CONTENT

AMCP 2008: the word of the Chairman

EXECUTIVE SUMMARY

The slowdown of global economic activity, which started in 2007, continued and even worsened in 2008. Indeed, according to IMF's[i] estimates the industrialized countries' real GDP growth rate fell from 2.7 % in 2007 down to 0.9 % in 2008. On the other hand, emerging and developing countries showed a growth rate of 6.1%. This was significantly higher than the world average (3.2%), but noticeably lower than the 2007 one (8.0%).

Because of food crisis and the rise in prices of petroleum products in the first half of the year 2008, the slowing down of economic activity was coupled with inflationary pressures. Emerging and developing countries experienced much higher inflationary pressure (9.3% as against 6.4% in 2007). The inflation rate in developed countries rose in 2008 but was limited to 3.4% as against 2.2% in 2007.

The slowdown in the world economic activity brought about the fall in the trade growth rate from 7.2% in 2007 to 3.3% in 2008. It entailed also a deterioration of the employment situation coupled with job insecurity.

On the foreign exchange market, the European currency continued its upward trend against the American dollar until July 15, 2008. Then it fell back against the dollar due to bad growth prospects in Europe and expectation of the European Central Bank's easing of the monetary policy. The market for raw materials experienced a surge in oil prices as well as a rise in non-oil products prices with the exception of metals.

As regards monetary policy, some central banks of the main industrialized countries took advantage of the relaxation of inflationary tension during the second half of the year to ease their monetary conditions for the purpose of curbing the impact of the financial crisis.

In this context, the economic activity in Africa remained relatively constant. Indeed, the continent's economic growth rate was evaluated in real terms at 5.2% as against 6.2% in 2007. Inflation rose to 10.1% in 2008, against 6.3% in 2007. The current account balance, in terms of percentage of the GDP, stabilized at 1% from one year to another. The external reserves represented 8.3 months of import of goods and services, against 8.6 months in 2007. However, the AACB's five sub-regions showed different trends.

Indeed, most countries of **North Africa** recorded in 2008 generally satisfactory economic performance. Real growth rates ranged generally between 4.6% (Tunisia) and 7.8% (Libya), driven notably by the rise in oil prices, the dynamism of the non-oil sector and the good performance of investments. However, economic activity slowed down in Sudan and. Inflation rose in most countries particularly in Libya (10.4%), Egypt (11.5%) and Sudan (14.3%). However, Algeria showed a relatively modest inflation rate (4.4%). With the exception of Mauritania and Egypt, public finance indicators were satisfying in most countries, reflecting a sustained economic growth, the good performance of public revenues. The external account performed generally well. However, a deterioration of the current account was noted in Mauritania and in Sudan. The growth rates of money supply ranged generally from 14.4% (Tunisia) to 16.3% (Sudan), with the exception of Libya (44.2%).

In West Africa, the economic growth rate of the Economic Community of West African States slightly rose from 5.7 % in 2007 to 5.8% in 2008 due mainly to the primary sector. The average inflation rate for the region increased from 5.8% in 2007 to 12.7% in 2008 as a result of the rise in the prices of foodstuff and fuel in 2008. The overall Community budgetary deficit excluding grants went from 3.2% down to 2.9% of GDP between 2007 and 2008 due mostly to Nigeria. The external current account of most countries worsened or remained worrisome. However, the sub-regional average current account improved, reflecting the trend in Nigeria and, to some extent, Côte d'Ivoire. The monetary situation of the Community at the end of December 2008 was characterized by increased growth in money supply (44.9% in 2008 as against 36.2% in 2007).

The economic growth was relatively sustained in **the Central African sub-region.** The real GDP growth ranged from 4.0% (CEMAC) to 6.2% (Congo) in 2008, against a range of 4.5% (CEMAC) to 6.3% (Congo) in 2007. Overall, inflation rekindled. However, in the CEMAC, it was limited to 5.9% in connection to the good performance of the food production sector. Public finance made a good showing, with the CEMAC's budget surplus standing at 12.0% of GDP and the public deficits of Congo and Sao Tome e Principe decreasing from respectively 0.5% and 8.7% of GDP in 2007 to 4% and to 6.5% of GDP in 2008. CEMAC's current account showed a significant improvement due to the good performance of the oil market. Conversely, in the two non-member countries the current account deteriorated. The Central Banks implemented prudent monetary policies aimed at price stability.

In keeping with external shocks, the average growth rate of the **Southern African sub-region** declined from 6.6 % in 2007 to 4.5% in 2008. However, several countries including Angola, Malawi, Mozambique, Tanzania, and Zambia, recorded high growth rates. Inflation rates were higher than 10.0% in most countries with the exception of Malawi and Madagascar. Despite deterioration, the performance of public finance in most countries was satisfactory. The performance of the external sector was also satisfactory in most countries. However, the sub-region performance was reduced because of the impact of investments programs performed by some countries, especially Angola. With the exception of South Africa and Swaziland, most southern Africa countries experienced accelerated growth of money supply (M2).

Most countries of the **East Africa sub-region** recorded relatively high GDP growth rates ranging between 4.3% (Burundi) and 11.2% (Rwanda). However Comoros and Kenya recorded low growth rates. Due to imported inflation and supply-related problems, inflation in the sub-region ranged between 6.5% (Comoros) and 26.2% (Kenya) compared to 4.5 % (Comoros) and 9.8 % (Kenya) the previous year. The public finance indicators improved in Uganda, Mauritius and Kenya and were not satisfactory in the other countries. The external sector scored good results in Rwanda and Uganda and this reflected the positive performance of these countries' economies. In the other countries of the Sub-region, commercial balances showed deficits. The Central Banks of the Sub-region focused primarily on price stability and inflation control.

In the context described above, the performance of member countries declined significantly in 2008 which marks the end of Stage II of the implementation of the AMCP. Indeed, only 13 out of the 47 member countries which submitted their reports (i.e., 29.8%) fulfilled the four primary criteria, compared to 20 countries (42.6%) in 2007. This development, which contrasts with the improvement in performance witnessed so far, resulted from difficulties encountered by most countries to observe the single digit inflation requirement. Overall, this criterion was achieved by only 44.7% of the AACB's member countries as against 78.7% in 2007. Furthermore, some countries hardly complied with the criterion on the budgetary deficit excluding grants, over stage II. In this regard, the Joint Committee made up of the Bureau of the AACB and the AUC decided on a review of the convergence criteria. The performance under the other criteria was relatively satisfactory in over the stage II of the AMCP.

Performance under the secondary criteria was generally poor in 2008 as in the previous years. Regarding the qualitative criteria, progress was achieved in several areas including current transactions liberalization, banking system control and supervision, the reform of payment systems, trade liberalization and statistics harmonization. However some reforms expected have not been fully performed. They concern capital account liberalization, foreign exchange policy harmonization, the integration of payment systems at regional level.

The prospect for the year 2009, the first year of the third stage of the AMCP implementation, appears unfavorable as this year marks the beginning of the world economic recession, with a GDP growth rate of -1.3%. The economic growth rate of the African continent may drop significantly to 2%, against 5.2% the previous year. This slowdown in economic activity would be accompanied by a slight relaxation of inflationary tension (9.0 % in 2007, against 10.1% in

2008). External transactions would show a deficit of 6.5% of GDP, against a surplus of 1.0% in 2008. However, increasing net public and private capital flows to Africa are awaited to the tune of US$ 30.2 billion and US$ 15.1 billion respectively, against 24.2 billion and 11.1 billion in 2008.

In this context, member countries must strive to comply with Stage III criteria which are tighter than those for Stage II. Regarding the current context, it may seem imperative to contain the negative impact of the economic crisis on growth, while preserving the assets of the reforms implemented during the last years.

I. INTRODUCTION

1.1. Background of the report and period covered

The 2009 report on the implementation of the African Monetary Co-operation Programme (AMCP) includes information provided by AACB Committees for North Africa, West Africa, Central Africa, Southern Africa and East Africa sub-regions.

1.2. International economic developments in 2008

In 2008, the international environment was mainly characterized by increasing inflationary pressure during the first half of the year, in relation to the rise in the prices of energy products and foodstuffs, as well as the generalization of the financial crisis. According to the IMF's[1] estimates, the world growth dropped, in real terms, from 5.2% in 2007 to 3.2% in 2008.

In industrialized countries, gross domestic product fell from 2.7% in 2007 to 0.9 % in 2008. This trend carried the print of the impact of the international financial crisis to other sectors of the economy due to the difficulties related to the mortgage loan sector in the United States.

The emerging and developing countries continued to sustain the world growth, owing to the maintenance of a sustained rate of activity, particularly in India and China. The growth rate of emerging and developing countries (6.1%) was significantly higher than the world average (3.2%) and that of developed countries (0.9%). However, it was significantly lower than the 2007 and 2006 ones (8.0% and 8.3% respectively) because of the combination of several factors including i) the drop in exports to industrialized countries; ii) the collapse in prices of raw materials over the last quarter of the year, iii) the reduction in the external funding; and iv) the decline in sub-contracting activities.

Because of food crisis and the rise in prices of petroleum products in the first half of the year 2008, the slowing down of economic activity was coupled with inflationary pressures. Emerging and developing countries experienced much higher inflationary pressure because of the importance of the food component of the price index basket in this group of countries. They recorded an inflation rate of 9.3% as against 6.4% in 2007. Also, the inflation rate in developed countries rose in 2008 but was limited to 3.4% as against 2.2% in 2007.

The slowdown in the world economic activity brought about the fall in the trade growth rate from 7.2% in 2007 to 3.3% in 2008. It entailed also a deterioration of the employment situation coupled with job insecurity.

On the foreign exchange market, the European currency continued its upward trend against the American dollar until July 15, 2008. Then it fell back against the dollar due to bad growth prospects in Europe and expectation of the European Central Bank's easing of the monetary policy. The market for raw materials experienced a surge in oil prices as well as a rise in non-oil products prices with the exception of metals.

As regards monetary policy, some central banks of the main industrialized countries took advantage of the relaxation of inflationary pressure during the second half of the year to ease their monetary conditions for the purpose of curbing the impact of the financial crisis. In addition to the action of the central banks, governments worked out various rescue plans particularly needed to repurchase doubtful assets, recapitalize the banks and restore the investors' confidence. Furthermore, the majority of the countries agreed on strengthening the coordination of their actions in order to endow them with increased effectiveness. The leaders of developed countries particularly approved an action aimed at improving the supervision of the financial system.

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[1] *International Monetary Fund, World Economic Outlook, 13 April 2009.*

In this context, the economic activity in Africa remained relatively constant. Indeed, the continent's economic growth rate was evaluated in real terms at 5.2%, i.e. 2 percentage points above the world average. However, it was lower than the 2006 and 2007 achievements (6.1% and 6.2% respectively) and the minimum level required for the Millennium Development Goals (7%). Inflation rose to stand at 10.1% in 2008, against 6.3% in 2007. The current account balance, in terms of percentage of the GDP, stabilized at 1% from one year to another. The external reserves represented 69.5% of imported goods and services, against 71.8% in 2007. However, the AACB's five sub-regions showed different trends, as stated in the following paragraphs.

II. OBJECTIVES OF THE AFRICAN MONETARY CO-OPERATION PROGRAMME (AMCP)

The African Monetary Co-operation Programme (AMCP) involves the adoption of collective politic measures to achieve a harmonised monetary system and common management institution. It envisages, in this regard, the harmonisation of the monetary co-operation programmes of the various sub-regional groupings as building blocks with the ultimate objective of evolving a single monetary zone by the year 2021 with a single currency and a common central Bank at the continental level.

2.1. AMCP Convergence Criteria

In order to achieve the harmonisation of the monetary co-operation programmes of the various sub-regional groupings, the Assembly of Governors adopted the following criteria that should be observed by at least 51% of the AACB membership, before the launching of the African Monetary Union.

- **Primary criteria:**
  - Overall budget deficit (excluding grants) / GDP ratio < 3%;
  - Inflation rate < 3%;
  - Minimisation of Central Bank's financing of budget deficit;
  - External reserves ≥ 6 months of goods and services imports.

- **Secondary criteria :**
  - Elimination of domestic arrears and non-accumulation of new arrears;
  - Tax revenue / GDP ratio ≥ 20%;
  - Salary mass / total tax revenue ratio < 35%;
  - Public investments financed from internal resources / tax revenue ratio > 20%;
  - Maintenance of real exchange rates stability;
  - Maintenance of positive real interest rates.

2.2. Stages for the implementation of the AMCP

The African Monetary Union would be created, at the end of a process, comprising the following six stages:

Stage I (Year 2002-2003)

- Establishment of Sub-regional Committees of the AACB where they do not exist and revitalisation of existing Committees;
- Adoption by each Sub-region of formal monetary integration programme.

Stage II (Year 2004 - 2008)

- Harmonization and co-ordination of macroeconomic and monetary policies as well as concepts;
- Gradual interconnection of payments and clearing system;
- Promotion of African banking networks;
- Promotion of sub-regional and regional stock exchanges;
- Strengthening and harmonization of banking and financial supervision;
- Observance of the following macro-economic indicators by year 2008:

  - Budget deficit / GDP ratio $\leq$ 5 %;
  - Central Bank credits to government $\leq$ 10 % of previous year's tax revenue;
  - Single digit Inflation rate;
  - External reserves / import cover $\geq$ 3 months.

Stage III (Year 2009 - 2012)

- Observance of the following macroeconomic indicators by year 2012:

  - Budget deficit / GDP ratio < 3 % by 2012;
  - Elimination of Central Bank credit to government;
  - Inflation rate < 5 %;
  - External reserves / imports cover ≥ 6 months.

Stage IV (Year 2013-2015)

- Assessment of macroeconomic performance and negotiation for the establishment of a common Central Bank (Year 2015). At this stage, countries would be required to consolidate achievements made at the third stage. The activities under this stage would include:

  - Inflation rate < 3 %;
  - Continued observance of macroeconomic indicators of convergence. The macroeconomic indicators of each country/sub-region would be assessed against the convergence criteria. A comparative analysis would be made thereafter to the Convergence Council.
  - Commissioning of a study on the establishment of an African Exchange Rate Mechanism.

Stage V (Year 2016-2020)

Finalisation of arrangements required for the launching of the African Monetary Union (2016 - 2020). This is the completion stage before the take off of the common Central Bank. The following activities are expected to be undertaken:

- Preparation of institutional, administrative and legal framework for setting up the common Central Bank and currency of the African Monetary Union;
- Adoption of the institutional, administrative and legal framework for the setting up of the common Central Bank and currency of the African Monetary Union;
- Review of commissioned study on the African Exchange Rate Mechanism and operationalisation of Exchange Rate Mechanism;
- Appointment of key officers of the Common Central Bank;
- Preparation for the introduction of a common currency;
- Recruitment of staff of the Bank;
- Mid-term assessment of countries' performance;
- Final assessment of countries' performance against convergence criteria.

Stage VI (Year 2021)

- Introduction and circulation of the common African currency (2021);
- A transitional period during which sub-regional monetary institutions would operate alongside the African Central Bank.

2.3. Institutional framework for surveillance

To ensure that there is a permanent institutional framework at the level of member states and at the sub-regional level to monitor performance, the following is proposed:

- **Convergence Council** comprising Ministers of Finance and Governors of Central Banks, will report to the Authority of Heads of State and Government of the African Union ;

- **Co-ordinating Committee** made up of Executive Committee of the AACB i.e. the Chairperson, the Vice-Chairperson and the Chairpersons of the sub-regional Committees. The Committee will evaluate the proposals of the Technical Committee and make recommendations for the consideration of the Convergence Council ;

- **Technical Committee** comprising Experts of Central Banks and Ministries of Finance will evaluate and analyse information from the various sub-regions and make proposals to the co-ordinating Committee. These relate to macroeconomic convergence criteria specified in the plan of action and any other issues as may be directed by the Assembly of Governors.

- **AACB Executive Secretariat and the ECA/African Union Secretariat**.

III. <u>STATUS OF THE AMCP IMPLEMENTATION</u>

3.1. Recent country and sub-regional economic and financial developments

3.1.1. North Africa sub-region

Algeria

In 2008, the economic growth rate was 2.4 %, against 3% in 2007. This decline was due to the fall in the hydrocarbon sector production by about 2.3 %, in relation to the implementation of OPEC agreements. However, when hydrocarbon activities are excluded, Algeria's economic growth rate stands at 6.1%, due mainly to important public investment programs, particularly in the building and public works industry, which achieved a growth rate of 9.8% in 2008. The public administration and service sectors also contributed significantly to the growth by increasing by 7.8% and 8.4% respectively in 2008 against 6.8% and 6.5 % in 2007. Moreover, the industrial sector achieved a growth rate of 4.4%, against a negative one of 0.8 in 2007.

The inflation rate represented in 2008 a 4.4% yearly slide, which was the highest rate recorded in Algeria for the last ten years. This rise in inflation was mainly due to a significant increase in prices of basic commodities on the international market during the first half of the year.

As far as external transactions are concerned, trade balance recorded in 2008 a surplus of USD 40.60 billion, against USD 34.24 billion in 2007. Export increased significantly to US 78.59 billion in 2008, against USD 60.59 billion in 2007, driven by hydrocarbon export earnings (77.19 billion in 2008, representing an increase of 30%, compared to the year 2007). On the other hand, export earnings, excluding hydrocarbons, remained very modest (USD 1.4 billion in 2008, i.e. 2.0% of the total export earnings). Imports increased by 42.0%

worth USD to 37.99 billion due to the rise in the imports of industrial capital goods and foodstuffs which stood at respectively USD 14.0 billion and USD 7.27 billion.

Reflecting the trend of trade balance, the current account recorded a USD 35.2 billion surplus in 2008, against USD 30.5 billion in 2007. In addition, the capital and financial transaction account recorded a USD 2.54 billion surplus, and this was mainly due to foreign direct investments (USD 2.33 billion in 2008). In sum, the overall balance was a surplus of USD 36.99 billion in 2008, representing an increase of 25.17%, compared to the year 2007.

The public finance continued to show good performance in 2008. The total budgetary revenues experienced a sharp rise of 38.6% in 2008, standing at AD 5111 billion. Budgetary expenditure reached AD 4177 billion, representing an increase of 34.4%, compared to the year 2007. The overall public revenue operations balance amounted to AD 835.8 billion, representing an increase of 82.9% in 2007. As a result the overall public revenue balance/GDP ratio, improved from 4.9% in 2007 to 7.6% in 2008.

The trend in the monetary standing in 2008 was characterized by a new consolidation of net external assets which induced a net increase in the liquidity of banks. Indded, net external assets amounted to AD 10,246.8 billion at the end of 2008, against AD 7,415.5 billion at the end of 2007, that is an increase of 38.2%. They covered the money supply (M2) worth 147.3% in 2008, against 123.7% in 2007.

In 2008, the Bank of Algeria continued to use indirect monetary policy instruments to cope with the situation of excess liquidities. Further to the liquidity recovery, the Bank sterilized AD 1,100.0 billion of which AD 443.0 billion through reserve requirements, and AD 394.7 billion through the instrument of interest-bearing marginal facility. As a result, broad money supply (M2) and strict money supply (M1) growth rates were limited 16% and 17.27 %, respectively.

EGYPT

The Egyptian economy continued to show good performances in 2008. Indeed, the economic growth rate was 7.2%, against 7.1% the previous year. The contribution of the main sectors represented 1.3% for the processing industry, 0.8% for the wholesale trade, 0.6% for the Building and Public Works industries, 0.5% for agriculture and hydraulics, and 0.6% for the Suez Canal. Overall, the private sector contributed to the total growth by 4.9%, against 2.3% for the public sector. In terms of demand-supply analisys, the strength of the economic activity was mainly due to a significant increase in goods and services exports (30.4% in 2008 against 132% during the previous year).

The rate of inflation passed from 8.6% in 2007 to 20.2% in 2008, i.e. the highest rate since the beginning of the 1990's. This trend resulted from multiple factors, including the increase in prices of foodstuffs on the international market, the fall in the offer of local products as well as the rise in the prices of local petroleum products.

The financial policy adopted by the government for 2008 aimed at reducing the impact of the inflationary pressure on low income households, increasing tax collection and facilitating the settlement of tax dispute. In addition, legislative texts aimed at rationalizing the use of subsidies and increasing overall revenues were adopted. In this context, the total budget deficit was reduced from 7.5% of GDP in 2007 to 6.8% in 2008. The total resources collected amounted to £ 221.4 billion in 2008, that is an increase of 22.9% in annual slip, with a contribution of about 55.5% to the budget revenue. On the other hand, the expenditure reached £ 282.3 billion in 2008, that is a rise of £ 60.3 billion, compared to the previous year.

In 2008 period, the balance of payments recorded a total surplus of USD 5.4 billion, that is 3.3% of GDP due to net capital inflows (USD 7.1 billion) and the surplus in the balance of current transactions (USD 0.9 billion). On the exchange market, the Central Bank of Egypt continued to implement its policy characterized by a flexible determination of exchange rates. In this context, the american dollar appreciated by 6.8% between June 2007 and June 2008 on the interbank market. The total liquidity of the banking system grew by 15.7% at the end of June 2008, against 18.3% the previous year; in keeping with the development in the near-money.

THE LIBYAN ARAB JAMAHIRIYA

In keeping with economic sector restructuring measures implemented in 2008, Libya recorded positive economic results.The real GDP increased by 7.8%, and this trend was ascribable to the oil and gas sector, which increased by 6.9%, and non hydrocarbon sectors (8.9%). Oil transactions accounted for 52.5% of the GDP in 2008, against 53.0% in 2007, while other non hydrocarbon economic activities represented 47.5% of the GDP.

With respect to public finance, the revenues collected during the year 2008 amounted to USD 58.7 billion, including USD 51.9 billion from oil and about USD 6.7 billion from other revenues, mainly taxes and customs revenues. Expenditures amounted to USD 35.6 billion, including running expenses of USD 12.3 billion worth 34.5% of total expenditure, and about USD 23.309 billion development-related expenditure (65.5%).

