	14	12	12	11
Central Africa (8 countries)	7	4	6	3	8	7	7	6
Southern Africa (12 countries)	11	2	2	1	12	12	9	1
Eastern Africa (11 countries)	3	0	2	2	5	5	5	2
Number of countries which submitted data on the criteria	47	47	47	47	47	47	47	47
Number of countries which achieved the criteria	32	9	21	19	45	41	37	24
(%)	68.09	19.15	44.68	40.43	95.74	87.23	78.72	51.06

(1) Convergence criteria applied in 2008 and 2009

CRITERIA	2008	2009
Budget deficit / GDP ratio	≤ 5%	≤ 3%
Inflation rate	< 10%	≤ 5%
Central Bank credit to government (percentage of fiscal revenue of previous year)	≤ 10%	0
External reserves / imports cover	≥ 3	≥ 6

TABLE 3
PERFORMANCES IN 2009 AGAINST
PHASE II AND PHASE III NORMS

Number of countries that met the criteria

Sub- Regions And number of countries	Budget deficit /GDP ≤ 3%		Inflation rate < 5%		Central Bank Financing BC = 0		Reserves /Import ≥ 6 months	
	II (5%)	III (3%)	II (10%)	III (5%)	II (10%)	III (0)	II (3 mois)	III (6 mois)
Northern Africa (6 countries)	3	1	5	3	5	5	4	4
Western Africa (15 countries)	4	2	12	10	12	12	13	11
Central Africa (8 countries)	5	4	6	3	8	7	6	6
Southern Africa (12 countries)	7	2	9	1	12	12	9	1
Eastern Africa (11 countries)	2	0	3	2	5	5	6	2
Number of countries which submitted data on the criteria	47	47	46	47	47	47	47	47
Number of countries which achieved the criteria	21	9	35	19	42	41	38	24
(%)	44.68	19.15	74.47	40.43	89.36	87.23	80.85	51.06

TABLE 4
COMPLIANCE WITH THE 4 PRIMARY CRITERIA IN 2009

Percentage of countries that met the criteria

	BUDG DEFICIT	INFLATION	CB DEF. FIN.	RESERVES	THE 4 CRITERIA
NORTH	16.67	50.00	83.33	66.67	0.00
WEST	13.33	66.67	80.00	73.33	6.67
CENTRE	50.00	37.50	87.50	75.00	37.50
SOUTH	16.67	8.33	100.00	8.33	0.00
EAST	0.00	33.33	83.33	33.33	0.00
AFRICA	19.15	40.43	87.23	51.06	8.51

GRAPH 1
COMPLIANCE WITH THE 4 PRIMARY CRITERIA IN 2009

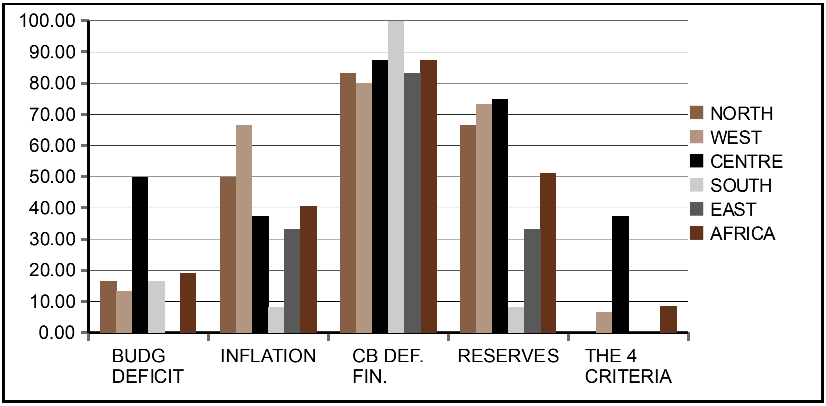


TABLE 5
COMPLIANCE WITH THE 4 PRIMARY CRITERIA
OVER THE PERIOD 2005-2009

Percentage of countries that met the criteria

	2005	2006	2007	2008	2009
DEFICIT	57.78	64.44	72.34	68.09	19.15
INFLATION	72.09	76.09	78.72	44.68	40.43
CENT.BANK FINANCING	97.73	82.61	80.85	95.74	87.23
RESERVES	72.73	80.00	87.23	78.72	51.06
THE 4 CRITERIA	28.89	31.11	42.55	27.66	8.51

