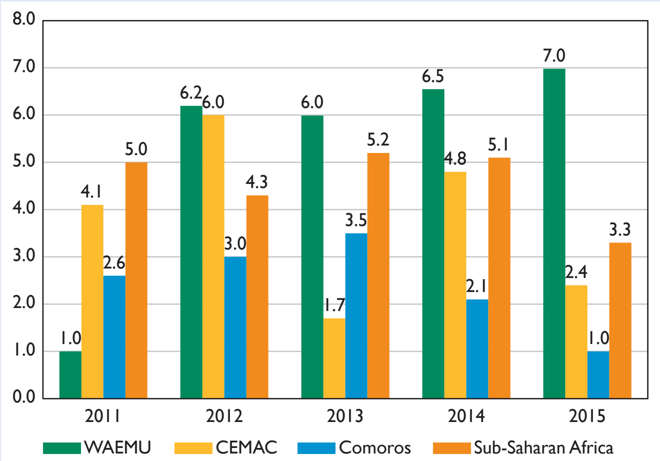
OVERVIEW

According to statistics from the IMF, economic growth in Sub-Saharan Africa (SSA) shrank from 5.1% in 2014 to 3.3% in 2015, or to its lowest level since 1999. This decline can be attributed to the lacklustre international environment, a fall in commodity prices and adverse weather conditions, which revealed more fundamental weaknesses, suggesting a turnaround in the economic cycle.

Economic growth in the Franc Zone reached 4.8% in 2015 according to figures released by the Central Bank of West African States (BCEAO), the Bank of Central African States (BEAC) and the Comoros Central Bank, i.e. above the growth rate for Sub-Saharan Africa. This was achieved by means of a countercyclical economic policy in the Central African Economic and Monetary Community (CEMAC) and West African Economic and Monetary Union (WAEMU) which helped to underpin domestic demand to the detriment of the fiscal balance and at the cost of an increase in sovereign debt.

Change in GDP

(real growth rate – %)



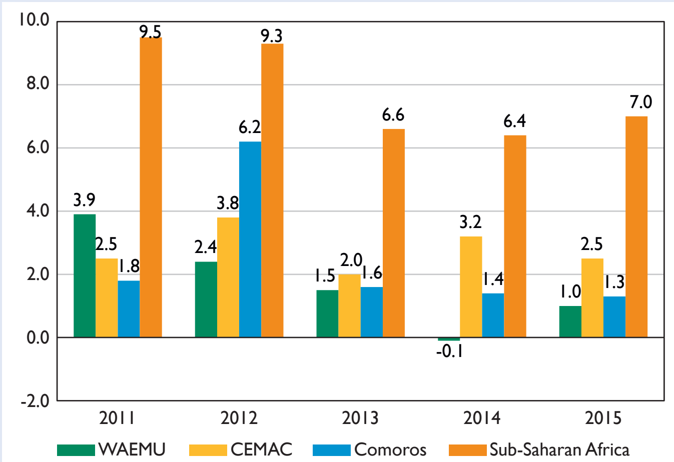
Sources: Central banks; IMF, World Economic Outlook, *July 2016.*

Due to large differences in their export structures, the economic performances of Franc Zone countries differed significantly, even though in all cases the fiscal balances have deteriorated. Economic growth in the WAEMU rose from 6.5% in 2014 to 7.0% in 2015, buoyed by the higher growth in Côte d'Ivoire (10.3% in 2015, up from 8.5% in 2014), Guinea-Bissau (4.8% from 2.7% in 2014) and Senegal (6.5%, after 4.3% in 2014) while it slowed or stalled in all the other countries, notably in the Sahel countries, which are experiencing serious security challenges. The strength of economic activity in the WAEMU can mainly be attributed to robust domestic demand, driven by ongoing public investment programmes. In the CEMAC, the collapse in oil prices and its impact on demand, coupled with the worsening of the security climate, particularly in the border area between Chad, Cameroon and the Central African Republic, generated a significant slowdown in economic growth (2.4% in 2015, after 4.8% in 2014). Only the Central African Republic, in a process of reconstruction, saw an improvement in growth from 0.7% in 2014 to 4.9% in 2015, yet its GDP remains a third lower than its pre-crisis level. Cameroon managed to maintain a growth of 6.9% due to its healthy agricultural and manufacturing sectors. In the Comoros, economic activity slowed further in 2015, with real GDP rising by 1.0%, after 2.1% in 2014. This slowdown reflects lasting problems with the electricity supply and delays in the public investment programme as a result of the government's fiscal difficulties.

