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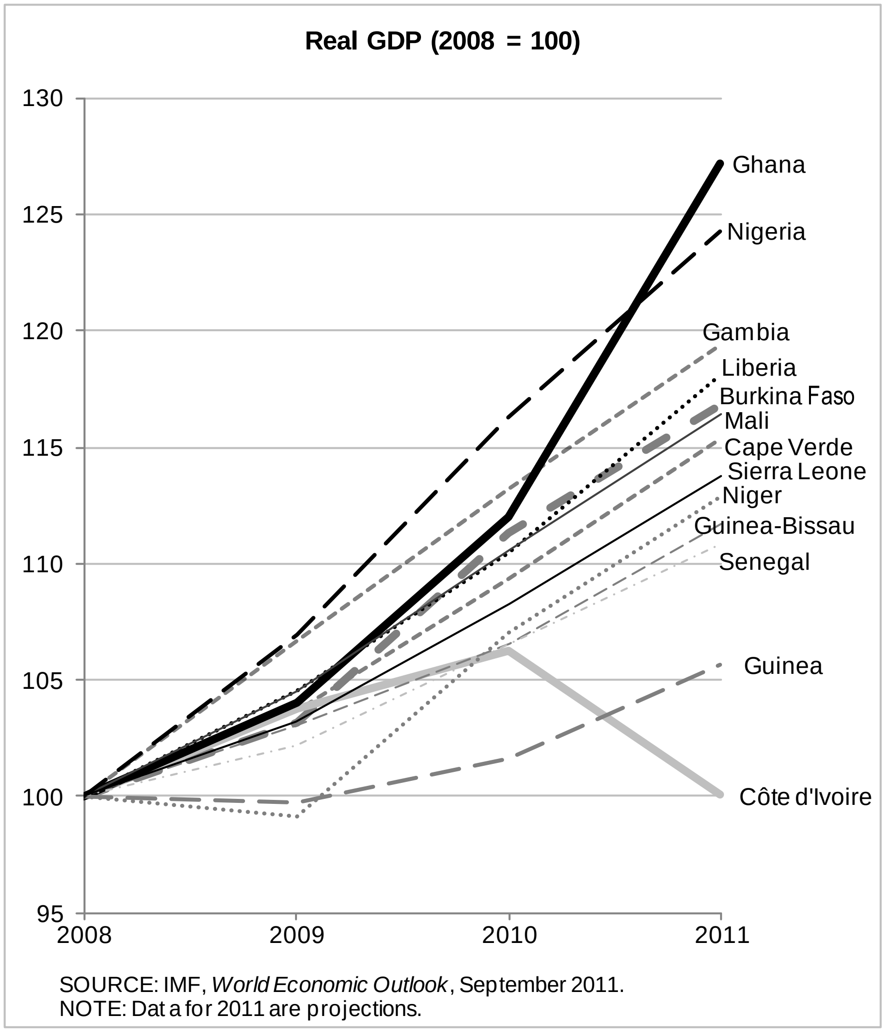
EADS Economic Trends Report
West Africa

October 2011

Economic Overview



The economic outlook in West Africa is generally favorable. Most economies are expanding at an accelerating pace since 2008. Ghana and Nigeria are leading the pack, while Guinea and Côte d'Ivoire are relatively stagnant.

Ghana launched new oil production in December 2010, boosting an already strong economic growth trend. Real GDP growth is now expected to hit double-digits in 2011 and 2012. Many challenges remain for Ghana, including fiscal strains, an unskilled workforce, and external debt burdens. But the rapid economic growth affords Ghana and opportunity to address those problems with more flexibility.

Nigeria's real GDP growth rates are expected to remain in the 6–8 percent range for the 2009–2012 period. Growth in 2010 was boosted by a rebound in oil production after several years of disruptions from militant attacks on facilities. Although Nigeria needs to further diversify away from oil production, the rest of the economy is presently performing well. Favorable weather and efforts to expand credit availability are helping the agricultural sector grow in line with the other sectors. Strong FDI inflows have boosted the telecommunications stock and turned that into a booming sector for the economy—with the added bonus of improving the general business climate.

Guinea's economic growth has suffered from stunted private sector development and recurrent socio-political instability. The democratic election in June 2010 offers the promise of a different, more stable and prosperous future for the country. However, with more than half the country in poverty, inflation running at double-digit rates, and poor infrastructure, redeeming that promise will be no easy task.