GRAPH 2
COMPLIANCE WITH THE 4 PRIMARY CRITERIA
OVER THE PERIOD 2005-2009

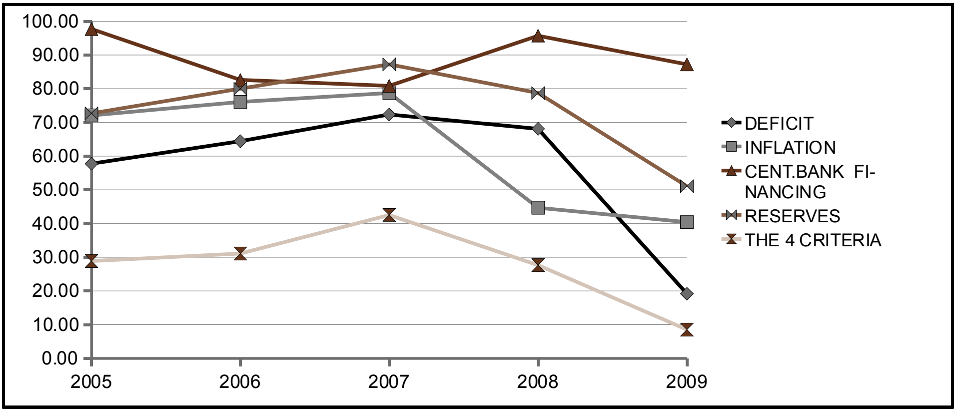


TABLE 6
COMPLIANCE WITH THE BUDGET DEFICIT CRITERION

Percentage of countries that met the criterion

	2005	2006	2007	2008	2009
NORTH	66.67	83.33	83.33	66.67	16.67
WEST	33.33	46.67	46.67	46.67	13.33
CENTRE	75.00	87.50	87.50	87.50	50.00
SOUTH	83.33	75.00	100.00	91.67	16.67
EAST	16.67	16.67	50.00	50.00	0.00
AFRICA	57.78	64.44	72.34	68.09	19.15

GRAPH 3
COMPLIANCE WITH THE BUDGET DEFICIT CRITERION

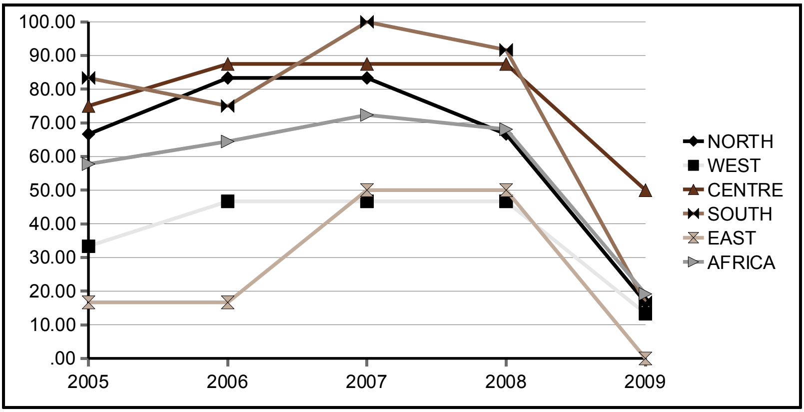


TABLE 7
COMPLIANCE WITH THE INFLATION CRITERION

Percentage of countries that met the criterion

	2005	2006	2007	2008	2009
NORTH	83.33	100.00	83.33	50.00	50.00
WEST	73.33	86.67	73.33	53.33	66.67
CENTRE	75.00	75.00	87.50	75.00	37.50
SOUTH	50.00	50.00	66.67	16.67	8.33
EAST	50.00	66.67	100.00	33.33	33.33
AFRICA	72.09	76.09	78.72	44.68	40.43

