ASSOCIATION DES BANQUES CENTRALES AFRICAINES ASSOCIATION OF AFRICAN CENTRAL BANKS

Annex 3

ASSOCIATION OF AFRICAN CENTRAL BANKS (AACB)

39th ORDINARY MEETING OF THE ASSEMBLY OF GOVERNORS

(Abuja, Nigeria, 15 August 2016)

PROGRESS REPORT ON THE IMPLEMENTATION OF THE AFRICAN MONETARY CO-OPERATION PROGRAMME (AMCP) IN 2015

I - International economic environment

The global economic activity registered moderate growth in 2015. According to the latest forecasts on economic growth published by the IMF in April 2016, the global economy should grow by 3.1% in 2015 against 3.4% in 2014, due to the slowdown in growth in emerging countries and the downturn noted in the majority of industrialized countries.

In the United States, economic growth remained stable at 2.4% in 2015, driven primarily by private consumption. This performance reflects the improvement of the labour and real estates markets. However, it was limited by the decline in investments in the oil and gas sectors as well as the impact of the appreciating dollar on exports of manufacturing industries. In Japan, growth remained weak, notwithstanding the fiscal stimulus plan and the structural reform, implemented by the Government. Indeed, the economic growth rate stood at 0.5% in 2015 against 0% a year before. In the Euro Zone, growth strengthened in 2015, albeit at a relatively subdued level. GDP growth was 1.6% in 2015 against 0.9% in 2014, and was essentially driven by a strong export performance.

In emerging countries, the economic trend indicates a continuing slowdown in economic activity, due to the negative impact of the low prices of raw materials, the persistence of geopolitical tensions and the volatility of financial markets. In China, GDP growth slowed down in 2015 dropping to 6.9%, after registering 7.3% the year before. This counter-performance of the Chinese economy is attributable to the lethargy of the domestic and external demand as well as the vulnerabilities of its financial system. In Brazil, negative growth stood at -3.8% in 2015 against 0.1% in 2014, reflecting the steady rise in unemployment and the decline in investments, in a context of collapsing Brazilian currency, induced by hyper-inflation. In Russia, the growth rate is also negative and stood at -3.7% in 2015 against 0.6% in 2014.

The growth of advanced economies is expected to remain stable in 2016 (1.9%)[(1)] compared to 2015, due to the decline in economic activity, particularly in the United States and Japan. In the emerging markets and developing economies, growth would reach 4.1% in 2016, an increase of 0.1 percentage point from one year to another, due to favourable prospects in particular in the majority of emerging Asian countries. According to forecasts, the global economy is expected to strengthen slightly in 2016 (+0.1 point) compared to 2015 to reach a 3.2% growth rate. The continued recovery was primarily due to the rise in demand attributable to the drop in energy prices.

In 2015, inflation remained weak worldwide, particularly in advanced economies, mainly because of low oil prices. It stood at 0.3% in 2015 in advanced economies, below the objective set by central banks, due to the sharp contraction of basic commodity prices and weakening domestic demand in some countries like Japan and the United States. In the emerging markets and developing economies, inflation remained stable at 4.7% in 2015. This inflation pattern is primarily attributable to the declining prices of oil and other basic commodities, mitigated by the strong depreciation of the currency in some emerging countries, in particular, Brazil and Russia. In advanced economies, inflation is expected to increase to about 0.7% in 2016, after the 0.3% observed in 2015, i.e. its lowest level since the international financial crisis. However, it is expected to drop from 4.7% to 4.5% in the emerging markets and developing economies.

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1 /IMF, "Global economic outlook", April 2016, p2. These estimates do not take the impact of Brexit into account.

In this context of low inflation and fears of a persistently subdued growth, the monetary policy orientation continued to be extremely accommodating in advanced economies, with diverging trends. In December 2015, the European Central Bank (ECB) dropped its deposit rate by 10 basis points to -0.30%, but left unchanged at 0.05% the interest rate of the main refinancing operations. Moreover, it activated the second phase of its quantitative easing (QE) policy by extending its assets buy-back programme by six months up to the end of March 2017. However, in the United States, the Federal Reserve (EDF), in December 2015, raised its main policy rate by 25 basis points, the first increase since that of June 2006. This increase could be the starting point of a gradual monetary tightening cycle, since the Fed had stated its intention to closely monitor the developments of the economic activity, in particular the inflation, before deciding to further increase the rates. The Bank of Japan (BoJ) maintained its quantitative easing mechanism aimed at increasing the monetary base by 80,000 billion yens per annum (about 600.0 billion euros), through a major assets buy-back programme. In emerging countries, some central banks (China, India and Russia) reduced their policy rates to support the economic activity while other central banks (South Africa and Brazil) raised their policy rates to contain inflation.

On the foreign exchange markets, most of the major regional currencies depreciated against the US Dollar. The uniform depreciation against the US dollar, to a large extent, reflects the wide variations of the fundamental economic parameters, such as the increase in domestic demand, the decline in basic commodity prices and the country-specific shocks. In advanced economies, the euro and the Japanese yen weakened against the American dollar in 2015, following the implementation by the ECB of its quantitative easing programme. The emerging market currencies also depreciated against the dollar, in connection with the weakening growth.