Countries covered in this report include Burkina Faso, Cape Verde, Côte d'Ivorie, Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, and Sierra Leone. Due to data limits, not all countries are represented in every graph or analytical section.

Cape Verde's economy was relatively more affected by the global financial crisis than were other West African countries. The European Union is a key trading partner for Cape Verde and the economy relies heavily on tourism and transport services. Some sectors started to rebound in 2010, but construction affiliated with foreign direct investment continued to contract last year. The outlook for construction projects in 2011 is not optimistic, even as tourism continues to boost the economy.

Mauritania's economy is expected to average five percent annual growth during the 2010-2012 period. Buoyant demand for iron, copper, and gold on world markets is strengthening Mauritania's large mining sector.

The political impasse and armed conflict in Côte d'Ivoire since 2010 have hamstrung economic growth, with real GDP expected to contract by around 7 percent in 2011. Growth rates in the preceding two years had already been very modest, limited by a poor agricultural export performance and investor reluctance to fund projects.

Most of the rest of the West African countries, where growth rates are relatively strong, are following similar growth patterns with diverse key factors. In Liberia, rising commodity prices and debt relief under the HIPC process are both imparting a buoyancy to the economy. In Burkina Faso, accelerating growth rates in 2010 and 2011 reflect rebuilding from earlier floods, a rise in consumer spending, and higher gold exports. In Sierra Leone, a rebound in remittances, government spending on infrastructure, and agricultural growth are fueling the current expansion.

World Bank Income Groups

More than half the West African countries are in the World Bank's Low Income group. Most of the rest are in the Lower Middle Income category. Two West African countries are in higher income groups: Gabon (Upper Millde Income) and Equatorial Guinea (High Income).

Political stability is always an issue with respect to the economic outlook. For West Africa, 2011 is a particularly busy year politically with a third of the countries having already had elections and another third slated for voting before the year is out. However, the most significant instability seems limited to continuing political strains in Côte d'Ivoire.

Real GDP Growth Rates, 2010	**West Africa** **6.3%**	East and Central Africa 6.0%	Southern Africa 3.1%

Fiscal Policy

Ghana's macroeconomic management gets generally good marks over the last decade or so, but recently rising budget deficits present a challenge. In 2011, the government is implementing a new single pay scale for civil servants, also adding to the budget pressures. Over the next couple of years, oil revenues and efforts to widen the tax base are expected to reduce the budget gaps. But the size of the deficits (relative to GDP) will remain larger than allowed by the primary convergence criteria in the West African Monetary Zone (WAMZ).

In 2011, the Nigerian fiscal position reversed course and the overall balance is projected to show a much smaller deficit than was seen in 2009 and 2010. World prices for oil, a prime source of revenue for the government, have caused the fiscal balance to swing from surplus to deep deficit in recent years.

Liberia's fiscal policy is tending towards being mildly expansionary in 2011, with a sharp rise in government capital spending. However, the terms of the HIPC debt relief process will pressure the government to limit public borrowing over the next several years and beyond.

Fiscal policy in Burkina Faso relied on external aid for an expansionary stance in 2010 as the budget deficit widened by one percentage point of GDP to 4.5 percent. The government has been focused on improving social protection institutions and responding to humanitarian needs in the wake of flooding. For 2011 and 2012, the fiscal position should remain expansionary with budget deficits on the same scale as in 2010.

Primarily by relying on external grants and concessional loans, Sierra Leone's fiscal policy has been expansionary. Budget deficits widened in 2010, are projected to widen further in 2011 and then stabilize in 2012. A donor-supported "modernization plan" for the National Revenue Authority is slated to end this year, enabling Sierra Leone to improve its tax resource mobilization and be less reliant on external aid.

Monetary Policy

Monetary tightening in Ghana throughout 2010 succeeded in lowering the inflation rate from nearly twenty percent in June 2009 to less than half that pace by the end of 2010. As inflationary expectations dropped steadily, interest rates eased and foreign investor share of bond holdings increased.

In Sierra Leone, monetary policy tightened in 2010 to curb inflation. The central bank lacks a key rate as a policy instrument and has to rely on open market operations to reduce liquidity in the system. Private sector credit did grow at a much slower rate as a percentage of GDP.

