



**Business Forum
West Africa**

WEST AFRICA: ECONOMIC OVERVIEW BY PROFESSOR AKPAN H. EKPO

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OUTLINE

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- **Performance of the West African Economy**
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INTRODUCTION

- No modern economy has developed without growing. The drivers of growth may generally be similar in certain aspects but must be adapted to fit the realities of a particular economy. Economies like Britain experienced growth through industrialization engineered by technical progress (technology) with human labour.
- China is being modernized through technology not necessarily discovered within the country. Some economies 'stole' technology in order to industrialize and modernize.
- Most, if not all of the countries in West Africa were at the same level of development with those in Asia in the 1950s, 1960s and 1970s: Nigeria, Ghana, Cote d'Ivoire, Senegal had similar growth rates with Singapore, Malaysia, Indonesia and Taiwan.



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- The countries in West Africa have enormous human and natural resources and at each episode growth has been driven by the rise in the prices of commodity exports. The sub-region experienced growth rates averaging about 7 percent in the last 10 years yet development has not taken place.
- Most of the economies are experiencing high rates of unemployment, declining productivity as well as rising inflation. Despite the formulation and implementation of reforms, the incidence of poverty continues to rise; there exist wide income inequality.
- The creation of ECOWAS in 1975 to enhance trade, growth and development through regional economic integration is yet to reverse the dismal performance of most of the economies over-time.
- Nonetheless, the region has enormous opportunities which if properly utilized would positively change the socio-economic landscape and improve the living standards of the citizens.



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- The drive towards economic integration has posed challenges; after 40 years of existence ECOWAS has moved to adopt a single track approach towards integration by the year 2020.
- The West African Monetary Zone (WAMZ) comprising The Gambia, Ghana, Nigeria, Sierra-Leone, Liberia and Guinea was established in the year 2000 to fast-track the integration process. The countries were meant to satisfy both primary and secondary criteria towards currency convergence with the eventual convergence with the CFA of the Franco-phone countries. The process is still on-going.
- In the last 3 years countries in the sub-region have been experiencing economic downturn due to the fall in the prices of export commodities. A country like Nigeria is in a recession. The signs of an impending economic slump were visible particularly with the ebola epidemic.
- This review would allow us to make suggestions on how best to not just macro-manage the economies in the region but also proffer solutions that would reduce dependence on commodity exports.



PERFORMANCE OF THE WEST AFRICAN ECONOMY

Table 1: Real Output Growth for West Africa (%)

Real GDP Growth %	2012	2013*	2014**	2015
Africa	6.4	3.9	4.8	5.7
West Africa	6.9	6.7	7.2	7.1
Benin	5.4	5.0	4.9	5.3
Burkina Faso	9.0	6.9	7.0	6.3
Cape Verde	2.5	1.0	3.1	3.3
Cote d' Ivoire	9.8	8.8	9.1	9.2
Gambia	6.1	5.6	7.5	6.7
Ghana	7.9	4.4	7.7	8.0
Guinea	3.9	2.0	4.2	4.3
Guinea-Bissau	-1.5	0.3	2.8	2.6
Liberia	8.3	8.1	6.8	8.2
Mali	-1.2	5.0	6.7	5.6
Niger	11.1	3.6	6.0	6.2
Nigeria	6.7	7.4	7.2	7.1
Senegal	3.4	4.0	4.8	5.3
Sierra Leone	19.7	13.0	13.8	11.6
Togo	5.9	5.6	6.0	6.3



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- Tables 1-3 below summarize the growth trajectories of ECOWAS countries for the period 2000-2013. The economies grew by almost 7% during the period. These rates are higher than that of Africa for the same period.
- During the period of the global economic downturn, almost all the countries had on the average positive growth rates except for Niger and Cote d'Ivoire which had negative growth rates of -4.7% in 2011 and -0.9% in 2009.
- It should be noted that these growth rates were driven by high mineral and commodity prices. In 2015, Sierra-Leone which registered the highest growth rate of 19.7% during the period 2005-12 had a negative growth of 21%. This was due to the collapse of the mining sector because of the ebola epidemic which resulted in the closure of the sub-sector.