The prices of raw materials followed a broad downward trend, with the exception of some agricultural products such as cotton, meat and certain drinks (cocoa and tea). The prices of foodstuffs also dropped because of the abundant 2015 harvests. Cereal prices dwindled, notwithstanding the unfavourable atmospheric conditions in North America and Europe. Coffee prices fell, in connection with the modest turnaround in production in Brazil. Crude oil prices dropped, under the combined effect of low economic activity at global level and a more abundant supply by Member States of the Organization of Petroleum Exporting Countries, the United States and Russia. The nuclear agreement concluded with the Islamic Republic of Iran also contributed to the decline in oil prices. The prices of basic commodities, except fuels, notably metals and basic agricultural products, dropped significantly in 2015, in the wake of the decline in oil prices, in connection with the slackening expansion of high metal-intensive investments in China and the sharp increase in supply. Moreover, the prices of meat increased slightly.

However, contrary to coffee, the prices of certain drinks, such as cocoa and tea were on the upside. Indeed, cocoa prices increased due to a supply deficit, attributable to adverse weather conditions in Ghana. Those of the tea increased because of the reduced supply, induced by drought in Kenya.

In 2015, Africa's growth rate was 3.4%2 (against 3.7% in 2014), slightly above global economic growth (3.1%). However, regional disparities still exist, due to several factors such as the differences in natural resource endowment, income level, macroeconomic policies and political and social stability. As was the case in 2014, Eastern Africa was the region with the highest growth in 2015 (6.3% against 6.5% in 2014), followed by Central Africa (3.7% against 6.1% in 2014), Northern Africa (3.5% against 1.4% in 2014) and Western Africa (3.3%

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2 /15th Edition of African Economic Outlook 2016, p33.

against 6.0% in 2014). Southern Africa registered a relatively weaker growth in 2015 with 2.2% against 2.8% a year before. Growth slowdown in Africa is primarily due to the severe drop in basic commodity prices, registered in several countries. The major challenges consist in implementing a policy for the diversification of products and pursuing the efforts to structurally transform the economy in all the regions. Apart from these elements, there is need to address energy supply challenges particularly in the electricity sector where significant investments need to be pursued to reduce power cuts experienced in some countries and improve electricity supply. In the area of supply, Africa's growth was mainly driven by agriculture, extractive industries and the development of the construction and services sectors. In the area of demand, maintaining economic growth is primarily dependent on the continuing investments in infrastructure and a robust private consumption. The gross domestic product (GDP) is expected to increase by 3.7% in 2016 and 4.5% in 2017. On average, Africa's inflation rose to 7.3% in 2015, after reaching 7.2% the previous year. Overall, disparities in economic performance were noted in the five sub-regions of the AACB.

II - Developments in the economic and financial situation in the Sub-Regions

2.1 - Northern African Sub-Region

2.1.1. Economic growth

Most countries of the Northern African sub-region performed weakly in 2015. This situation primarily reflects the deep economic and political changes of the last five years (2011-2015), in particular the advent of the Arab Spring revolutions in some countries of the sub-region, like Tunisia, Egypt and Libya. These factors, combined with political changes noted in Sudan, which led to its split into two countries (North and South Sudan), resulted in a decline in growth rates in all countries of the sub-region, with the exception of Egypt. Growth rates increased from 3.8% in 2014 to 3.1% in 2015 in Algeria, from 6.4% to 3.1% in Mauritania, from 4.4% to 3.1% in Sudan and from 2.3% to 0.5% in Tunisia. These poor performances are attributable to the decline in activities in the hydrocarbons and mining sectors, as a result of the world economic situation and the reduced prices of raw materials. They are also due to the negative impact of terrorist attacks on the economic activity of some countries. In Egypt, economic activity expanded from 1.4% in 2014 to 1.8% in 2015, driven by the strong performance of the tourism, public, building construction and Suez Canal sectors.

2.1.2. Inflation

Three countries (Algeria, Mauritania and Tunisia) in the Northern African sub-region fulfilled the inflation criterion in 2015. Inflation moved in contrasting directions in the sub-region. In Algeria and Egypt, the inflation rate accelerated, respectively from 2.9% to 4.9% and 8.2% to 11.4% between 2014 and 2015, because of the significant contributions of electricity, gas and fuel, as well as transport and communications. The inflation rate declined from 3.5% to 1.5% in Mauritania, 36.5% to 19.8% in Sudan, and from 4.8% to 4.1% in Tunisia. These developments are due to the drop in the prices of raw materials, in particular foodstuffs, as well as improvements in agricultural production, in addition to the implementation of prudent monetary policies and the continuation by public authorities of subsidy programmes for basic commodities in favour of the most vulnerable social groups.

2.1.3. Public finances

The public deficit criterion was not met by any other country of the sub-region except Sudan. Despite the economic reforms programmes adopted in the sub-region to reduce the budget deficit in percentage of GDP, this ratio continued to be high in some countries. It was estimated at 14.0% in Algeria in 2015 against 7.6% in 2014, 11.5% in Egypt in 2015 against

12.2% in 2014, 4.7% in Mauritania in 2015 against 4.4% in 2014, 4.4% in Tunisia in 2015 against 4.9% in 2014, and 1.0% in Sudan in 2015 against 0.9% in 2014.