The Franc Zone as a whole continued to achieve better results in terms of price stability than the rest of SSA where inflation reached 7% in 2015. Inflation in the WAEMU rose to 1%

Consumer prices

(year-on-year average change – %)



Sources: Central banks; IMF, World Economic Outlook, *July 2016.*

in 2015 from 0.1% in 2014 mainly due to higher price of local food, construction equipment and housing related services. In the CEMAC the average annual inflation decreased from 3.2% in 2014 to 2.5% in 2015. While lower fuel subsidies, particularly in Cameroon and Gabon, and the drop in agricultural supply created temporary inflationary pressures in the first half of 2015, inflation slowed at the end of the year due to weaker domestic demand. In the Comoros, inflation fell slightly from 1.4% in 2014 to 1.3% in 2015.

Public finances deteriorated across the whole Franc Zone. In the WAEMU, the budget deficit (on an accrual basis, excluding grants) stood at 6.5% of GDP in 2015 (against 5.9% in 2014). The widening of this deficit can be attributed in part to the rise in current expenditure (11.4%), to fund the government payroll, and more particularly to the increase in capital expenditure (15.5%) with greater public investment in infrastructure. The decline in oil revenues of over 40% in the CEMAC severely impacted the budget deficit (on an accrual basis, excluding grants) which rose from 1.8% of GDP in 2014 to 3.5% in 2015, despite lower public spending and, especially, reduced capital expenditure. In the Comoros, against the backdrop of an economic slowdown, the fiscal pressures, which have been strong in recent years, worsened throughout 2015. Indeed, the country only managed to avoid a build-up of payment arrears by one-off budget support from Saudi Arabia and the sale of a mobile telecommunications licence. The budget deficit (on an accrual basis, excluding grants) stabilised at 10.3% of GDP in 2015, after 10.5% in 2014.

In the CEMAC and in the WAEMU, the deterioration in public finances resulted in a rapid increase in sovereign debt, and particularly in internal debt, a corollary of the development of regional bond markets that have allowed savings and the excess liquidity in the banking system to be redirected towards government needs. While the debt sustainability analyses carried out by the IMF and the World Bank continue to show a low to moderate sovereign risk for WAEMU countries, they increasingly stress the need to increase domestic revenue and to improve the control and allocation of expenditures. In the CEMAC, according to the IMF and the World Bank, Cameroon, Chad and the Central African Republic present a high debt distress risk.

The monetary policy stance of the BCEAO remained unchanged throughout 2015, due to the fact that economic growth was strong and inflation remained well below the community standard of 3%. The accommodative stance of monetary policy of the BCEAO enabled commercial banks to refinance a very large share of their growing stock of government securities. **The BEAC adopted a more accommodative stance to dampen the impact of the exogenous shock affecting the countries by:** i) suspending the process of phasing out direct advances by central banks to government, ii) granting one-off advances to countries that have reached an agreement with the IMF (Chad and the Central African Republic), iii) cutting its key rates by 50 basis points in July 2015, iv) increasing bank's refinancing ceilings.

The decline in oil prices had a positive impact on the current account of the WAEMU and the Comoros but affected very negatively that of the CEMAC. The WAEMU's current account deficit narrowed from 5.2% of GDP in 2014 to 4.1% in 2015, due to the combination of export growth (driven by sales of cocoa, coffee, cashew nuts and gold) and a slight fall in imports thanks to the lower oil bill. Foreign exchange reserves nevertheless decreased and the external assets of the region were sufficient to cover 4.8 months of imported goods and services at end-2015, compared with 5.2 months one year earlier.

