

**WEST AFRICAN MONETARY AGENCY
(WAMA)**



ECOWAS MONETARY COOPERATION PROGRAMME

**MACROECONOMIC CONVERGENCE REPORT
2007 COTE D IVOIRE**

FREETOWN, JUNE 2008

Based on the assumption that the return to normalcy in the economic and political life would be pursued, the economic growth rate target was set at 1.5% of GDP. The primary and tertiary sector will be the prime movers for the achievement of this target. In fact, production in the primary sector is expected to grow by 2.0% whilst the tertiary sector would grow by 1.9%. On the other hand, production in the secondary sector would stagnate in view of the counter performance expected in the food procession industries and construction and public works sub sector. This target was based on the assumption that prices would be stable with a trend towards deflation.

With regard to public finance, key ratios were expected to improve significantly. In fact, the hope for a total or partial resumption of cooperation with financial partners would reduce financial constraints and increase budget efficiency.

In terms of achievements, the national context was marked by substantial progress in the resolution of the political and social crisis following the Ouagadougou political agreement signed on 4th March 2007. Consequently, most of the major macroeconomic targets were achieved. The GDP growth rate stood at 1.5% as expected and the inflation rate was contained at a rate of 1.5%.

1 Sector Analysis

1.1 Real Sector

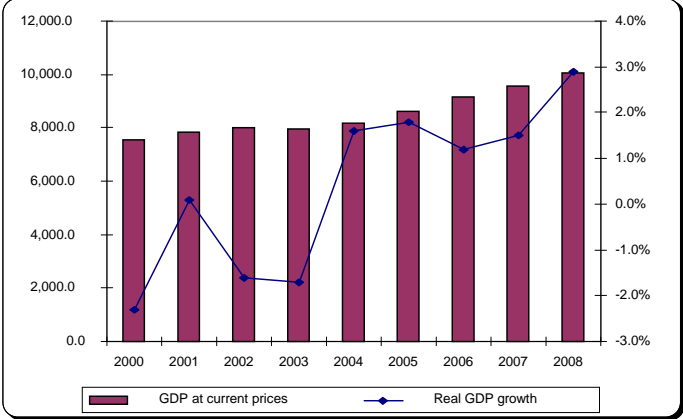
In 2007, the growth of economic activity stood at 1.5% against 1,2% in 2006. This was borne mainly by the tertiary sector.

The primary sector value added grew by 1.5% against 1.1% in 2006 as a result of an upward trend in food production with its value added growing by 2.7%. On the other hand, the value added of cash crop production declined by 0.4% due to a fall in cocoa, cotton and pineapple productions. The decline in cocoa production is attributed to shortfalls in rainfall and plant diseases (black pod and swollen shoot) as well as the aging of trees. Pineapple production was affected by the competition from Latin American countries which produce a variety that has a high demand on the European markets than what is produced in Cote d'Ivoire. Cotton production faced many structural difficulties. The decline in production was cushioned off by a growth in coffee and cashew production. Coffee benefited from producers commitment motivated by the improvement in prices. The increase in cashew production is ascribed to producers growing interest in the central, northern and western areas as result of the upward trend in prices due to high external demand.

Production in the secondary sector shrunk by 3.8% after recording a growth of 1.3% in 2006. This reduction stems mainly from counter performances in the mining and petroleum sectors which were however cushioned off by the buoyancy in the "construction and public works" sector and "other industries". In fact, mineral and oil extraction declined by 18.7% as wells in Baobab oil fields were silted up. The production of petroleum product also dropped by 8.3% following the voluntary reduction in production by Societe Ivoirienne de Raffinage (SIR) at the beginning of the year due to constraints related to refinery margin and the shut down of its hydro carburettor in September for a period of 45 days.

Value added in the tertiary sector grew by 2.3% against 1.9% in 2006. This performance covered all its major components that are transport, telecommunications, services and trading. Particularly, telecommunications recorded a growth of 12.8%.

Graph 3.9: Trends Nominal GDP and Real Growth Rates



On the demand side, growth was driven mainly by household final consumption and public consumption which led to an increase in total consumption by 3.4%. The upturn in household consumption is due to an improvement in agricultural export revenue resulting from higher prices and an improvement in disposable national revenue.

With regard to the Gross Fixed Capital Formation (GFCF), it grew by 4.5%, driven largely by the private GFCF which improved by 13.6% in line with an increase in short and medium term credits by 11.9% as well as the volume of capital goods imports by 13.3%.

