PRESS RELEASE

2008 franc zone report

The 2008 annual report for the franc area 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 the franc zone countries during the year under review[1].

Against the very difficult international backdrop, the economies of the African franc zone countries showed remarkable resilience in 2008 and 2009. While the lack of contagion of the financial crisis can be attributed to low international exposure, the stability provided by the franc zone's mechanisms also played a role. This stability protected it, first and formost, from the inflationary effects of higher food and energy prices and, second, from foreign exchange crises.

In an unfavourable international environment, the franc zone's growth rate stabilised

Like in the previous year, the two main sub-regions of the franc zone put in a weaker performance than that of Sub-Saharan Africa.

However, whereas growth slowed in Sub-Saharan Africa, from 6.9 % to 5.5 %, it stabilised in the franc zone at 3.9%. This resilience to the crisis can be ascribed to the low international exposure of local financial systems, the strong improvement in terms of trade and good harvests.

(NB: the 2008 annual report contains, the summary, drafted by the BCEAO, of the report entitled "Impact de la crise financière sur les pays du groupe Afrique francophone au FMI et à la Banque mondiale")

In the WAEMU, economic activity was underpinned by good crop yields

In 2008, owing to the firmness of subsistence crop production, the WAEMU recorded growth of 3.8 %, after 3.1 % in 2007. Crop yields in 2008-2009 were aided by generally favourable climatic conditions as well as government measures aimed at enhancing agricultural supply in the wake of spiralling food prices. Nevertheless, given the reduction in planted areas and the difficulties experienced by certain industries, export crops showed diverging trends. Coffee, groundnut and cashew nut production increased, cocoa harvests plummeted and cotton harvests stagnated.

Growth slowed in the CAEMC, essentially due to the further decline in oil production

In 2008, GDP growth slowed in the CAEMC but remained relatively sustained (4 %, after 4.6 % in 2007). This development can be ascribed to the smaller decline in oil production (-1.2 %, after -4.4 % in 2007).

Growth was mainly driven by the non-oil sector, thanks to the robust performance of the manufacturing, public works and services (transport, telecommunications, etc.) sectors. CAEMC's reliance on the oil industry remained strong, with the latter representing 45 % of GDP, 85 % of exports and 73 % of tax

[1] The franc zone comprises, in addition to France, 15 African countries and one country in the Indian Ocean. 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 (CAEMC): Cameroon, Central Africa, Congo, Gabon, Equatorial Guinea and Chad. Lastly, 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.

revenues in 2008.

Growth fell significantly in the Comoros, affected by a political crisis and energy shortages.

In 2008, economic growth in the Comoros slowed further, with real GDP inching up by just 0.2 % (compared with 0.8 % in 2007). This can be attributed, in particular, to the chronic energy shortages that affect all economic sectors and a socio-political climate that has remained tense over the past months.

(NB: the 2008 annual report contains three boxes on the measures taken to deal with the financial crisis drafted by the BCEAO, the BEAC and the BCC respectively).

Inflation rose sharply but remains significantly lower than that of Sub-Saharan Africa.

The inflation rate increased in franc zone countries, thus reflecting their great vulnerability to the food price shock that occurred in the first half of 2008.

Nevertheless, this rise in inflation was mitigated by the exchange rate system and the euro peg, which explains why inflation was much lower in the franc zone than in Sub-Saharan Africa. The inflation differential between the two latter remains above 5 %. However, this differential widened with the euro area, causing the real exchange rate to appreciate.

The acceleration in inflation in the CAEMC (5.9 %, after 1.8 % in 2007) and the WAEMU (7.4 %, against 2.4 % in 2007) reflects the sharp rise in food prices and their weight in the index as well as the gradual pass-through of world oil price increases to domestic prices. In 2008, annual inflation trends in both sub-regions were characterised by a strong acceleration in the first months of the year: in year-on-year terms inflation peaked at 10.8 % at end-August in the WAEMU and 7.1 % at end-September in the CAEMC.

While public finances did not deteriorate, they remained fragile in the WAEMU; in the CAEMC, the situation is confortable thanks to oil revenues.

In the WAEMU, thanks mainly to enhanced tax recovery and a broadening of the tax base, the budget deficit (on an accrual basis, excluding grants) decreased slightly from 5.2 % in 2007 to 4.7 %. However, the fiscal position of several countries remains fragile and some countries continued to experience cash flow pressures, which led to the accumulation of further payment arrears.

Against the background of a sharp rise in oil revenues, the public finances of CAEMC countries generally further improved. The budget surplus (on an accrual basis, excluding grants) reached 11.5 % of GDP, compared with 8.2 % in 2007. In addition to debt reduction achieved under the HIPC and MDRI initiatives, the improvement in the public finances of most CAEMC countries enabled them to step up efforts to reduce payment arrears and domestic debt.

Monetary policy responses to economic turnarounds

In 2008, monetary policy was tight in both regions before being eased in response to the crisis in the first half of 2009.

In August 2008, the persistence of inflationary pressures in a context characterised by a rise in lending and money supply led the BCEAO to hike the repo rate by 50 basis points and the discount rate by 200 basis points. In June 2009, in view of the second round effects from the international crisis and a balance of risks pointing more to weaker growth than further upward pressure on prices, the BCEAO lowered its key rates by 50 basis points and, for the first time in four years, revised down minimum reserve ratios.

While the BEAC had left interest rates unchanged since its March 2006 cut, the Monetary Policy Committee, given the persistence of inflationary pressures, decided to raise them by 25 basis points in July 2008. Subsequently, the moderation of inflation expectations, together with the economic slowdown in the last quarter, prompted the BEAC to lower its interest rates in three stages (December 2008, March and July 2009) by a total of 125 basis points. Moreover, as part of an active excess liquidity management policy, the BEAC confirmed its decision of June 2007 to accept all amounts offered by banks in its liquidity absorbing operations and in July 2008 raised minimum reserve ratios

In the context of the global crisis, growth is expected to slow in 2009.

