OVERVIEW

In 2012, the Franc Zone countries posted particularly strong economic growth of 5.8% on average compared with an average of 4.9% for Sub-Saharan Africa. The Franc Zone countries benefited from ongoing high price levels of certain commodities, particularly oil, and strong internal demand, with investment making a substantial contribution. The acceleration of economic growth was particularly strong in the WAEMU countries (6.4%) due mainly to a strong recovery in Côte d'Ivoire. In the CEMAC countries, growth stabilised at a sustained pace, with real GDP progressing by 5.2%. The Comoros posted a slight increase in the pace of its economic growth (3.0%).

As regards inflation, the CEMAC countries and the Comoros recorded substantially stronger rates (3.8% on average and +6.2% respectively) whereas the WAEMU countries saw a significant abatement (2.4%). These inflation rates were generally well below those of the rest of Sub-Saharan Africa.

The fiscal balances (on an accrual basis, excluding grants) of the WAEMU countries and the Comoros improved in 2012 as a result of higher tax revenue, whereas a sharp increase in investment expenditure in the CEMAC countries generated a budget deficit. The central banks of the Franc Zone countries pursued accommodative monetary policies.

With respect to trade, the WAEMU and CEMAC countries experienced a sharp rise in the volume of imports related to the higher level of investment. As a result, current account deficits widened.

In 2013, The WAEMU countries should register a further acceleration of their economic growth (6.5% in real terms), whereas the CEMAC countries are likely to post a deceleration (3.2%) mainly due to the economic recessions that should affect Equatorial Guinea and the Central African Republic. In the Comoros, GDP should reach approximately 3.5%.

Activity

The WAEMU countries registered strong economic activity in 2012, with a real GDP growth rate of 6.4%, after 0.7% in 2011.

Key economic indicators

(%)

	Real GDP growth		Inflation (a)		Fiscal position (% of GDP) (b)	
	2011	2012 (c)	2011	2012 (c)	2011	2012 (c)
WAEMU	0.7	6.4	3.9	2.4	-6.5	-5.3
CEMAC	5.2	5.2	2.7	3.8	2.4	-1.5
Comoros	2.6	3.0	1.8	6.2	-6.3	-5.6
Sub-Saharan Africa	5.4	4.9	9.3	8.9	-2.2 (d)	-2.6 (d)

(a) Change in consumer prices, as a yearly average basis.
(b) On an accrual basis, excluding grants.
(c) Provisional figures.
(d) Overall fiscal balance, excluding grants.
Sources: BCEAO, BEAC, BCC, IMF (Regional Economic Outlooks, April 2013, World Economic Outlook, updated July 2013) for Sub-Saharan Africa.

The improvement was very largely attributable to the vigorous recovery of the economy of Côte d'Ivoire where GDP accelerated by 9.8%. The economic situation in the region also benefited from satisfactory crop yields in 2012/2013 although the region's different mining industries posted mixed results: production of gold, phosphates and uranium was up versus 2011, whereas oil production in Côte d'Ivoire posted a sizeable contraction.

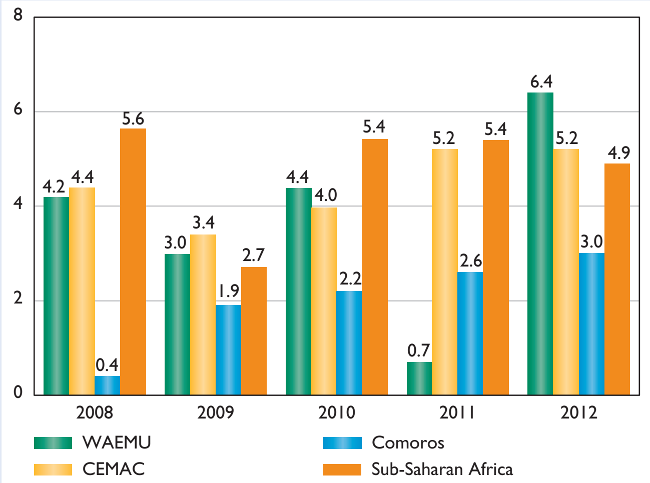
All of the WAEMU countries, except Guinea-Bissau and Mali, showed an acceleration in economic activity. The strongest rises were in Burkina Faso (9.0%, after 5.0% in 2011), Côte d'Ivoire (9.8%, after -4.7%) and Niger (10.8%, after 2.1%). The West African coastal countries also experienced stronger economic growth in 2012 than the previous year, with Benin up 5.4%, Senegal up 3.5% and Togo up 5.9%. However, both Guinea-Bissau and Mali entered into recession (-1.5% and -1.2% respectively), with economic activity being affected by socio-political crises during 2012.

