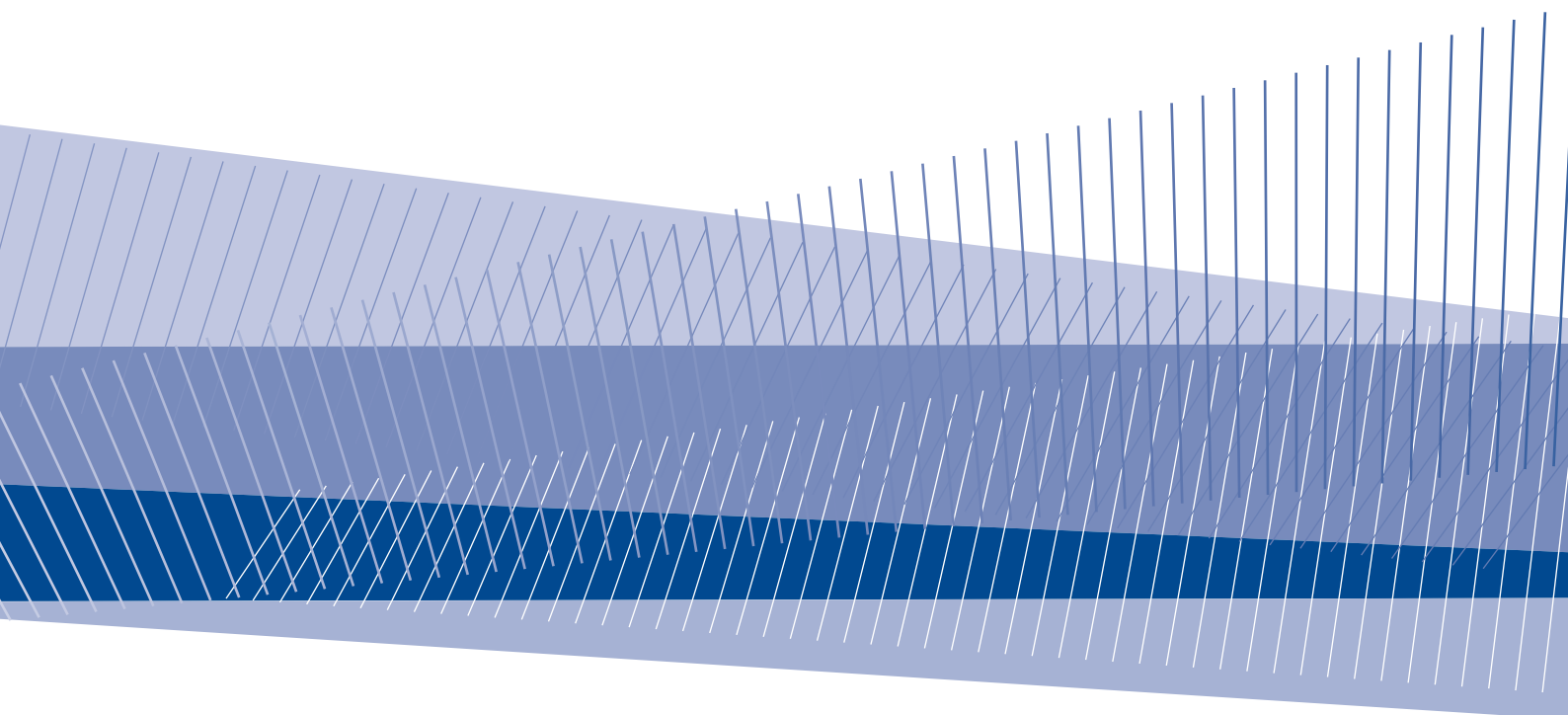


2009 | **FRANC ZONE**  
ANNUAL REPORT



# OVERVIEW \*

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.

## ACTIVITY

The international financial and economic crisis spread to the economies of franc zone countries, which were mainly impacted by the decline in international trade and the less favourable terms of trade. This resulted in a significant slowdown in the GDP growth rate: 2.8% for the West African Economic and Monetary Union (WAEMU) in 2009 (compared with 3.8% in 2008) and 2.1% for the Communauté économique et monétaire d'Afrique Centrale – Central African Economic and Monetary Community (CEMAC) (after 3.9% in 2008).

**Franc zone economies nevertheless proved relatively resilient to this new exogenous shock, as reflected by the satisfactory growth rates notably in Burkina Faso (3.2%), the Congo (6.7%), Côte d'Ivoire (3.8%) and Mali (4.4%).**

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

### Main economic indicators

(%)

	Real GDP growth		Inflation (a)		Fiscal position (% of GDP) (b)	
	2008	2009 (c)	2008	2009 (c)	2008	2009 (c)
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

(a) Change in consumer prices, as a yearly average

(b) On an accrual basis, including grants

(c) Provisional figures

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

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.