As regard external demand, goods and services exports dropped by 2.5% as a result of counter performances in sectors such as agricultural exports, crude oil extraction and petroleum products. Concerning the import of goods and services, it grew by 1.1% thanks especially to the resumption of private investments and the expansion in economic activity.

In 2007, growth was achieved within a context of moderate increases in consumer prices. End of period inflation rate stood at 1.5% against 2.0% in 2006. This drop in inflation is due to the downward trend observed at the level of “housing, water, electricity, gas and other fuels” group on account of the easing of some rentals and a good supply of fuel wood. On the contrary, a significant increase was observed at the level of “foodstuffs and non alcoholic beverages”, “alcoholic beverages, tobacco and stimulants” as well as “restaurant and hotels”. The increase observed at the level of foodstuffs and non alcoholic beverages, especially flours, pasta milk and other fats is due to price hikes on the international market.

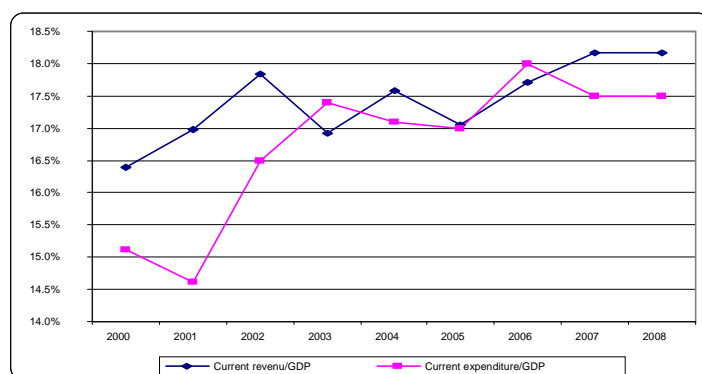
1.2 Public Finances

At end of December 2007, the execution of the budget ended in a reduction of budget deficits and the very little accumulation of internal and external payment arrears which was recurrent in recent years.

In 2007, total revenue increased by 23.9%, accounting for 20.9% of GDP against 17.6% in 2006. Its various components also followed the same trend. In fact, budget revenue rose by 22.4% as at end of December 2007 reflecting a ratio of 20.4% in relation with nominal GDP whilst the level of grant mobilization more than double to settle at CFA F 43.6 billion against 15.1 billion in 2006. The increase in budget revenue is attributed to the good performance in VAT and corporate tax collection which made up for the shortfalls in cocoa export levies and taxes on petroleum products. As regards non tax revenues, they increased by 62.3% and accounted for 3.7% of GDP against 2.5% in 2006. This growth is mainly linked with the upward trend in social contributions as well as resources meant for the compensation of toxic waste victims (95 billion). Concerning grants, they reached 43.6 billion against 15.1 billion in 2006.

Total expenditures and net borrowings grew by 15.6% to account for 21.0% of GDP against 19.0% in 2006. This is mainly ascribed to the rise in recurrent expenditures by 17.3%. The increase in recurrent expenditures stems from the wage bill, operational expenditures, war front allowances, subsidies on gas in the electricity sector as well as the management cost of crisis resolution programmes. The rise in the wage bill (+8%) is mainly due to the housing allowance paid to teachers, paramedical allowance to technical health personnel and the enrolment of over 3000 new recruits into the ranks of the National Armed Forces

Graph 3.10: Current revenue and expenditure



With regard to capital expenditure, despite the growth of 6.2% recorded, they were marked by the low levels of the execution of the internally funded component which dropped by 11.1% as compared to 2006. This situation is attributed to the late adoption of the budget which did not allow appropriate planning of projects in view the period of time required for the award of contracts. On the other hand, improvements in the mobilization of external supports led to higher levels of externally funded investments (+137.8%).

On the whole, the overall deficit excluding grants and the overall deficit accounted respectively for 0.6% and 0.1% of nominal GDP against 1.5% and 1.4 % in 2006.

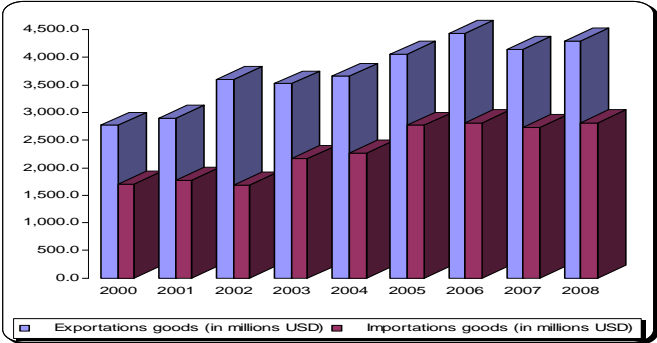
The improvement in the public finance situation reflected in the non accumulation of new payment arrears and especially the partial settlement of the existing stock. At the end of December 2007, Cote d'Ivoire no longer owed some of its bilateral and multilateral partners such as ADB and the World Bank.