According to preliminary data, the balance of payments recorded a surplus of USD 15.5 billion, against US 16.9 billion in 2007. This positive balance was involved with the current account which showed a surplus of USD 35.2 billion in 2008, against 28.4 billion, that is a rise of 23.9%. Exports amounted to USD 61.9 billion, that is an increase of 31.9% due to the rise in crude oil prices on international markets[2]. Imports increased by USD 18.3% to stand at USD 21.7 billion in relation to the increase in public expenditure and the continuation of the policy of easing foreign trade restrictions. All in all, trade balance posted a surplus of USD 40.9 billion, against USD 29.3 billion in 2007. In relation to the development in foreign transactions, the Libyan Dinar depreciated in comparison with the American dollar (2.0%), the Japanese yen (28.1%) and the Swiss franc (9.1%). On the other hand, it appreciated, compared to the Euro (2.1%) and the pound sterling (26.1%).

The total liquidity in the economy increased by 44.2% in 2008, due to the rise in the strict money offer (M1) by 41.1% and that of the near-money (52.9%).

MAURITANIA

The growth of the Mauritanian economy accelerated in 2008. Thus, the real GDP increased by 5.7%, against 1.0% in 2007. Except for oil, the transaction rate increase represented 6.6%, against 5.9% in 2007. This result achieved in spite of a significant fall in oil production was driven by the service, agriculture, breeding and mine sectors.

[2] Revenues from crude oil sales generally varied between 94.9% and 97.1% of the total Libyan exports.

In spite of the soaring prices of international oil and food during the first eight months of the year 2008, the annual average inflation rate remained identical to that of the previous year (7.3%). In a yearly slip, the Harmonized Consumer Price Index (HCPI) dropped significantly at the end of December 2008 to stabilize at 3.9%, against 7.4% in 2007. This result was due to the implementation of a prudent monetary policy and measures taken by the authorities to lessen the increase in the the prices of vital commodities. Moreover, the overall drop in prices of basic commodities on the international market during the last months of the year 2008 impacted positively on the domestic inflation level.

As regards public finance, the year 2008 was characterized by the worsening of the budget deficit following the measures taken by the Government to reduce the impact of the increase in food prices on the households' purchasing power. The total budget deficit therefore represented 6.5% of GDP. Exclusive of grants, it accounted for 6.8% of GDP.

In relation to the international context characterized by the surge in the prices of oil and foods, the current account deficit rose significantly by about 27.0%. This trend resulted from the worsening of the service and income deficits, which cancelled out the impact of the improvement in trade balance and current transfers. In this context and in spite of a surplus of 81.2 billion ouguiyas recorded by the financial transaction and capital account, the overall balance of payments showed a deficit of 25.9 billion ouguiyas, against a surplus of 4.1 billion ouguiyas in 2007. Thus, the official external reserves fell slightly to 51.0 billion ouguiyas at the the end of 2008, that is 1.5 months of imports against 52.4 billion in the same period of the previous year (1.8 months).

As regards the monetary policy control, the Central Bank continued to control inflation in accordance with its status.

SUDAN

During the year 2008, the Sudanese economy was affected by two contradictory factors, namely the surge in oil prices in the first half of the year, and the downturn in the world demand and oil prices due to the world financial crisis during the second six-month period.

As a result from these trends, the GDP growth rate dropped back from 10.2% in 2007 to 6% in 2008. This slowdown was mainly due to the industrial sector (including oil industry), the growth rate of which declined from 23.2% to 0.8%. On the other hand the agricultural and service sectors recorded growth rates of 5.1% and 12.6% respectively, against 2.7% and 7.5% in 2007. The annual average inflation rate rose from 8.1% in 2007 to 14.3% in 2008.

As regards public finance, the budget deficit ratio (exclusive of donations) to the GDP slightly increased, passing from 1.2% in 2007 to 1.6% in 2008 because of the drop in oil resources as a result of the world economic crisis.

The external sector was characterized by a fall in the current account deficit, which passed from USD 3.3 billion in 2007 to USD 803 million in 2008. This trend was driven by the increase in trade balance surplus from USD 1.2 billion to US 3.4 billion, mainly in relation to the significant rise in oil prices in the second half of the year.

Thedevelopment in the money sector was characterized by the increase in the money supply by 16.3% in 2008, against 10.3% in 2007. This trend was due to the strict money and the near-money.

TUNISIA

I – TREND IN THE ECONOMIC ACTIVITY

In 2008, the Tunisian economy achieved a growth rate of 4.6% in real terms, against 6.3% the previous year, in spite of a very difficult international economic situation which induced the decline in foreign demand for Tunisian main exporting sectors' products. Inflation increased to 5.0% in 2008, against 3.2% in 2007.

The growth rate realized in 2008 was mainly on account of tradable services (7.6%), especially transport, tourism and communications. Industrial sector's activity growth slowed down, showing a 2.7% growth rate in 2008 against 7.7% in 2007. This was the same for the agricultural and fishing sector, which recorded a growth rate of 0.1%, against 3.3% the previous year, due to unfavorable climatic conditions. As regards investment, the gross fixed capital formation increased by 14.8% in 2008, against 12.7% in 2007, carrying the GDP-related investment rate to 24.9%. The contribution of the private sector to the overall investment consolidated to account for 62.0% in 2008, against 60.0% in 2007. At the same time, the national savings increased by 10.9%, against 12.8% in 2007. Thus, the rate of saving related to the disposable gross national income passed from 23.1% in 2007 to 23.3% in 2008.

As regards public finance, the government resources, in relation to the strengthening of the activity, increased by 19.8% in 2008, against 6.7% in relation to government expenditure. Subsequently, the budget deficit represented 1.2% of the GDP in 2008, against 2.9% in 2007.

Concerning external payments, trade increased in 2008 at significant rates of 21.8% for exports and 23.8% for imports. Such trend resulted in an increase in trade deficit of 31.4% worth 1.577 MTD and, a subsequent 1.2 percentage point decline in the import cover which stood at 78.2%.

The positive trend in tourist and labor incomes transfer, which increased by 10.2% and 10.8%, worth 3.4 MTD and 2.436 MTD respectively, enabled to partially compensate for the trade deficit, which showed a negative balance of about 2.1 MTD, accounting for 4.2% of the GDP in 2008. This deficit was more than compensated for by net inflows of foreign capital, which practically doubled, compared to their level of the previous year, to reach 4.0 MTD, particularly under the impact of a 64.1% increase in FDI inflows.

On the whole, the balance of payments showed a surplus of 2.1 MTD, consolidating the net external assets which rose to 11.7 MTD worth 4.6-month imports at the end of 2008, against 4.7 at the end of 2007. In addition, the foreign debt ratio decreased to 42.6% of the DGNI at the end of 2008, against 43.4% at the end of 2007. Similarly, the debt servicing ratio to DGNI fell from 11.7% in 2007 to 7.7% in 2008.

Concerning the monetary situation, the aggregate M3 recorded an increase of 14.4% at the end of 2008, due mainly to a significant consolidation of external net credits and a constant increase in economic supports. These trends contributed to the increase in the economic liquidity ratio by 2.5 percentage point to 64.4%.

3.1.2. West Africa sub-region

Like in 2007, economic activity in most member States of the Economic Community of West African States (ECOWAS) in 2008 evolved in a relatively adverse international context, particularly characterised by the financial crisis and increasing uncertainties about economic prospects. On the domestic front, the economic and financial situation of most ECOWAS member States was characterised by favourable yields during the 2008/2009 agricultural year and lowering tensions on the prices of basic commodities. However, the persistent slowdown in the implementation of structural reforms impacted negatively on requirements for productive investment recovery. Furthermore, progress recorded in the resolution of the socio-political crisis in Cote d'Ivoire and Togo helped re-establish their relationship with the Bretton-Woods institutions, even though the cases of Guinea-Bissau and Guinea-Conakry are still causes for concern.

1.2.4 Real sector

Generally, efforts at economic recovery made by member States of the Community have still not yielded the desired effects because of the persistent series of constraints, including the financial crisis which is the third crisis that has impacted on economic activity.

- **Output**

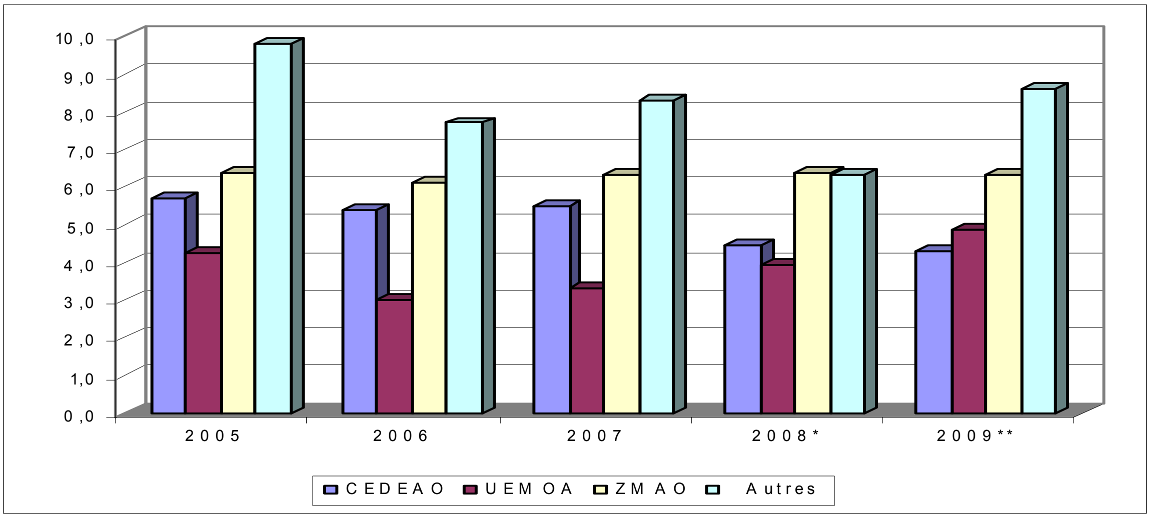
  In spite of the financial crisis, the economic growth of the Economic Community of West African States improved in 2008 from 5.7 % in 2007 to 5.8% in 2008. Within the West African Economic and Monetary Union (UEMOA) – Benin, Burkina Faso, Cote d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo, economic activities recorded a growth rate of 3.9% as against 3.3% in 2007. This improvement was due to the increased growth in practically all the member States. The improvement observed concerned particularly the primary sector which enjoyed the best climatic conditions. The five non UEMOA member countries in the region (The Gambia, Ghana, Guinea, Nigeria and Sierra Leone) -with Nigeria being by far the largest economic – posted a constant GDP growth rate of 6.4% between 2007 and 2008 as a result of the drop in the price of petroleum and also the increase in production for Nigeria. Performance levels in Guinea tried to recover in 2008 (1.8% in 2007 as against 4.9% in 2008), whilst for other countries growth declined.

  For year 2009, prospects indicate a growth rate of 5.8%, under the assumption of favourable climatic conditions and reduced socio-political tensions. Furthermore, ongoing negotiations with the Bretton Woods institutions could also result in the conclusion of Poverty Reduction and Growth Facility **(PRGF)** programmes in Cote d'Ivoire and Togo. In most member States, a higher growth rate is expected. Some uncertainties are impacting negatively on prospects because of the effect of the financial crisis.

Table 1.1 Real GDP growth rate in ECOWAS member States

	2002	2003	2004	2005	2006	2007	2008*	2009**
CEDEAO	*3,7*	*6,8*	*5,1*	*5,7*	*5,4*	*5,7*	*5,8*	*5,8*
UEMOA	*1,3*	*3,1*	*2,8*	*4,2*	*3,0*	*3,3*	*3,9*	*4,9*
BENIN	***4,4***	***3,9***	***3,1***	***2,9***	***3,7***	***4,6***	***5,3***	***6,1***
BURKINA FASO	***4,6***	***8,0***	***4,6***	***7,1***	***5,5***	***3,6***	***4,5***	***5,5***
COTE D'IVOIRE	***-1,6***	***-1,7***	***1,6***	***1,8***	***1,2***	***1,5***	***2,9***	***4,3***
GUINEE BISSAU	***-7,1***	***0,6***	***3,2***	***3,5***	***2,0***	***2,7***	***3,1***	***3,2***
MALI	***4,3***	***7,6***	***2,3***	***6,1***	***5,3***	***4,3***	***4,7***	***5,1***
NIGER	***5,8***	***3,8***	***-0,8***	***8,4***	***5,8***	***3,3***	***5,9***	***4,5***
SENEGAL	***1,2***	***6,7***	***5,6***	***5,6***	***2,3***	***4,8***	***3,9***	***5,2***
TOGO	***-0,2***	***4,8***	***2,5***	***1,2***	***3,9***	***1,9***	***0,8***	***3,3***
ZMAO	4,6	8,8	6,3	6.4	6,0	6,4	6,4	6,0
GAMBIE	***1,3***	***7,4***	***6,6***	***6,9***	***7,7***	***6,9***	***6,1***	***6,0***
GHANA	***4,5***	***5,2***	***5,6***	***5.9***	***6,2***	***6,3***	***6,2***	***5,8***
GUINEE	***4,2***	***1,2***	***2,3***	***3,0***	***2.4***	***1.8***	***4,9***	***3,9***
NIGERIA	***4,6***	***9,6***	***6,6***	***6.5***	***6,0***	***6,5***	***6,4***	***6,1***
SIERRA LEONE	***6,5***	***10,7***	***9,6***	***7,6***	***7,2***	***6,4***	***5,6***	***5,9***
Autres	6,1	2,4	1,9	4,2	8,1	7,7	6,3	8,6
CAP-VERT	***5,3***	***4,7***	***4,3***	***5,6***	***8,2***	***6,7***	***5,9***	***6,5***
LIBERIA	***7,8***	***-1,9***	***-2,8***	***1,4***	***7,8***	***9,5***	***7,1***	***12,7***

Graph 1.3 : ***Real GDP Growth Rate in ECOWAS Member States***



Data Source: BCEAS, WAMZ and IMF *= estimated **=provisional

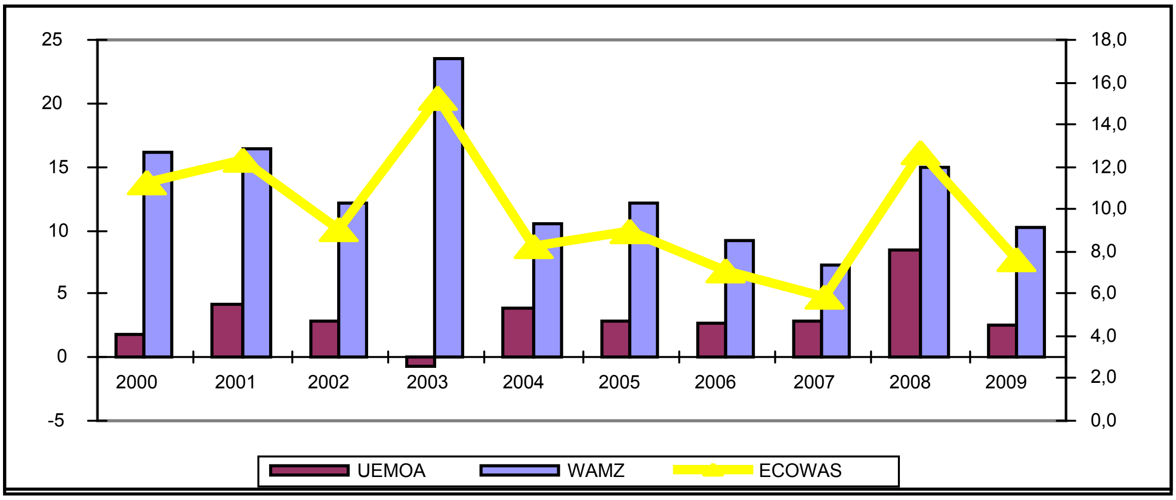
- ## Inflation

Inflation increased substantially in the whole of West Africa as a result of the hike and the prices of basic commodities during the first half of 2008, and the world economic slowdown that ensued. This situation was observed in all countries of the region regardless of their exchange rates regime, economic structures and level of financial development. The average inflation rate for the region increased from 5.8% in 2007 to 12.7% in 2008. In many UEMOA countries, the increase in the prices of food stuff – as a result of the drought which led to food crisis in the region – and that of fuel, had a rising effect on inflation. It increased from 2.9 to 8.5% in 2008. However, UEMOA countries whose currencies are pegged to the euro continue to benefit from an average inflation rate far lower than that of WAMZ (West African Monetary Zone) countries which all (except The Gambia) posted rates above a single digit. Inflation for WAMZ countries also rose substantially when compared to the previous figures.

Persistent inflationary pressures were apparently due to the late manifestation of the direct effect of price developments for foodstuff and fuel in 2008; secondary effects have been controlled and the underlying inflation has reduced in several countries. Several countries which have not totally applied the previous rise in the prices of fuel were late in reducing the retail prices after the decline in wholesale import prices, to determine the profit margins of local distributors. Ghana, where inflationary pressures were sustained by the budget expansion policy applied during the electoral year, and Nigeria, where monetary policy has been flexible, are considered as exceptions. The world financial crisis and the decline in the prices of petroleum and foodstuffs in the second half of the year called for re-evaluation of monetary policies. Most of the central banks in West Africa tightened their targets in the face of rising world prices of foodstuffs and fuel, although half of those who had taken that decision in the first half of 2008 changed their minds during the other half. Real interest rates reduced in several countries (see graph below).

Graph 1.4: ECOWAS Inflation Rates (end of period)

Sources : BCEAO, WAMZ et IMF

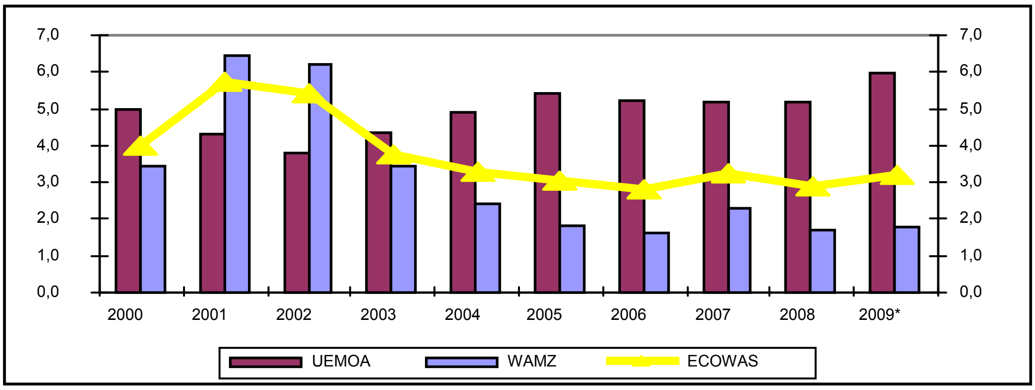


1.2.1.2 Public Finance

Developments in the overall budget balance in 2008 reflected the difficulties which the world economic development had imposed on West Africa as well as the opportunities they offered to the region. As at end September, the Authorities had adapted their budget policies to trends in the prices of food commodities and fuels. While the public finance situation of oil importing countries was ill at ease, that of exporting countries improved substantially because of the hike in petroleum prices. The overall budget deficit of the region (excluding grants) thus improved from 3.2% in 2007 to 2.9% in 2009. In the UEMOA zone, deficit stagnated at 5.2% whilst in WAMZ, it improved from 2.3 to 1.7% in 2008. In 2009, it is expected to decline at all levels to 6.0% at Community level. (See graph below).

Graph 1.5 : Budget Deficit – ECOWAS

Sources : BCEAO, WAMZ and IMF



1.2.3. External Sector

In 2008, the Community's current transaction balance stood at 10.1% of GDP as against 5.8% in 2007. This surplus was due to the improvement in the trade balance and net revenue. The surplus in the capital and financial operations account particularly diminished because of the declined in direct investment, portfolio investments and other investments. In effect, when compared to year 2007, direct investments mainly meant for the petroleum, mining and telecommunication sectors, diminished in 2008.

Table 1.2. ECOWAS Current Account Balance (as percentage of GDP)

	2002	2003	2004	2005	2006	2007*	2008*	2009
CEDEAO	-0.7	4.8	11.6	16.3	14.2	5,8	10,1	10,0
UEMOA	-1.2	-3.5	-4,5	-5,8	-4,1	-6,4	-6,0	-5,9
BENIN	-2.8	-6.5	-7,1	-5,2	-4,6	-9,0	-8,7	-9,1
BURKINA FASO	-9.2	-8.5	-10,4	-11,7	-9,6	-8,3	-9,5	-8,2
COTE D'IVOIRE	6.7	2.1	1,6	0,2	2,6	-0,7	2,1	1,0
GUINEA BISSAU	10.7	24.3	4,8	-3,5	-12,8	-8,0	-5,3	-3,9
MALI	-4.1	-6.4	-8,2	-8,0	-3,6	-8,1	-7,9	-7,2
NIGER	-8.2	-7.9	-8,0	-9,4	-8,6	-8,3	-12,6	-13,1
SENEGAL	-6.4	-6.4	-6,4	-7,8	-9,3	-11,7	-12,0	-9,7
TOGO	-9.5	-9.2	-10,6	-21,8	-15,3	-8,6	-8,4	-13,0
ZMAO	-0.4	9.2	20.1	28.0	19.6	9,7	15,2	15,0
NIGERIA	-4.0	5.7	18,0	32,0	24,1	12,4	19,0	18,1
GHANA	-0.5	4.0	-3.6	-7,2	-6,4	-13,4	-19,7	-13,2
GUINEE	-4.3	-2,5	-4.8	-5,7	-7,7	-10,1	-6,1	-2,9
SLEONE	-13,4	-4,9	-5,8	-7,0	-6,2	-9,8	-8,6	-4,2
GAMBIE	-3.3	-4.4	-8.6	-16,9	-14,2	-9,9	-14,3	-12,7
Autres	-7,5	-19,9	-17,8	-11,0	-17,2	-16,7	-14,4	-12,2
CAP VERT	-11,1	-11,1	-14,4	-4,0	-6,9	-13,6	-12,4	-10,9
LIBERIA	-0,5	-36,6	-24,3	-24,4	-36,9	-22,5	-18,4	-14,8

Sources : BCEAO, WAMZ and IMF

Like the prices of basic commodities, the terms of trade fluctuated substantially in West Africa in 2008. Although petroleum prices declined in the second half, exporting countries recorded considerably gains as a result of developments in the terms of trade over the rest of the year. The external position of several countries in West Africa somehow worsened as a result of the increase in the current payments deficit of importing countries and dwindling reserves. Their current external deficit diminished by the end of 2008 in spite of the decline in the price of petroleum, because of the persistently high level of their food import bills, the collapse in the prices of non petroleum basic commodities, the reduction in the volume of exports and, sometimes, the decline in foreign remittances and earnings from tourism. Cape Verde and The Gambia indicated a decline in earnings from tourism in the third quarter. Most of the oil exporting countries succeeded in maintaining their current payments surpluses in 2008, although their magnitude was less than projected previously because of the sharp drop in the prices of petroleum and reduction in production as decided by OPEC.