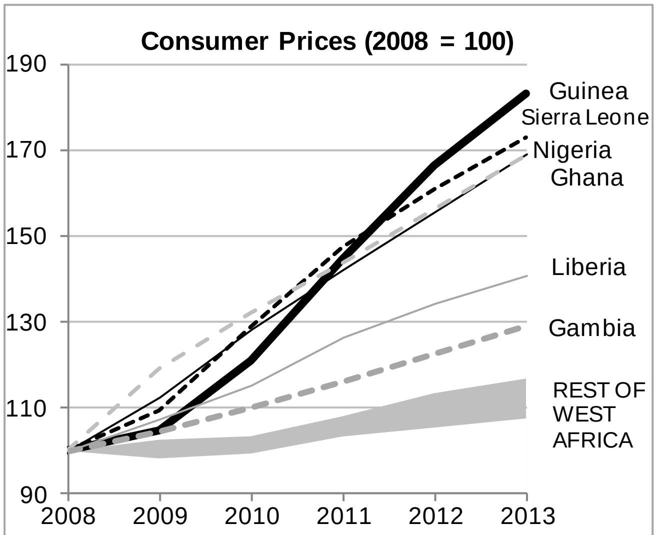
Gambia raised its policy interest rates during the second half of 2010 as inflation accelerated. Higher food prices were the problem, with the inflation rate for that key consumption good going from 3 to 8 percent during 2010.

Cape Verde's central bank cut its policy rate by one hundred basis points at the start of 2010, but has left it unchanged since then. Interest rates and reserve requirements are expected to be restrictive this year and next until Cape Verde sees more export growth and is less concerned about attracting migrant deposits.

The Central Bank of West African States (CBWAS) conducts monetary policy for the CFA franc countries in the region. With inflation generally moderate in the CBWAS region, monetary policy has been accommodative. Key interest rates have been relatively low and stable.

Inflation

Much of West Africa has had moderate inflation and even with some pressures from higher oil and food prices, the outlook is favorable. For example, inflation in Mali was only 1.4 percent in 2010 and is expected to rise to about 4 percent for 2011. In Guinea-Bissau, the 1.6 percent deflation in 2009 was reversed into a modest 2.7 percent in 2010. In Cape Verde, inflation was only 2.1 percent in 2010 as the central bank successfully maintained the currency peg versus the Euro.



SOURCE: IMF, *World Economic Outlook*, September 2011.

However, several West African countries have inflation rates that are currently among the highest on the continent.

In Sierra Leone, inflation rose to nearly twenty percent in 2010, partly due to a one-time increase in prices as the goods and services tax was introduced.

In 2011, the inflation rate has been reduced and should be further undercut by increased domestic food production. Inflation is projected to decline further in 2012.

Inflation in Guinea rose sharply in 2010, up to nearly 16 percent from less than 5 percent in 2009. Expansionary monetary and fiscal policy in the pre-election period, along with currency depreciation, spurred inflation. Even though inflation is projected to ease this year and next, the annual rate will likely average more than ten percent.

Inflation Trends

Typically restrained inflation: A strong majority of the West African countries have avoided double-digit annual inflation rates through most of the past two decades. A half dozen of the countries in West Africa have been notably less successful at achieving relative price stability over that stretch: Ghana, Guinea, Guinea-Bissau, Liberia, Nigeria, and Sierra Leone.

Nigerian inflation is slowing but remains at double-digit levels. Currency stability since 2009, following a steep depreciation in 2008, has helped to keep inflation from worsening.

Mauritania's inflation rate nearly tripled in 2010, to just over 6 percent. Higher prices for food and fuels were the culprit, but the inflationary pressures highlight the vulnerability of the economy to external shocks.

Consumer Price Inflation, 2011 (projected)	**West Africa**	East and Central Africa	Southern Africa
	8.7%	8.4%	6.9%

Banking and Financial Sector

In recent years, Ghana's banks have been expanding their lending to the private sector and extending the average time period for loans, underscoring their rising commitment to long term development projects. Small- and medium-sized enterprise (SME) access to credit has improved, but the banks continued to be hampered by inefficiencies (indicated by a high cost-to-income ratio). The trend towards increased credit to the private sector was paused in 2010 when the Bank of Ghana tightened policy, but is expected to resume this year and next.