In the CEMAC countries, economic activity remained buoyant, with an average real GDP growth of 5.2%, matching the pace recorded for 2011. Growth, driven by a rise in private consumption and above all by a resumption of investment programmes initiated by Governments (notably for infrastructure projects) was particularly strong in Gabon (5.0%), Equatorial Guinea (9.8%) and Chad (8.7%). The contribution to real growth from the non-oil sector amounted to 5.4 points, whereas the oil and gas sector, as in 2011, made a negative contribution of -0.2 of a point to average CEMAC country GDP due to reduced levels of production of both gas and crude oil.

The Comoros recorded a slight acceleration in economic growth with real GDP up 3.0% after 2.6% in 2011 with private domestic demand, largely financed by external financial support, playing a key role.

Change in GDP

(real GDP growth - in percent)



Sources: Central Banks; IMF (World Economic Outlook, April 2013, updated July 2013).

For the Franc Zone countries taken as a whole, **long-lasting improvements in their pace of economic growth are still being hampered by a number of structural weaknesses**, including an insufficient level of agricultural competitiveness, under-developed financial sectors and inadequate infrastructures, particularly with respect to transport and energy. Moreover, **structural reforms** (such as privatisations, the promotion of transparency in the management of public funds, restructuring banking systems, reforms relating to the sustainable management of natural resources, and improvements in health and education systems, etc.) represent **vital and unavoidable steps in order to enhance the growth potential of these economies**.

Monetary policy

Since the adjustments made in 2009 to address the crisis, **the monetary policies** of the Franc Zone central banks **remain accommodative**. Nevertheless, to date, the easing of credit institutions' refinancing conditions has only had a limited impact on interest rates in the real economy due to the banking system's overall excess liquidity. In fact, the economies of the Franc Zone remain characterised by **excess liquidity in the banking sector,** as reflected by the ongoing high levels of excess reserves, standing at, in the CEMAC, almost three times reserve requirements and 100% of the same requirements in the WAEMU. This situation calls for increased vigilance in the view of the inflationary pressures that it could potentially fuel.

The ratios of money in circulation to external assets, which constitute an intermediate target for monetary policy, have largely exceeded the minimum threshold (20%) established in the framework of the Franc Zone agreements and stood at 105.5% in the WAEMU countries, 98.4% in the CEMAC countries and 99.1% in Comoros. These rates **reflect the soundness of the CFA and Comorian francs**.

In this framework, the Central Bank of West African States (BCEAO) has pursued its weekly and monthly liquidity-providing operations in the form of variable rate tenders. The Monetary Policy Committee of the BCEAO also cut its key rates twice (June 2012 and March 2013) to take account of the slowdown in inflation observed since the end of 2011. The BCEAO's current rate stands at 3.00%, after the cumulative 50 basis point reduction.

In the CEMAC countries, after lowering key rates by 150 basis points between December 2008 and July 2010 against the backdrop of slowing economic activity and inflation, the Monetary Policy Committee of the BEAC left the refinancing conditions of banks and credit institutions unchanged. The attenuation of inflationary pressures observed since the last quarter of 2012 prompted the BEAC's Monetary Policy Committee to reduce its key rates by 50 basis points to 3.50% in July 2013.

Inflation

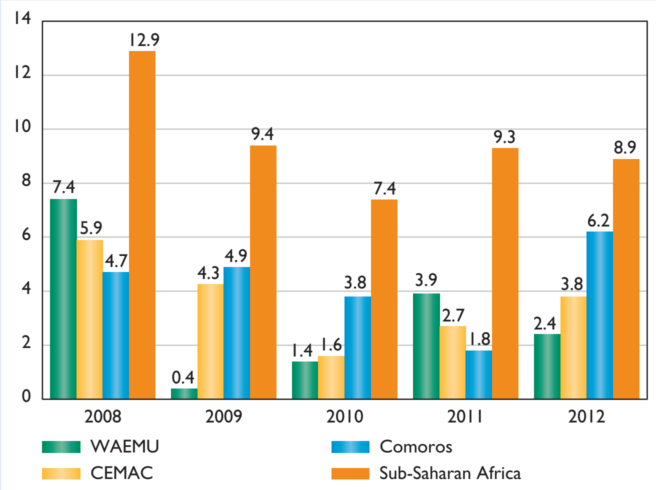
As regards efforts to control inflation, the year 2012 produced mixed results in the three regions of the Franc Zone.