External debt was estimated at 14.8% of GDP in 2008 as against 13.6% in 2007 for all ECOWAS countries. This decline was particularly due to the reduction in Nigeria;s debt from 60% in 2002 to 4.1% in 2007 and 4.0% in 2008. At zonal leve,l the volume of UEMOA's external debt stood at 32.7% of GDP whilst that of WAMZ stood at 7.4% in 2008.

The heavily externally indebted countries were Guinea-Bissau (198.1%), The Gambia (85.7%), Liberia (84.2%) and Guinea (68.6%). On the whole, four out of the fifteen (15) ECOWAS countries were considered as heavily indebted. However, the total external debt of ECOWAS countries seemed to sustainable and this was due to the accelerated impact of the Heavily Indebted Poor Countries (HIPC) Initiative, and the Multilateral Debt Relief Initiative (MDRI) which has brought about the cancellation of a substantial portion of the external debt stock of several countries in the Community.

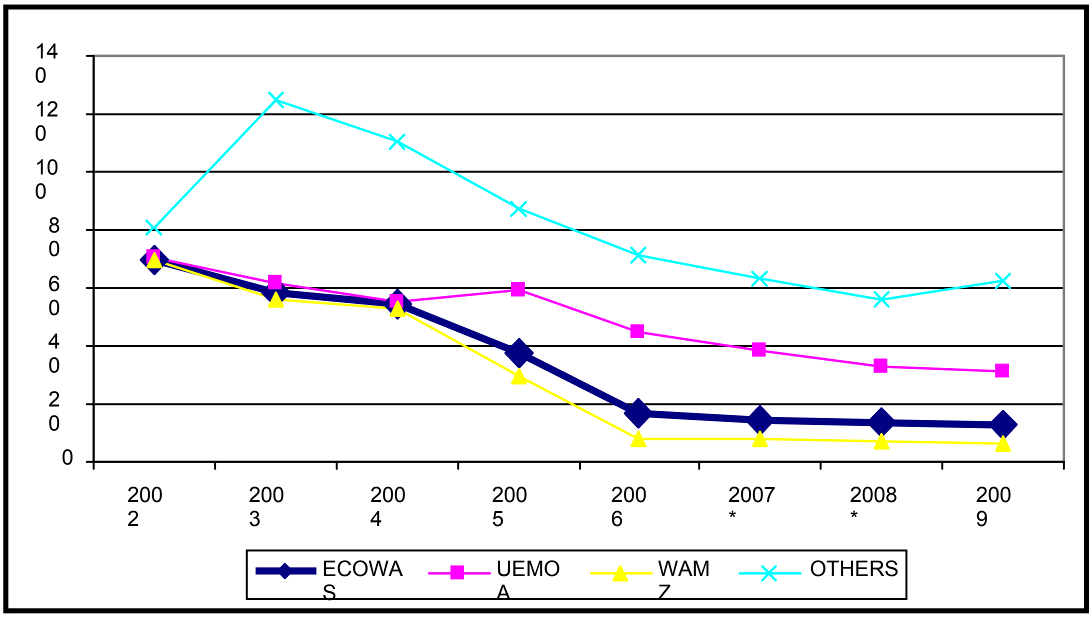
Table 1.3: ECOWAS External Debts (as % of GDP)

Tableau 1.3: Dette extérieure - CEDEAO (en % du PIB)

	2002	2003	2004	2005	2006	2007*	2008*	2009
CEDEAO	**69,9**	**58,4**	**54,3**	**37,8**	**17,0**	**14,8**	**13,6**	**12,6**
UEMOA	**70,4**	**61,3**	**55,5**	**58,9**	**44,6**	**38,0**	**32,7**	**31,0**
BENIN	48,1	40,3	38,6	40,3	21,1	11,3	15,9	16,9
BURKINA FASO	42,3	37,2	37	40,9	20,0	18,5	23,4	25,6
COTE D'IVOIRE	76,9	68,7	60,8	72,1	70,0	67,4	57,3	52,6
GUINEA BISSAU	344,4	352,4	324,7	333,9	304,5	235,9	198,1	201,1
MALI	79,3	67,1	64,5	60,0	20,5	20,1	17,9	18,2
NIGER	78,5	63,7	58	53,9	14,7	15,8	10,4	9,5
SENEGAL	61,7	50,9	44	42,4	37,3	16,8	14,6	13,0
TOGO	87,1	89,4	76,3	73,7	67,5	70,5	46,8	42,7
ZMAO	**69,5**	**55,9**	**52,8**	**29,8**	**8,1**	**8,4**	**7,4**	**6,5**
NIGERIA	60,5	53,1	49,9	21,7	3,4	4,1	4,0	4,0
GHANA	117,7	72,2	72,2	63,5	17,5	24,6	28,1	16,2
GUINEE	94,9	97,7	91,1	109,4	109,6	74,7	68,6	67,9
SLEONE	183,8	150,2	138,6	129,7	8,3	7,1	5,9	5,1
GAMBIE	147,3	159,3	139,9	130,2	127,5	90,3	85,7	106,5
Autres	**81,1**	**125,1**	**110,3**	**87,3**	**71,2**	**63,2**	**56,4**	**62,2**
CAP - VERT	61,8	61,8	51,1	48,5	45,1	42,1	42	44,3
LIBERIA	100,4	188,4	163,5	126,1	97,3	84,2	84	96,5

Sources : BCEAO, WAMZ and IMF

Graph 1.5 ***: Evolution of External Debt***



1.2.4. Monetary Sector

Like in 2007, the monetary situation of the Community as at end December 2008 was characterized by increased growth in money supply, induced both by an increase in domestic credit and a consolidation of the Net Foreign Assets of Monetary institutions. This growth stood at 44.9% in 2008 as against 36.2% in 2007.

In UEMOA in 2008, the net external assets of the union were expected to grow by 155.5 billion to 4,821.3 billion by end December 2008. Based on this target, domestic credit and money supply were expected to grow by 10.3% and 8.6% respectively by end December 2008. Domestic credit was expected to improve by 557.1 billion or 10.3% to 5,943.2 billion by end December 2008 based on the increase in credits to the economy, accentuated by the worsening net position of member States vis-a-vis the banking system. The volume of credit to the economy recorded an improvement of 441.4 billion or 4.0% from year to year, to 5,345.8 billion by end December 2008, in line with the increase in ordinary credits and the 0.4 billion decline in agricultural credits. The increase in ordinary credits resulted mainly from loans granted to firms operating in the energy and telecommunication sections, as well as the consolidation of short term claims held by banks over certain firms under restructuring. The net debit position of Governments stood at 597.4 billion by end

December 2008, worsening by 115.8 billion when compared to the level attained by end December 2007. This situation was linked to the settlement of several expenditures incurred by the States. In line with its counterpart developments, money supply recorded a growth rate of 8.6% to 9,245.5 billion by end December 2008. This growth in overall liquidity was accounted for by a 10% increase in deposits (592.0 billion) and fiduciary circulation which grew by 5.6% (141.2 billion).

With regards to WAMZ countries, growth in money supply stood at 56.0%, consistent with the relatively high trends recorded in 2007 with a rate of 42.6%. This trend was maintained in line with to our projections for year 2009. Like in 2007, the expansion in broad money supply in 2009 was induced by increases in both net domestic assets and net foreign assets. These developments could be attributable to the rapid growth in credit granted to the private sector in Nigeria and Ghana. Generally, credit granted to the State declined in all member countries particularly because of the implementation of prudent fiscal policies, which led to the elimination of advances granted to the State and reduction of the banking system's credit to the public sector. The improvement in physical performance and a more effective cash management also led to the increase in credit granted to the private sector.

Table 1.4: ECOWAS Money Supply Variation

	2002	2003	2004	2005	2006	2007*	2008*
CEDEAO	**18.31**						
		18.51	**13.40**	**14,4**	**39,6**	**32,6**	**42,8**
UEMOA	**16**	**2,9**	**5,8**	**7,6**	**11,4%**	**18,7%**	**10,1%**
BENIN	-6,5	10,1	-9,4	22,4	18	19,8	12,7
BURKINA FASO	2,9	16,4	0,2	18	10,1	22,9	12
COTE D'IVOIRE	30,6	-6,6	1,7	-9,1	10,3	23,6	5,6
GUINEA BISSAU	22,8	14,4	19,2	-55,5	5,3	24,8	29,4
MALI	28,5	21,9	11,9	-16,2	8,8	9,2	0,2
NIGER	-0,4	-13,3	19,1	6,6	16,2	23,2	11,9
SENEGAL	7,6	14,6	12,8	8,2	11,9	26,1	4,8
TOGO	-2,5	6,2	16,6	2	22,7	16,8	18,1
Economies de la ZMAO	**19,35**	**26,47**	**16,95**	**16,4**	**51,7**	**42,6**	**56,0**
NIGERIA	15,8	24,1	14	16	53	44,2	58,2
GHANA	50	37,8	25,9	14,3	38,8	36,3	40,2
GUINEE	18,4	34,7	35,9	37,2	59,4	4,8	38,3
SLEONE	29,6	21,9	20,1	31,3	21,5	21,5	22,4
GAMBIE	27,7	43	18,3	13,1	26,2	26,2	18,4
Autres économies de la CEDEAO	25,8	8,45	29,9	23,1	24,1	20,1	19,4
CAP VERT	14,8	8,6	10,5	15,6	18,7	9,7	7,9
LIBERIA	36,8	8,3	49,3	35,7	34,4	40,1	41,4

Sources : BCEAO, WAMZ and IMF

Interest rates, on their part, involved differently according to zones and the nature of the rates. In the CFA Franc zone, bank requirements are liberal. Thus, debit rates are liberally fixed between the parties within the limit of the commercial rates. The commercial rate is fixed at 18.00% per annum for loans granted by banks and 27.00% per annum for loans granted by financial institution, private institutions or savings and credit co-operatives, other decentralized financing systems as well as for all economic operators. Credit rates are also liberal with the exception of the small savings remuneration which is fixed at 3.50% for booklet accounts. The interest rates for fixed deposit and cash bonds of 5.0 million maximum and for a period not exceeding one year is fixed at 2.95%, representing the monthly rate of the money market less 2 points. With the exception of the Naira, for small savings, all the other countries enjoy interest rates higher than those of the CFA zones, in spite of the downward trends. The rate for small savings ranges from 2% (Naira) to 14.7% (GNF). Remuneration for treasury bills ranges from 4.5% (CFA) to 21.4% (GNF). Remuneration for commercial loans is higher in Ghana. In effect, apart from a few exceptions, this trend in rates follows the inflation rates logic.

Table 1.5: ECOWAS – Developments in Interest Rates

ZONES	TAUX D'INTERET	2002	2003	2004	2005	2006	2007	2008
CFA	**Epargne**	3.50	3.50	3.50	3.50	3.50	3.50	3.50
	Prêts commerciaux	Libre	Libre	Libre	Libre	Libre	Libre	Libre
	Bon du Trésor	4.1	3.4	3.1	3.7	4.5	4.5	4.5
Escudo	**Epargne**	7.9	6.4	6.3	6.3	6.3	6.3	6.3
	Prêts commerciaux	13.9	13.5	13.5	13.5	13.5	13.5	13.5
	Bon du Trésor	6.5	7.6	5.6	5.6	5.6	5.6	5.6
Dalasi	**Epargne**	8.0	8.0	10.0	5.0	5.0	5.0	5.0
	Prêts commerciaux	20.5	28.8	28.8	21.8	14.0	13.3	13.3
	Bon du Trésor	20.0	31.0	34.0	16.0	12.8	12.8	12.8
cedi	**Epargne**	13.00	9.75	9.5	6.4	4.8	4.8	4.8
	Prêts commerciaux	38.50	32.75	28.8	26.0	24.3	24.3	24.3
	Bon du Trésor	26.28	18.1	16.4	11.4	9.9	9.9	9.9
GNF	**Epargne**	7.40	6.50	8.4	14.7	14.7	14.7	14
	Prêts commerciaux	Libre	Libre	Libre	Libre	Libre	Libre	Libre
	Bon du Trésor	13.36	13.36	12.2	23.9	22.3	21.4	21.4
Dollars Lib	**Epargne**	5.0	3.55	3.4	2.80	2.70	2.70	2.70
	Prêts commerciaux	15.0	17.0	18.4	15.9	15.3	15.3	15.3
	Bon du Trésor	nd	nd	nd	nd	nd	nd	nd
Naira	**Epargne**	2.5	3	2.0	1.5	2	2	2
	Prêts commerciaux	25.70	19.58	18.9	17.8	17.3	17.3	17.3
	Bon du Trésor	13.8	14.5	14.4	10.8	7.5	7.8	7.8
Leone	**Epargne**	4.0	4.0	6.0	5.5	5.5	5.5	5.5
	Prêts commerciaux	25.0	25.0	27.0	27.0	27.0	27.0	27.0
	Bon du Trésor	14.7	20.20	27.3	20.4	14.2	14.2	14.2

Sources: BCEAO, WAMZ and IMF

3.1.3. Central Africa sub-region

According to BEAC estimates the macroeconomic situation of the **Economic and Monetary Community of Central Africa (CEMAC)** in 2008 was characterized by a consolidation of economic activity. Indeed, the growth rate of the real GDP was established at 4.5%, against 4.6% in 2007, as a result of the development in the oil sector (4.1% in 2008, against 4% in 2007), and the non oil sector (4.0% against 4.6% the previous year). The contribution of the oil sector to the economic growth represented 0.8 point in 2008 (instead of 0.9 point the previous year), and that of the non oil sector represented 3.2 points, against 3.7 points in 2007.

By country, this result is due to the strengthening of growth in Congo (+5.2% in 2008 against -2.5% in 2007), and Chad (+1.8% against -0.8%), and to a deceleration in Cameroon (+3.5% against +3.9%), Equatorial Guinea (+16.8% against +23.2%), Gabon (+1.9% against +5.1% in 2007) and in the Central African Republic (+2.0% against +3.6%).

The development in the real activity in 2008, despite a negative impact of the external demand, was supported by the domestic demand. This latter had a positive contribution to growth (7.7 points) on account of the aggregate consumption and investment. The aggregate demand contributed to growth by 3.0 points because of mainly the steadiness of the private consumption, and to some extent the public consumption. These evolutions were supported by the firmness of economic activity, the social measures taken by the authorities as well as the salary and manpower increase in the Public administration.

Gross investments contributed positively to the increase in economic activity (+4.7 points) due to the public and private sectors. Indeed, public investments contributed to growth by 1.7 points, in relation to the resources disbursed within the framework of the HIPC[2] initiative in Cameroon, as well as the implementation of the programs at improving public infrastructures. The contribution of the Gross Fixed Capital Formation (GFCF) in the non oil private sector was 1.1 points due to the acquisition and the renewal of the production equipment in electricity, building industry, wood, and telecommunications sectors. Oil sector's contribution to growth (1.8 points) was particularly in relation to *i)* the continuation of prospection and development work *ii)* research, prospection, development, and rehabilitation programs, *iii)* prospection and some field stabilization work, *iv)* redevelopment work, and *v)* mining deposit development in Equatorial Guinea. In sum, investment rate represented 28.8% of GDP, against 29.5% in 2007[3].

The net external demand weighed heavily on growth by 3.7 points because of the negative contribution (-4.0 points) of imported goods and services, in spite of a positive incidence of exported goods and services (+0.3 point). The rise in imports was based on the strength of domestic demand to support the development in the branch of trade as well as oil and forest projects. The contribution of exports is ascribable to the rise in the sales of crude oil and other raw materials, including methanol, liquid gas, wood, manganese, aluminum and cotton.

As far as offer is concerned, the growth was primarily supported by the non oil sector (3.2 points). The primary sector contributed by 0.2 point to growth in relation to the increase in food production, which is explained by the various public agricultural sector stimulation programs. The global upward trend in cash crops, particularly in cocoa, cotton and natural rubber remained on the increase due to the firmness of stock prices on the international markets. Nevertheless, the production record may have been affected by the aging of coffee trees in Cameroon. The extractive industry stagnated reflecting the compression of crude oil production.

In the secondary sector, the manufacturing industries supported the economic growth to the extent of 0.5 point under the impulse of the brewery industry all over the sub-regional countries and the wood transformation branch. The building industry and public works activity are fairing well (0.4 point) due to the rehabilitation and development of the road network as well as the construction of public infrastructures.

In the tertiary sector, the tradables services strengthened the economic growth by 1.5 points, particularly in relation to *i)* the tourist activity stimulative measures, *ii)* the positive results of the mobile telephony activities, the restructuring of shipping and harbor activities, and *iii)* the improvement in air transport.2

Lastly, non-tradable services contributed to economic growth by 0.4 point under the impulse of the increase in manpower at public office level, particularly in the defense, education, and health sectors.

As regards ***inflation***, the pressures remain relatively significant in the CEMAC countries. On annual average, the inflation rate rose to about 5.9% at the end of the year due to i) the persistence of pressures on foodstuffs; ii) the direct and indirect effects of the increase in prices of petroleum products, iii) and upgrade of wages in some countries.

The Development in public finance during the first six-month period of 2008 came within a particular context marked by the adoption of several social measures in relation to taxes and prices in the majority of Member States. These measures were aimed at cushioning the impact of the increase in prices of staple products on the households' purchasing power. For

3

2 *Heavily Indebted Poor Countries*
In spite of many inventoried projects, the fall in the investment rate is ascribable to a high increase in the nominal GDP, as a result of soaring oil prices.

the year 2008, the Table of Financial transactions of all the CEMAC States shows the following:

- an increase of 33.1% in budgetary incomes, which represented 32.9% of GDP in 2008, against 29.1% in 2007. This rise is primarily ascribable to the increase in oil receipts, showing a higher level of international oil prices in comparison with the 2007 average, in spite of the downturn observed over the second half of 2008;

- a rise of 13.3% in budgetary expenditures, which amounted for 21.4% of GDP in 2008, against 20.9% the previous year. This increase was primarily due to a significant rise (31.7%) in capital expenditures, as a result of the appropriation of part of oil incomes to the funding of basic infrastructures and the fight against poverty. Likewise, recurring expenses increased by 13.8%;

- an improvement in the primary balance surplus, which accounted for 13.3% of GDP in 2008, against 10.2% the previous year, as well as a rise in the basis budget surplus (12.3% of GDP in 2008, against 9.1% in 2007);

- a consolidation of the commitment-based budget surplus, excluding grants, representing 12% of GDP, against 14% of GDP expected in July 2008, and 8.8% the previous year.

In 2008, ***foreign transactions*** showed an increase in the balance of payments surplus, reflecting an increase in the current account. Indeed, the balance of CEMAC's current transactions showed a surplus of 934.9 billion in 2008 representing 2.8% of GDP, against a deficit of 188.1 billion in 2007 (-0.7% of GDP) in relation to the increase in trade surplus (+28.2%). The increase in trade balance, which is ascribable to an upturn in the oil market, in comparison with the year 2007, made it possible to compensate for the worsening in the service and income deficit (-9.1% and -18.6%, respectively). The capital and financial operations account surplus fell from 1,402.5 billion in 2007 to 1,192.1 billion in 2008, due to the operations carried out in relation to the foreign national debt, particularly in Gabon.

Concerning ***foreign debt***, in relation to the restructuration of Gabon's public debt to the creditor members of Paris Club, the debt servicing ratio to the budget revenue soared from 10.1% in 2007 to 14.7% in 2008. Likewise, the debt servicing ratio to exported goods and services soared to 8.5%, against 5.3% the previous year. On the other hand, the outstanding debt expressed in a percentage of the GDP fell to 15.7%, against 18.1% in 2007.

During the year 2008, the Central Bank's ***monetary policy strategy*** mainly remained based on price stability maintenance and the support to economic growth in a sub-regional context marked by the overliquidity of the banking system, and an abundance of public cash in the majority of the Member States. In this context, the CEMAC's main reference rate, the public tender interest rate (PTIR) was reduced from 5.25% to 4.75% in 2007. In addition, as of December 31, 2008 the CEMAC member states' monetary situation was characterized by the following:

- a consolidation of the net external situation of the monetary system, with a currency cover ratio of about 102.2% at the end of December 2008, against 97.3% at the end of December 2007;

- a fall of about 39.5% in the net claims on the member states in relation to the firmness of their cash positions reflecting the public finance consolidation;

- a 26.6% increase in the credit to the economy;

- an increase of about 19.3% in money supply.

Except for the events related to the above-mentioned international environment, the **Democratic Republic of Congo**'s economy was characterized by two major facts in 2008, namely the new Government's taking of office, and the resumption of hostilities in the eastern part of the country. In this context, the economic and financial situation in was characterized by tensions on the goods and services markets, a volatility of the exchange rate from September after a relative stability, a strain on the international reserves and a much more significant increase in money supply than the monetary base.

On the basis of the achievements in the production activity at the end of October 2008, the ***GDP growth rate*** was estimated at 6.2%, against 6.3% in 2007 and initial forecasts of 10.8%. This drop in the growth mainly resulted from the international financial crisis the effects thereof on the national economy real sector have started to appear.

As far as demand is concerned, the growth remained stung, with a contribution of 6.2 points in 2008, against 6.3 the previous year. This trend was impelled by gross investments (2.4 points in 2008, against 2.3 in 2007), particularly in the mining and real estate sectors. It was also the result of the private consumption whose contribution remained positive in spite of a slight drop (2.2 points in 2008, against 2.4 points the previous year) because of a new spate of inflation on the goods and services market. The contribution of the public administrations' consumption declined from 1.5 to 1.3 points.