2.1.4. External sector

The data available on international transactions showed that the current account balances have improved in most countries, except Algeria and Tunisia. It also revealed differences from country to country. Egypt's current account deficit moved from 4.9% of GDP in 2014 to 4.5% of GDP in 2015. External reserves could provide 4.0 months of import coverage in 2015 against 3.3 months of coverage in 2014. In Algeria, the current account deficit stood at 15.0% of GDP in 2015 against 4.4% of GDP in 2014. The number of months of imports covered by the external reserves increased from 30.0 in 2014 to 27.0 in 2015. Mauritania's current account deficit was 17.7% of GDP in 2015 against 29.9% of GDP in 2014. The number of months of imports covered by the external reserves increased from 4.8 in 2014 to 6.8 in 2015. Sudan had a current account deficit of 5.8% of GDP in 2015, after the 7.7% registered a year before. External reserves could provide 2.5 months of import coverage in 2015 against 2.3 months of coverage in 2014. In Tunisia, the current deficit remained stable at 8.8% of GDP in 2015. Some 4.2 months of imports were covered by external reserves in 2015 against 3.8 months in 2014. The improvements noted in the current account deficit can be explained by the declining imports of mining companies, due to reduced foreign direct investments, following the drop in the prices of mining products, which were offset by the decline in the exports of mining products as a result of the reduction of prices and oil revenue. Moreover, in some countries, tourism earnings contribute significantly to the improvement of the services and income balance. The deteriorating current account deficit also stems from the fall of oil prices and the decrease in exported quantities, coupled with the rise in the imports of goods.

2.1.5. Financing the budget deficit by the Central Bank

Only Sudan reported a direct financing of its deficit by the Central Bank in 2015. A year before, Sudan and Egypt reported receiving Central Bank contribution.

2.2 - Western African Sub-Region

2.2.1. Economic growth

The economic growth of countries of the Western Africa sub-region slowed down in 2015 compared to the previous year. The real gross domestic product (GDP) increased in Côte d'Ivoire by 10.3% against 8.5% in 2014 and in Senegal by 6.5% 4,3%, primarily driven by agriculture and the investment momentum in the field of infrastructure. In Guinea-Bissau, the economic growth rate almost doubled reaching 6.1% in 2015, reflecting the improvement of the country's socio-political situation. In the Gambia, it grew from 0.5% to 4.7% from one year to the next, due to the good performance registered in the agriculture and tourism sectors. Liberia and Guinea registered an economic growth rate of 2.5% in 2015, against 0.0% and 0.1% respectively observed in 2014 in these countries. In Mali and Niger, economic growth was respectively 6.0% and 3.6% in 2015. However, growth slowed down in 2015 in Benin, Burkina and Togo, with respectively 5.2%, 4.0% and 5.4% in 2015. Growth declined in Nigeria in 2015, to 2.8%% against 6.2% in 2014, due to the drop in oil prices and high security risks, in connection with Boko Haram activities. Sierra Leone registered the worst performance of the region, with a negative growth rate of 21.1% against +4.6% a year before, because of the substantial fall in prices in the mining sector at global level. The poor economic performance registered in some countries are attributable to the effects of the Ebola outbreak (Guinea, Liberia and Sierra Leone), and the high security risks (Mali, Nigeria and Niger). Overall, the performance of countries of the West African

Economic and Monetary Union (UEMOA) was better (stable growth rate of 6.6%) than those of the West African Monetary Zone (ZMAO) (growth rate of 2.7% against 5.9% in 2014).

2.2.2. Inflation

In 2015, nine States (UEMOA and Cabo Verde) fulfilled the macroeconomic convergence criterion relating to inflation. Indeed, the annual average inflation was less than 3% in UEMOA Member States, lower than the fixed 5% target. On average, inflation in the UEMOA was 1.0% in 2015 against 0.1% a year before. Mali is the country with the highest inflation in this zone, registering an annual inflation rate of 2.1% in 2015. Inflation rates in the ZMAO stood at 9.6% on average against 8.6% the previous year. Except for Cabo Verde, which registered a 0.1% inflation rate in 2015 against -0.2% in 2014, inflation was above the set target of 5.0% all over. With an average annual inflation rate of 17.1%, Ghana is the country with the highest inflation.

2.2.3. Public finances

With the exception of two countries (Liberia and Nigeria), no West African State fulfilled the criteria relating to budget deficit in 2015. The average deficit of the sub-region widened, from 2.2% of GDP in 2014 to 2.8% of GDP in 2015. Liberia and Nigeria had the lowest deficits, of 0.7% and 1.7% respectively, below the required 3.0% standard. The highest deficits were registered in Niger (12.5% of GDP against 13.6% in 2014), in Guinea (10.3% of GDP against 6.0% in 2014), in the Gambia (8.5% of GDP against 9.2% in 2014) and in Benin (8.4% of GDP against 2.9% in 2014). On the whole, the deficit widened in the majority of UEMOA and ZMAO countries, where it rose from 1.6% of GDP in 2014 to 2.1% of GDP in 2015. This worsening deficit is mainly due to weak resource mobilization, in a context of escalating public expenditure, in particular, in capital.