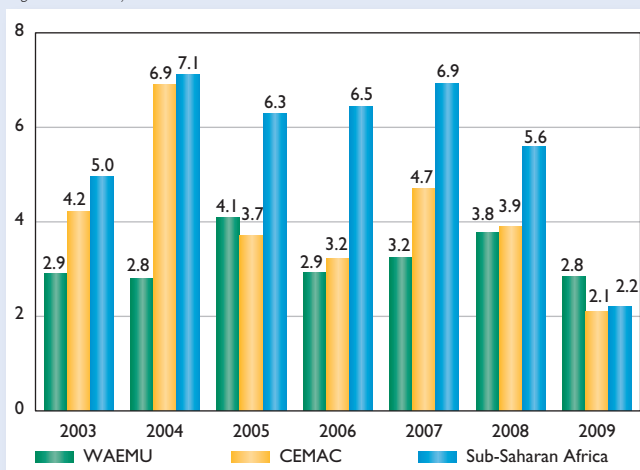
The slowdown in GDP growth in CEMAC countries (2.1% after 3.9% in 2008) can principally be ascribed to the 1.2% decline in oil production and slowdown in natural gas production (14.5%, compared with 41.4% in 2008). The sluggishness of the oil sector dampened aggregate demand, in particular domestic consumption. Mining and the main export goods were also affected by the slump in world demand, in particular the wood sector.

However, the investment ratio in CEMAC rose sharply, reaching 38.6% of GDP after 28.1% in 2008. Besides the strength of private investment, especially in the oil (exploration and development) and telecommunications sectors, this particularly high level reflects the stepping up in 2009 of public investment programmes, in particular in basic infrastructures.

In West Africa, the slowdown in growth (2.8% after 3.8% in 2008) can

### Change in GDP

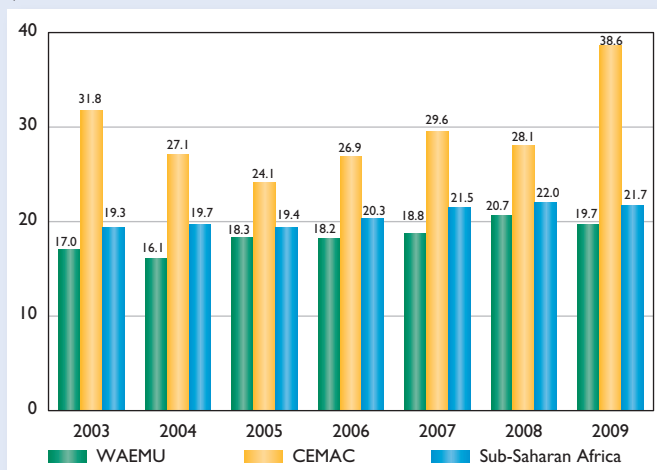
(Real GDP growth as a %)



Sources: Central banks, IMF World Economic Outlook April 2010, updated July 2010

\* The full text of the 2009 Annual Report is only available in French. See [www.banque-france.fr/fr/eurosys/zonelfr/rapport-annuel-zone-franc.htm](http://www.banque-france.fr/fr/eurosys/zonelfr/rapport-annuel-zone-franc.htm).

### Investment rate (% of GDP)



Sources: Central banks, IMF World Economic Outlook April 2010

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. Private financing flows, above all migrants' remittances, also ebbed.

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).

The sustained improvement in growth rates in the WAEMU nevertheless remains constrained by a number of factors, including the stubborn difficulties in certain agricultural sectors, inadequate infrastructure, in particular in energy production, and the ongoing uncertainties relating to the socio-political environment in Côte d'Ivoire, which accounts for 35% of the sub region's GDP.

In the Comoros, economic activity perked up slightly in 2009, with real GDP rising by 1.1% after 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.

In franc zone countries as a whole, the increase in the level of potential growth remains hampered by the underdevelopment of financial sectors. This observation, put forward by the central banks of the zone, is presented in the Annual Report in the form of three boxes that also set out the measures that the monetary authorities plan to implement in order to address this issue.

### INFLATION

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.

In the WAEMU, the good harvests in 2009-2010 and the slowdown in the rate of increase in the price of imported food and petroleum products contributed to accelerating the disinflationary trend, which started in the third quarter of 2008.

In the CEMAC, the slowdown in inflation was less marked, due to the continued security problems in certain countries that affect supplies to local markets. The monetary and fiscal environment (abundant bank liquidity and sharp rise in investment spending) nonetheless remains conducive to the development of inflationary pressures.