In spite of a positive incidence of exported goods and services (stable at 1.4 points) owing mainly to a sharp increase in basic farming and mining products, the contribution of the net external demand to growth deteriorated to stand at -0.1 point against 0.3 point the previous year. This trend is explained by the negative impact of imported goods and services (-1.4 point against -1.2 in 2007).

Concerning the offer, a slowdown in growth was recorded as a result of an economic slowdown in two areas: *i)* the building industry because of the obsolescence of the cement industry's production equipment and *ii)* the mining and oil industry, following the recession that affected a good number of the DRC's partner countries.

With respect to ***domestic prices***, inflation rate was 27.6% at the end of December 2008, against 9.9% in 2007 due to several sectors including the increase in public security-related expenditures, the effects of food and energy crises, and the disturbances in the production or marketing of some products because of the particular saturation of the country's main port.

Three periods marked the ***financial transactions in the public sector*** during the year 2008. The first one, covering the first two months of the year, was the extension of an overspending phase, which started in November 2007 and was characterized by significant budget deficits. Until August 2008, the second period was marked by a firmness of public finances, reflected by an accumulation of budget surpluses. And finally, the third phase, running from September to December, resulted in the recurrence of budget deficits in the public sector, primarily due to security expenditures occasioned by the persistence of wars in the eastern region of the country. At the end of December 2008, the financial transactions of the public sector showed a deficit of 28.5 billion CDF, representing 0.43% of GDP, against 0.53% in 2007.

The estimates of the ***balance of payments*** in 2008 indicate an overall deficit of 5.3% of GDP, against 3.1% in 2007, primarily ascribable to the fall in the prices of basic commodities. The balance of the current transactions (including grants) amounted to USD -1, 437 million, i.e. 12.1% of GDP in 2008, against a deficit of USD 153 million, i.e. 1.5% of GDP in 2007. The exportation of the main mining products experienced significant falls in the last quarter of the year 2008, mainly due to the drop in the world demand, reflected by a significant fall in the world prices, especially those of Cobalt, Copper, Zinc and crude oil.

During the first two months of the year, the trend in the nominal exchange rate was marked by a national currency's depreciation by 6.0% in comparison with the American dollar, followed by a limited stability from March to August 2008. The increase in public expenditures related to the conflicts in the eastern part of the country, in a context of reduced currency supply and firmness of the American dollar on the international markets, due to its scarcity from September, led to the depreciation of the national currency.

The international reserves amounted to USD 70.0 million at the end of December 2008, against a monthly average of USD 200.0 million in 2007. This significant fall is explained by the payment of the country's external financial commitments, the increase in security-related expenditures, and the drop in export earnings, following the international financial crisis.

The ***stock of DRC's debt*** at the end of December 2008 amounted to USD 11.13 billion. It is important to point out that the country has not yet reached the HIPC completion point, which would allow for the reduction of the outstanding debt by 90.0%. Besides, the whole of the debt servicing that was planned in the forecasts was assured.

During the year 2008, ***the money sector*** was marked by a more significant increase in money supply than that of the monetary base. This situation was due to the increase in currency deposits, which worsened the dollarization of the economy. Consequently, the effectiveness of the monetary policy was reduced in relation to a lesser control of the monetary authorities over the exogenous component, i.e. foreign currency deposits.

The Central Bank of Congo's intervention methods on the money market were mainly characterized by the introduction on April 3, 2008 of a mechanism of auction sale of Commercial Papers and the raising in the refinancing rates . The reference rate of the Central Bank was changed six times during the year under review to take account of the national economic environment and the monetary policy objectives. Thus, the Central Bank hardened its monetary policy on December 22, 2008 by increasing the reference rate from 28% to 40% in order to reduce excess liquidities, following the monetary public deficit financing.

In short, the prospects for the year 2009 are not very encouraging. While awaiting the improvement in the international economic and financial situation, the DRC's economy in 2009 should particularly experience *i)* a degradation of the terms of trade, *ii)* a fall in the volume of exports of basic commodities, *iii)* a fall in the economic growth, *iv)* a drop in foreign direct investments, particularly in the mining sector, and *v)* an unemployment rise.

In **Democratic Republic of São Tome e Principe,** the ***growth rate of the GDP*** in real terms stood at 6.0% in 2008, i.e. the same level recorded in 2007. This result was due to the rise in foreign private investments in the building industry, as well as to the dynamism of the sectors of tourism and other services. However, the country's economic activity level remains below the poverty reduction objectives. The contribution of net exports was negative due to the combined effect of the drop in the volume of cocoa exports and the rise in imported foodstuffs and goods and services.

The ***inflation rate*** at the end of 2008 accounted for 24.8%, against 27.6% in 2007. This situation resulted from the interaction of internal and external factors, including *i)* the shortage of the stock of essential imported goods, *ii)* the rise in the prices of local products, such as electricity, *iii)* the incidence of imported inflation due to the increase in the price of oil barrel on the world markets, *iv)* the increase in domestic cash due to the rise in the exchange reserves, and *v)* the increase in the Public administration's recurring expenses.

As regards ***public finances***, the total revenues represented 34.8% of GDP, i.e. 7.3% less than the previous year. This trend is explained by the drop in the non tax revenues (-25.9%). On the other hand, tax revenues increased by 29.0% in 2008, representing 17.4% of GDP, due to the rise in customs receipts, which mirrored the imports value trend. Grants recorded an increase of 78.2%, standing at 15.7% of GDP, against 10.7% the previous year. The total expenditures increased by 26.9% in relation to the rise in capital expenditures (44.5%), owing to the external funding. The recurring expenses amplified by 14.4% in relation to a significant rise in the wage bill (+25.7%) and the increase in other operating expenses (+47.0%). However, transfers and subsidies decreased by 23.4%. It should be noted that the related public debt interest expenditures decreased by 10.0 %, reflecting the effects of reaching the completion point of the HIPC initiative in March 2007. On the whole, the total budget deficit decreased to 6.5% of GDP in 2008, against 8.9% in 2007.

As far as ***foreign transactions*** are concerned, the trade deficit deteriorated passing from USD 75 million in 2007 to USD 108.5 million in 2008. This trend is particularly explained by a slight fall in the volume of cocoa exports and a significant increase in imported essential and capital goods. Consequently, the current transactions deficit slightly worsened, rising from 30.2% of GDP in 2007 to 31% of GDP in 2008. The Central Bank's gross international reserves amounted to USD 60.1 million in 2008, against 48.0 million at the end of 2007, that is to say an increase of 27.0%, accounting for more than 6 month of imports.

Moreover, the authorities maintained a flexible exchange rate system based on market indications. This enabled to reduce the difference between the official exchange rate and the gray market rate below 2%. The developments in the Dobras exchange rate in comparison with the main international currencies during the period under review were characterized by a depreciation of 1.74% against the euro, and 6.03 against the American dollar.

The ratio of the net current value of ***foreign debt*** on exports exceeded 1000%, despite the announcement in March 2007 related to reaching the completion point of the HIPC initiative. This situation was due to the fact that the negotiations with some creditors had not yet been carried to a successful issue. This ratio may decrease below 70% in the short term.

The developments in the ***monetary situation*** in the year 2008 were marked by an increase of 35.0% in broad money supply (M3), and in money supply excluding foreign currency deposits (M2) of 47.0%. The monetary base also experienced an increase of 17.0%, which was lower than that of 50.0% recorded in 2007, in relation to the indirect control performed by the Central Bank through foreign currency tender. Net credit to the Government represented 17.0 % of GDP at the end of the year 2008, thus reflecting a reduction in the Treasury's deposits to the Central Bank.

The Central Bank's monetary policy objective continued to be geared towards cash management as well as prices and exchange rate stability. Therefore, during the year 2008 the Central Bank maintained its reference interest rate in force since September 2006 at 28.0% and the reserve requirements ratio at 24.5%. In this context, the rate of the growth of the credit to the economy was brought back down from 32.1% in 2007 to 20.3% in 2008, following the credit restriction in the banking system in relation to the new developments in the international financial economic situation.

3.1.4. Southern Africa sub-region

Overall, the sub-region made good progress with respect to AMCP economic criteria, though its performance with respect to most indicators has gone down. While progress has been made with respect to the foreign exchange reserves import cover, a number of the countries have recorded declines in their months of import cover. The number of countries which have managed to contain inflation within single digit territory has declined significantly to only two, with this indicator remaining a challenge in Member Countries, given the global developments taking place that impact directly on inflation.

Angola's economy continued to perform well, registering high GDP growth rates, amid the world-wide economic downturn. The high growth rates are largely on account of large investments in the natural resource sector and high commodity prices in the international market. Both its external and internal balances remain strong. However, the economy remains narrow based, and hence susceptible to shocks, particularly poor terms of trade.

Preliminary data indicate that the Angolan economy registered a ***growth rate*** of 15.6% in 2008, down from 23.3% in 2007. Inpite of the decline attributed to the world economic crisis, Angola's growth rate is still quite high. The non-oil sector grew by 20.5%, while the oil sector registered growth of 11.7%.

After decelerating significantly over the past several years from levels above 105.6% in 2002 to an annual average of 11.8% in 2007, ***inflation*** picked up in 2008 to 13.2%. This rise stemmed from several factors including the world food price crisis, the strength of internal demand, and supply bottlenecks of goods and services.

The Angolan Government continued to focus on the reconstruction of infrastructure that was destroyed during the war and this included significant public works projects, some of which are in preparation for the 2010 African Cup of Nations, which the country will host. The country also held secondary Parliament elections during the year. However, in contrast to initial provisions of a deficit, a ***fiscal surplus*** of about 9 percent was recorded in 2008; this is against a surplus of 11.3 percent in 2007.

Net international reserves grew by US$6.8 billion during the year representing approximately 6.1 months of imports of goods and non-factor services as against 5.1 months registered in 2007. This development was on account of increased foreign currency revenues, especially from the oil and diamond mining activities.

Botswana's economy experience economic moderation combined with upwards inflation trend during 2008.

Indeed, provisional figures for 2008 show that the Botswana's economy slowed down, with ***real GDP*** growing at a moderate rate of 2.9%, down from 4.4% in 2007. The slower growth is attributable to a contraction in mining output, even before the impact of the global economic slowdown and albeit an increase in non-mining output which grew by 8% in 2008 compared to 5.7% in 2007.

Inflation peaked at 15.1% in August 2008 and averaged 12.6% during the year, up from an average of 7.1% in 2007. This was above the Bank of Botswana's upper end of the medium-term inflation objective range of 3-6%. The major sources of upward pressures on inflation were rising costs of food and fuel, with fuels costs feeding through into increased public transport fares. Increases in administered prices in the form of electricity prices as well as a 30.0% levy on alcohol beverages introduced in November 2008, added to inflationary pressures.

Foreign exchange reserves stood at P68.6 billion (USD9.1 billion and SDR5.9 billion) at the end of December 2008, up by 17.3 percent from December 2007. However, in terms of the US dollar and SDR, the reserves declined by 6.9 and 4.0% respectively. They represented an equivalent of 23.0 months of imports of goods and services, a decline from 27.0 months import cover in 2007. This trend reflects the general decline in reserves as the economic downturn intensified, coupled with the non-relenting growth in imports during the year.

During 2008, the Pula depreciated against most SDR constituent currencies with the exception of the British pound against which it appreciated by 10.6%. It depreciated significantly against the Japanese yen by 35.6%, against the US dollar by 20.1% and against the euro by 16.4%. Against the Pula basket constituent currencies, the SDR and rand, the Pula depreciated by 18.2% against the SDR and appreciated by 10% against the rand. During the year, the nominal effective exchange rate (NEER) depreciated by 2.3% while the real effective exchange rate (REER) appreciated by 4.5 percent.

Lesotho's economy expanded in 2008 at a reduced rate of 3.5% compared to 5.1% in 2007. The slowdown in growth was mainly attributed to a fall in the performance of the secondary sector, which is estimated to have grown by 1.3% in 2008 down from 8.5% in 2007 due to contraction in manufacturing.

In keeping with the surge of the international prices of oil and food during the first semester, the average ***inflation rate*** stood at 10.7 percent in 2008 up from 7.1 percent in 2007, and this was despite a decline of domestic prices from 12.1% in September 2008 to 10.6% in December.

Government budgetary operations resulted in an estimated deficit equivalent to 0.1 percent of GDP in 2008 compared to a surplus of 7.9 percent in 2007. The deficit was attributable to, among others, declining tax revenues.

Madagascar experienced large inflows of foreign currencies geared towards the implementation of the two main mining projects and this affected macroeconomic management due to the low level of absorption of the economy. The country's competitiveness was threatened by the appreciation of the local currency, the Ariary. ***Real GDP growth*** remained positive in 2008 at 7.2 percent up from 6.2 percent in 2007 and 5.0 percent in 2006.

Inflation averaged 9.4 percent in 2008 down from 10.3 percent in 2007 and 10.8 percent in 2006. This decline is attributed to the limited impact of the oil and food crisis on national prices. Low food prices, and in particular rice whose harvest was good, as well as the appreciation of the local currency compared to trading partner currencies, contributed to the low inflation.

The Government's objectives in the fiscal area of widening the tax base and improving tax administration bore fruit with tax collections increasing in 2008. However, the country still realised a ***fiscal deficit*** of 4.7 percent of GDP in 2008 compared to a deficit of 2.8 percent in 2007.

Malawi's economic performance remained strong in 2008 with real GDP growth increasing and inflation maintaining single digit inflation. Macroeconomic stabilising efforts coupled with fiscal consolidation supported lower domestic debt and interest rates. Gross official reserves remained virtually unchanged.

Real GDP growth expanded by 9.7 percent in 2008 from 8.6 percent in 2007. The growth was attributed mainly to improvements in the agricultural sector as well as public investment in infrastructure.

The annual average ***inflation*** increased to 8.7 percent in 2008 from 8 percent in 2007, an outturn that was attributed to developments in both food and non-food prices.

Government budgetary operations recorded a deficit of 6.3 percent of GDP in 2008 compared to 5.9 percent in 2007. This emanated from escalated costs in both the recurrent and development accounts, explained by rising costs in the agricultural input subsidy programme and of domestically funded development programmes, particularly in the roads sector.

Gross official reserves amounted to an equivalent of 2.2 months of import cover in December 2008, virtually unchanged from 2.1 months of import cover in 2007.

Mozambique's economic growth slowed down in 2008 due to the contraction of the production and supply of electricity because of maintenance works carried out on the Cahora Bassa Hydroelectric Dam and other power stations. This in turn affected the performance of the manufacturing sector.

Preliminary estimates indicate that ***real GDP*** increased by 6.8 percent in 2008 down from 7.3 percent in 2007. This growth is attributed to the primary sector that grew by 9.3 percent, driven mainly by agriculture and mining industry sectors. The energy crisis in South Africa impacted on the manufacturing sector.

Inflation, measured by the Consumer Price Index (CPI) of Maputo City, averaged 10.3 percent in 2008 compared to 8.2 percent 2007. The rise in inflation was mainly due to hikes in food and oil prices. However, Mozambique introduced some measures to counter-act inflation and these include:

- The introduction of punctual fiscal measures in fuel import procedures aimed at softening the impact of oil price rise;
- The stability of the metical against the US dollar and its appreciation against the rand;
- No adjustment on the administrative tariffs of energy, water, education services and health; and
- Control of monetary expansion factors.

Mozambique continues to rely heavily on external budgetary support. Its ***budget deficit***, excluding grants, was unchanged in 2008 at 12.5 percent (same as in 2007). However, when grants are included, the deficit falls to an estimated 2.5 percent compared to 2.9 percent of GDP in 2007.

International reserves amounted to US$1 643 million in 2008, which is equivalent to 4.9 months of import cover, down from 5.0 months in 2007. In the foreign exchange market, the continuous appreciation of the US dollar contributed to a rapid depreciation of the metical. The metical appreciated against the South African rand, which helped soften the pressure on the domestic prices.

The ***growth*** of the Namibian economy slowed down do 2.4 percent in 2008 from 4.1 percent in 2007. The slowdown is mainly associated with the impact of the global economic recession, especially a significant decline in diamond revenues (up to 9.9 percent).

Inflation, as measured by the percentage change in the annual average CPI rose to 10.3 percent in 2008 from 6.7 percent in 2007. The acceleration in prices was mainly due to high oil and food prices with the key contributing categories being food and non-alcoholic beverages and transport.

A ***budget deficit*** of 5.2 percent of GDP percent is estimated for the 2008/09 fiscal year while a budget deficit of 2.6 percent of GDP is projected for the 2009/10 fiscal year. Total central government revenue for 2008/09 expanded due to the enhancement in revenue collections from SACU receipts as well as taxes paid by mining and increased domestic taxes on goods and services.

International reserves increased significantly in 2008 and were equivalent to 4.8 months of import cover, up from 3.2 months of import cover 2007. The rise in reserves was mostly attributed to the increase in SACU revenue and improved exports earnings.

South Africa's economy was negatively affected by the international financial turmoil, though its domestic financial institutions had virtually no direct exposure to the troubled assets that were central to the deterioration of credit markets. Real GDP deteriorated in the last quarter of 2008, reflecting deteriorating consumer and business confidence, declining global demand, and a relatively tight monetary policy.

Real GDP in 2008 contracted at an annualised rate of 1.8% in the fourth quarter of 2008, for the first time since 1998 and it was attributed to a pronounced deterioration in real value added by the secondary sector, particularly manufacturing. Hence, in keeping with the significant deterioration in global economic conditions and tighter domestic policy environment, the growth in real GDP for 2008 slowed down to 3.1%, notably lower than the 4.7% registered in 2007.

Inflation was high during most part of the year, driven by record-high commodity prices which pushed both producer and consumer prices to record high levels by August 2008. However, the collapse in commodity prices towards the end of the year, coupled with a decline in global and domestic demand slowed the inflation spiral. Year-on-year CPIX inflation[4] averaged 11.3% in 2008 up from 6.2% in 2007.

South Africa recorded a ***budget deficit*** of 0.7 percent of GDP in 2008 and this followed a surplus of 0.5 percent of GDP in 2007. National government revenue was boosted by taxes on income, profits and capital gains whose collections exceeded the budgeted figures. Taxes on property declined highlighting the slowdown in economic activity in the real estate.

The volume of exports declined significantly owing to the waning in global demand as well as a decline in the prices of most export commodities. However, South Africa recorded a surplus in the overall balance of payments in 2008 as the deficit in the current account balance was more than offset by the surplus on the financial account. ***Foreign exchange reserves***, as a measure of months of import cover, increased from 3.1 months in 2007 to 3.4 months in 2008.

According to official estimates**, Swaziland**'s economy recorded a ***real GDP growth rate*** of 2.6% in 2008 against 3.5% in 2007. The negative performance of some export commodities, notably in the textile industry, and the persistent slowdown in foreign direct investment were the main factors that contributed to dampening growth in 2008. ***Inflation*** as measured by the CPI increased from 8.1 percent in 2007 to 12.6 percent in 2008, driven by high food and fuel prices during much part of 2008.

The ***fiscal sector*** experienced a turnaround in 2008, recording a deficit of 1.4% of GDP as compared to a surplus of 3.7% of GDP in 2007. The turnaround was mainly the result of collection of taxes falling below target due to delays in implementing tax reforms and a decline in customs duties.

Preliminary data for 2008 indicate that Swaziland maintained a surplus on the overall ***balance of payments***, though the surplus was lower than that observed in 2007. This surplus resulted from a large inflow of transfers, principally in the form of revenue from the Southern Africa Customs Union (SACU), coupled with a reallocation of the government's investments abroad to the custody of the Central Bank of Swaziland.

Tanzania continued to maintain strong economic performance stemming mainly from sustained structural reforms coupled with prudent fiscal and monetary policies. Indeed, the ***Real GDP*** is estimated to have grown by 7.5% in 2008 compared to 7.1% in 2007. The strong growth momentum was associated with strong performance in agriculture, mining, manufacturing, hotels and restaurants, wholesale and retail trade, construction, and financial and business sectors, and these were supported by government's pro-growth policies. ***Inflation*** rate averaged 10.3 percent in 2008 compared to 7,0% in 2007. This increase was mainly due to sustained pressures on domestic prices that emanated from a protracted surge in oil and food prices in 2008.

With respect to ***public finance,*** the government objective in the short- to medium-term continue to focus on availing resources for funding various projects under the National Strategy for Growth and Reduction of Poverty and the Millennium Development Goals. In this context, the fiscal balance recorded a deficit of 3.8% of GDP in 2008 compared to a surplus of 3.6% of GDP in 2007. The deficit was financed by foreign loans.

The ***current account balance*** worsened to a deficit of US$2.3 billion in 2008, compared to a deficit of US$1.6 billion in 2007, a deterioration that was attributed to a surge in imports of oil, capital goods and food. International reserves were equivalent to 4.3 months of imports of goods and services in 2008, down from the 4.5 months recorded in 2007.

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[4] South Africa has reweighted, rebased and reconstituted its headline consumer price index, which is now used as the new inflation target measure.

Zambia's economy continued to perform well, albeit the world economic crisis. Despite a slowdown mainly attributed to the fall in agricultural production and electricity generation, the ***Real GDP*** growth rate remained relatively high in 2008 (6.0% against 6.3% in 2007), supported by mining, tourism and construction, manufacturing and transport sectors. ***Inflation*** averaged 12.4 percent in 2008, up from an annual average of 10.7 percent on 2007due to increases in both food and non-food prices.

Zambia recorded a ***budget deficit*** of 1.7% of GDP (including grants) in 2008, compared to a deficit of 0.2% in 2007. However, the deficit was lower than projected due to lower-than-programmed expenditure.

Gross international reserves increased slightly by 0.5 percent. The main factors contributing to their increase were balance of payments, tax receipts from mining companies and receipts of project funds. However, in terms of months of import cover, gross reverves were lower in 2008 (2.8 months) than in 2007 (3.6 months).