2.2.4. External sector

With the exception of two countries (Cabo Verde and Nigeria), no other country of the sub-region fulfilled the criterion relating to the currency issuance coverage rate. Overall, the external reserves of countries of the sub-region represented 6.0 months of imports in 2015 against 6.2 months in 2014, due primarily to the drop in Nigeria's external reserves, prompted by declining oil prices. Despite the fact that countries of the sub-region globally comply with this criterion, differences still exist from one zone to the next. UEMOA countries registered a 5.1 months import coverage rate in 2015 against 5.0 months in 2014. In the ZMAO, this criterion was met by only 2 countries out of 7. They are Cabo Verde (9.2 months against 7.6 months in 2014) and Nigeria (6.5 months against 6.7 months in 2014). Guinea, the Gambia and Liberia have less than 3 months of imports coverage. These low levels observed in the majority of ZMAO Member States are due to the combined effects of the sharp decline of mining products and the Ebola outbreak.

2.2.5. Financing budget deficit by the Central Bank

In the UEMOA zone, the Central Bank did not grant any assistance to States in 2015.

2.3 - Central African sub-region

2.3.1. Economic growth

Growth in the sub-region slowed down in 2015 to 3.7% against 6.1% a year before. All the countries registered a declining economic performance. The economic growth rate in the Central African Economic and Monetary Community (CEMAC), fell to 2.4% in 2015 against

4.8% in 2014, as a result of the drop in oil prices and the security situation caused by the Boko Haram sect and the socio-political instability in the Central African Republic. Growth in the Democratic Republic of Congo (DRC) was 6.9% in 2015, declining by 2.6 percentage points compared to 2014. In Sao Tome E Principle, growth stood at 3.9% in 2015 against 6.9% in 2014. These counter-performances are primarily due to declining world commodity prices and weak international demand.

2.3.2. Inflation

The inflation criterion was fulfilled in 2015 by all countries of the region, excepting Chad and Sao Tome E Principe. In these two countries, the inflation rate was respectively 3.7% and 4.0% in 2015 against 1.7% and 6.4% in 2014. In the CEMAC zone, it stood at 2.5% in 2015, down 0.7 percentage point compared to 2014, due essentially to the decline in domestic demand and the drop in the prices of basic commodities and communications, particularly in Gabon. Inflation was lowest in DRC, declining to 0.7% in 2015 against 1.0% in 2014.

2.3.3. Public finances

In 2015, half of the countries of the sub-region (Cameroon, Gabon, Chad and DRC) fulfilled the budget deficit criterion. In 2015, the public finances were characterized by budget deficits in all the countries. In the CEMAC, public deficit globally reached 3.5% of GDP in 2015 against 1.8% a year before. It rose in Congo (- 11.6% of GDP in 2015 against +3.4% in 2014) and Central African Republic (CAR) (- 8.1% against -7.8% in 2014). The lowest deficit was registered in Gabon (- 1.1%) against +2.4% in 2014). In other countries, Government budget deficit is highest in Sao Tome E Principle (- 8.8% in 2015), despite its improvement compared to 2014 (- 16.8%). DRC is the country of the sub-region with the lowest level in 2015 (- 0.7% of GDP) as was the case in 2014 (- 0.3%).

2.3.4. External sector

According to estimates, the current account deficit of CEMAC countries widened further in 2015 compared to 2014, at 14.8% of GDP against 13.4% of GDP in 2014, as a result of the depressive effects of the international environment, marked by the prolonged decline in the prices of raw materials and the appreciation of the euro against the dollar. Overall, external reserves in the CEMAC zone represented 4.0 months of imports in 2015 against 5.2 months in 2014. None of the CEMAC Member States has fulfilled the criterion relating to external reserves. Cameroon registered the highest ratios (5.3 months), followed by CAR and Gabon with 4.9 months in 2015. In Chad, the ratio is 0.9 months of imports in 2015 against 2.3 months in 2014, i.e. the lowest of the region. In the other two non-CEMAC countries (DRC and Sao Tome E Principe), external reserves were respectively 1.3 and 8.7 months of imports in 2015 against 1.8 and 7.7 months in 2014.

2.3.5. Financing budget deficit by the Central Bank

As was the case in 2014, DRC and Sao Tome E Principe did not receive any funding from central banks for their budget deficits in 2015.