The current account deficit of the CEMAC worsened considerably, increasing from 4.1% of GDP in 2014 to 12.5% in 2015, due to the sharp decline in the trade surplus, with a fall of over 30% in income from oil exports, as well as a slight deterioration of the services balance. The external assets accumulated over the cycle of oil price rises started to be used and only stood at 4.0 months of imported goods and services at end-2015, compared with 5.2 months one year earlier. In the Comoros, the external position of the country improved significantly, with a current account surplus of 1.1% of GDP in 2015, compared with a deficit of 8.2% in 2014, thanks notably to the reduction in the oil bill. External assets were sufficient to cover 8.2 months of imported goods and services at end-2015, compared with 5.6 months one year earlier.

The ratio of external assets to money in circulation worsened in the WAEMU and especially in the CEMAC but remained, at end-2015, well above the 20% minimum threshold established in the framework of the Franc Zone agreements: 80.2% in the WAEMU (against 84.3% end-2014) and 77.1% in the CEMAC (against 89.8% end-2014). In the Comoros, this ratio improved, rising from 59.3% in 2014 to 69.8% in 2015.

Growth forecasts for SSA in 2016 were revised downwards sharply by the IMF in July 2016 due to the fact that commodity prices remained very low and further downward revisions were expected in the future. The IMF forecasts average growth of 1.6% in 2016, well below the population growth rate. Nigeria, the largest SSA economy, is expected to be in recession (–1.8%), whereas growth in South Africa should be almost flat (0.1%). Inflation growth observed in 2015 is expected to accelerate further in 2016 due to the rise in food prices caused by the serious drought in Southern Africa, as well as to the impact of currency depreciations in several countries; inflation should therefore stand at 9%.

While the Franc Zone should perform better overall than SSA, the divergence between growth rates in the WAEMU and the CEMAC is expected to increase in 2016. According to BCEAO forecasts for 2016, growth should accelerate slightly in the WAEMU to 7.1%. This outlook nevertheless remains subject to many downside risks: difficulties encountered in consolidating public finances, the deterioration in the security climate (in particular in the Sahel), uncertainties over developments in commodity prices exported by the countries in the Union, and the weaker outlook for the global economy. Inflation should remain low at 0.9%, against 1% in 2015. According to the BEAC, economic activity is expected to slow down in the CEMAC in 2016. Oil revenues and hence domestic demand should remain weak, while the countercyclical fiscal policies implemented by the countries in the area cannot continue to be pursued without jeopardising the sustainability of public debt. Growth is expected to come in at 1.7 %, or at a much lower rate than that of population growth. Inflation should rebound to stand at 3%. In the Comoros, the central bank is expecting GDP growth to increase to 3% in 2016, benefiting in particular from the improvement in the energy situation and the start of activities of the new telecommunications operator. Inflation should remain contained.

The very different outlook for Franc Zone countries should not mask the existence of a common challenge: laying the foundations for sustainable, endogenous growth. The sharp economic downturn in the CEMAC underscores the overreliance of the countries of the sub-region on oil prices. The WAEMU is now benefiting from a catch-up effect following the conflict in Côte d'Ivoire and from the implementation of major infrastructure construction projects, whose effectiveness, and in particular spillover effects on the private sector, as well as fiscal sustainability remain to be seen. For all Franc Zone countries as a whole, a strong and sustainable growth path requires structural reforms aimed at broadening the diversification of the economies and, at the same time, improve their competitiveness. The diversification of Franc Zone countries has been at a standstill for 20 years, and has even receded in some countries; the share of the industrial sector in Franc Zone economies has thus fallen overall. And yet, long-term economic growth depends on developing a sufficient number of different companies to take up the slack in the event of lasting fall in commodity prices or once the natural resources run out. While the public authorities have an essential role to play, the policies implemented must first and foremost encourage economic diversification driven by the private sector by offering incentives. The development of the financial sector can play a part in this process by promoting the channelling of resources to small and medium-sized enterprises. Franc Zone countries as a whole must shore up the competitiveness of their economies through a number of levers: developing regional infrastructures, reducing the costs of inputs such as transport or electricity, enhancing the business climate, improving health systems and education, to which a larger share of the population must have access in order for the countries to benefit from the rapid population growth. These structural reforms must be accompanied by greater efficiency in the management of public finances: mobilising tax revenues, channelling spending to long-term growth, and reducing the crowding-out effect on private investment.