Zimbabwe's economic performance continued to be subdued in 2008, reflecting the adverse effects of lack of balance of payments support and external financing, as well as falling commodity prices and frequent power outages. The ***real GDP*** dropped by 14.3 percent in 2008 after a 3.0% decline the previous year. All the major sectors contributed to this poor performance. The most significant negative rates were recorded by mining (-46%), tourism, distribution, and agriculture (-11 % each), as well as manufacturing (-10%). ***Inflation*** pressures continued to build in 2008, causing inflation to reach levels around 231 million percent in July 2008.

Zimbabwe recorded a ***budget surplus*** of 29.9 percent in 2008 compared to a surplus of 2.6 percent recorded in 2007. The increase in the budget surplus is attributed to a tight fiscal policy stance adopted in 2008. However, the country's tax base continued to shrink against the backdrop of increased informalisation together with the underperformance in key exports and productive sectors.

3.1.5. East Africa sub-region

Burundi recorded a ***GDP growth rate*** of 4.3% in 2008, against 3.2% in 2007. This positive trend particularly resulted from the primary sector's economic recovery due to a very significant increase in coffee harvest. Secondary and tertiary sectors maintained a highly sustained growth even though it was slightly lower than the previous year.

Inflation passed from 8.3% in 2007 to 24.5% in 2008. This unfavorable trend was partly ascribable to the increase in prices of foodstuffs in the regions hit by drought, and the rise in fuel prices.

State financial transactions showed a budget deficit of 3.1% of GDP, against 3% in 2007. This deficit was mainly funded by domestic resources and, to some extent, by drawing up on external loans. In addition, due to the successful implementation of the HIPC initiative, Burundi should be entitled to debt reduction, which would enable to free the resources needed to develop priority and growth sectors.

Compared to the previous fiscal year, the deficit in ***the external current account*** increased significantly. This bad result was due to the deficit in the balance of trade, as a result of a significant increase in imports (10.5% in volume and 38.0 % in value), and a fall in the value of coffee exports in relation to the price effect. Concerning the ***exchange market*** and the ***exchange policy***, the Central Bank kept on resorting to market mechanisms to manage external reserves, particularly currency bids. In comparison with the main currencies, the Burundian franc depreciated by 23.07% in 2008, against 1.27% in 2007.

On the basis of monetary aggregates targeting, ***the monetary policy*** fits in with the economic and financial program dealt with the IMF in respect of the second PRGF[5]. This program's quantitative criteria (net internal assets and net external assets) were aimed at controlling inflation and keeping money supply in line with the increase in nominal GDP. To achieve these objectives, the Bank of the Republic of Burundi continued to implement indirect instruments, including the invitations to tender for liquidity assets, reserve requirements and the issue of Treasury bills. In comparison with quantitative objectives, the results proved to be satisfactory. However, the increase in money supply reached 33.7%, against a forecast of 14.4%.

In the **Comoros**, the year 2008 was marked by a worsening of the economic crisis in Anjouan and its subsequent control, and later on by a serious energy crisis (shortage of petroleum products), which paralyzed all the sectors from the very beginning of the half-year period. In this context, the economic activity remained dull, with a ***GDP growth rate*** of 0.2%, against 0.8% in 2007. The ***inflation rate*** reached 6.5% in 2008, against 4.5% in 2007, as a result of the rise in world foodstuffs and energy prices.

As regards ***public finances***, domestic revenue, particularly revenue from taxation, increased by 9.7%, compared to the year 2007, and the recurring expenses by 22%. As a result of this trend, the key net budgetary balances fell significantly, the basic budget deficit and the total deficit (exclusive of grants) increased respectively to 3.5% and 13.1% of the GDP in 2008, against 2.9% and 10% in 2007. In addition, the Comoros received two funding amounts from the IMF within the framework of the post-conflict program, covering the October 2008 - March 2009 period, and a financial facility against exogenous shocks.

In terms of ***external transactions***, the structural trade balance deficit increased through the impact of two factors. The imports value increased significantly, in spite of the shortages experienced over the year, particularly as regards petroleum products and rice. The exports value decreased by half in relation to the fall in the prices of export crops.

In terms of ***monetary policy***, money supply recorded a rise of 12.8%, representing FC 50.3 billion, in connection with the increase of 46.5% in net domestic credit. The external nets assets recorded a fall of 2.0%.

In **Kenya**, the ***economic growth*** rate represented respectively 1.7% in 2008, 7% and 6.4%, in 2007 and 2006. The slowdown in the economic activity during the period was due to the effect of the combination of several factors, including post-electoral violence, bad climatic conditions, the rise in oil prices, and the international financial crisis.

On annual average, the ***inflation rate*** passed from 5.2% in 2007 to 9.7% in 2008. The post-electoral crisis, which particularly affected foodstuffs distribution channels through the transportation sector, as well as the increase in energy products mainly explained the increase in prices.

The situation of ***public finance*** was characterized by a decrease in budget deficit (1.3% of GDP in 2008, against 2.7% in 2007).

The ***external current account*** deteriorated in relation to much more significant increase in imports against exports whose trend was affected by the international financial crisis. From April 2008 to April 2009, the Kenyan shilling depreciated against the Euro, the US dollar and the Japanese yen by 7,0%, 28,0% and 33,0% respectively, and by 5,0% against the pound sterling.

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5 Poverty reduction and growth facility

Concerning ***monetary accounts***, the M3 aggregate increased by 11.7% by March 31, 2009, against 19.8% in the same month of the previous year.

In 2008, **Mauritius** recorded a ***growth rate*** of 5.3%, against 5.4% in 2007. This performance was particularly due to the financial intermediation, the real estate, transport and communications. The slight slowdown experienced in that period was related to the world economic and financial crisis whose incidence started to impact the Mauritian economy from the second half of the year 2008, particularly on the outside-oriented activities. The textile and tourism sectors particularly recorded the respective growth rates of 0% and 2.7% in 2008, against 8.5% and 14% in 2007. On the labor market, the unemployment (jobless) rate dropped and stabilized at 7.2% in 2008, against 8.5% in 2007. The ***inflation rate*** represented 9.7% in 2008, against 8.8% in 2007.

The ***budget deficit*** (exclusive of donations) dropped during the year under review, passing from 4.5% of the GDP in 2007 to 3.5% in 2008.

As regards ***foreign trade***, the current account deficit increased significantly to stabilize at 10.5% of the GDP in 2008, against 5.7% in 2007 in relation to the drop in exports and the rise in the prices of imports.

In terms of ***monetary policy***, the Bank of Mauritius brought back its reserve requirement ratio from 5% to 4.5% to stimulate the loan supply and support the economic pump-priming measures launched by the Government. In addition, the Mauritian banking sector which was not directly affected by the international financial crisis remained profitable, with a good capitalization level. In this context, the monetary base and money supply increased respectively from 9.5% to 14.7% during the period under review, in relation to the rise in credit to the private sector (+25.8%) and the central administration.

In **Rwanda**, the ***GDP*** increased by 11.2%, against 7.9% in 2007, owing to the rise of 15% in agricultural production, against 0.7% in 2007, and the firmness of industrial and service sectors. This economic performance was accompanied by a ***resurgence of inflation*** with an average rate representing 15.4% in 2008, against 9.1% in 2007, in relation to the world increase in prices of foodstuffs and petroleum products.

The situation of ***public finances*** improved in 2008. The revenue from taxation accounted for 13.5% of the GDP in 2008, against 12.7% the previous year, therefore inducing the fall in the budget deficit from 13.1% to 11% of the GDP between 2007 and 2008.

The ***balance of payments*** recorded a surplus of USD 50.5 million. This positive result was ascribable to the financial transaction and the capital account whose surplus of USD 321.1 million more than offset the current account deficit of 277.7 million USD.

In **Uganda**, the soundness of economic fundamentals made it possible for the country to resist the effects of the overall financial crisis. The ***economic growth rate*** was projected to 6.7% for the fiscal 2008/2009. The annual average inflation rate represented 12.1%, against 6.1% in 2007.

As regards ***public finances***, the budget deficit/GDP ratio improved, passing from 5.6% in ***exchange reserves*** strengthened, covering 5 months of imported goods and services.

During the year 2008, the Bank of Uganda's ***monetary policy*** was primarily centered on price stability, economic growth and inflation control. The monetary base increased by 20.7%, between January and December 2008, against 21.4% during the previous year. The banking system remained stable and efficient in relation to a good supervision and regulation policy. In addition, new financial products were introduced, particularly the mobile money banking, the e-banking.

3.2. Convergence at countries and sub-regions levels in 2008

The AACB sub-regional Committees adopted monetary integration programmes for the achievement of the AMCP reference convergence criteria. Therefore, the assessment of the implementation of these regional programmes is done against conditions of stage II of the AMCP.

In this regard, it should be noted that the 40 member Central Banks of the Association refer to 52 African countries, 47 of which provided information on the AMCP implementation. The 52 countries are distributed per sub-region as follows:

a) Countries which did not provide information: Djibouti, Eritrea, Ethiopia, Seychelles and Somalia, all from East Africa;

b) Countries which provided information:

- North Africa: six (6) countries out of six (6);
- West Africa: fifteen (15) countries out of fifteen (15);
- Central Africa: eight (8) countries out of eight (8);
- Southern Africa: twelve (12) countries out of twelve (12);
- East Africa: six (6) countries out of eleven (11).

3.2.1. Performance at the quantitative criteria level

3.2.1.1. Primary criteria

a) Overall budgetary deficit (excluding grants) / GDP ratio ≤ 5%

In **North Africa** four countries observed the criterion in 2008 against 5 in 2007, as shown in the table below.

	2005	2006	2007	2008
Algeria	+0.4	+11.0	+4.6	+7.6
Egypt	-5.7	-7.9	-7.5	-6.8
Libya	+0.8	+6.0	26,00	+55.4
Mauritania	-1.6	+1.4	-4.1	-6.8
Sudan	nd	-3.5	-2.4	-1.6
Tunisia	+4.0	+9.4	-3.0	-1.2
Number of complying countries	4	5	5	4

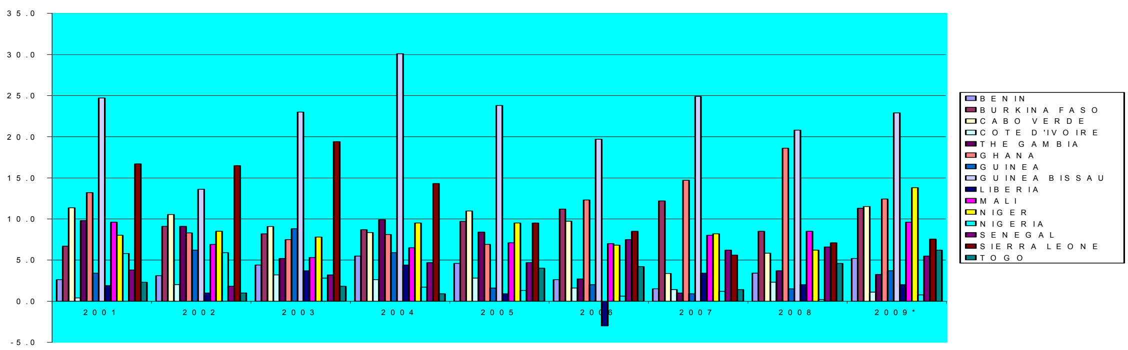
In **West Africa,** Fiscal performance deteriorated during 2008. Seven countries, namely: Benin, Côte d'Ivoire, The Gambia, Guinea, Liberia and Nigeria met the target during the year under review against eight in 2008 (See table and graph below)**.**

Table : Budgetary balance as % of GDP in ECOWAS's countries

(in percentage)

	2005	2006	2007	2008
BENIN	-4.6	-2.6	-1.5	-3.4
BURKINA FASO	-9.7	-11.2	-12.2	-8.5
CAPE-VERT	-11.0	-9.7	-3.4	-5.8
COTE D'IVOIRE	-2.8	-1.6	+1.4	-2.3
GAMBIA	-8.4	2.7	-1.0	-3.7
GHANA	-6.4	-12.3	-14.7	-18.6
GUINEA	-1.6	-2.0	-0.9	-1.5
GUINEA-BISSAU	-23.8	-19.7	-24.9	-20.8
LIBERIA	-0.9	-3.0	-3.4	-2.0
MALI	-7.1	-7.0	-8.0	-8.5
NIGER	-9.5	-6.8	-8.2	-6.2
NIGERIA	-1.3	-0.6	+1.2	-0.2
SENEGAL	-4.7	-7.5	-6.2	-6.6
SIERRA LEONE	-9.5	-8.5	-5.6	-7.1
TOGO	-4.0	-4.2	-1.4	-4.6
Number of countries that met the criterion	7	7	8	7

Graph : Budgetary deficits as % of GDP in ECOWAS' countries

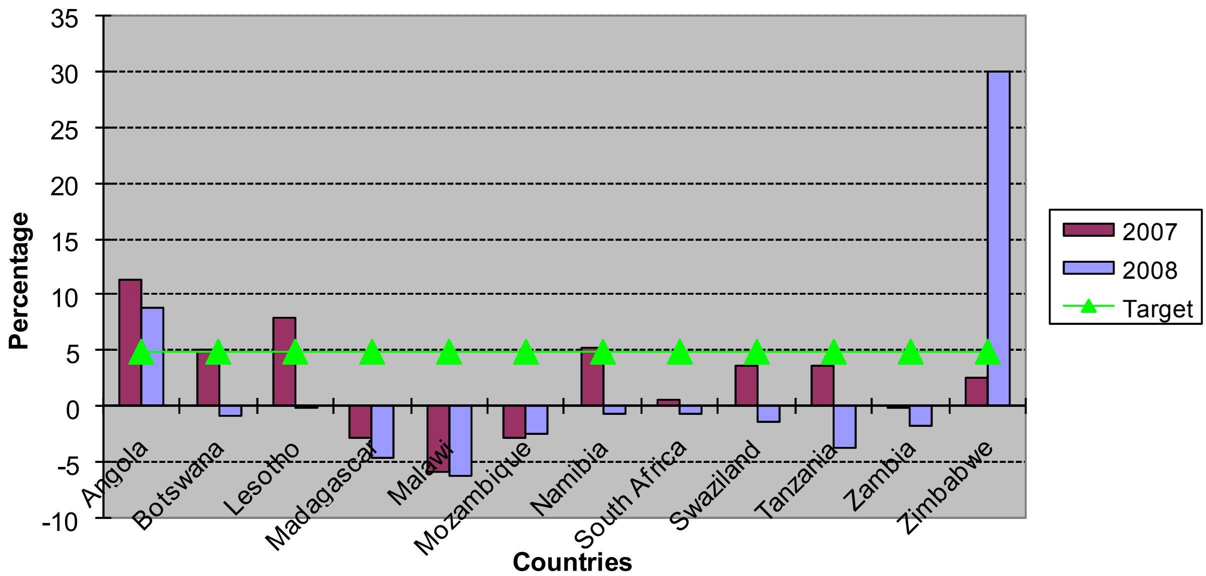


In Central Africa the criterion was observed by all the sub-regional member countries.

COUNTRY	2006	2006	2007	2007	2008
Cameroon	5.1	5.1	4.6	4.6	3.4
Central African Republic	- 4.5	- 4.5	- 3.0	- 3.0	-2.4
Congo	17.4	17.4	8.9	8.9	23.9
Gabon	9.0	9.0	8.4	8.4	11.3
Equatorial Guinea	25.7	25.7	20.9	20.9	23.2
Chad	0.6	0.6	1.4	1.4	4.4
CEMAC	**10.2**	**10.2**	**8.2**	**8.2**	**12**
DRC	**-1.1**	**-1.1**	**-0.53**	**-0.53**	**-0.43**
Sao Tome e Principe	**- 42.2**	**- 42.2**	**- 8.9**	**- 8.9**	**-4.79**
Number of complying countries					

The **Southern sub-region** averaged a surplus of 1.8 percent in 2008 compared to 1.4 percent in 2007. While the regional average is within the AMCP target, only two countries recorded large budget surpluses (Angola at 8.9 percent and Zimbabwe at 29.9 percent) which cancelled out the budget deficits of other countries (See Chart 3 below). Four countries in the Sub-region came close to a balanced budget and these are; Botswana (-0.8 percent), Lesotho (-0.1 percent), as well as Namibia and South Africa, both at -0.7 percent.

CHART 3: BUDGET BALANCE AS % OF GDP



East Africa

b) One digit inflation rate

Performance under one digit inflation rate deteriorated in **North Africa** in 2008. Indeed, only three countries (Algeria, Mauritania and Tunisia complied with the criteria) against five countries (See table below).

Table x – North Africa: inflation rate

	2005	2006	2007	2008
Algeria	3.0	2.5	3.5	4.4
Egypt	2.7	7.2	10.9	11.5
Libya	1.0	3.5	6.2	10.4
Mauritania	3.9	6.2	7.3	7.3
Sudan	7.9	7.2	8.1	14.3
Tunisia	2.8	4.5	3.1	5.0
Numner of complying countries	6	6	5	3

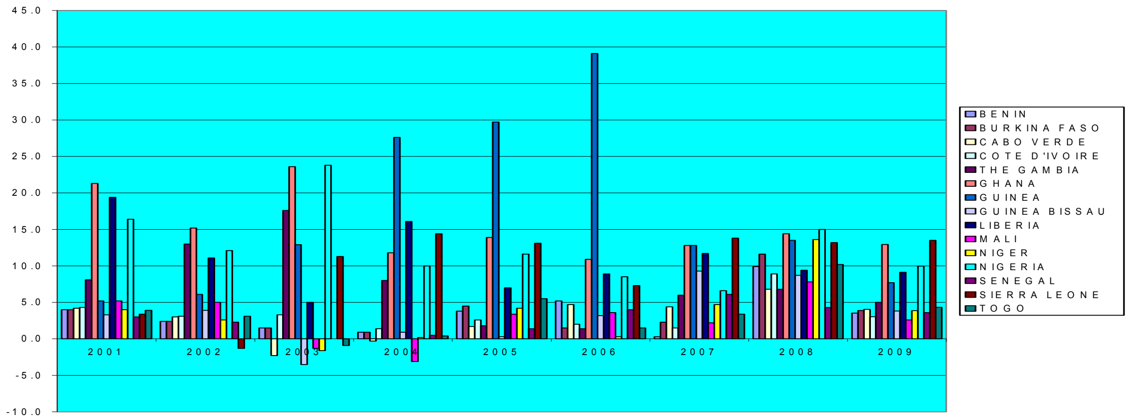
In **West Africa,** the number of countries complying with the single digit inflation target dropped from eleven in 2007 to eight in 2008. The countries which observed the criterium are Benin, Cape-Verde, Côte d'Ivoire, The Gambia, Guinea-Bissau, Liberia, Mali, Niger and Senegal. Regarding zonal performance, UEMOA experienced lower inflationary pressures (8.5%) than the WAMZ (14.9%).

Table x – West Africa: inflation rate

	2005	2006	2007	2008
BENIN	3.8	5.2	0.3	9.9
BURKINA FASO	4.5	1.5	2.3	11.6
CAPE-VERDE	1.7	4.7	4.4	6.8
COTE D'IVOIRE	2.6	2.0	1.5	8.9
GAMBIA	1.8	1.4	6.0	6.8
GHANA	13.9	10.9	12.8	14.4
GUINEA	29.7	39.1	12.8	13.5
GUINEA-BISSAU	0.3	3.2	9.3	8.7
LIBERIA	7.0	8.9	11.7	9.4
MALI	3.4	3.6	2.2	7.8
NIGER	4.2	0.3	4.7	13.6
NIGERIA	11.6	8.5	6.6	15.0
SENEGAL	1.4	4.0	6.1	4.3
SIERRA LEONE	13.1	7.3	13.8	13.2
TOGO	5.5	1.5	3.4	10.2
Number of complying countries	11	13	11	8

	2005	**2006**	**2007**	**2008**
Burundi	-14.2	-14.5	-18.9	-13.6
Comores	-4.8	-6.7	-7.8	-13.1
Kenya	-1.1	-4.6	-2.7	-1.3
Maurice	-5.2	-5.5	-4.5	-3.5
Rwanda	-12	-10.5	-13.1	-11
Uganda	-8.5	-6.8	-5.6	-4.8
Number of complying countries				

Graph x – West Africa: Inflation rate

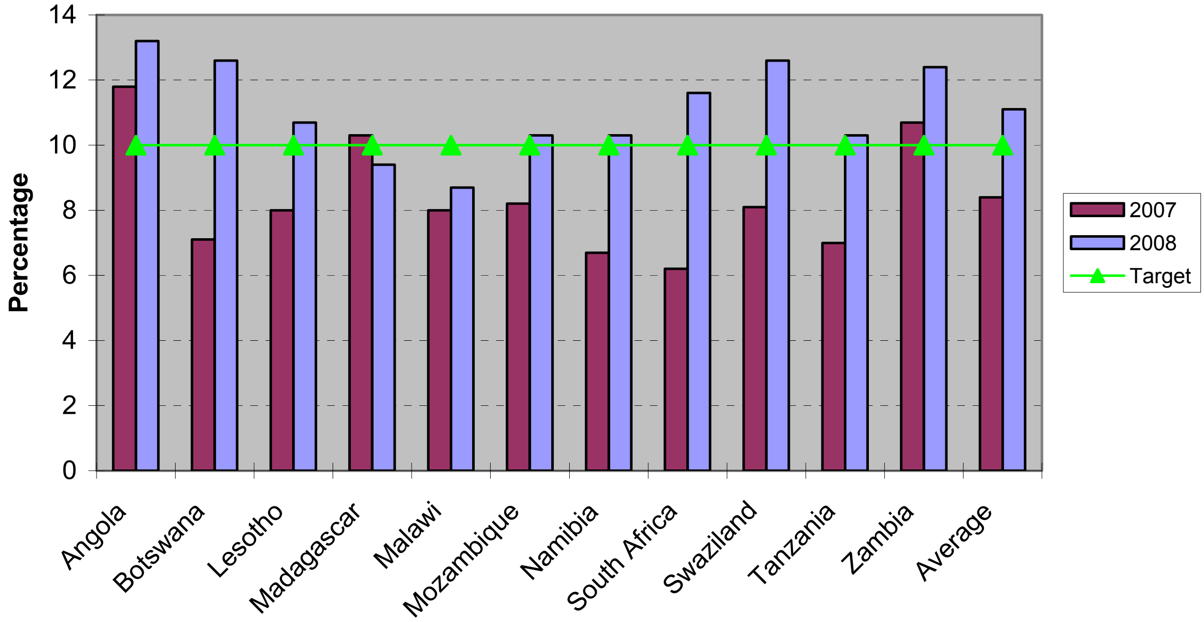


In **Central Africa**, only the CEMAC countries fulfilled this criterion. However, their results are declining significantly. This is due to the combined effects of the world energy and food crises on consumer prices in all the sub-regional member states in the first half of 2008.