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- In terms of real GDP per capita, almost all the countries indicated high growth rates than that of the growth of population. The real GDP per capita for Sierra-Leone stood at 3.4% in 2005 and rose sharply to 17.8% in 2012.
- Table 4 indicates that all the economies experienced macroeconomic stability using the rate of inflation as a proxy. Almost all countries had single-digit rates of inflation. It reflects efforts by these countries to better manage their economies.
- The fiscal side in these economies presents a different picture; the countries had twin deficits challenges.



Inflation and Real GDP growth in the WAMZ Countries

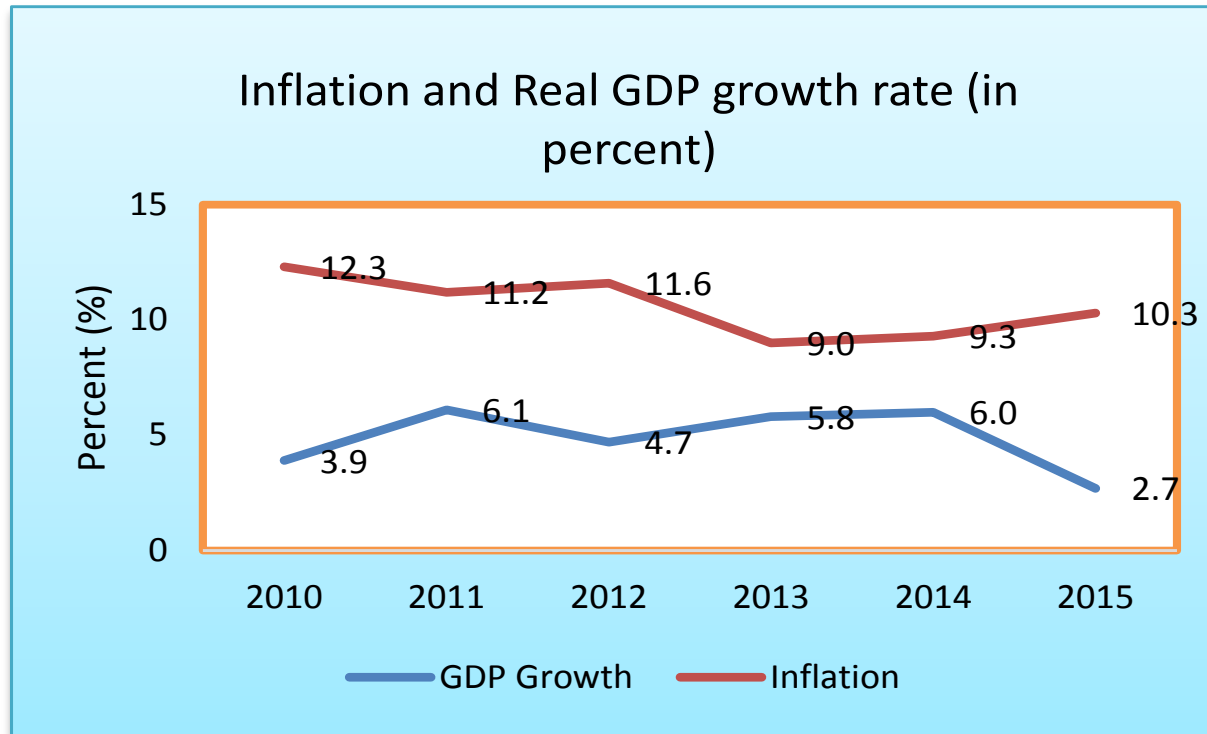




Table 2: Real Output Growth and Per capita Growth for West Africa, 2000-2013(%)

Country	2000	2005	2012	2013
Benin	4.9 (1.9)	2.9 (-0.4)	5.4 (2.7)	5.0 (2.3)
Burkina Faso	1.3 (-1.6)	8.7 (5.7)	9.0 (6.1)	6.9 (4.1)
Cabo Verde	16.6 (14.7)	6.5 (5.5)	2.5 (1.7)	1.0 (0.1)
Cote d' Ivoire	-2.5 (-4.6)	1.8 (0.4)	9.8 (7.5)	8.8 (6.4)
Gambia	-27.3 (-30.2)	-0.9 (-4.1)	6.1 (2.9)	5.6 (2.4)
Ghana	3.8 (1.4)	5.9 (3.3)	7.9 (5.8)	4.4 (2.3)
Guinea	-5.6 (-7.3)	3.0 (0.9)	3.9 (1.3)	2.0 (-0.5)
Guinea Bisau	-35.8 (-38.0)	4.3 (2.1)	-1.5 (-3.9)	0.3 (-2.1)
Liberia	55.1 (49.8)	5.9 (3.2)	8.3 (5.6)	8.1 (5.6)
Mali	-4.7 (-7.5)	6.1 (3.0)	-1.2 (-4.2)	5.0 (2.0)
Niger	-2.9 (-6.5)	7.2 (3.5)	11.1 (7.3)	3.6 (-0.3)
Nigeria	6.3 (3.8)	6.5 (3.9)	6.7 (3.7)	7.4 (3.4)
Senegal	3.0 (0.5)	5.6 (2.9)	3.4 (0.5)	4.0 (1.1)
Sierra Leone	-23 .3 (26.0)	7.3 (3.4)	19.7 (17.8)	13.0 (11.1)
Togo	-1.7 (-4.3)	1.2 (-1.4)	5.9 (3.3)	5.6 (3.1)