GRAPH 4
COMPLIANCE WITH THE INFLATION CRITERION

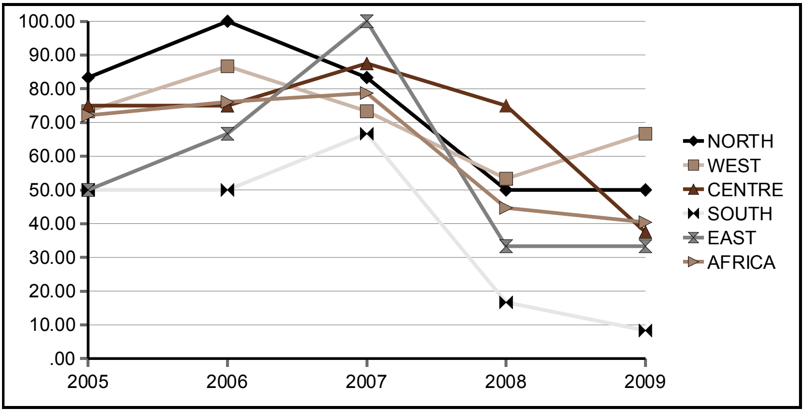


TABLE 8
COMPLIANCE WITH THE CRITERION ON CENTRAL BANK FINANCING OF BUDGET DEFICIT

Percentage of countries that met the criterion

	2005	2006	2007	2008	2009
NORTH	83.33	100.00	83.33	100.00	83.33
WEST	100.00	86.67	93.33	93.33	80.00
CENTRE	100.00	37.50	25.00	100.00	87.50
SOUTH	91.67	100.00	100.00	100.00	100.00
EAST	66.67	66.67	83.33	83.33	83.33
AFRICA	97.73	82.61	80.85	95.74	87.23

GRAPH 5
COMPLIANCE WITH THE CRITERION ON CENTRAL BANK FINANCING OF BUDGET DEFICIT

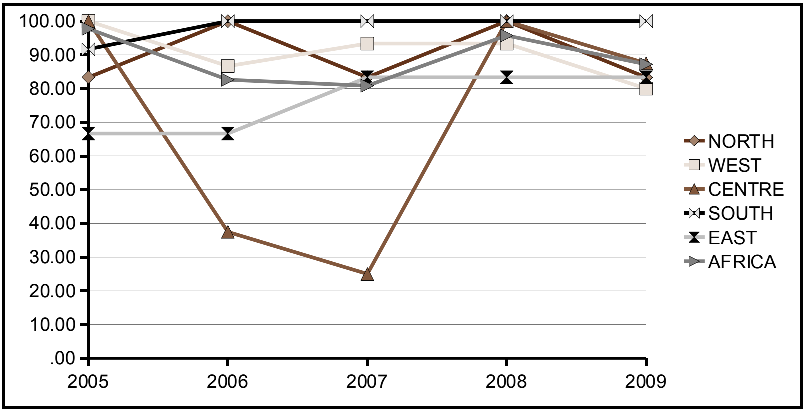
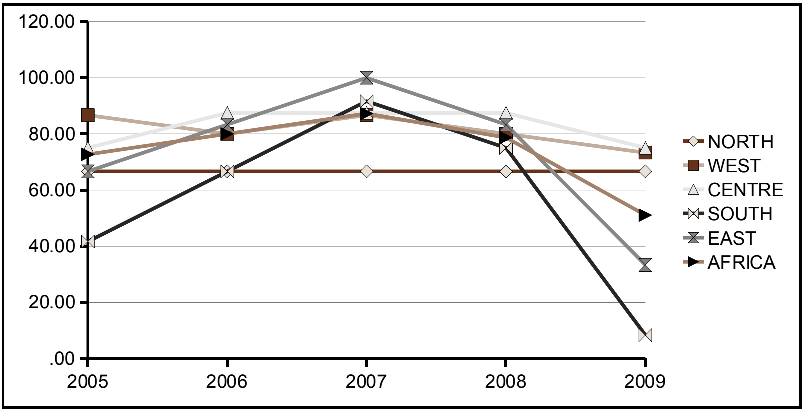


TABLE 9
COMPLIANCE WITH THE FOREIGN RESERVES CRITERION

Percentage of countries that met the criterion

	2005	2006	2007	2008	2009
NORTH	66.67	66.67	66.67	66.67	66.67
WEST	86.67	80.00	86.67	80.00	73.33
CENTRE	75.00	87.50	87.50	87.50	75.00
SOUTH	41.67	66.67	91.67	75.00	8.33
EAST	66.67	83.33	100.00	83.33	33.33
AFRICA	72.73	80.00	87.23	78.72	51.06

GRPAH 6
COMPLIANCE WITH THE FOREIGN RESERVES CRITERION



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