COUNTRY	2005	2006	2007	2008
Cameroon	1.9%	5.1%	1.1%	4.0%
Central African Republic	2.9%	6.6%	1.0%	8.0%
Congo	2.8%	4.7%	2.5%	4.5%
Gabon	-0.2%	4.0%	4.8%	5.0%
Equatorial Guinea	5.0%	5.0%	5.5%	6.0%
Chad	7.9%	8.1%	-9.0%	5.0%
CEMAC	**2.3**	**5.2**	**1.6**	**4.9**
DRC	**23.1**	**18.2**	**9.9**	**27.6**
Sao Tome e Principe	**17.2**	**24.6**	**27.6**	**24.8**
Number of complying countries	**6**	**6**	**7**	**6**

In **Southern Africa**, The number of countries which have managed to contain inflation within single digit territory has declined significantly to only two, with this indicator remaining a challenge in Member Countries, given the global developments taking place that impact directly on inflation.

CHART 1: AVERAGE ANNUAL INFLATION



In the **East Africa Sub-region**, only two of the six countries that submitted their report observe the inflation criterion. These are Comoros and Mauritius. In 2007, all the 6 coutries whose data were available reached the single digit target.

Table x – East Africa: inflation rates

	2005	2006	2007	2008
Burundi	13.2	2.7	8.3	24.5
Comores	3.2	3.4	4.5	6.5
Kenya	5.4	3.9	9.8	26.2
Maurice	4.9	8.9	8.8	9.7
Rwanda	9.2	8.9	9.1	15.4
Uganda	8.6	7.2	6.1	12.1
Number of complying countries	5	6	6	2

c)- Central bank credit to government ≤10%

Owing to progress achieved by Sudan on this ground, all the six countries of **North Africa** respected the criterion in 2008.

Table x – North Africa: variation of central credit to government

	2005	2006	2007	2008
Algeria	0.0	0.0	0.0	0.0
Egypt	0.0	0.0	10.0	0.0
Libya	0.0	0.0	0.0	0.0
Mauritania	-10.9	0.0	1.0	0.0
Sudan	10.9	10.0	13.2	7.1
Tunisia	0.0	0.0	0.0	0.0
Numner of complying countries	5	5	5	6

West Africa

Performance in terms of budget deficit financing by the Central Bank remained good. Indeed, as in 2007, 14 countries met the target in 2008. The UEMOA zone maintained its zero-financing policy stance during the period while WAMZ zonal deficit financing (1.4%) was also within the prescribed target. Ghana continued to show a high level of deficit financing by central bank.

Table x – West Africa: Central bank credit to government

	2005	2006	2007	2008
BENIN	0.0	0.0	0.0	0.0
BURKINA FASO	0.0	0.0	0.0	0.0
CAPE-VERDE	0.0	0.0	0.0	0.0
COTE D'IVOIRE	0.0	0.0	0.0	0.0
THE GAMBIA	0.0	0.0	0.0	0.0
GHANA	0.0	0.0	0.0	17.3
GUINEA	-8.8	54.0	0.0	5.8
GUINEA-BISSAU	0.0	0.0	0.0	0.0
LIBERIA	0.0	0.0	0.0	0.0
MALI	0.0	0.0	0.0	0.0
NIGER	0.0	0.0	0.0	0.0
NIGERIA	0.0	0.0	0.0	0.0
SENEGAL	0.0	0.0	0.0	0.0
SIERRA LEONE	0.0	13.3	0.8	0.0
TOGO	0.0	0.0	0.0	0.0
Number of complying countries	15	13	15	14

Every country of the **central African sub-region** complied with the criterion

COUNTRY	2006	2006	2007	2008
Cameroon	13.6	-2.9	-18.9	-21.5
Central African Republic	20.0	-4.2	-10.2	6.3
Congo	19.2	-6.1	6.9	-11.9
Gabon	15.6	-16.2	8.0	1.4
Equatorial Guinea	0.0	0.0	0.0	0.0
Chad	20.0	-187.9	27.1	-2.4
CEMAC	**--**	**-6.1**	**-0.5**	**-5.2**
DRC	**- 3.6**	**- 5.2**	**-51.1**	**+0.1**
Sao Tome e Principe	**5.0**	**5.0**	**10.0**	**10.0**
Number of complying countries	**3**	**8**	**6**	**8**

Southern Africa

Central Banks in **Southern Africa** are no more allowed to finance budget deficits.

In East Africa, the performance under the criterion of central bank financing remained satisfactory, with five of the six countries who submitted their reports reaching the target.

Table x - East Africa: central bank credit to government

	2005	2006	2007	2008
Burundi	0.0	0.0	0.0	0.0
Comores	20.0	20.0	20.0	19.4
Kenya	1.8	1.8	0.9	3.4
Maurice	5.2	2.6	-5.8	-10.2
Rwanda	0.0	0.0	0.0	0.0
Uganda	0.0	0.0	0.0	0.0
Number of complying countries	5.0	5.0	5.0	5.0

1. ***External reserves / imports ratio ≥ 3 months***

Despite the decrease in the level of external reserves in most countries, the number of Northern African sub-region's members which respected the criterion was stabilized at four. Mauritania and Sudan are still lagging behind.

Table x – North Africa: external reserves/imports ratio

	2005	2006	2007	2008
Algeria	27.9	24.4	39.7	35.0
Egypt	6.8	9.0	9.1	7.9
Libya	38.0	45.0	33.1	52.0
Mauritania	0.7	2.6	1.9	1.5
Sudan	2.9	2.3	1.9	1.8
Tunisia	3.9	5.1	4.6	4.6
Numner of complying countries	4	4	4	4

In **West Africa,** the performance with regard to the accumulation of gross external reserves as at end 2008 declined slightly with the twelve countries meeting the target against fourteen the previous years. ECOWAS-wide performance remained high at 10.8 months, due to Nigeria's performance.

Table x – West Africa: external reserves/imports ratio

In number of months

	2005	2006	2007	2008
BENIN	5.7	6.0	6.3	6.0
BURKINA FASO	5.7	6.0	6.3	6.0
CAPE-VERDE	3.4	3.6	4.1	4.1
COTE D'IVOIRE	5.7	6.0	6.3	6.0
THE GAMBIA	5.2	4.9	4.4	4.3
GHANA	4.0	3.7	3.9	2.2
GUINEA	1.1	0.8	0.4	0.5
GUINEA-BISSAU	5.7	6.0	6.3	6.0
LIBERIA	0.1	0.1	0.7	0.7
MALI	5.7	6.0	6.3	6.0
NIGER	5.7	6.0	6.3	6.0
NIGERIA	11,8	15.1	17.4	14.7
SENEGAL	5.7	6.0	6.3	6.0
SIERRA LEONE	4.8	4,9	5.1	4,3
TOGO	5.7	6.0	6.3	6.0
Number of complying countries	13	12	14	12

In **Central Africa**, the sub-regional countries met this criterion, except for the DRC whose situation was affected by the reduction in export earnings in relation to the fall in prices of raw materials and the increase in security expenditures resulting from the conflict in the eastern region of this country.

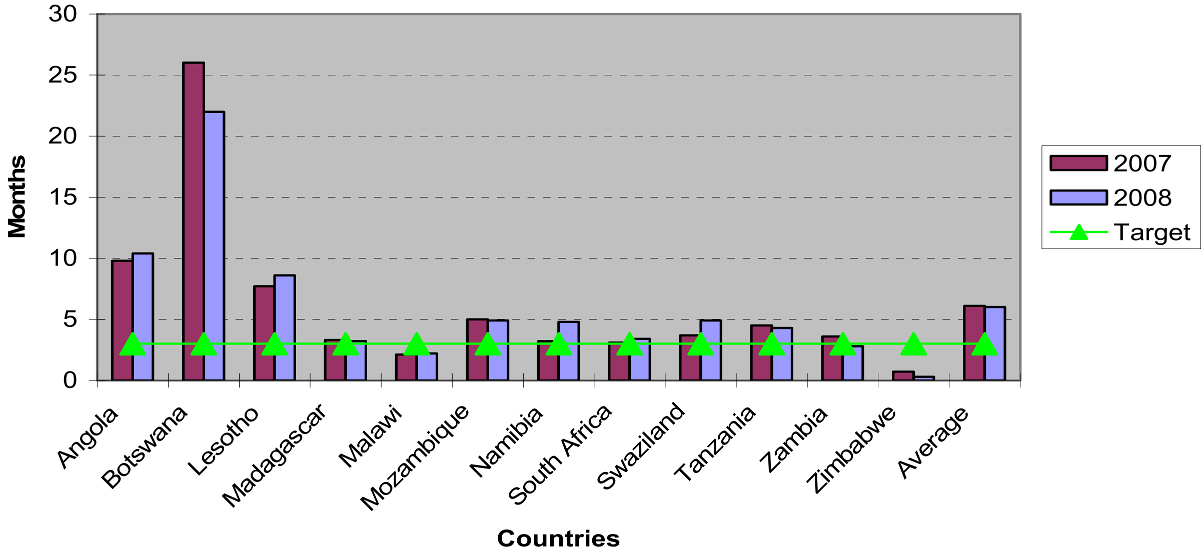
Table x – Central Africa: external reserves/imports ratio

In number of months

COUNTRY	2005	2006	2007	2008
Cameroon	3.5	5.2	7.3	7.1
Central African Republic	8.2	5.8	3.2	4.6
Congo	6.1	8.9	8.3	15.9
Gabon	5.1	6.8	6.7	9.7
Equatorial Guinea	10.6	14.7	12.9	17.2
Chad	2.4	4.0	5.2	6.6
CEMAC	**4.0**	**5.6**	**6.0**	**7.9**
DRC	**0.6**	**0.6**	**0.8**	**0.5**
Sao Tome e Principe	**10.4**	**7.7**	**6.6**	**6.0**
Number of complying countries	**6**	**7**	**7**	**7**

The **Southern African sub-region**'s overall growth in the level of international reserves, in terms of months of import cover declined marginally from 6.1 months in 2007 to 6.0 months in 2008. Even though most countries experienced an increase in their levels of foreign exchange reserves, the import cover was reduced by the high cost of imports which was driven mainly by fuel and food prices. Botswana was leading with 22 months of import cover followed by Angola with 10.4 months. Three countries were below the AMCP target of at least 3 months of import cover and these were Malawi (2.2 months), Zambia (2.8 months) and Zimbabwe (0.3 months).

CHART4: FOREIGN EXCHANGE RESERVES AS MONTHS OF IMPORT COVER



External reserves declined in most **Eastern African** countries which submitted data in 2008. Moreover, in relation to Kenya's performance, the number of countries observing the criterion dropped from six to five.

Table x – Central Africa: external reserves/imports ratio

In number of months

	2005	**2006**	**2007**	**2008**
Burundi	3.8	3.2	5.1	6.3
Comores	8.0	8.0	7.0	5.6
Kenya	3.8	3.7	4.0	2.8
Maurice	4.1	3.6	3.8	3.8
Rwanda	7.3	6.8	6.9	5.0
Uganda	6.2	5.9	5.5	5.4
Number of complying countries	6	6	6	5

3.2.1.2 Secondary Criteria

a) Prohibition of accumulation of new arrears and liquidation of existing arrears

Only North Africa and Central Africa reported on this criterion. In the **Northern Africa Sub-region** all the countries observed the criterion, except Mauritania which recorded external arrears. No new arrear was recorded in the **Central Africa Sub-region** during the year under review.

Table x – Central Africa: Variation in payment arrears

In billion of CFA Franc

COUNTRY	2006	2006	2007	2008
Cameroon	0.0	0.0	0.0	0.0
Central African Republic	16.9	18.6	4.1	0.0
Congo	3.6	18.4	11.2	0.0
Gabon	0.0	0.0	0.0	0.0
Equatorial Guinea	0.0	0.0	0.0	0.0
Chad	0.0	17.9	3.8	0.0
CEMAC	**20.5**	**54.9**	**19.2**	**0.0**
DRC	**0.0**	**70.0**	**-25**	**0.0**
Sao Tome e Principe	**0.0**	**0.0**	**0.0**	**0.0**
Number of complying countries	**6**	**4**	**5**	**8**

b) Revenue/GDP ratio ≥ 20 %

In **North Africa**, Algeria, Egypt and Tunisia showed fiscal revenues representing more than 20% of GDP.

Table x – North Africa: revenue/GDP ratio

In percentage

	2005	2006	2007	2008
Algeria				44.6
Egypt				24.7
Libya				6.4
Mauritania				12.7
Sudan				6.4
Tunisia				22.5
Numner of complying countries				3

In **West Africa,** performance in terms of tax receipts remained low during the period under review. Only two countries (Cape Verde and Ghana) fulfilled this criterion in 2008, thus maintaining the same level of achievement in 2007.

Table x – West Africa: revenue/GDP ratio

In percentage

	2005	2006	2007	2008
BENIN				
BURKINA FASO	12.4	11.3	11.9	12.3
CAPE-VERDE	21	23.0	22.8	23.9
COTE D'IVOIRE	14.5	14.9	15.5	15.6
THE GAMBIA	17.2	18.8	19.3	17.7
GHANA	21.9	21.1	23.7	23.1
GUINEA	12.2	14.8	13.5	14.7
GUINEA-BISSAU	11.2	11.1	10.3	10.2
LIBERIA	14.7	13.2	12.6	12.5
MALI	15.4	14.7	14.2	13.1
NIGER	10.2	10.7	11.5	10.7
NIGERIA	17.2	14.9	11.7	16.2
SENEGAL	18.6	18.8	19.3	19.5
SIERRA LEONE	8.1	8.5	8.9	9.3
TOGO	14.6	15.4	16.3	15.4
Number of complying countries	2	2	2	2

In the **Central Africa Sub-region**, an improvement was witnessed as five countries met the criterion in 2008 against eight in 2007. The performing countries are Cameroon, Congo, Gabon, Equatorial Guinea and Chad. The Central African Republic continues to show poor performance.

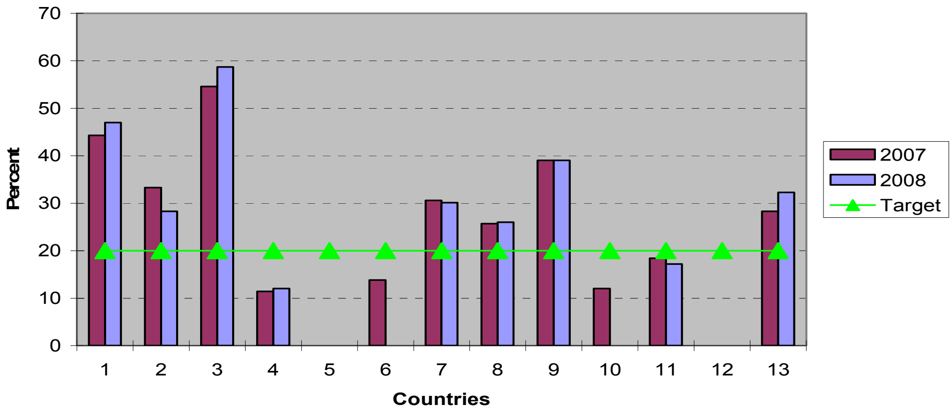
Table x – Central Africa: revenue/GDP ratio

In percentage

COUNTRY	2005	2006	2007	2008
Cameroon	16.9	18.6	18.7	20.4
Central African Republic	6.9	7.8	7.5	7.1
Congo	40.1	45.8	42.5	44.9
Gabon	30.2	30.2	28.6	28.5
Equatorial Guinea	36.4	45.8	42.4	41.0
Chad	9.1	15.6	21.7	22.4
CEMAC	**24.2**	**28.5**	**28.0**	**29.7**
DRC	**9.4**	**13.2**	**15.0**	**12.9**
Sao Tome e Principe	**25.5**	**27.6**	**16.4**	**17.4**
Number of complying countries	**4**	**4**	**4**	**5**

The **Southern sub-regional** average tax revenue/GDP ratio for 2008 was 32.6 percent (with data missing for Malawi and Zimbabwe) and this was unchanged in 2008 (with data missing for Malawi, Mozambique and Tanzania and Zimbabwe); both within the AMCP criterion of tax revenue/GDP ratio greater than 20 percent. In 2008, two countries missed this target. These are Madagascar (12 percent) and Zambia (17.2 percent).

CHART 5: TAX REVENUE AS PERCENTAGE OF GDP



The number of countries of the **East Africa sub-region** which complied with this criterion remained unchanged at one. However two countries (Burundi and Mauritius) are close to the target.

Table x – Eastern West Africa: revenue/GDP ratio

In percentage

	2005	2006	2007	2008
Burundi	18.5	16.6	19.9	19.1
Comores	16.0	13.5	13.6	13.4
Kenya	21.5	20.6	22.5	21.9
Mauritius	18.1	18.1	17.4	19.3
Rwanda	12.2	11.8	13.0	13.5
Uganda	11.9	12.7	12.6	13.0
Number of compying countries	1	1	1	1

c) Wage bill /tax revenue ≤ 35 %

In the **North Africa Sub-region, three countries** (Algeria, Egypt and Libya) were able to respect this criterion.

Table x – Northern Africa: wage bill /tax revenue

In percentage

	2005	2006	2007	2008
Algeria				13.2
Egypt				28.4
Libya				conforme
Mauritania				61.9
Sudan				77.7
Tunisia				50.9
Numner of complying countries				3

Six countries of the **West Africa Sub-region** (The Gambia, Guinea, Liberia, Niger, Nigeria and Senegal) met the target against nine in 2007.

Table x – West Africa: wage bill /tax revenue

In percentage

	2005	2006	2007	2008
BENIN	39.1	35.6	32.1	35.6
BURKINA FASO	40.4	44.1	46.5	44.7
CAPE-VERDE	47.1	46.0	41.6	38.1
COTE D'IVOIRE	45.0	43.2	43.6	43.4
THE GAMBIA	24.3	24.2	22.4	28.6
GHANA	44.8	44.9	46.0	45.5
GUINEA	23.2	18.4	25.9	29.0
GUINEA-BISSAU	116.2	111.0	116.5	106.7
LIBERIA	59.2	34.5	32.9	28.7
MALI	30.9	31.5	33.4	38.5
NIGER	34.8	33.4	31.0	33.7
NIGERIA	17.9	19.5	31.6	31.2
SENEGAL	30.0	31.0	31.6	30.8
SIERRA LEONE	65.5	61.6	60.9	55.2
TOGO	30.4	33.1	32.8	37.4
Number of complying countries	7	8	9	6

As in the previous years, three of the **Central Africa sub-region's** countries, including Central African Republic, the RDC and Sao Tome e Principe did not observe this criterion in 2008 particularly due to the pay rise (DRC and Sao Tome e Principe) and the fall in the tax revenue (DRC).

Table x – Central Africa: wage bill /tax revenue

In percentage

COUNTRY	2006	2006	2007	2008
Cameroon	27.9	23.9	24.0	25.4
Central African Republic	75.6	58.3	56.4	55.0
Congo	10.3	7.6	9.2	7.3
Gabon	16.3	16.3	18.8	16.2
Equatorial Guinea	2.7	2.0	2.4	2.0
Chad	25.9	15.9	15.1	14.0
CEMAC	**15.8**	**12.5**	**13.6**	**12.3**
DRC	**31.2**	**39.2**	**39.5**	**52.02**
Sao Tome e Principe	**57.3**	**49.9**	**54.49**	**53.25**
Number of complying countries	**5**	**5**	**5**	**5**

Performance of the **East Africa Sub-region** continued to improve in 2008. Indeed, four countries complied with the criterion against three in 2007 and two in 2006.

Table x – East Africa: wage bill /tax revenue

In percentage

	2005	2006	2007	2008
Burundi	45.9	49.0	55.4	65.4
Comoros	53.7	61.5	72.7	67.1
Kenya	36.4	35.7	34.5	32.0
Mauritius	35.7	34.8	32.1	26.6
Rwanda	28.3	29.9	30.4	25.6
Uganda	40.4	37.4	36.2	34.1
Number of complying countries	1	2	3	4

d) Public investments /tax revenue ≥ 20 %

This criterion which monitors utilization of domestic resources for the investment needs of member countries exhibits a similar trend with the tax revenue criterion

Due partly to oil revenue, all the six countries of the **North Africa sub-region** continued to show good performance under Public investments /tax revenue criterion (see table below).

Table x – North Africa: Public investment /tax revenue

In percentage

	2005	2006	2007	2008
Algeria				39.8
Egypt				24.9
Libya				conform
Mauritania				38.0
Sudan				118.0
Tunisia				29,2
Numner of complying countries				6

In the **West Africa sub-region**, the average ratio for the region 24.7% that is 4.7 percentage points above the target. This situation masks the poor performance of most countries since only seven countries (Benin, Burkina Faso, Ghana, Mali, Niger, Nigeria and Senegal) observed the criterion in 2008 as in 2007.

Table x – West Africa: Public investment /tax revenue

In percentage

	2005	2006	2007	2008
BENIN	22.8	22.8	21.0	23.7
BURKINA FASO	36.3	42.7	35.6	43.7
CAPE-VERDE	2.9	2.9	2.0	1.9
COTE D'IVOIRE	10.7	15.5	12.8	14.8
THE GAMBIA	4.8	3.1	5.6	14.7
GHANA	18.8	26.5	27.3	34.3
GUINEA	12.6	12.0	11.9	12.8
GUINEA-BISSAU	9.3	2.2	12.2	12.4
LIBERIA	18.3	14.9	13.8	12.5
MALI	22.0	21.4	34.5	26.7
NIGER	40.4	32.9	37.5	47.3
NIGERIA	20.6	20.0	31.2	24.6
SENEGAL	33.7	36.6	34.8	27.9
SIERRA LEONE	7.9	10.6	9.1	11.3
TOGO	8.4	3.7	7.1	13.8
Number of complying Countries	6	7	7	7

In the **Central Africa Sub-region,** Cameroon, Equatorial Guinea and Chad respected this criterion. The other countries, including the DRC, CAR, Sao Tome e Principe saw their capacity to finance investments affected by poor tax revenue. In Congo and Gabon, the failure to meet this criterion is explained by the burden of the external debt servicing.

