PRESS RELEASE

2009 franc zone report

The 2009 annual report for the franc zone has just been published. Drawn up by the Secretariat of the Monetary Committee of the franc zone, which is provided by the Banque de France, this report presents the economic and financial developments in member countries during the year under review[1].

The global economic recession of 2009, which resulted in a 0.6% decline in world GDP, led to a significant slowdown in economic growth in sub-Saharan Africa and the franc zone countries.

The franc zone economies proved resilient to the international financial and economic crisis

Mainly impacted by the decline in international trade and the less favourable terms of trade, the growth performance of franc zone economies, albeit down from 2008, was in line with, or even slightly better than that of sub-Saharan Africa: real GDP growth stood at 2.8% for the WAEMU in 2009 (compared with 3.8% in 2008) and 2.1% for the CEMAC (after 3.9% in 2008), against 2.2% for sub-Saharan Africa.

In addition to the weak integration of their financial systems in global financial markets, franc zone economies benefited from the influence of specific internal or external factors, relatively independent from the international crisis, which helped underpin activity. These factors include the progress made in WAEMU towards the settlement of socio-political crises, the debt cancellation effects stemming from the implementation of the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI) initiatives, the ongoing improvements in economic policies in the framework of programmes put in place with the Bretton Woods institutions, the strength of private and public investment and the foreign direct investment in mining.

Despite losing ground, growth in the WAEMU was buoyed up by strong crop production and support from development partners

In West Africa, the slowdown in growth (2.8% after 3.8% in 2008) can largely be attributed to the difficulties encountered by the agricultural export sector, which was impacted by the decline in external demand, in particular from Asia, and the low price levels of most products.

However, activity was propped up by the firmness of subsistence crop production, the implementation of public investment programmes in infrastructure and the rolling out, by all member countries, of economic programmes backed by development partners. In Côte d'Ivoire and Togo, progress made towards crisis resolution enabled these countries to consolidate their relations with Bretton Woods institutions. Growth in Côte d'Ivoire thus further accelerated to reach 3.8% (after 2.3% in 2008).

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[1] The franc zone comprises, in addition to France, 15 African countries. Eight of them make up the West African Economic and Monetary Union (WAEMU): Benin, Burkina-Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. Six others make up the Central African Economic and Monetary Community (CEMAC): Cameroon, Central Africa, Congo, Gabon, Equatorial Guinea and Chad. The franc zone also includes the Comoros. The franc zone report is based on data collected from the three central banks and two banking commissions of this zone.

A significant moderation in growth was observed in the CEMAC, essentially due to the further decline in oil production

In the CEMAC, real GDP growth slowed from 3.9% in 2008 to 2.1% in 2009, which can chiefly be attributed to the 1.2% decline in oil production. The sluggishness of the oil sector dampened aggregate demand, in particular domestic consumption. Mining and the main export goods were also affected by the slump in world demand, especially the wood sector.

However, growth was supported by the strength of private investment, essentially in the oil (exploration and development) and telecommunications sectors, and by the stepping up of public investment programmes, in particular in basic infrastructure.

Economic activity in the Comoros picked up slightly thanks to the rise in domestic consumption

Real GDP growth stood at 1.1% compared with 0.2% in 2008. Above all, this reflects more buoyant domestic demand, underpinned by the sharp rise in lending and diaspora remittances, and greater external financial support.

(NB: the 2009 annual report contains three boxes, written by the central banks, on the financing of the franc zone economies since 2000)

Inflation slowed sharply to a rate significantly lower than that observed in other Sub-Saharan African countries

The inflationary pressures observed in 2008 in franc zone countries eased in 2009, due to the economic slowdown and the decline in global commodity and food prices.

Owing to the stabilising effects of the exchange-rate system and the euro peg, disinflation was more rapid in the franc zone than in the rest of Sub–Saharan Africa, bringing the inflation differential to over 9 percentage points in favour of the WAEMU and over 6 percentage points in favour of the CEMAC. In 2009, the franc zone continued to achieve better results in terms of fighting inflation than Sub-Saharan Africa[2].