2.4. Southern African sub-region

2.4.1. Economic growth

The majority of countries of the Southern African sub-region experienced a slowdown in their economic growth in 2015 compared to 2014, mainly because of the decline in the supply of agricultural products, floods and drought experienced by some countries of the region and the induced effects of the economic slowdown in certain emerging countries, particularly China. On average, the growth of the sub-region stood at 3.0% in 2015 against 4.2% in 2014. The decline in the prices of agricultural products and in the mining sector has had an enormous effect on the performance of countries of the sub-region. Growth deteriorated in all the countries in 2015 compared to 2014. Malawi and Zimbabwe registered the most significant downturn in growth (- 3.2 and -2.7 percentage points respectively). Mozambique had a stronger growth, with a rate of 6.3% in 2015 against 7.2% a year before. Mozambique's growth was primarily driven by the buoyant activity in the agricultural, manufacturing, mining, building construction, transport and communication sectors. The growth rate of the Namibian economy was 5.7% in 2015, dropping by 0.6 percentage point compared to 2014. The decline in growth in this country was primarily due to the decline in activity noted in the mining (diamond and zinc), agriculture, transport and construction sectors. Zambia and Madagascar registered a 3.2% growth rate in 2015, compared to 5.0% and 3.3% respectively observed the year before. The slowdown in growth noted in these countries are mainly due to insufficient electricity supply, the volatility of the Zambian currency and the drop in production in Madagascar. The South African economy, the largest of the region, is confronted with structural problems, in particular power supply deficit, causing its growth to slow down to 1.3% in 2015. Swaziland, Botswana and Zimbabwe registered respective growth rates of 1.7%, 1.2% and 1.1% in 2015, almost the lowest of the region.

2.4.2. Inflation

Five countries (Angola, Madagascar, Malawi, Swaziland and Zambia) of the sub-region did not meet the inflation criterion in 2015. On average, inflation rate for the region dropped from 6.8% in 2014 to 6.7% in 2015. Inflation changed erratically from one country to next. It increased in Angola, Zambia, Madagascar and Mozambique, reaching 14.3%, 10.1%, 7.4%, and 2.4% in 2015 against respectively 7.5%, 7.8%, 6.1% and 2.3% in 2014. However, it declined in other countries. It was higher in some countries, sometimes reaching double-digits (Malawi, Angola and Zambia). In Malawi, inflation stood at 21.9%, the highest level of the region, due to the delayed effects of the 2012 currency devaluation and insufficient electricity supply. In Angola, inflation rate was about 14.3% in 2015 compared to about 7.5% in 2014, reflecting the effects of currency depreciation, induced by the drop in oil prices. The upsurge of Zambia's inflation, from 7.8% to 10.1% between 2014 and 2015 are due to currency depreciation, resulting from the decline in copper exports. In Zimbabwe, inflation remained negative in 2015 (- 2.4%).

2.4.3. Public finances

In 2015, four countries (Botswana, Lesotho, Malawi and Zimbabwe) fulfilled the budget deficit criterion. On average, the deficit of the region was 3.9% in 2015, rising by 0.1 percentage point from one year to another. The largest deficits were noted in Zambia (- 9.4% of GDP), Mozambique (- 7.4% of GDP), Swaziland (- 5.4% of GDP) and Namibia (- 5.2% of GDP). Only Lesotho had a surplus of about 2.0% of GDP in 2015.

2.4.4. External sector

The average external reserves of the region stood at 5.2 months of imports against 5.0 months a year before. Only Botswana and Angola had over 6 months of import coverage. However, an improved coverage rate in terms of months was noted in 2015 for all countries, excepting Lesotho, Malawi and Mozambique. The external reserve position is more comfortable in Botswana, with reserves reaching 19.0 months of imports coverage, owing to the reduction of the import bill. Angola's external reserves stood at 8.0 months of imports in

2015, a 2.0-month increase compared to 2014. Angola's performance can be explained by the maintenance of reserves accumulated in previous years when oil prices were high. Zimbabwe, as in previous year, had the lowest level of reserves with almost 1.0 months of imports coverage, a 1.0-month increase compared to 2014.

2.4.5. Financing budget deficit by the Central Bank

Three countries of the sub-region (Angola, Madagascar and Zambia) were financed by the Central Bank in 2015 compared to two (Madagascar and Zambia) in 2014.

2.5. Eastern African Sub-Region

2.5.1. Economic growth

The economic growth of the sub-region was relatively moderate in 2015 compared to 2014. Kenya's GDP increased by 5.6% in 2015 against 5.3% the year before, driven mainly by the agricultural, building construction and financial services sectors. The recovery of the Rwandan economy registered in 2014 continued throughout 2015. It virtually stabilised at 6.9% in 2015, owing to the significant performance noted in the banking sector as a result of the implementation of an accommodating monetary policy and an effective coordination between monetary policy and budget policy. The Somali economy registered a 3.7% growth in 2015, an increase of 0.1 percentage point from one year to the next, thanks to the rise in consumption, resulting from the mounting export of livestock and agricultural products. Tanzania's growth stabilised at 7% in 2015, driven mainly by the activities deriving from construction, finance and insurances. [3]

In Uganda, GDP remained stable at 5.0% in 2015, owing to low public investments and the uncertainty caused by the election campaign as well as the tightening of monetary policy. In Mauritius, the economy slowed down in 2015, with a growth rate of 3.1% against 3.4% in 2014. This slowdown is primarily attributable to the decline in private investments and the sluggishness of the manufacturing and construction sectors. Real GDP growth in Burundi declined, with 4.0% in 2015 against 4.7% in 2014, mainly because of the socio-political crisis which affected the country's economic performance.