In the WAEMU countries, an easing of inflationary pressure was observed with consumer prices returning to an annual average growth rate of 2.4% after 3.9% in 2011. This trend particularly reflected the impact of measures taken to control the rise in food prices and the fall in international grain prices.

However, inflation in the CEMAC countries was higher in 2012 (3.8% in annual average terms) than in 2011, when it stood at 2.7%. This increase in inflationary pressures was mainly due to the dynamism of the economic activity and, in most of the countries, the strength of domestic demand coupled with limited local supplies.

Consumer prices

(annual average - in percent)



Sources: Central Banks; IMF(World Economic Outlook, April 2013, updated July 2013).

The Comoros also posted a strong increase in the general level of prices with an annual average rate of inflation at 6.2% after 1.8% in 2011. This acceleration was essentially driven by increases in the prices of imported food and petroleum products.

Thanks to the stabilising effects of the euro peg, the Franc Zone nevertheless continued to achieve better results in terms of fighting inflation than the rest of Sub-Saharan Africa (SSA). In 2012, the inflation differential between SSA (8.9%) and the Franc Zone stood at 6.5 percentage points in favour the WAEMU and 5.1 percentage points in favour of the CEMAC countries. **The Franc Zone countries have an excellent long-term record of price stability:** between 2002 and 2012, the average annual inflation rate stood at 2.6% in the WAEMU and 3.2% in CEMAC countries, compared with 9.2% for SSA as a whole. The nominal pegging of the CFA and Comorian francs to the euro helps to contain inflationary pressures notably by curbing the prices of imports from the rest of the world.

Public finances

A salient feature of 2012 was the significant difference in budget balance developments between CAEMC and WAEMU countries. In **West Africa, budget deficits slightly contracted, whereas the Central African countries posted deficits for the first time since 1999.** In both cases however, **better control of expenditure will be needed** in order to generate an indispensable margin for manoeuvre in less favourable economic conditions.

In WAEMU countries, government revenues increased very substantially on average (21% versus 2011) whereas the growth of expenditure was more moderate (13.0%). The overall budget deficit (on an accrual basis excluding grants) contracted to 5.3% of GDP in 2012, compared with 6.5% the previous year.

In the CEMAC countries, a smaller increase in oil revenue (5.6% after 26.0% en 2011) coupled with a still very dynamic level of public investment (28.8% after 21.9% previously) resulted in a budget deficit (on an accrual basis excluding grants) amounting to an average 1.5% of GDP after a surplus of 2.4% in 2011.

In the Comoros, the budget deficit contracted from -6.3% of GDP in 2011 to -5.6% of GDP in 2012 on the back of revenue growth (32.2% related to a number of exceptional operations) that outpaced expenditure growth (21.8%).

In sum, greater fiscal consolidation efforts are needed to ensure a return to balanced public finances and to constitute the leeway essential to implementing counter-cyclical policies in the event of a further external shock. In this respect, **better control of current spending via, in particular, a reduction in the subsidies to the energy sector** (electricity, oil products) will be crucial for rebalancing the countries' public finances in the medium term and for safeguarding priority investment spending. The recent and partial shift in fiscal spending to bolster investment remains a necessary condition for ensuring a sustained increase in the economic growth potential of the Franc Zone.

The monetary authorities of the WAEMU and the CEMAC have enacted the principle of gradually eliminating direct advances by central banks to States. In the WAEMU, this reform, which was formally incorporated into the new statutes of the BCEAO and which entered into force on 1 April 2010, led to a rapid development of the regional public debt market. In the CEMAC countries, the implementation of the mechanism to issue government securities was accompanied by the introduction of a cap on advances and a commitment to steadily reduce central bank advances to governments over ten years, as of 31 December 2012.

External accounts

In the context of a sharp rise in the volume of imports related to the higher level of investment, the WAEMU and CEMAC economies posted further deteriorations in their current account balances.

For the WAEMU countries, the average current account deficit increased to a level representing 4.6% of GDP in 2012, after 2.2% in 2011, due mainly to larger trade deficits. Purchases of goods and services posted a 17.4% increase, driven by an acceleration of public and private sector investment programmes related to reconstruction in Côte d'Ivoire and mineral prospection in Burkina Faso and Niger.