Table 3: Rate of Inflation in Selected West African Countries, 2005-2013 (5)

Country	2005	2006	2007	2008	2009	2010	2011	2012	2013
Cabo Verde	0.4	4.8	4.4	6.8	1.2	2.1	4.5	2.5	1.5
The Gambia	5.0	2.1	5.4	4.5	4.6	5.0	4.8	4.2	5.0
Ghana	15.1	10.2	10.7	16.5	19.3	10.7	8.7	9.2	11.7
Guinea	31.4	34.7	22.9	18.4	4.7	15.5	21.5	15.2	11.9
Liberia	6.9	7.2	13.7	17.5	7.4	7.3	8.5	6.8	7.7
Nigeria	17.9	8.2	5.4	11.6	12.4	13.7	10.8	12.2	8.5
Sierra Leone	12.0	9.5	11.8	14.8	9.2	17.8	18.5	13.7	9.9
Benin	5.4	3.8	1.3	8.0	2.2	2.1	2.7	6.6	2.6
Burkina Faso	6.4	2.4	-0.2	10.7	2.6	-0.6	2.7	3.8	2.1
Cote d'Ivoire	3.9	2.6	1.9	6.3	1.0	1.4	1.9	2.0	2.7
Guinea-Bissau	5.6	-0.1	4.6	10.4	-1.7	1.1	5.0	2.1	1.0
Mali	6.4	1.5	9.1	11.3	2.2	1.3	3.1	5.3	0.3
Niger	7.8	0.1	0.1	11.3	4.3	0.9	2.9	0.5	1.9
Senegal	1.7	2.1	5.9	5.8	-1.1	1.2	3.4	2.1	0.7
Togo	6.8	2.2	1.0	8.7	2.0	3.2	3.6	2.6	1.8



Table 4: Fiscal Balance including grants (% of GDP), 2000-2013

Country	2000	2005	2012	2013
Benin	-1.7 (-44)	- 2.5 (-6.2)	-1.3 (-8.5)	-1.2 (-8.2)
Burkina Faso	-3.8 (-13.2)	-5.1 (-11.5)	-3.1 (-0.8)	-3.2 (-0.7)
Cabo Verde	-7.4 (-10.9)	-3.6 (-4.1)	-9.8 (-11.7)	-7.9 (-5.7)
Cote d' Ivoire	-1.2 (-2.8)	-0.8 (0.2)	-2.6 (-3.8)	-2.0 (-6.4)
Gambia	-0.7 (-5.7)	-7.2 (-11.2)	-4.4 (-16.4)	- 3.3 (-16.0)
Ghana	-5.3 (-6.6)	-1.2 (-6.2)	-5.8 (-12.4)	-7.8 (-12.3)
Guinea	-3.4 (-5.6)	- 0.9 (-5.4)	-3.2 (-33.9)	-5.2 (-20.2)
Guinea Bisau	- (8.8)	-5.9 (-1.8)	-2.7 (-9.5)	-4.7 (-6.6)
Liberia	0.3 (-16.0)	0.6 (-23.3)	-2.3 (-33.9)	-2.6 (-48.0)
Mali	-3.0 (-9.6)	-4.7 (-10.1)	-1.3 (-3.0)	2.5 (-9.8)
Niger	-3.8 (-6.7)	-2.1 (-9.2)	-1.1 (-15.1)	0.1 (-15.2)
Nigeria	5.9 (12.5)	-1.2 (25.3)	-1.4 (4.9)	-1.8 (8.2)
Senegal	0.5 (-7.0)	-3.2 (-7.8)	-5.9 (-10.3)	-5.4 (-9.0)
Sierra Leone	-9.3 (-6.5)	-1.3 (5.8)	-1.4 (5.6)	00 (-2.1)
Togo	-4.7 (-6.2)	-2.4 (-21.8)	-5.8 (-11.9)	-4.6 (-11.7)