2.5.2. Inflation

Only three countries (Mauritius, Rwanda and Somalia) of the sub-region fulfilled the inflation criterion. In Mauritius, the average annual inflation rate was 1.3% in 2015 against 3.2% a year before, in the wake of the decline in commodity prices on the international market. The average inflation in Rwanda increased from 1.8% in 2014 to 2.5% in 2015, owing to the low oil prices. In Somalia, it stood at 1.0% in 2015 against 1.3% the year before, due primarily to the improvement of supply conditions and the low level of imported inflation. In countries that have not met this criterion, inflation developed erratically in 2015. In Kenya, it dropped from 6.9% in 2014 to 6.6% in 2015, owing to the low prices of oil and geothermal energy as well as the conduct of a prudent monetary policy. In Tanzania, the average annual inflation was 5.6% in 2015 against 6.1% in 2014, resulting primarily from the drop in oil prices and budgetary consolidation. However, the other countries registered an increase in inflation. In Uganda, it was 5.5% in 2015, an increase of 2.4 percentage points from one year to the next. This development is primarily connected with the induced effects of the exchange rate depreciation and the rise in local prices of foodstuffs. Inflation also increased in Burundi, from 4.4% in 2014 to 5.6% in 2015.

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3 /Only 6 countries out of the 11 of the sub-region communicated their report on the AMCP: Burundi, Kenya, Mauritius, Rwanda, Tanzania and Uganda.

2.5.3. Public finances

Only Somalia fulfilled the public deficit criterion in 2015. Its budget deficit (excluding grants) to GDP ratio stood at 1.4% in 2015 against 1.1% in 2014. The ratio deteriorated in 2015 in all countries of the region, with the exception of Rwanda and Tanzania. In Kenya, Government deficit came to 9.3% of GDP in 2015 against 6.4% in 2014. This development in Kenya is essentially related to increased infrastructure spending, particularly in the energy, roads and water sectors. In Burundi, the deficit deteriorated from 8.9% of GDP in 2014 to 9.0% in 2015, as a result of the challenges confronting the country. In Mauritius, it increased by 0.7 percentage point from one year to the next reaching 4.1% in 2015. Despite the failure to meet this criterion, the ratio improved in Rwanda and in Tanzania. In these two countries, it respectively moved from 13.5% to 12.8% and from 5.4% to 4.5% from one year to the next.

Overall, the decline in the prices of export products was one of the key factors that contributed to non-compliance with this ratio.

2.5.4. External sector

In countries of the sub-region, external transactions showed contrasting trends. In Burundi, the external position remained fragile, despite the improvement in the current account deficit, which tightened from 18.8% in 2014 to 16.0% in 2015. The coverage rate of imports by external reserves was 2.0 import months against 4.1 months a year before. This decline is primarily due to the reduction in external budgetary support and the intervention of the central bank to stabilize the foreign exchange market. Kenya registered a marked improvement of its current deficit, which fell from 9.8% of GDP in 2014 to 6.8% of GDP in 2015, reflecting the reduction of the imports bill which more than offset the reduction in export earnings. Kenya's external reserves covered 4.6 months in 2015 against 5.0 month in 2014. In Mauritius, the current account deficit was reduced to 4.9% GDP in 2015 against 5.7% in 2014, reflecting the impact of the low world prices of raw materials. The international reserves improved in 2015, as a result of the surplus generated by the capital account and financial account. In this context, the coverage rate increased from 6.2 months of imports to 7.7 months. In Rwanda, the currency issuance coverage rate dropped from 4.4 months of imports in 2014 to 4.2 months in 2015 because of current account deterioration. In Tanzania, the current account deficit improved, due to the reduction of the import bill, particular that of oil. The imports coverage by the external reserves represented 4.0 months in 2015 against 4.2 month in 2014. Uganda's current account deficit increased from 8.3% in 2014 to 8.7% in 2015, owing primarily to the increase in income paid to non-residents in the form of dividends and allowances paid to non-resident employees. Overall, external reserves represented 4.6 months of imports in 2015 against 5.0 months in 2014. In Somalia, the current deficit was 14.8% of GDP in 2015 against 14.7% in 2014, mainly because of the imports of significant volumes of building materials and foodstuffs, following the poor harvest. As was the case in 2014, external reserves covered less than a month’s imports.

2.5.5. Financing budget deficit by the Central Bank

The Central Bank did not grant any direct assistance to the Government in Mauritius, Uganda, Rwanda and Tanzania in 2015. In Burundi, the Government received Central Bank assistance, because of the delays noted in the budget support that donors were to provide to the Government to finance the budget deficit. In some countries (Kenya, Somalia and Tanzania), the direct assistance to the State is authorized, but in proportions defined by the law. Despite the fact that direct grants were received from the Central Bank in 2015, the States of Somalia and Tanzania refunded them before the end of the fiscal year. In

Tanzania, the overdraft facilities provided to the government to cope with the short-term lag between revenue collection and the execution of expenditure are limited at the most to 12.5% of the average revenue actually collected during the three preceding fiscal years. At the end of 2015, no outstanding debts were registered.