In the CEMAC countries, the current account deficit, which appeared in 2009, substantially deepened in 2012, reaching 5.1% of GDP, versus 3.3% in 2011. The trade surplus decreased slightly due to a rapid increase in imports (15.1%) resulting from the implementation of public investment programmes.

In the Comoros, 2012 was marked by a reduction of the current account deficit, from 9.5% of GDP in 2011 to 6.8% of GDP a year later, due to a net increase in general government transfers.

Overall, the balance of payments positions of the CEMAC countries and the Comoros continued to record substantial surpluses mainly due to an increase in foreign direct investment flows and external grants. These inflows also consolidated the official reserves of foreign currency. The balance of payment positions of the WAEMU countries ended the year 2012 with a small deficit representing -0.7% of GDP. **The central bank reserves of the Franc Zone countries remained at satisfactory levels** representing approximately 5 months of imported goods and services in the WAEMU block, 5.5 months in the CEMAC block and 7.1 months in the Comoros at end-December 2012.

Outlook

In a generally lacklustre international environment, marked by commodity price and financial market volatility as well as uncertainty over the economic and financial outlook of the developed countries (and of a number of vulnerable emerging countries), the mechanisms of the Franc Zone increasingly play a vital stabilising role and represent a financial safety net. The franc CFA's peg to the euro, via monetary cooperation arrangements with France, has contributed to the zone's good record in terms of currency and price stability. Franc Zone institutions also provide a favourable framework for regional integration and economic development. In this context, respect of the Franc Zone's rules, particularly regarding the pooling of foreign exchange reserves at the Franc Zone issuing banks, remains an essential factor.

According to IMF[1] forecasts, global economic growth is likely

Current account balance

	Current account balance (% of GDP)		Change in the terms of trade (%)	
	2011	2012 (a)	2011	2012 (a)
WAEMU	-2.2	-4.6	9.9	0.8
CEMAC	-3.3	-5.1	10.9	-0.7
Comoros	-9.5	-6.8	34.0	-3.1
Sub-Saharan Africa	-1.7	-2.8	7.6	-2.1

(a) : Provisional figures.
Changes in the terms of trade: (+) = improvement.
Sources: Central Banks, IMF (for Sub-Saharan Africa).

1 *World Economic Outlook (updated July 2013).*

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to stabilise at approximately 3.1% in 2013, exactly the same pace as that recorded for 2012. In emerging and developing countries, it should reach 5.0% after 4.9% a year earlier, with Sub-Saharan Africa expected to post 5.1% after 4.9% in 2012. The forecast for economic growth in the advanced economies is also stable at 1.2%, as in 2012.

The gradual recovery in the growth of international trade (forecast at 3.1% in 2013 after 2.5% in 2012) combined with a dynamic level of domestic demand should allow the Franc Zone economies to pursue a growth in line with that of the African continent as a whole.

In the WAEMU countries, 2013 should be marked by **continued economic expansion** with a real GDP growth rate of 6.5%. This growth will be driven by the continuation of ambitious public investment programmes and the dynamism of the mining industries in Burkina Faso, Côte d'Ivoire and Togo. According to the Central Bank of the West African States (BCEAO), Guinea-Bissau and Mali should benefit from efforts to normalise their political situations and from renewed financial support from their development partners. The BCEAO's economic growth forecasts for these two countries in 2013 are 3.5% and 4.8% respectively.

Inflationary pressures in the WAEMU countries should remain under control with a forecast annual average rate of 2.3% in 2013 after 2.4% in 2012.

The CEMAC countries are expected to undergo a significant slowdown in economic growth in 2013 with a regional average growth rate of real GDP of 3.2% after 5.2% in 2012. This average, however, conceals **some very contrasting trends at the country level**. While most of the CEMAC countries are expected to continue on a solid growth path (Cameroon 5.6%, Congo 5.3%, Gabon 7.4% and Chad 5.0%), GDP in the Central African Republic, confronted with an unstable political situation, is expected to contract by approximately 14.5%. In Equatorial Guinea, the drop in oil production combined with a marked slowdown in public investment is expected to generate a 12% contraction of GDP in 2013. At the regional level, growth will be mainly driven by the non-oil sector, particularly the tertiary sector.

In this context, inflationary pressures should ease, with prices expected to rise 2.7% on an annual average basis (after 3.8% in 2012).

In the Comoros, the economy is expected to post a slight acceleration in 2013, with an increase in real GDP of 3.5% after 3.0% in 2012, mainly driven by good results from the agricultural sector.