Source ADB, Tunisia

Notes: Current Account /GDP (%) are in parenthesis



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- Tables 5 and 6 for the WAMZ countries as a group show that inflation was at 10.5% in 2015 which is within the benchmark
- Countries are not addressing the huge infrastructure deficit as reflected by the small percentage spent on capital projects. Only 18% of expenditure went to capital projects.
- Data also show that there is no financial deepening in the zone. Credit to the private sector showed a negative growth of 18.1% in 2015.
- Though the banking and financial system appear safe, some countries still had challenges with non-performing loans.



Table 5: WAMZ Macroeconomic Indicators

Annex 1: WAMZ (Zone-Wide): Selected Macroeconomic Indicators

	2010	2011	2012	2013	2014	2015
Output and prices						
Real GDP growth (%)	3.9	6.1	4.7	5.8	6.0	2.7
Nominal GDP (\$mil)	409,421.7	447,603.1	515,556.7	567,112.2	587,511.0	559,500.2
Inflation Rate (end of Period)	12.3	11.2	11.6	9.0	9.3	10.4
Money and credit						
Money Supply (M2+) growth (% change)	6.5	11.8	15.6	2.5	-4.4	7.8
Velocity (Nom. GDP/M2+)	4.7	4.6	4.6	4.9	5.1	4.7
External sector						
Gross International Reserves (\$mil)	38,082.1	39,808.6	50,679.5	50,098.8	41,837.6	34,370.2
Gross International Reserves (in months of import)	7.0	5.6	7.0	7.3	5.5	5.2
Governments Fiscal operations						
Tax Revenue (% of GDP)	7.0	8.3	7.9	7.0	2.8	2.9
Salary mass/Total tax revenue	41.2	41.2	38.9	43.1	92.1	91.4
Public Investments from domestic receipts	24.8	19.8	16.2	18.0	27.6	31.4
Capital Expenditures / Total Expenditures	12.9	14.9	11.8	12.5	16.7	18.0
Expenditure (% of GDP)	16.5	13.2	13.9	12.4	6.4	6.7
Fiscal Deficit includ. Grants (% of GDP)**	3.4	-0.9	0.9	1.9	-0.9	1.1
Fiscal Deficit excl.Grants (% of GDP)**	3.6	-0.6	1.1	2.1	-0.8	1.3

Source: WAMZ Authorities and WAMI Staff

(**) (+) means deficit and (-)means surplus

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Table 6: WAMZ Indicative Monetary Survey