III - Implementation of the AMCP in 2015

At the end of the first year of the second extension of the AMCP phase III period, decided by the Assembly of Governors in August 2015 in Malabo, the performance of Member States fell short of expectations.

The first-level convergence criteria standards adopted for this phase, are as follows:

- the budget deficit to GDP ratio ≤ 3%;
- eliminating the Central Bank's credit to the State;
- inflation rate < 5%;
- external reserves to imports ratio ≥ 6 months.

Only one out of 36 countries that have submitted their reports (i.e. 2.8%) fulfilled the 4 first-level criteria in 2015. The disappointing results registered in 2015 reflect the persistence of poor performance with regard to standards relating to foreign exchange reserves and budget deficit. Compliance with these criteria ratios stood at 17.4% for the first and 26.1% for the second in 2015 against 17.4% and 29.8% respectively in 2014. However, the criterion relating to the elimination of Central Bank's credit to the State and that of inflation were better complied with, with a conformity rate of respectively 72.2% and 58.7% in 2015 against 73.7% and 42.6% a year before. [4]

IV - Prospects for 2016

According to IMF forecasts, the global economy should grow by 3.2% in 2016 and 3.5% in 2017 against 3.1% in 2015. Growth in 2016 would be primarily driven by the economic performance expected in emerging countries and developing countries where growth is expected to reach 4.1% in 2016 against 4.0% a year before. This modest economic performance in the emerging and developing countries is due to a combination of several factors, including poor growth in oil exporting countries, the moderate slowdown of growth particularly in China and the disappointing performance expected in countries exporting basic commodities, except oil, particularly in Latin America. In developed countries, growth is expected to remain stable at 1.9% in 2016, primarily because of the decline in the prices of energy and accommodating monetary policies, notwithstanding the progressive tightening of monetary policy expected from the American Federal Reserve (Fed).

Inflation is expected to increase by 0.4 percentage point in 2016 compared to 2015 in developed countries, because of the tightness of the labour market in the United States. However, it would decline by 0.2 percentage point from one year to the next in the emerging and developing economies, largely because of the impact of the decline in basic commodity prices and the fading of the effects of currency depreciations registered in 2015.

In Africa, GDP growth is expected to strengthen slightly to reach 3.7% in 2016 and 4.5% in 2017, following moderate expansion in 2014 (3.7%) and 2015 (3.6%). With regard to

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4 /These are the countries that submitted a full report, with ample information on all the 4 first-level criteria.

supply, Africa's growth would be driven by the agricultural sector, construction and mining activities as well as services. With regard to demand, the engines of the growth would be private consumption and investments in infrastructure.

Disparities are noted in economic growth in Africa, owing to the differences in income levels, the availability of natural resources, macroeconomic policies and political and social stability. In 2015, growth was relatively higher in Eastern Africa (6.3%), Central Africa (3.7%) and Northern Africa (3.5%). The lowest growth rates were registered in Southern Africa (2.2%) and Western Africa (3.3%). For 2016, forecasts show that growth should be higher in Eastern Africa and in Western Africa, with respective growth rates of 6.4% and 4.3%. The lowest growth rates would be registered in Southern Africa, where it could drop to 1.9% in 2016. The key challenges to be addressed in Africa are, on the one hand, sufficient energy supply, particularly electricity, and on the other hand, the diversification and structural transformation of the economy as well as financial inclusion, with a view to attaining a sustainable and comfortable growth.

Several risk factors might affect the outlook for the African economy in 2016. They include:

- The frail recovery in advanced economies, particularly in the euro zone, with the advent of Brexit;
- a slow recovery of the demand in emerging countries;
- the exacerbation of geopolitical tensions;
- the volatility of basic commodity prices on which the majority of African economies are largely dependent;
- the incidence of shocks related to climate variations;
- the persistence of power shortages in some African countries;
- the aggravation of security risks, compounded by the increasingly recurring activities of the Islamic group Boko Haram and the threat of terrorist attacks.

Conclusion

At the end of the first year of the second extension period of phase III relating to the implementation of the AMCP, the performance of States regarding the fulfilment of the convergence criteria is still unsatisfactory. Only one State has met the first-level criteria.

In this respect, the States and sub-regions are encouraged to pursue and intensify the efforts deployed to transform African economies so as to make them more resilient and to strive to deepen economic and monetary integration on the continent.