Table x –Central Africa: Public investment /tax revenue

In percentage

COUNTRY	2005	2006	2007	2008
Cameroon	8.4	10.7	13. 6	22.3
Central African Republic	16.2	14.0	14.3	16.8
Congo	12.1	19.8	24.7	17.5
Gabon	10.8	12.3	12.4	12.3
Equatorial Guinea	32.5	37.2	46.8	37.9
Chad	24.4	16.6	21.1	21.7
CEMAC	**16.3**	**20.6**	**25.3**	**23.8**
DRC	**6.3**	**7. 2**	**5. 3**	**7.8**
Sao Tome e Principe	**11.5**	**10.8**	**6.9**	**8.31**
Number of complying countries	**2**	**2**	**3**	**3**

In the **East Africa sub-region**, the momentum witnessed in 2007 continued in 2008 with Mauritius joining the performing countries, the number of which stood at 4 against 3 in 2007 and 2 in 2006.

Table x –Eastern Africa: Public investment /tax revenue

In percentage

	2005	**2006**	**2007**	**2008**
Burundi				
Comoros	5.9	5.8	5.7	7.5
Kenya	16.4	23.3	23.8	26.6
Mauritius	18.0	18.1	17.0	22.1
Rwanda	21.4	17.1	23.0	36.3
Uganda	40.2	41.3	47.1	53.4
Number of complying countries	2	2	3	4

e) Stability of real exchange rate (± 10%)

The currencies of the countries of the **North Africa Sub-region** remained close to their equilibrium level in 2008.

Table x – North Africa: real exchange rate

In percentage

	2005	2006	2007	2008
Algeria				
Egypt				
Libya				
Mauritania				
Sudan				
Tunisia				
Numner of complying countries				

Two major exchange rate regimes exist within **West Africa**: the fixed exchange rate regime for Cape Verde and the eight countries of UEMOA, and flexible exchange rate regime for the remaining countries. The real exchange rates of most countries were stable during 2008. With the exception of Nigeria (+10.8%) and The Gambia (14.4%) all the countries showed exchange rate fluctuation comprised within the targeted margin of ± 10.0%.

Table x – West Africa: real exchange rates

In percentage

	2005	2006	2007	2008
BENIN	2.3	1.1	0.9	4.7
BURKINA FASO	3.4	0.1	-0.6	6.6
CAPE-VERDE	5.4	3.3	3.0	4.3
COTE D'IVOIRE	0.0	-0.3	1.6	4.5
THE GAMBIA	6.4	-0.2	9.7	14.4
GHANA	0.0	7.1	1.5	9.1
GUINEA	-22.4	-7.0	32.6	-6.5
GUINEA-BISSAU	-1.8	1.0	3.1	9.8
LIBERIA	-3.1	-4.6	2.5	2.7
MALI	3.1	-1.3	0.5	8.0
NIGER	4.4	-3.1	0.9	9.5
NIGERIA	15.3	7.3	-1.9	10.8
SENEGAL	-1.2	-0.1	5.3	4.2
SIERRA LEONE	-11.5	6.2	1.2	7.9
TOGO	3.2	-1.0	0.8	6.1
Number of complying countries	12	15	14	13

The performance of the **Central Africa sub-region** deteriorated sharply in 2008 as only two countries met the criterion against eight in 2007.

Central Africa: exchange rate

(Annual variation in %)

COUNTRY		2006	2007	2008
Cameroon	-2.7	-2.5	0.3	7.1
Central African Republic	0.6	6.4	1.2	14.4
Congo	0.1	-2.2	2.1	13.4
Gabon	-2.9	-1.1	4.3	13.3
Equatorial Guinea	2.1	-3.4	6.3	13.9
Chad	2.6	6.8	-9.9	11.9
CEMAC	**-0.3**	**-0.7**	**0.0**	**11.1**
DRC	**-1.8**	**13.7**	**4.8**	**7.9**
Sao Tome e Principe	**7.5**	**7.5**	**2.1**	**16.9**
Number of complying countries	**8**	**7**	**8**	**2**

East Africa sub-region's performance under exchange rate stabilization is still weak. A part from Comoros, the money of which is pegged to euro with a fixed exchange rate, only one of countries with fluctuating exchange rate regime (Kenya) was able to meet the target.

East Africa: exchange rate
(Annual variation in %)

	2005	2006	2007	2008
Burundi	99.9	81.5	88.9	77.6
Comores	-	-	-	-
Kenya	-10.6	-7.9	-7.5	-5.8
Maurice	-4.0	-.7	-.5	12.3
Rwanda	8.3	5.6	-.1	21.9
Uganda	115.7	120.1	118.3	118.9
Number of complying countries	2	3	3	1

f) Positive real interest rates

Prevalence of negative real interest rates is inimical to domestic savings mobilization and financial intermediation which underscores the importance of maintaining positive real interest rate. In 2008, most Sub-Regions recorded poor performance due to the increase in inflation.

However, all the countries of the **North Africa Sub-region** recorded positive interest rates with the exception of Sudan.

Table x – North Africa: real interest rates

In percentage

	2005	2006	2007	2008
Algeria				Positif
Egypt				Positif
Libya				Positif
Mauritania				Positif
Sudan				-2.4
Tunisia				Positif
Number of complying countries				5

In the **West Africa Sub-region** only one country (Guinea) showed positive real interest rates, against six in 2007.

Table x – West Africa: real interest rates

	2005	2006	2007	2008
BENIN	-0.3	-1.7	3.2	-6.4
BURKINA FASO	2.7	2.0	1.2	-8.1
CAPE-VERDE	1.5	-1.5	-1.2	-3.6
COTE D'IVOIRE	0.9	1.5	2.0	-5.4
THE GAMBIA	3.2	3.6	-1.0	-1.8
GHANA	-7.5	-6.2	-8.3	-9.9
GUINEA	-23.0	-20.0	1.8	0.5
GUINEA-BISSAU	3.2	0.3	-5.8	-5.2
LIBERIA	-3.9	-6.2	-9.1	-7.2
MALI	0.1	-0.1	1.3	-4.3
NIGER	-0.7	3.2	-1.2	-10.1
NIGERIA	-10.1	-6.5	-3.0	-12.0
SENEGAL	2.1	-0.5	-2.6	-0.8
SIERRA LEONE	-7.2	-1.8	-8.3	-9.2
TOGO	-2.0	2.0	0.1	-6.7
Number of complying countries	7	6	6	1

In the **Central Africa sub-region,** only three sub-regional countries (Cameroon, DRC and Sao Tome e Principe) met the criterion.

Central Africa central Banks' annual average reference rates

COUNTRY	2005	2006	2007	2008
Cameroon	4.0	0.2	4.2	0.6
Central African Republic	2.8	-1.4	4.3	-4.6
Congo	2.9	0.6	2.8	-0.4
Gabon	5.1	1.3	0.5	-0.3
Equatorial Guinea	1.5	0.3	-0.3	-1.3
Chad	2.5	-2.9	14.2	-2.9
CEMAC	**3.2**	**0.0**	**3.6**	**-0.8**
DRC	13.4	21.8	12.5	12.4
Sao Tome e Principe	1.1	3.4	0.4	3.2
Number of complying countries	**8**	**7**	**7**	**3**

In the **Eastern African Sub-region,** no country met the criteria.

Table x – East Africa: real interest rates

	2005	2006	2007	2008
Burundi	-3.6	6.2	0.0	-16.2
Comores	-0.2	-0.9	-2.0	-4.0
Kenya	-4.6	-5.0	-4.2	-10.8
Maurice	1.1	-1.3	-0.5	-3.8
Rwanda	-1.8	-0.7	-1.4	-9.1
Uganda	-6.7	-5.2	-3.7	-9.8
Number of complying countries	1	1	1	0

3.2.2. Convergence against qualitative criteria

AACB's Sub-regions continued to implement reforms in diverse areas including banking industry, trade, and statistics.

In **North Africa**, reforms implemented concerned mainly bank restructuring, banking supervision, payments system, and the liberalization of capital account.

With respect to banking sector restructuration, some reforms undertaken were geared to increasing the role of the private sector, a greater integration of the banking system, and improvement of the management capacity. The main actions in these fields included the merger program in Egypt which enabled to reduce the number of active banks from 54 in December 2004 to 39 at the end of December 2008. They included also privatization of local banks in Libya and Egypt. Other reforms were centred on the reinforcement of the management capacity of institutions through inter alia, the development of information systems and improvement in the banking risk assessment techniques as well as credit and operational risk management and control.

Most countries of the Sub-region continued to focus on reforms aimed at improving the control and supervision of the banking system. More specifically central Banks are taking the necessary steps to meet conditions for the application of international accounting standards and implementing the Basle 2 agreements.

Most countries, including Egypt, Libya, Algeria (?) have also embarked on the development and modernization of payment systems. Tunisia has already achieved the reform of its payment system.

With respect to external transactions, all the northern countries have already adhered to Article n° 8 of the statutes of the International Monetary Fund. The liberation of the capital account has not yet been achieved.

The member countries of the **West Africa sub-region** have embarked on diverse reforms including exchange rate policy harmonization, capital account liberalization, harmonization of financial sector and payments systems, supervision and regulation of banking system, trade liberalization, and free movement of persons. If progress has been recorded in some areas, in others, there is a need for accelerating reforms.

In terms of exchange rate policy harmonization, no significant progress has been made so far due to the current existence of two major exchange rate regimes within the ECOWAS region namely, the fixed regime practised by member countries of the West African Economic and Monetary Union (UEMOA) and Cape Verde, and the floating exchange rate regime in force in non-UEMOA countries.

With respect to capital account liberalization, The Gambia and Liberia are still the only two countries which have entirely liberalized their capital accounts. The other ECOWAS member countries are still opting for a prudent approach and more or less maintain a certain level of control. It is worth noting that there is no restriction to capital movement.

Substantial progress is being made in the areas of harmonizing the financial sector and developing payments systems with different level of achievement within the two zones composing ECOWAS.

In UEMOA, the financial market and the payment system are already integrated and harmonized. In 2008, the focus was mainly on migrating two components of the payments systems namely the "Automated Interbank Clearing System in UEMOA" and "Automated Transfer and Settlement System" respectively to version 2 and to Window 2003 in order to improve their functionnalities. The focus was also on normalizing payment instruments (cheques and other trade bills), registration of new members, developments in the BCEAO of bank information system and establishment of a guaranty fund for SICA-UEMOA.

With regards to the West African Monetary Zone (WAMZ), appreciable efforts are being made to upgrade the financial and payments systems of its member States to the same levels. Two countries (Ghana and Nigeria) have an operational system for a "Real Time Gross Settlements – RTGS". This system is being established in the three other member countries (The Gambia, Guinea and Sierra Leone) with financial support from the African Development Bank (ADB).

For the cheques, WAMZ has also adopted common norms and standards. A common regulation in payment system has also been drafted and is being adopted. Once completed, this payment system which is being finalized at WAMZ will be inter-connected with that of UEMOA.

On the issue of supervision and regulation of banking system, WAMZ member countries have taken the necessary measures to harmonize their banking laws and comply with the Basle 1 core principles in the area of banking supervision. UEMOA member States are using an already unified banking regulation while supervision is carried out by the banking Commission.

In the area of trade liberalization, issues relating to the Common External Tariff (CET) and the Protocol instituting the VAT in member countries have not yet been entirely resolved. Indeed, the application of the ECOWAS CET, whose basic mechanism is similar to that in force in UEMOA, is still stumbling over the harmonization of the regime on wavers. However, some progress has been made in terms of harmonizing customs codes, and customs values. A draft ECOWAS customs code is being finalized. A study on the agreements relating to customs value and the preparation of a draft customs value for goods from ECOWAS, is also been carried out.

With regards to the free movement of persons, measures relating to the organization of pilot monitoring units to combat harassment along the boarder roads, the establishment of the ECOWAS passport, international migration and cross-boarder co-operation have been taken.

With respect to statistical harmonization, the implementation of the 2006-2010 regional statistical programme is being pursued through the updating of member States' data, the harmonization of statistical tools and the regional statistical policy. The implementation of the harmonized frameworks and the national accounts programmes, consumer price indices (CPI), external trade statistics (with the EUROTRACE software used to update this sector's statistics) and the regional 2006-2010 programme, is also on course.

The member countries of the **Central Africa sub-region** have engaged the reform of their payment systems.

The **CEMAC** member states launched a regional project for the reform of their payment and settlement system designed in October 1999. This system comprises the following four (4) components:

- the Large Automated Amounts System (SYGMA); for the payments of amounts theoretically equal or higher than one hundred million CFA francs;
- the Telecompensation System in Central Africa (SYSTAC) for the payment of amounts lower than one hundred million CFA francs;
- the Interbank Electronic Money System (SMI);
- the Payment Incident Prevention Management System or the Central Payment Incidents (CIP).

The **Large Automated Amount System which was** launched throughout the **CEMAC** countries on November 19, 2007 is fully functioning. As to the **Telecompensation System in Central Africa, it** operates in four countries (Cameroun, Gabon, Congo and CAR) and is expected to be launched in the other countries during the first quarter of 2009. The Regional Clearance Center will be operational on May 25, 2009. Concerning the **Interbank Electronic Money System, t**he starting up work for the electronic money operations is technically and statutorily very far advanced. The major current project difficulties are related to the interconnection of the six (6) country members to the Electronic Money Processing Centers of Libreville (CTM1) and Douala (CTM2), and the participants' updating of their information system. **The Central Payment Incidents** has not been implemented yet.

The DRC is committed to reforming its payments system and to modernizing the Central for Risks. The project for the modernization of the National Payment System is at its ***preliminary phase*** which includes the development of a payment system infrastructure design to be put in place, and the adoption of an adequate legal, regulatory and conventional framework for the modernization of the National Payment System. This phase could come to an end in August 2009.

The feasibility study of the modernization of the Central for Risks, the objectives of which are, among others, to help commercial banks and other financial institutions to adequately analyze the applications for credits and to consolidate the stability of the national financial system, has already been conducted. The Central for Risks will be operational by 2011.

In Sao Tome e Principe, a working group was set up in 2008 within the Bank to follow up payment system reforms. Moreover, a specialized firm was selected to work out the specifications of the future system.

The **Southern Africa sub-region**, under the auspices of the Southern African Development Community (SADC), has made progress with respect to some activities geared towards enhancing cooperation and convergence. Committees have been set up and protocols signed in the sub-region. The Finance and Investment Protocol (FIP), which encompasses and houses all SADC protocols, has been signed by all SADC Member States and has also been ratified by most Member States. The Sub-Committees that fall under the auspices of the FIP include: the Sub-Committee of Banking Supervisors; Banking Association; Information and Communication Technology; Payment, Clearing and Settlement Systems; Exchange Control Sub-Committee; Sub-Committee of SADC Stock Exchanges, the Macroeconomic Sub-Committee and the Financial Markets Sub-Committee.

IV. CONCLUSIONS: LESSONS LEARNT FROM THE IMPLEMENTATION OF THE AMCP IN STAGE II AND PROSPECT FOR 2009

The Year 2008 marks the end of stage II of the AMCP. At the end of this year, the AACB's members should have observed the following norms:

- Budget deficit / GDP ratio $\leq$ 5 %;
- Central Bank credits to government $\leq$ 10 % of previous year's tax revenue;
- Single digit Inflation rate;
- External reserves / import cover $\geq$ 3 months.

Moreover, they should have fulfilled the following actions:

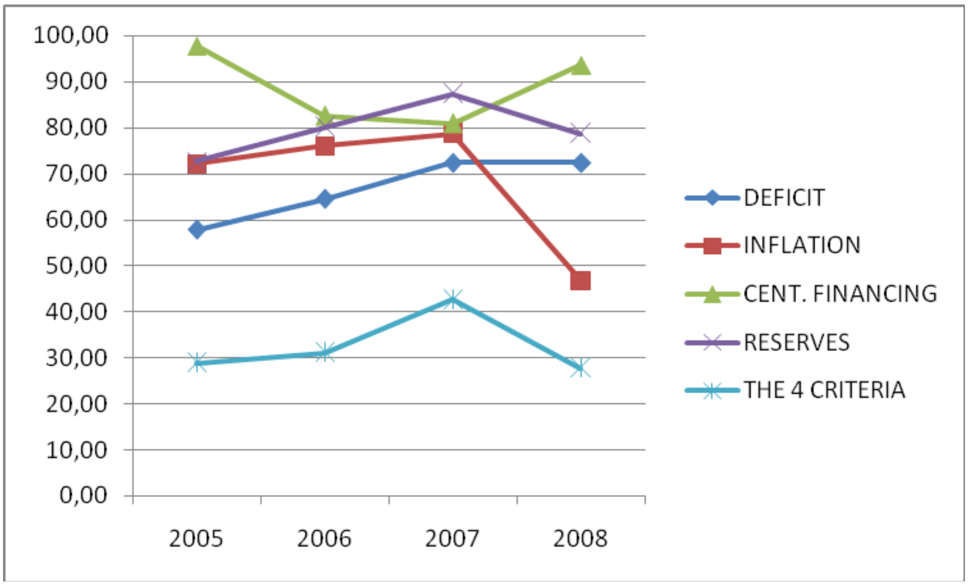
- Harmonization and co-ordination of macroeconomic and monetary policies as well as concepts;
- Gradual interconnection of payments and clearing system;
- Promotion of African banking networks;
- Promotion of sub-regional and regional stock exchanges;
- Strengthening and harmonization of banking and financial supervision.

The 2008 report and those of previous years show that after they steadily improved until 2007, performances of member countries declined significantly in 2008. Indeed, only 13 out of the 47 member countries which submitted their reports (i.e., 29.8%) fulfilled the four primary criteria, compared to 20 countries (42.6%) in 2007 and () countries (33.1%) in 2006. This development resulted from difficulties encountered by most countries, especially those of the Southern Africa Sub-region, to observe the inflation norm. Overall, this criterion was achieved by only 44.7% of the AACB's member countries as against 78.7% in 2007. Furthermore, some countries hardly complied with the criterion on the budgetary deficit excluding grants, over stage. In this regard, the Joint Committee made up of the Bureau of the AACB and the AUC decided on a review of the convergence criteria. The situation regarding the observance of other criteria was relatively satisfactory. Particularly, significant progress was made with respect to Central Bank financing of the budget deficit fulfilled at 95.7% in 2008 (Cf. table 1 and graph 1 hereafter).

Table 2 – Compliance with the four criteria over stage II
(% of countries which complied with the criterion)

	2005	2006	2007	2008
DEFICIT	57,78	64,44	72,34	68,09
INFLATION	72,09	76,09	78,72	44,68
CENT. FINANCING DEF.	97,73	82,61	80,85	93,62
RESERVES	72,73	80,00	87,23	78,72
THE 4 CRITERIA	28,89	31,11	42,55	27,66

Graph 2 – Compliance with the four criteria over stage II



As far as secondary criteria are concerned, some member countries did not provide regularly data on some criteria. This makes it difficult to follow the trend on some criteria, especially debt arrears, over the period under review.

However, table (x) and graph (x) hereafter established on the basis of available data show that overall performances under secondary criteria were low over the period under review with the exception to the norm on real exchange rate for the years prior to 2008. Indeed, before this year countries performed well under the real exchange rate criterion as the number of them which observed the related norm rose from 75% in 2006 to stabilize at 86.2% in 2007 and 2008. On the other hand most countries were unable to fulfill the norms with respect to revenue/GDP, wage bill/ revenue and public investment/revenue. This reflects poor performance in tax collection and the need for further reforms in the field of expenditure management. Furthermore, due to increasing inflation pressure over the period, the number of countries which were able to abide by the positive interest rates requirement declined from 55.2% in 2005 to 13.8% in 2008.

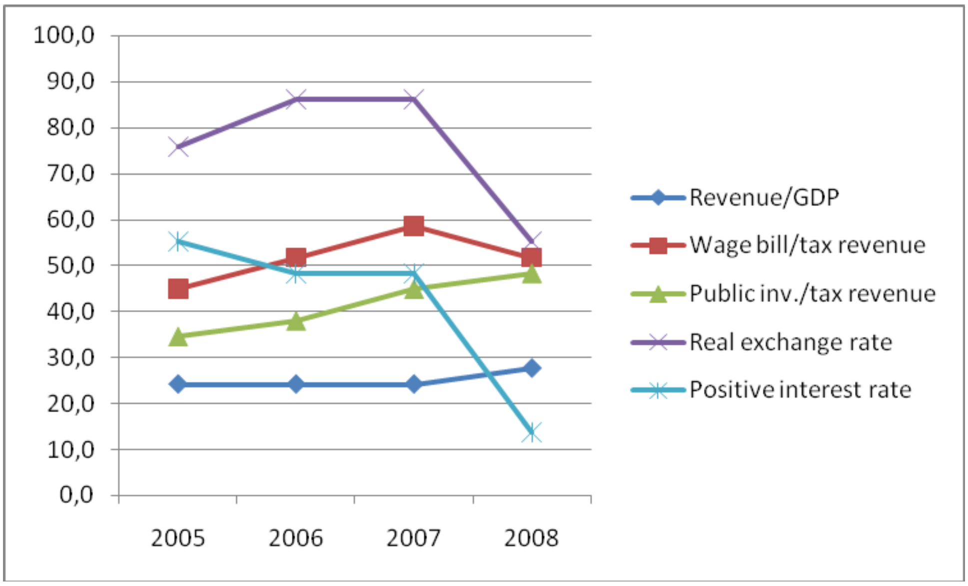
TABLE X PERFORMANCE UNDER SECONDARY CRITERIA

Percentage of countries which fulfilled the criteria

Secondary criteria	2005	2006	2007	2008
Revenue/GDP	24.1	24.1	24.1	27.6
Wage bill/tax revenue	44.8	51.7	58.6	51.7
Public inv./tax revenue	34.5	37.9	44.8	48.3
Real exchange rate	75.9	86.2	86.2	55.2
Positive interest rate	55.2	48.3	48.3	13.8

TABLE X PERFORMANCE UNDER SECONDARY CRITERIA

Percentage of countries which fulfilled the criteria



The somewhat unsatisfactory performances under primary secondary criteria were the result of the impact of external shocks and weather changes. They have also to do with some weaknesses in African economies environment, including the following:

- poor governance;
- precarious business environment;
- socio-political conflicts;
- the poor level of trade between countries of the same sub-region and between different regions reflects insufficient integration of the various economies in a number of areas including commerce;
- the inability of the financial sector to efficiently support economic activity;
- the narrowness of local markets and external dependence of national economies;

- the absence of a formal multilateral surveillance framework in certain regions.