As regards 2009, franc zone countries will face an international environment deeply affected by the economic and financial crisis with a contraction in both economic activity and international trade. In this context, these countries should see a slowdown in growth that could be mitigated by a sustained rise in export commodity prices.

According to the BEAC, the CAEMC's economic activity is likely to be greatly impacted, with a growth rate of just over 2.0% in 2009. Nevertheless, the rise in oil prices as of the end of the first half of the year could result in an upward revision of these forecasts. As regards price developments, inflationary pressures are expected to persist with a 4.0 % increase in the consumer price index, compared with 5.9 % in 2008.

In the WAEMU, the spread of the crisis in member countries is also likely to affect the macroeconomic performances of the sub-region, which is expected to grow at around 3.0 %, but the outlook remains clouded by uncertainty. Given that price pressures have eased since September 2008, inflation could come out below 2.5 % both as an average and in year-on-year terms.

In the Comoros, forecasts for the economic growth in 2009 continue to point to very weak real GDP growth (1.1 %) mainly underpinned by subsistence farming, private construction and public works funded by loans. Inflationary expectations are expected to abate.

For an overview of the report, click on:
www.banque-france.fr/fr/eurosys/zonefr/page2.htm

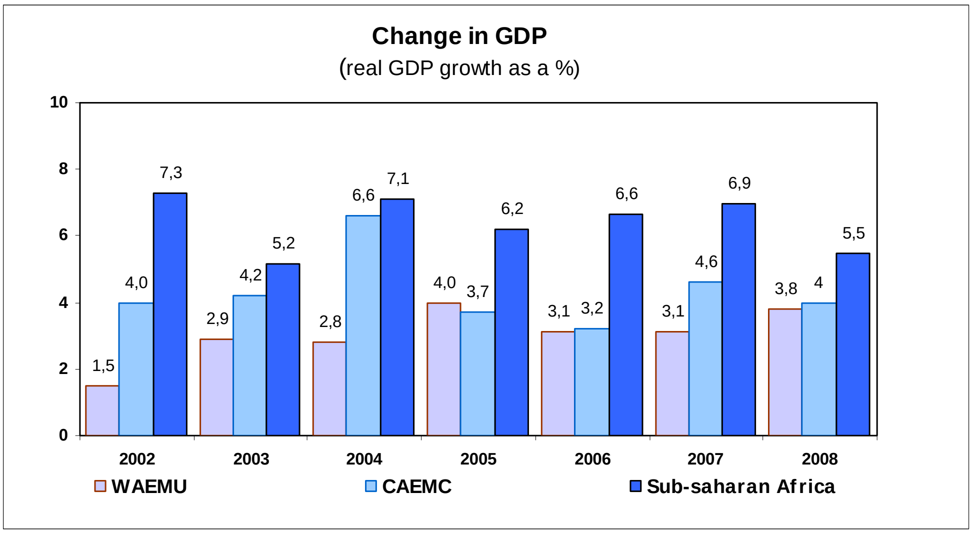
For further details:

Communication Directorate, Press Office (+0033 1 42 92 39 00).

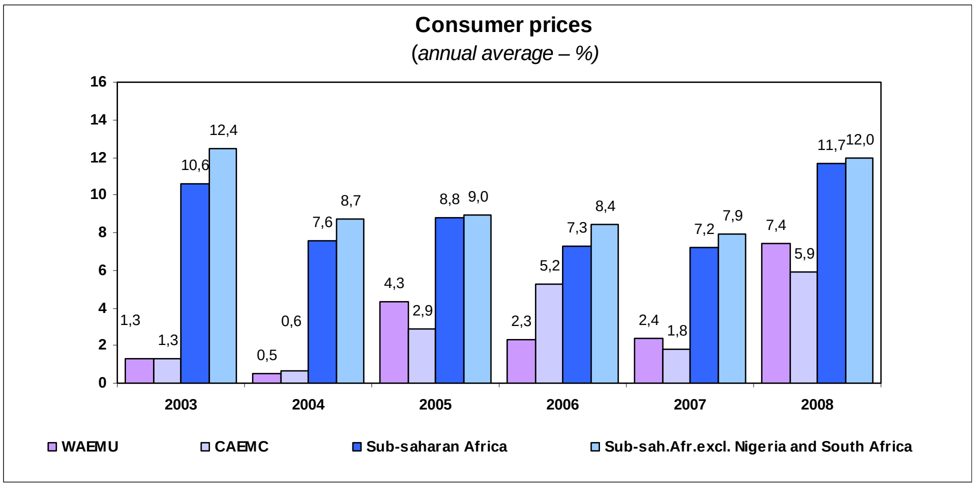
APPENDIX

Key economic indicators						*(%)*
	GDP growth (%)		Inflation (%) *		Fiscal position (% of GDP) **	
	2007	2008[(a)]	2007	2008[(a)]	2007	2008 [(a)]
WAEMU	3.1	3.8	2.4	7.4	– 2.4	– 2.0
CAEMC	4.6	4.0	1.8	5.9	8.8	12.0
Sub-Saharan Africa	6.9	5.5	7.2	11.7	1.0	2.1

* Change in consumer prices, as a yearly average
** On an accrual basis, incl. grants
[(a)] estimations
Sources: IMF Regional Economic Outlook April 2009, World Economic Outlook updated July 2009, BCEAO, BEAC



Sources: Central banks, IMF Regional Economic Outlook April 2009 updated July 2009



Sources: Central banks, IMF World Economic Outlook April 2009