Outstanding public debt (including stocks of arrears) stood at 7 440.1 billion at end of December 2007, that is 78.5% of GDP against 80.9% in 2006. Debt servicing accounted for 11.8% of budget revenue against 9.6% in 2006. This high ratio is due to the fact that Cote d'Ivoire is still not benefiting from multilateral debt relief initiatives.

1.3 External Sector

The balance of payments position recorded a surplus of 1.3% of GDP as in 2006. This situation is as result of uneven growth in its components. In fact, the trade surplus fell by 13.0% due to a net reduction in exports of goods. Exports shrunk by 6.5% to settle at 4 146.7 billion following a decline in cocoa and crude oil exports as wells were silted. The deficit in services stood at 767.7 billion against 726.0 billion in 2006 whilst the deficit in revenues settled at 421.2 billion against 371.4 billion in 2006 due to an increase in profit repatriation by non residents. Finally, the deficit in transfers without counterpart settled at 107.0 billion against 277.8 billion in 2006 in view of grants received within the framework of end of crisis programmes and resource inflows meant for the compensation of toxic waste victims. On the whole, the current balance recorded a surplus of 126.8 billion. This balance excluding official transfers stood at -0.3% of GDP against 2.9% in 2006.

Graph 3.11: Trends in Imports and Exports



The capital and financial operations account recorded a deficit of 20.8 billion against 117.9 billion in 2006, representing an improvement by 77.3% owing to an increase in direct investments and portfolio investments linked with the purchase of Ivorian treasury bonds by non residents and a drop in net outflows of private capital.

Generally, the overall balance of payments position recorded a surplus of CFAF 100 billion, representing a drop of 11.4% compared to the situation in 2006.

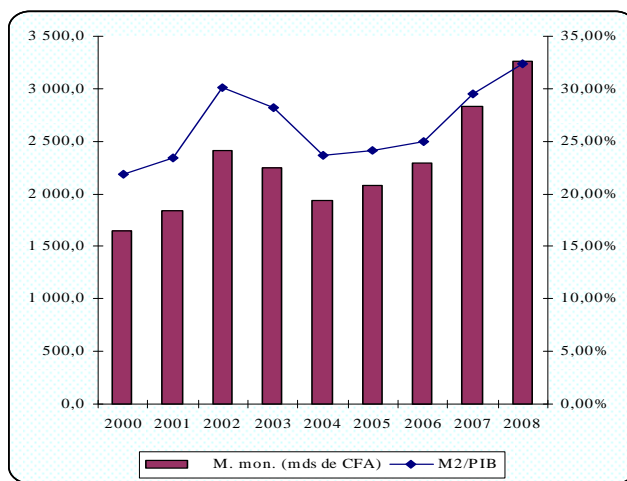
1.4 Monetary Sector

Within the UEMOA Zone, currency and credit management is based on interest rate policy and the mandatory reserves system. In a context where inflation was relatively under control, the Central Bank maintained its key rates at 4.25% for the pension rate and 4.75% for the discount rate. The mandatory reserve coefficient remained at 5.0% in Cote d'Ivoire. At the end of December 2007, this situation led to mixed growth in major monetary aggregates.

The net external position of monetary institutions settled at 1036.8 billion, rising by 215.1 billion as compared to end of December 2006. This is mainly due to a 218.5 billion increase in net external assets of the Central Bank, partially cushioned off by a decline of 3.4 billion in those of other banks. This situation reflects the implementation of the protocol agreement on compensation between the Ivorian State and TRAFIGURA involving an amount of 95.0 billion as well as sustained repatriation of export revenues. Domestic credit recorded a 19.9% growth compared to the level in December 2006 and settled at 1 962.4 billion. During the period under review, the net debtor position of the Government worsened by 24.7% to settle at 430.7 billion in line with a growing recourse to flotations on the regional financial market patronized mainly by banks. Outstanding credits to the economy stood at 1 531.7 billion at end of December 2007 against 1 291.0 billion at end of December 2006, showing a growth of 18.7% following a 17.1% increase in ordinary credits.

The trend in ordinary credits is largely attributed in new measures put in place to support companies operating in the food processing, telecommunication and energy sectors. Money supply grew by 20.8% to settle at 2836.5 billion at end of December 2007. This reflected in the 21.0% increase of bank deposits and 37.6% increase in cash circulation.