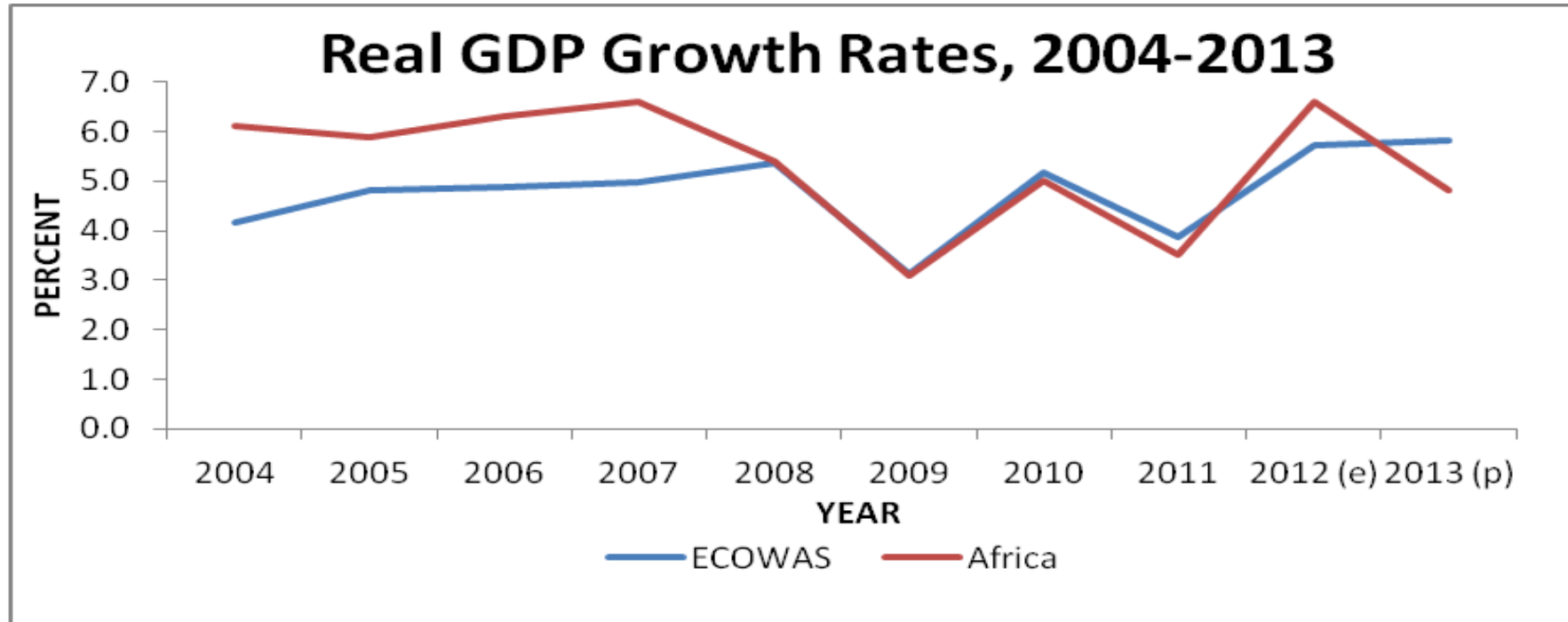
Annex 3: Indicative WAMZ - Monetary Survey (in US\$ millions, end-period)

	2010	2011	2012	2013	2014	2015
Net Foreign Assets	48,081.0	50,476.1	63,850.8	58,780.4	46,967.4	32,925.8
Net Domestic Assets	38,859.6	46,717.5	48,544.0	56,397.3	67,773.9	88,617.6
Net Deposits or Claims on Government	-2,572.4	2,060.0	-10,049.6	-2,123.7	10,897.3	7,858.0
<i>of which Central Bank</i>	-16,821.0	-20,417.4	-19,588.6	-9,662.3	-11,673.2	-5,420.8
Claims on the Rest of the Economy	72,061.1	89,724.5	105,643.8	116,774.3	88,844.8	80,759.7
Other Items (net)	-30,629.1	-45,067.0	-47,050.1	-58,253.4	-31,968.2	
Money Supply (M2+)	86,940.7	97,193.6	112,394.8	115,177.7	114,741.3	118,136.1
Money Supply (M1)	41,580.6	48,573.0	53,368.5	51,422.0	44,811.5	51,697.5
Currency with the public	8,130.0	9,064.6	9,769.9	10,823.6	11,185.2	10,688.5
Demand deposits	33,450.6	39,508.3	43,598.6	40,598.5	33,626.2	41,009.1
Quasi-Money (includ. Foreign Cur.)	45,360.1	48,620.7	59,026.3	63,755.7	69,929.8	66,438.6
Memorandum items:						
Broad money growth (%)	6.5	11.8	15.6	2.5	-4.4	7.8
Change in claims on gov (%)	-77.3	-180.1	-587.8	-78.9	140.4	73.3
Currency/M2+ratio (%)	9.4	9.3	8.7	9.4	9.7	9.0
Private Sector Credit Growth (%)	-2.6	24.5	17.7	10.5	-24.1	-31.0
Velocity (Nom. GDP/M2+)	4.7	4.6	4.6	4.9	5.1	4.7
Annual Nominal GDP (in US\$ Mils)	409,421.7	447,603.1	515,556.7	567,112.2	587,511.0	559,500.2

Source: WAMZ Authorities & WAMI Staff



Figure 1: ECOWAS and Africa Real GDP Growth Rates





EMPIRICS

- Some scholars and other pundits have argued that economies in the sub-region must diversify their economies away from dependence on mineral and commodity exports without adding value.
- We thus ascertain the link between diversification with private sector development as the major determinant:
 - $DIV = f(Pri, Xi) \quad (1)$
- Where: DIV=diversification index; Pri=private sector development and Xi=a set of control variables.
- Table below shows index of diversification for ECOWAS countries.