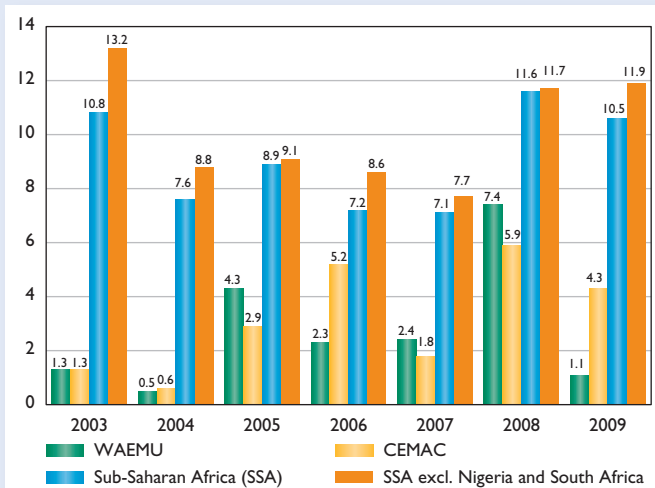
In the Comoros, inflationary pressures stabilised, but remained strong. Consumer price inflation reached 4.9% in 2009 as an annual average, after 4.7% in 2008, fuelled by buoyant domestic demand, which was underpinned by consumption (up 5.3%).

**In 2009, the franc zone continued to achieve better results in terms of fighting inflation than Sub-Saharan Africa<sup>1</sup> (11.9%). 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. The franc zone countries have an excellent long-term**

<sup>1</sup> Excluding Nigeria and South Africa.

## Consumer prices

(Annual average – %)



Sources: Central banks, IMF World Economic Outlook April 2010

**record of keeping inflation under control:** in the period 1997–2008, average annual inflation was below 3% in the CEMAC and the WAEMU, compared with around 11% for Sub-Saharan Africa as a whole. This lower inflation can be attributed to the nominal pegging of the CFA and Comorian francs to the euro. The stability of franc zone currencies helps to contain the cost of their imports from the rest of the world.

**Irrespective of the exchange rate regime, the quality of macroeconomic policies remains the key determinant of economic performance.**

In this respect, while the soundness and the credibility of the euro peg are contingent on vigilant monetary policies conducted by the franc zone central banks, sound and balanced fiscal policies are also crucial.

## MONETARY POLICY

**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.** However, this only had a limited impact due to the banking system's overall excess liquidity.

Therefore, given the need to provide the banking system with the optimal level of liquidity to ensure the financing of the economy, 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), totalling 150 basis points.

**The excess liquidity in the banking sector, as reflected by, in all franc zone countries, the ongoing high levels of excess reserves, could exacerbate inflationary pressures; in the CEMAC, they stand at almost twice the amount of reserve requirements and one-and-a-half times**

**this amount in the WAEMU.** Against this backdrop, the BEAC continued to accept at its counters all of banks' placements in the framework of liquidity-absorbing operations, whereas the BCEAO strived to improve the functioning of the interbank market.

In the Comoros, where the money supply expanded by 13.3% owing to the growth in domestic credit, the key rates, indexed to the EONIA, fell sharply but their structure has remained unchanged since 1 January 2009. The minimum reserve ratios were nevertheless raised to 30% in July 2010, on the back of the rise in net capital inflows, which is likely to fuel inflationary pressures.

## PUBLIC FINANCES

**Public finances generally deteriorated in 2009 with little chance of an improvement in tax revenues; franc zone countries therefore endeavoured to keep in place counter-cyclical fiscal policies with a view to mitigating the impact of the crisis and supporting economic activity.**

In the WAEMU, budget balances deteriorated due to the rise in current expenditure stemming from wage bill growth (10.3%) 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.

In the Comoros, the growth of public revenues, associated with a slight decrease in spending, had a deficit-reducing impact (on an accrual basis excluding grants), bringing it down from the very high level of 13.1% of GDP to 9.5% of GDP in 2009.

Furthermore, the monetary authorities of the WAEMU and the CEMAC decided on the principle of phasing out the direct advances made by central banks to the States. In the WAEMU, this reform, which was formally incorporated in the new statutes of the BCEAO, entering into force on 1 April 2010, led to the rapid development of the regional public debt market. In the CEMAC, the implementation of the plan to issue government securities was accompanied by a capping of long-term advances and it is intended to reduce by a fifth over five years the advances to governments, as soon as the States start to issue debt on the regional market.