The franc zone countries have an excellent long-term record of keeping inflation under control: in the period 1997–2009, average annual inflation was below 3% in the CEMAC and the WAEMU, compared with around 11% for Sub-Saharan Africa as a whole. The stability of franc zone currencies, thanks to their euro peg, makes it possible to contain imported inflation, as well as domestic demand pressures and thus contributes to price stability.

Monetary policy eased in response to the crisis

At the end of 2008 and throughout 2009, gradual monetary policy adjustments were made. In response to the crisis, central banks eased credit institutions' refinancing conditions. The structural excess liquidity in the banking system nevertheless acted as a buffer against the crisis.

For its part, the BCEAO continued its weekly liquidity-providing operations and organised, as of the second half of 2009, fixed-rate tenders with full allotment at a maturity of one month. Moreover, it reduced its main policy rates by 50 basis points in June 2009.

The gradual moderation of inflation expectations, due to the economic downturn as of the second quarter of 2008, prompted the BEAC to lower its key interest rates four times (in December 2008, March and July 2009 and July 2010), by a total of 150 basis points.

[2] Excluding Nigeria and South Africa.

As a result of counter-cyclical fiscal policies adopted to mitigate the impact of the crisis, public finances generally deteriorated

In the WAEMU, budget balances deteriorated due to the rise in current expenditure stemming from wage bill growth and the high level of subsidies and transfers, in particular to support the energy and agriculture sectors, as well as the substantial ongoing public investment drives. The budget deficit (on an accrual basis excluding grants) reached 6.3% of GDP, compared with 4.6% the previous year.

The CEMAC continued to implement pro-active public investment policies, despite the sharp decline in oil revenues, which resulted, for the first time since 1999, in a fiscal deficit (on an accrual basis, excluding grants) of 0.8% of GDP in 2009, compared with a surplus of 11.1% of GDP in 2008.

Against the backdrop of an upturn in global activity, economic growth is set to recover in 2010

In this context and provided that the measured recovery in the global economy is accompanied by an increase in export commodity prices by franc zone countries, this region should see an acceleration of economic growth in 2010.

On the condition that there is a recovery in the crude oil production and exports, economic activity in the CEMAC should grow at a much more sustained pace, with the BEAC forecasting real GDP of 4.1% in 2010. Inflationary pressures are expected to ease slightly, with consumer price inflation reaching 3.6% as an annual average.

WAEMU countries are also set to see an improvement in their growth performances, with real GDP rising by 3.6% according to the BCEAO. This improvement is expected to be driven by growth in subsistence farming, strong mining production and ongoing public investment drives, underpinning the fast expansion of the public works sector. Price pressures should abate, with an annual average inflation rate of 1.2%.

In the Comoros, preserving a degree of political stability, improving the business climate and maintaining the financial support of development partners should foster in 2010 a recovery in economic activity, with real GDP growth of 1.5% according to IMF forecasts. Inflationary pressures should be contained at 2.1% as an annual average.

An overview of the report is available at:
http://www.banque-france.fr/fr/eurosys/zonefr/rapport-annuel-zone-franc.htm