Regarding the qualitative criteria, progress was achieved in the following areas:

- Liberalization of current transactions with an increasing number of countries abiding by Article 8 of IMF's Agreements;

- Banking control and supervision: an increasing number of countries have taken the necessary steps to adopt international norms;

- Reform of payment systems at countries level;

- Trade liberalization especially in Western Africa and Southern Africa;

- Statistics harmonization, particularly in West Africa.

However some of the expected reforms have not been fully performed. Thus there are still restrictions on capital account. There has been scant progress in the area of foreign exchange policy harmonization. Moreover, despite the realizations recorded in system payment reforms, the integration of these systems at regional level is lagging. Only UEMOA has today a fully integrated payment system. It is important to signal that some Sub-regions have not yet established a formal framework for the follow-up of the implantation of the AMCP.

Looking forward, the performance of countries in 2009 which marks the threshold of the third stage of the implementation of the AMCP may be impacted by the unfavorable world environment. Indeed, the year 2009 will be remembered as the beginning of the world economic recession, with a GDP growth rate of -1.3%, reflecting a drastic drop in the production in developed countries (-3.8%), and a significant deceleration of the activity rate in emerging and developing countries (1.6%). The downturn in the economic activity and the reduction in the prices of raw materials would make it possible to significantly cushion the inflationary tension. For the first time since the beginning of the years 2000, emerging and developing countries will experience a net outflow of private capitals.

Regarding the African continent; its economic growth rate may drop significantly to 2%, against 5.2% the previous year. This slowdown in economic activity would be accompanied by a slight relaxation of inflationary tension (9.0 % in 2007, against 10.1% in 2008). External transactions would show a deficit of 6.5% of GDP, against a surplus of 1.0% in 2008. However, increasing net public and private capital flows to Africa are awaited to the tune of US$ 30.2 billion and US$ 15.1 billion respectively, against 24.2 billion and 11.1 billion in 2008.

In this context, the transition to stage III, the criteria of which are much tighter than those of Stage II of the AMCP (see table below), may be challenging for a number of member countries. Thus they must endeavor to address the weaknesses mentioned above in order to comply with Stage III criteria.

Convergence criteria under phases II and III

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

Regarding the current context, it may seem imperative to contain the negative impact of the economic crisis on growth, while preserving the assets of the reforms implemented during the last years. Tax incentives and targeted expenditure programs could particularly, as far as possible, support the economic growth. Central banks which have room for maneuvers with regard to inflation control could stimulate growth through easing credit conditions. Finally, it is crucial to strengthen the monitoring of the financial system to detect the risks in time and to take suitable corrective measures.

Moreover, the various regions should further deepen the macroeconomic reforms, with particular emphasis on the consolidation of public finances. Regarding their exposure to the fluctuations of energy prices, they should also promote policies aiming at regional energy supply and development of alternative energy sources. It would also appear to be advisable to stress the enhancement of sub-regional economic integration through the establishment or strengthening of the institutional framework provided by the AMCP and the harmonization of legislations governing trade and customs tariffs. The interlinking of payment system and enhancement of the financial sector particularly through the continued strengthening of supervision and statistical harmonization should also be high on the list of measures. Certain regions could implement measures geared toward resolving their own specific situations.

Furthermore, for a better monitoring of performance, sub-regions should adapt their norms to those of the AMCP. For the same purpose, sub-regions could be requested to produce catch-up action plan for countries whose performances significantly diverge from the primary criteria targets. In this regard, sub-regions' reports could highlight the prospect of countries' performances over the two years following that under review.

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Table 1 - Countries' performances against primary criteria in 2008

	Budgetary Deficit / GDB ≤5%	Single Digit Inflation	Central Bank financing ≤10%	External Reserves/ Imports ≥3 months
North Africa	4	3	6	4
• Algérie (4)	7.6	4.4	0.0	35.0
• Egypt (2)	*-6.8*	*11.5*	0.0	7.9
• Libya (3)	55.4	*10.4*	0.0	52.0
• Mauritanie (2)	*-6.8*	7.3	0.0	*1.5*
• Sudan (2)	-1.6	*14.3*	7.1	*1.8*
• Tunisie (4)	-1.2	5.0	0.0	4.6
West Africa	7	8	14	12
– Bénin (4)	-3.4	9.9	0.0	6.0
– Burkina Faso (2)	*-8.5*	*11.6*	0.0	6.0
– Cabo Verde (3)	*-5.8*	6.8	0.0	4.1
– Côte d'Ivoire (4)	-2.3	8.9	0.0	6.0
– Gambia (4)	-3.7	6.8	0.0	4.3
– Ghana (0)	*-18.6*	*14.4*	*17.3*	*2.2*
– Guinée (2)	-1.5	*13.5*	5.8	*0.5*
– Guinée-Bissau (3)	*-20.8*	8.7	0.0	6.0
– Liberia (3)	-2.0	9.4	0.0	*0.7*
– Mali (3)	*-8.5*	7.8	0.0	6.0
– Niger (2)	*-6.2*	*13.6*	0.0	6.0
– Nigeria (3)	-0.2	*15.0*	0.0	14.7
– Sénégal (3)	*-6.6*	4.3	0.0	6.0
– Sierra Leone (2)	*-7.1*	*13.2*	0.0	4.3
– Togo (3)	-4.6	*10.2*	0.0	6.0
Central Africa	8	6	8	7
• Cameroun (4)	3.4	4.0	-21.5	7.1
• Centrafrique (4)	-2.4	8.0	6.3	4.6
• Congo (4)	23.9	4.5	-11.9	15.9
• Gabon (4)	11.3	5.0	1.4	9.7
• Guinée Equatoriale (4)	23.2	6.0	0.0	17.2
• Tchad (4)	4.4	5.0	-2.4	6.6
• Congo RDC (2)	-0.43	*27.6*	-5.2	*0.5*
• São Tome e Principe (3)	-6.5	*24.8*	10.0	6.0
Southern Africa	1 1	2	12	9
– Angola (3)	8.9	*13.2*	-	10.4
– Botswana (3)	-0.8	*12.6*	-	22.0
– Lesotho (3)	-0.1	*10.7*	-	8.6
– Madagascar (4)	-4.7	9.4	-	3.2
– Malawi (3)	*-6.3*	8.7	-	*2.2*
– Moçambique (3)	-2.5	*10.3*	-	4.9
– Namibia (3)	-0.7	*10.3*	-	4.8
– South Africa (3)	-0.7	*11.6*	-	3.4
– Swaziland (3)	-1.4	*12.6*	-	4.9
– Tanzania (3)	-3.8	*10.3*	-	4.3
– Zambia (2)	-1.7	*12.4*	-	*2.8*
– Zimbabwe (1)	29.9	*15 947.5*	-	*0.3*
East Africa	3	2	5	5
– Burundi (2)	*-13.6*	*24.5*	-	6.3
– Comores (3)	*-13.1*	6.5	*20.0*	5.6
– Djibouti	…	…	…	…
– Ethiopia	…	…	…	…
– Eritrea	…	…	…	…
– Kenya (3)	-1.3	26.2	6.3	*2.8*
– Mauritius (4)	-3.5	9.7	-10.2	3.8
– Rwanda (2)	*-11.0*	*15.4*	0.0	5.0
– Uganda (3)	-4.8	*12.1*	0.0	5.4
– Seychelles	…	…	…	…
– Somalia	…	…	…	…
Number of the countries which reported their performances	47	47	47	47
Number of the countries which complied with the criteria	32	21	45	37
Percentage	**68.09%**	**44.7%**	**95.7%**	**78.72%**

Graph 1 – Compliance with the primary criteria in 2008

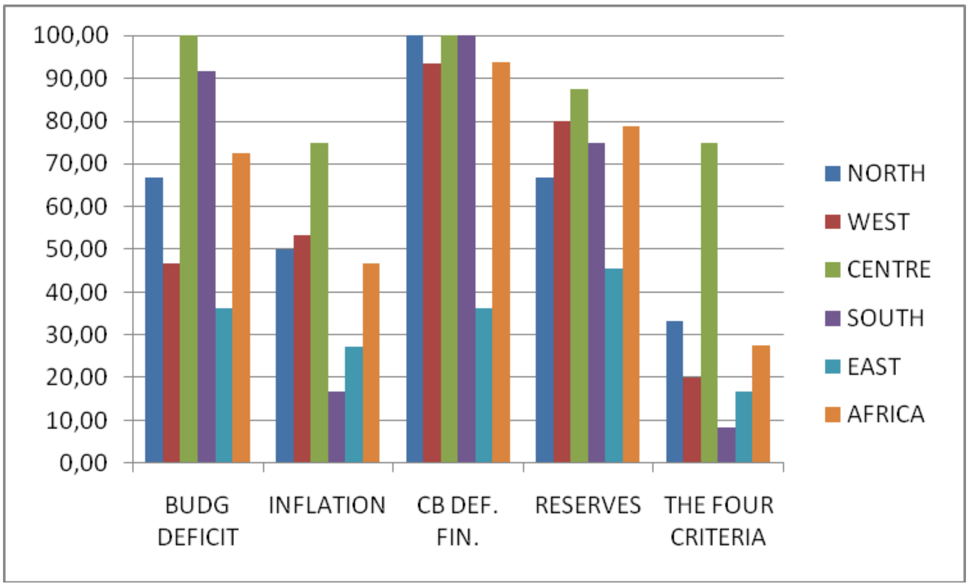


Table 2 – Compliance with the four criteria over stage II
(% of countries which complied with the criterion)

	2005	2006	2007	2008
DEFICIT	57,78	64,44	72,34	68,09
INFLATION	72,09	76,09	78,72	44,68
CENT. FINANCING DEF.	97,73	82,61	80,85	93,62
RESERVES	72,73	80,00	87,23	78,72
THE 4 CRITERIA	28,89	31,11	42,55	27,66

Graph 2 – Compliance with the four criteria over stage II

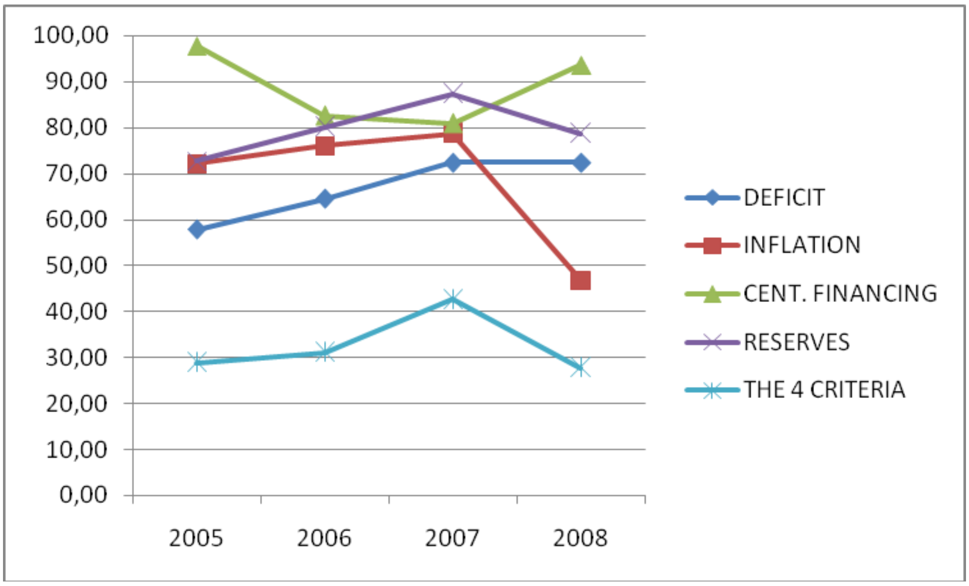


Table 3 – Compliance of sub-regions with the budgetary deficit criterion over stage II
(% of countries which complied with the criterion)

	2005	2006	2007	2008
NORTH	66,67	83,33	83,33	66,67
WEST	33,33	46,67	46,67	46,67
CENTRE	75,00	87,50	87,50	87,50
SOUTH	83,33	75,00	100,00	91,67
EAST	9,09	9,09	27,27	27,27
AFRICA	57,78	64,44	72,34	68,09

Graph 3 – Compliance of sub-regions with the budgetary deficit criterion over stage II

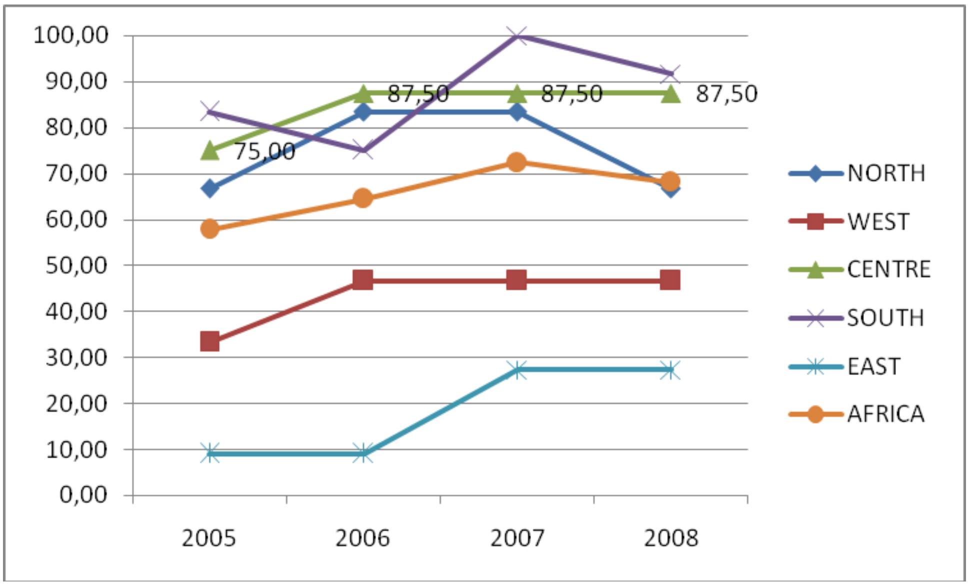


Table 4 Compliance of sub-regions with the inflation criterion over stage II
(% of countries which complied with the criterion)

	2005	2006	2007	2008
NORTH	83,33	100,00	83,33	50,00
WEST	73,33	86,67	73,33	53,33
CENTRE	75,00	75,00	87,50	75,00
SOUTH	50,00	50,00	66,67	16,67
EAST	27,27	36,36	54,55	18,18
AFRICA	72,09	76,09	78,72	44,68

Graph 4 – Compliance of sub-regions with the inflation criterion over stage II

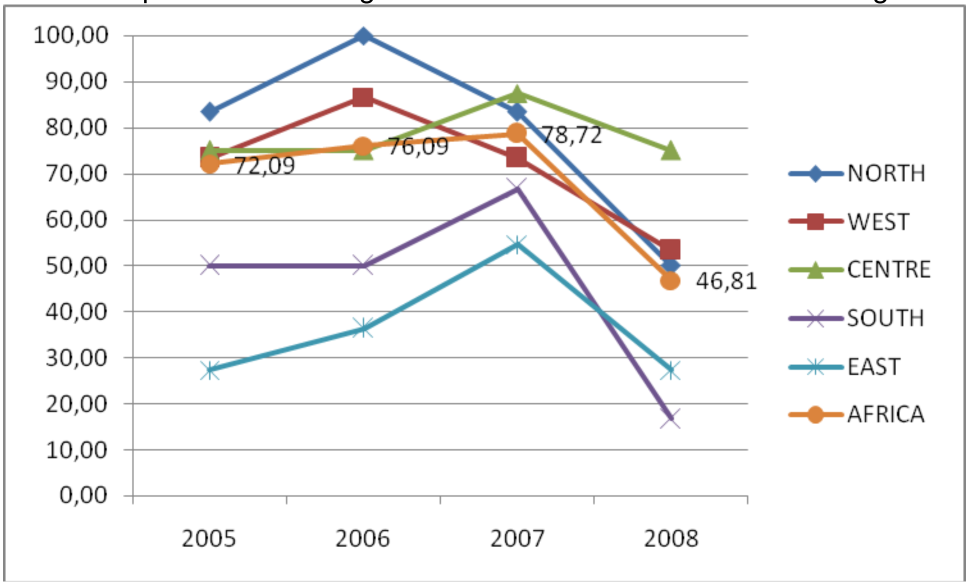


Table 5 – Compliance of sub-regions with the criterion on central bank financing of budgetary deficit over stage II
(% of countries which complied with the criterion)

	2005	2006	2007	2008
NORTH	83,33	100,00	83,33	100,00
WEST	100,00	86,67	93,33	93,33
CENTRE	100,00	37,50	25,00	100,00
SOUTH	91,67	100,00	100,00	100,00
EAST	36,36	36,36	45,45	36,36
AFRICA	97,73	82,61	80,85	93,62

Graph 5 – Compliance of sub-regions with the criterion on central bank financing of budgetary deficit over stage II

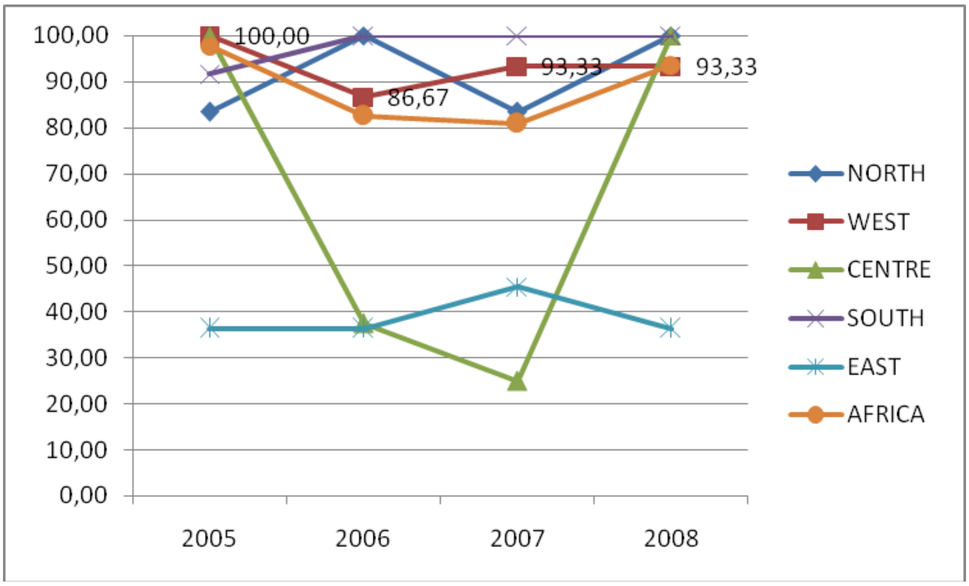
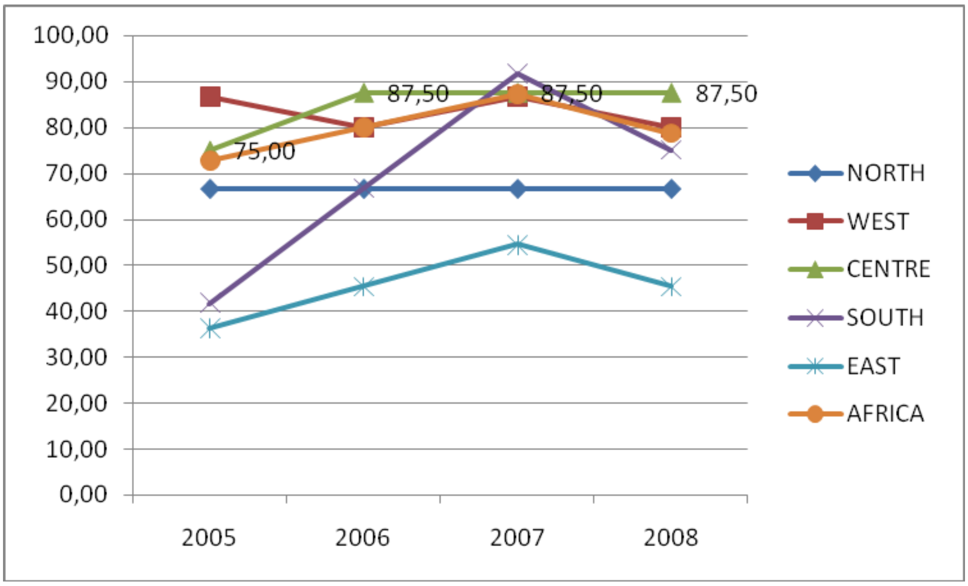


Table 6 – Compliance of sub-regions with the foreign reserves criterion over stage II
(% of countries which complied with the criterion)

	2005	2006	2007	2008
NORTH	66,67	66,67	66,67	66,67
WEST	86,67	80,00	86,67	80,00
CENTRE	75,00	87,50	87,50	87,50
SOUTH	41,67	66,67	91,67	75,00
EAST	36,36	45,45	54,55	45,45
AFRICA	72,73	80,00	87,23	78,72

Graph 6 – Compliance of sub-regions with the foreign reserves criterion over stage II


100,00
90,00
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87,50
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2005
2006
2007
2008
NORTH
WEST
CENTRE
SOUTH
EAST
AFRICA

Table 28: Countries' performances against primary criteria of AMCP stage II

... no data

[i] IMF, World Economic Outlook, April 2009