**Overall, caution seems particularly appropriate in crisis exit strategies, especially with regard to fiscal consolidation; the pace and way in which such strategies are implemented must be clearly determined in order to better consolidate public finances, without choking the recovery.** In this respect, a shift in fiscal spending to bolster the potential growth of the franc zone remains the best way to ensure balanced growth and ongoing economic convergence in the medium- to long-term. Overall, the regional convergence process is insufficient in the franc zone: only two countries (Gabon and Mali) met the four first-level criteria<sup>2</sup> at end-2009.

**Structural reforms (privatisations, transparency of public funds, restructuring of banking systems, sustainable management of natural resources, etc.) are also a key instrument for improving the growth potential of the economies.** Although, in 2009, some countries made progress in terms of privatisation and restructuring of state-owned enterprises, as well as governance and fiscal transparency, these reforms were still too slow despite

the general consensus on the need to improve the business environment in order to attract local and foreign investors and to enhance the franc zone's position in the global arena.

## EXTERNAL ACCOUNTS

In 2009, trade of CEMAC and WAEMU countries with their foreign partners was affected by the rapid decline in oil prices, which resulted in a sharp deterioration in the terms of trade for Central African oil-exporting countries. Conversely, this enabled WAEMU, a net importer of oil products, to offset the drop in the export prices of the main agricultural products, leading to a stabilisation of the terms of trade.

In the CEMAC, the external trade balance worsened significantly, as the current account deficit reached 7.1% of GDP in 2009, compared to a surplus of 4.8% in 2008. This was mainly due to the sharp decline in the trade surplus, reflecting the slump in oil exports, resulting from the slight decrease in volumes extracted but above all the collapse of average export prices (down 33.8%).

In the WAEMU, the current account deficit narrowed from 7.1% of GDP in 2008 to 3.3% in 2009, thanks to buoyant exports of agricultural products, while imports of goods fell by over 8%.

On account of the rise in foreign direct investment flows, the balance of payments positions of the WAEMU and the Comoros recorded substantial surpluses, contributing to consolidating official foreign exchange reserves. The reserves of central banks of franc zone countries represented over seven months of imports of goods and services in the WAEMU and the Comoros and over six months

<sup>2</sup> Underlying budget balance, inflation rate, total debt outstanding as a percentage of GDP, change in payment arrears.

### Current account balance

	Current account balance (% of GDP)		Change in the terms of trade (%)	
	2008	2009 (a)	2008	2009 (a)
WAEMU	-7.1	-3.3	+23.9	+1.6 (b)
CEMAC	+4.8	-7.8	+12.4	-32.8

(a) : Provisional data

Change in the terms of trade: (+) = improvement

Sources: Central banks, (b) IMF

in the CEMAC. The ratio of external assets to money in circulation largely exceeded the minimum threshold (20%) established in the framework of the franc zone agreements: 112.3% in the WAEMU, 102.6% in the CEMAC and 109.5% in the Comoros.

## OUTLOOK

In an uncertain environment, exposed to major shocks and impacted by the financial crisis, the franc zone mechanisms continued to play an essential stabilising role and act as a financial safety net. The solidarity between member countries, in each of the monetary unions, fosters the implementation of a multilateral surveillance, which greatly encourages a rigorous management of public finances. The requirement to repatriate export revenues and the pooling of foreign exchange reserves also help to bolster the credibility and stability of the exchange rate regime. Furthermore, the euro peg, implemented via the monetary cooperation arrangements with France, ensures that monetary policy is always conducted with due vigilance with regard to the risk of inflationary pressures. Franc zone institutions thus provide a favourable framework for regional integration and economic development.

In 2010, a significant recovery in international economic activity is expected. At the global level, the IMF forecasts growth of 4.6%<sup>3</sup>, thanks to the rapid expansion in global trade (9% after -11.3% in 2008). In emerging and developing economies, growth should stand at 6.8%, while Sub-Saharan Africa should return to pre-crisis levels, with a real growth rate of 5%. In industrialised economies, the improvement in macroeconomic conditions is likely to be more gradual, with an expected rise in real GDP of 2.6%.

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, while remaining strong, are expected to ease with consumer price inflation reaching 3.6% as an annual average. The 2010 budget execution should allow for a return to a budget surplus (on an accrual basis, excluding grants) of around 7.8% of GDP, compared with a deficit of 0.8% in 2009, reflecting an increase in budget revenues. The current account deficit narrowed to 2.8% of GDP.

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%. The budget deficit (on an accrual basis, excluding grants) is expected to only improve slightly to stand at 6.0% of GDP, i.e. 0.3 percentage point less than in 2009, due to the high level of planned public investment spending. Lastly, the current account deficit is expected to deteriorate, to reach 5.8% of GDP (compared with 3.3% in 2009), due to the increase in imports of intermediate and capital goods required for the implementation of infrastructure projects in member countries.

<sup>3</sup> See July 2010 update of World Economic Outlook.