For further information:
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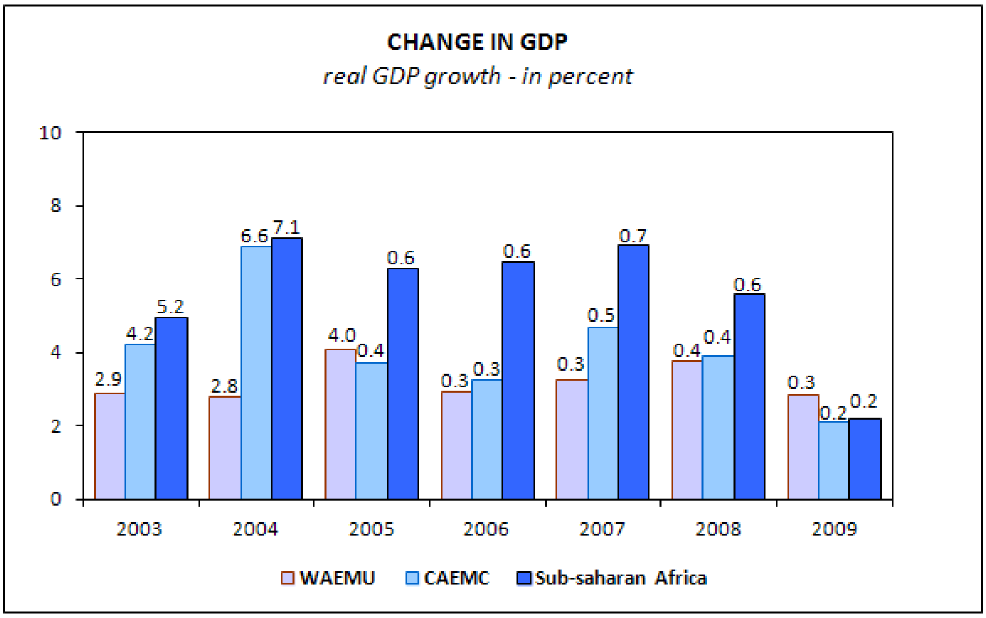
APPENDIX

Key economic indicators

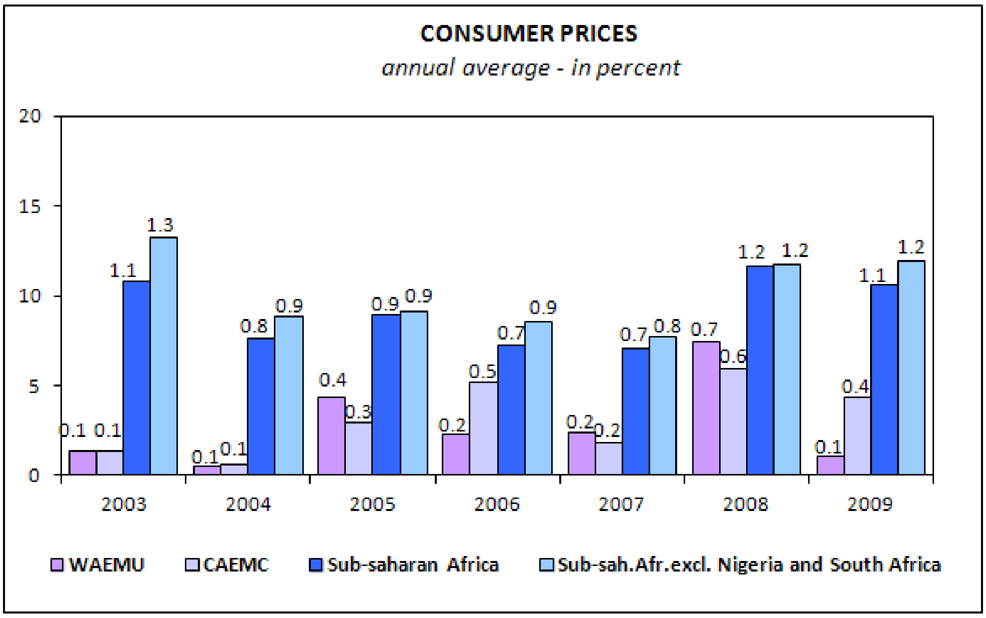
(%)

	GDP growth (%)		Inflation (%) *		Fiscal position (% of PIB) **	
	2008	2009[a]	2008	2009[a]	2008	2009 [a]
WAEMU	3.8	2.8	7.4	1.1	-1.9	-2.5
CEMAC	3.9	2.1	5.9	4.3	11.6	0.9
Sub-Saharan Africa	5.6	2.2	11.6	10.6	0.2	-5.9

* Change in consumer prices, as a yearly average
** On an accrual basis, incl. grants
[a] Provisional figures
Sources: IMF: Regional Economic Outlook April 2010, Global Economic Outlook, updated 2010, BCEAO, BEAC



Sources : BCEAO, BEAC, IMF (Regional Economic Outlook April 2010, Global Economic Outlook), updated July 2010



Sources : BCEAO, BEAC, IMF (World Economic Outlook April 2010), updated July 2010