First-level criteria

Sub-regions	Budget deficit/GDP ≤ 3.0%		Inflation ≤ 5.0%		CB Financing =0 (in billions)		Reserves ≥ 6 months		No. of criteria met	
	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015
NORTH AFRICA										
Algeria	-7.6	-14.0	2.9	4.9	0.0	0.0	30.0	27.0	3	3
Egypt	-12.2	-11.5	8.2	11.4	39.0	NC	3.3	4.0	0	0
Libya	-51.8	NC	2.4	NC	NC	NC	NC	NC	1	0
Mauritania	-4.4	-4.7	3.5	1.5	0.0	0.0	4.8	6.8	2	3
Sudan	-0.9	-1.0	36.5	19.8	19.0	20.2	2.0	2.5	1	1
Tunisia	-4.9	-4.4	4.8	4.1	0.0	000	3.8	4.2	2	2
AFRIQUE DE L'OUEST										
Benin	-2.9	-8.4	-1.1	0.3	0.0	0	4.9	5.4	2	2
Burkina Faso	-6.0	-5.4	-0.3	0.9	0.0	0	4.9	5.4	1	2
Cabo Verde	-8.9	-6.2	-0.2	0.1	NC	NC	7.6	9.2	1	2
Cote d'Ivoire	-4.0	-4.4	0.5	1.2	0.0	0	4.9	5.4	2	2
The Gambia	-9.2	-8.5	5.7	5.9	NC	NC	3.7	2.5	0	0
Ghana	-7.1	-5.7	15.5	17.1	NC	NC	4.2	3.6	0	0
Guinea	-6.0	-10.3	9.0	7.3	NC	NC	3.1	2.2	0	0
Guinea-Bissau	-10.0	-7.3	-1.0	1.5	0.0	0	4.9	5.4	1	2
Liberia	-2.1	-0.7	9.9	7.8	NC	NC	3.0	2.5	1	1
Mali	-6.1	-6.0	0.9	2.1	0.0	0	4.9	5.4	2	2
Niger	-13.6	-12.5	-0.9	1.0	0.0	0	4.9	5.4	1	2
Nigeria	-0.9	-1.7	8.0	9.0			6.7	6.5	2	2
Senegal	-8.3	-7.7	-1.1	0.1	0.0	0	4.9	5.4	1	2
Sierra Leone	-7.7	-3.3	7.2	8.1			3.6	3.8	0	0
Togo	-5.4	-3.8	0.2	1.8	0.0	0	4.9	5.4	2	2
CENTRAL AFRICA										
Cameroon	3.8	-2.0	1.8	2.7	0.0	138.0	4.3	5.3	3	2
Central Africa Republic	-7.8	-8.1	17.8	2.0	18.5	18.5	5.5	4.9	0	1
Congo	3.4	-11.6	0.9	2.7	350.0	572.0	6.7	3.3	3	1
Gabon	2.4	-1.1	4.7	-0.3	257.5	452.5	5.4	4.9	2	1
Equatorial Guinea	-6.4	-5.1	4.3	1.7	369.4	516.7	4.6	2.7	1	1
Chad	-2.1	-1.8	1.7	3.7	166.9	280.0	2.3	0.9	2	2
DRC	0.3	-0.7	1.0	0.7	0.0	0.0	1.8	1.3	3	3
São Tome and Principe	-16.8	-8.8	6.4	4.0	0.0	0.0	7.7	8.7	2	3
EAST AFRICA										
Burundi	-8.9	-9.0	4.4	5.6	8.4	-	4.2	2.0	1	0
Comoros									0	0
Kenya	-6.4	-9.3	6.9	6.6	-	-	5.0	4.6	0	0
Mauritius	-3.4	-4.1	3.2	1.3	0.0	0.0	6.2	7.7	3	3
Rwanda	-13.5	-12.8	1.8	2.5	0.0	0.0	4.4	4.2	2	2
Uganda	-5.0	-5.4	3.1	5.5	0.0	0.0	5.0	4.6	2	1
Tanzania	-5.4	-4.5	6.1	5.6	0.0	0.0	4.2	4.0	1	1
Djibouti										
Ethiopia										
Seychelles										
Somalia	-1.1	-1.4	1.3	1.0	0.0	0.0	<1	<1	3	3
SOUTHERN AFRICA										
Angola	-6.6	-4.3	7.5	14.3	0.0	6.2	6.2	8.0	2	1
Botswana	3.7	-2.7	4.4	3.0	0.0	0.0	18.7	19.0	4	4
Lesotho	0.0	2.3	5.4	3.2	0.0	0.0	5.9	5.6	2	3
Madagascar	-3.6	-3.5	6.1	7.4	16.8	14.6	2.5	2.9	0	0
Malawi	-3.1	-2.6	23.8	21.9	0.0	0.0	4.3	3.2	1	2
Mozambique	-10.7	-7.4	2.3	2.4	0.0	0.0	3.2	2.7	2	2
Namibia	-6.1	-5.2	5.4	3.4	0.0	0.0	1.8	2.8	1	2
South Africa	-4.9	-4.2	6.1	4.6	0.0	0.0	4.5	5.2	1	2
Swaziland	-3.0	-5.4	5.7	5.3	0.0	0.0	3.6	3.7	2	1
Zambia	-6.6	-9.4	7.8	10.1	3.5	4.7	3.5	3.7	0	0
Zimbabwe	-1.0	-1.0	-0.2	-2.4	0.0	0.0	0.6	0.7	2	2
Total countries that made a declaration	**47**	**46**	**47**	**46**	**38**	**36**	**46**	**46**		
Total countries that did not meet the criteria	14	12	20	27	28	26	8	8		
Percentage	29.8	26.1	42.6	58.7	73.7	72.2	17.4	17.4		

NC: Not communicated (unreported)