Graph 3.12: Trends in money supply



2 Performance under Macroeconomic Convergence

The analysis of the status of convergence of the Ivorian economy in 2007 shows that most criteria recorded positive trends even though, in the end, the number of target achieved remained the same as the level recorded in 2005, meaning five positive achievements. However, it is worth noting that the number of criteria met could have been five if the criterion relating reserves was not determined at the zonal level. In fact, taken on individual basis, the country's result in respect of this criterion is four months of imports against the six months required by ECOWAS community standards.

Three primary criteria and two secondary criteria were met. With regard to primary criteria, the ratio relating to budget, inflation rate, the level of reserves in months of imports and non monetary financing of the deficit.

COTE D'IVOIRE : CONVERGENCE POSITION	Target	2003	2004	2005	2006	2007	2008. (*)
Primary criteria							
Budget Deficit/GDP	≤ 4%	3.2	2.8	2.8	1.5	0.6	1.7
Inflation rate	≤ 5%	3.1	-0.1	2.6	2.0	1.5	3.0
Monetary financing of budget deficit /Previous year tax revenue	≤ 10%	0.0	0.0	0.0	0.0	0.0	0.0
Gross external reserves in months of imports	≥ 6	6.0	3.9	3.0	3.5	4.0	5.6
Secondary criteria							
Tax revenue/GDP	≥ 20%	14.9	15.2	14.4	14.9	15.4	15.9
Wage bill./tax revenue	≤ 35%	45.3	44.0	45.0	43.2	43.1	43.2
Public invest. /tax revenue	≥ 20%	10.5	12.3	10.7	15.5	12.7	14.1
Real interest rates	≥ 0	0.5	3.6	0.9	1.5	2.0	0.5
Real exchange rate stability	± 5%	6.5	4.4	-0.6	1.8	-2.1	0.8
Total # of criteria met		6	6	5	5	5	5

Source: WAMA, BCEAO.

(*): Annual Estimates

As regard the secondary criteria, only two targets were achieved. These are positive real interest rate and real exchange rate stability criteria. The weak results achieved in respect of secondary criteria, which are mostly determined by budget aggregates, obviously reflects budget adjustment difficulties. Particularly, the relatively high propensity in primary expenditures overshadowed budget revenue mobilization efforts especially during the crisis. The lack of external support brought to bear pressures that went beyond public finance capacity. This explains therefore the worsening of ratios relating to the wage bill and investments.

3

Prospects for 2008

In 2008, the pace of economic activity is expected to accelerate leading to a GDP growth rate of 2.9%. This would be achieved through the primary sector with a projected growth rate of 4.5 % in production in view of the good performances expected in export agriculture. This projection is closely linked with the gradual return to normalcy of the socio-political situation and any developments that would help ease the structural and organizational constraints especially at the level of huge areas of agricultural production. The secondary sector would record a growth rate of 2.9% thanks to the food processing industry and production of petroleum products. These improvements would depend on an increase in demand as a result of the free vehicular movement due to the reunification of the country. With regard to the tertiary sector, it would record a 3.0% growth rate fuelled by sectors such as telecommunication, trading, transportation and services.

If the current unfavourable economic conditions resulting from the pernicious hike in petroleum and basic food prices persist, it is very likely that 2008 would record serious inflationary pressures.

As regards public finance, 2008 would see the deterioration of main budget balances due to projections indicating a marginal improvement in total revenues compared expenditures. Total revenues would increase by 3.7% and account for 18.8% GDP whilst expenditures resulting from post conflict reconstruction operations and the holding of presidential elections would grow by 8.0%. However, these results would not lead to a serious set back in terms of macroeconomic convergence. Despite some worsening in the profile of indicators, six targets would be achieved in 2008, which is the same level of performance in 2007.

4

Conclusions and Recommendations

The economic situation remained fragile in 2007. However, some improvement was observed with the implementation of the March 2004 Ouagadougou agreement and the Emergency Post Conflict Assistance programme. The implementation of the agreement must be pursued and discussions with Bretton Woods institutions would help transform the AUPC into a programme funded with the Growth and Poverty Reduction Facility. In order to return to robust growth and achieve convergence targets the following measures must be taken to:

- Consolidate social and political stability ;
- Pursue the implementation of post conflict programmes and discussions with the IMF in order to conclude a three year financial and economic programme supported by the international financial community which is very crucial for the management of public debt.
- Improve tax collection by consolidating the modernization of tax administration;
- Continue efforts in terms of budget orientation by giving priority to investments that will support production ;
- Pursue structural reforms especially in coffee, cocoa, cotton, oil and other energy sectors.