Guinea's central bank is supporting the banking system with the objectives of improving the credit bureau and establishing a default risk system. In June, the government acknowledged that the central bank's technical capacity for bank supervision has deteriorated, but announced its intent to build it back up with donor technical assistance.

In Sierra Leone, the central bank took steps to increase rural financial intermediation during 2010, despite an overall tightening of monetary policy. New microfinance institutions were licensed, including one deposit-taking institution. In addition, the commercial banking sector has been introducing new products, including mobile credit. Rural areas stand to benefit from the collaboration of mobile communications companies and commercial banks.

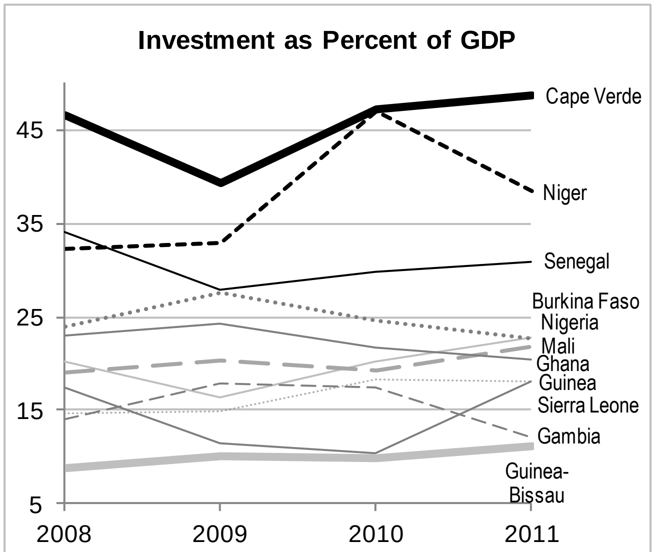
Investment

Most West African countries have kept their investment to GDP ratios relatively stable during the current world economic cycle.

Guinea-Bissau continues to have the lowest investment rates in West Africa. Until the country broadens its economic base beyond agriculture (with a particular focus on cashews), a rise in the investment rate is not likely. If Guinea-Bissau began to exploit its bauxite, phosphates, and oil resources, higher investment rates would follow. For now, the business environment is generally poor and a large part of the economy is in the informal sector.

In Ghana, investor confidence is rising while bank lending and capital inflows fund increased investments. The positive effects are not reflected in the investment ratio, given that GDP is also rising rapidly.

Guinea continues to have a relatively low investment ratio, but gains in 2011 were based on a rebound in mining investment. Niger has a relatively high investment ratio, exceeding 35 percent, boosted by large investment projects in uranium, coal, and precious metals mining. In addition, the government is backing large-scale infrastructure projects.



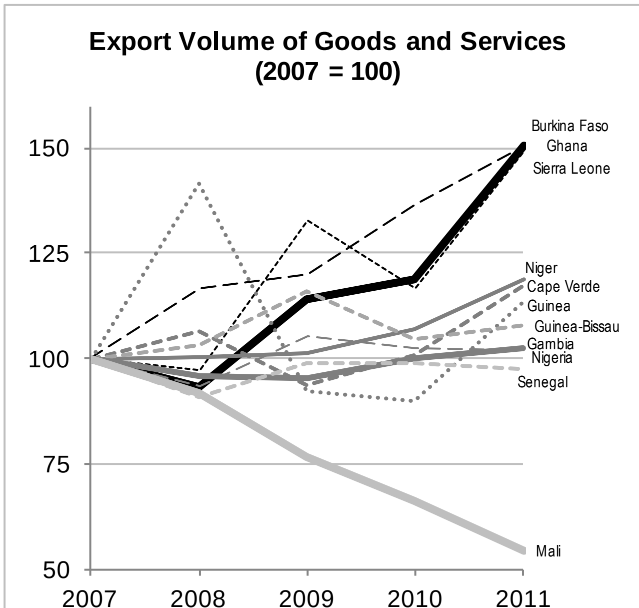
SOURCE: IMF, *World Economic Outlook*, September 2011.
NOTE: 2011 values are IMF projections.