DIVERSIFICATION INDEX FOR ECOWAS

Table 2: Diversification Index for ECOWAS Countries and Africa, 2007-2011

	2007	2008	2009	2010	2011
Benin	7.8	8.1	7	6.1	9.2
Burkina Faso	1.8	2.7	3.5	4.3	2.9
Cape Verde	14.3	5.8	12.3	10.4	8.5
Cote d'Ivoire	8.5	9	6.6	7.7	5.8
Gambia	8.6	3.8	5	10.8	7.2
Ghana	4.5	5	4	4.4	5.4
Guinea	3.7	3.5	2.5	5.1	8.2
Guinea-Bissau	1.4	1.2	1.2	3.1	2.2
Liberia	3.4	6.4	4.3	8.6	7.1
Mali	2	2.2	4.8	3.9	3.8
Niger	1.5	6	1.9	1.6	2.4
Nigeria	1.3	1.3	1.3	1.4	1.3
Senegal	26.2	10.7	13.6	10.2	14.3
Sierra Leone	7.5	9.1	13.2	8.5	8.7
Togo	10.6	5.8	7.2	10.6	7.4
Africa	4.3	3.8	5.2	4.7	4.8

Source: African Economic Outlook, 2012



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- Only Cape Verde and Senegal portray evidence of high diversification in comparative terms.
- Nigeria, a key economy in the region is one of the least diversified. She depends heavily on the export of a single commodity which is crude petroleum.
- Panel regression results are shown below:



Table 4: Empirical Results

Dependent Variable: Economic Diversification			
Explanatory Variable	Coefficient	t-statistics	P-values
Constant	-7.3769	-1.2525	0.2182
Private sector investment	0.3344*	1.7645	0.0859
Conflict	0.0920	0.5651	0.5754
GDP per capita Growth rate	-0.0469	-0.4640	0.6453
GDP per capita Growth rate ²	-0.0444*	-1.9661	0.0568
Infrastructure	-0.7717	-1.5641	0.1263
Trade openness	0.1248**	2.2481	0.0306
Public Investment	0.5412*	1.7974	0.0804
Adjusted R-squared = 0.26 F-statistics = 3.18 Prob(F-statistic) = 0.009 N = 45 DW = 1.76			

Note: * and ** indicate significant at 10% and 5%, respectively

Source: Computed by the Authors using Eviews 7.



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- The private sector development is positive and statistically significant at the 10% level; when private sector development rises by 10%, index of economic diversification rises by 3.3units.
- The effect of infrastructure is negative confirming the infrastructure deficit in the region; improvement in infrastructure would boost private sector development and economic diversification.
- The public investment variable is positive and statistically significant confirming the role of the state at this level of development in the sub-region; if nothing else the public sector can provide the enabling environment.



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- Trade variable is positive and significant at the 5% level reflecting the importance of trade in enhancing and creating opportunities for economic diversification.
- The sign of the conflict variable is contrary to theory; conflict should be negatively related to economic diversification.



CHALLENGES

- Sharp decline in international commodity prices resulting in declining revenues and foreign exchange earnings
- Member countries are susceptible to volatilities in the prices of primary commodities and global financial developments. They have no control over the prices and sometimes the output of these commodities.
- Huge hard and soft infrastructure gaps, particularly in the energy and transport sectors;
- Excessive recurrent expenditure; not much is left for capital projects
- Increasing level of public debt;



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- High cost of credit; lending rates are very high discouraging investment
- Cost of credit remained relatively high in most of the countries due to the high domestic borrowing by government with the attendant crowding out of the private sector. This reflected in the decline in the growth of total assets as well as net loans and advances in the banking system (WAMI).
- High non-performing loans (NPLs); The weak quality of bank assets due to the high NPLs could undermine the solvency of banks and affect profitability.
- Volume of trade among members is low; only Nigeria and The Gambia are implementing the Common External Tariff (CET).
- Harmonization of indirect taxes.



CONCLUSION

- We have tried to present a review of the economy of the sub-region
- All the economies are experiencing hard times due mainly to declining export commodity prices and governance issues. We have not addressed the governance issue as well as concrete challenges facing monetary integration
- Notwithstanding, the sub-region has potentials. Let have useful conversation