Investment as a Percent of GDP, 2010	**West Africa**	East and Central Africa	Southern Africa
	24.6%	23.9%	20.0%

Trade

Current export patterns in West Africa fall into four groups:

- Rapid growth in export volumes in Burkina Faso, Ghana, and Sierra Leone. Burkina Faso's exports are up due to a rebound in cotton production, the operation of a new gold mine, and higher orders for manufactured goods. Although Ghana's exports continue to be dominated by gold and cocoa, strong world demand for them at the moment is boosting the economy. Sierra Leone's export expansion is concentrated in minerals and agricultural commodities.
- Modest growth in Niger, Cape Verde, and Guinea. Niger's export growth has been facilitated by several large projects in the industrial and mining sectors, helping to overcome a lack of growth in agricultural production. Cape Verde's exports are being boosted by more European demand for its fish and by more tourism coming into the coun-



SOURCE: IMF, *World Economic Outlook*, September 2011.

try. Guinea's exports are being raised by a good harvest in agriculture in 2010 and strong world demand for bauxite and other minerals.

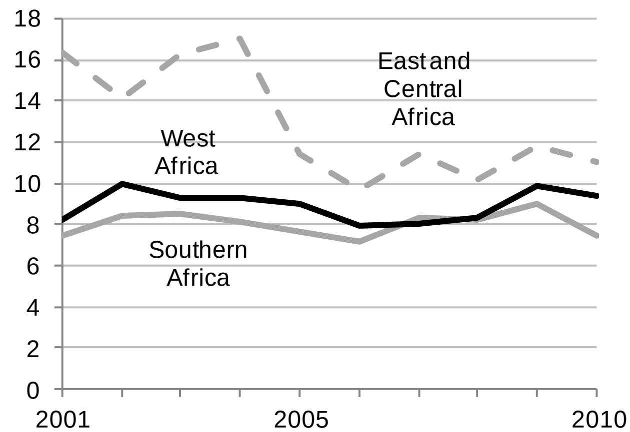
- Steady levels in Guinea-Bissau, Gambia, Nigeria, and Senegal. Adverse weather for cashew nut crops has been holding back exports in Guinea-Bissau. Gambia has been hurt by losing competitive advantage as a re-export industrial location, given the tariff harmonization being implemented by the Economic Community of the West African States (ECOWAS). The lack of significant growth in export volumes in Nigeria partly reflects little progress in diversifying away from oil. In Senegal, export growth is being held back by the inability of food processing company to meet international SPS standards.
- Significant decline in Mali. Despite some progress in the cotton sector, Malian exports generally are being undercut by poor transport links and unstable demand in some of its key trading partners.

Percentage Change in Export Volume of Goods and Services, 2010	East and Central Africa 8.6%	Southern Africa 4.6%	**West Africa -1.6%**

Regional Integration

Measured by exports going to other countries in the subregion, regional integration in West Africa is not as significant as in East and Central Africa. The Economic Community of West African States (ECOWAS) is the primary institution promoting integration. ECOWAS has simplified customs procedures and facilitated trade throughout West Africa. However, the gains to intra-regional trade have been matched, more or less, by gains in exports to the rest of the world.

Percentage of Merchandise Exports Going to the Subregion



SOURCE: IMF, *Direction of Trade Statistics*.

Nigeria is by far the largest economy in West Africa, with a GDP larger than all the other countries combined. As such, it is well placed to absorb increased amounts of exports from other West African economies. In fact, over the past decade, Nigeria has done that by increasing imports from the subregion eight fold. However, the share of intra-West African trade in Nigeria's imports remains extremely low at less than three percent. The other West African countries are typically more integrated, as measured by trade flows.

Promotion of Regional Integration

The Economic Community of West African States (ECOWAS) promotes integration in the subregion. Fifteen countries are members.

Within the ECOWAS region, two separate monetary unions have formed. The West African Economic and Monetary Union (WAEMU) is comprised of the countries using the CFA franc for a common currency while the West African Monetary Zone (WAMZ) are six countries working to introduce a common currency (the "eco") by 2015. (Liberia, currently a dollarized economy, has long-term ambitions of joining the WAEMU.) The longer-term intent is to merge both monetary unions under a single currency for the region. However, WAMZ convergence is proceeding slowly, suggesting that the grand goal of a single currency for the region is many years away.

Additional Information

For country-specific data and additional information about the countries covered in this report, please visit the EADS Country Portal at http://esdb.eads.usaidallnet.gov/query/do?_program=/eads/esdb/countryPortal.

Sources used in compiling this report include the semi-annual World Economic Outlook from the International Monetary Fund (http://www.imf.org/) and the Global Economic Prospects from the World Bank (http://www.worldbank.org/).