OVERVIEW *

In 2011, economic activity remained sustained in most Franc Zone countries, in line with the strong growth (5.2%) seen in Sub-Saharan Africa (SSA). Franc Zone countries benefited in particular from continued high commodity prices and an improvement in the terms of trade. Central African Economic and Monetary Community (CEMAC) countries and the Comoros consolidated their growth (5.1% and 2.6% respectively), while growth in the West African Economic and Monetary Union (WAEMU) (0.6%) was greatly affected by the political crisis in Côte d'Ivoire and the resulting recession (- 4.7%).

Despite an increase in inflationary pressures compared with 2010, annual average inflation remained contained at 3.9% in the WAEMU, 2.7% in the CEMAC and 1.8% in the Comoros.

As a result of a significant increase in government spending, the fiscal deficit (on an accrual basis, excluding grants) widened in the WAEMU, whereas the boom in revenues observed in the CEMAC and, to a lesser extent, in the Comoros enabled them to shore up public finances.

Activity

Economic activity in WAEMU countries slowed down sharply in 2011, with the growth rate of real GDP at the regional level falling from 4.4% in 2010 to 0.6% one year later. This slowdown can chiefly be **ascribed to the post-electoral crisis in Côte d'Ivoire** where it resulted in a 4.7% decline in GDP and spilled over to the economies of other WAEMU countries, in particular the landlocked countries of the region (Burkina Faso, Mali and Niger). In Senegal, real GDP growth was limited to 2.6%, after 4.1% in 2010, due mainly to poor crop yields. In 2011, GDP growth was lower than in 2010 in most WAEMU countries, except Benin (3.1% against 2.6% in 2010), Guinea-Bissau (5.3% against 4.5%) and Togo (4.8% against 4.0%), thanks to robust subsistence crop production in these countries. In Sahelian countries, disappointing crop yields weighed on economic activity, but export crops were strong (mainly cotton), against the backdrop of high international prices.

*The full text of the 2011 Annual Report is only available in French. See www.banque-france.fr/fr/eurosys/zonefr/rapport-annuel-zone-franc.htm.

Key economic indicators

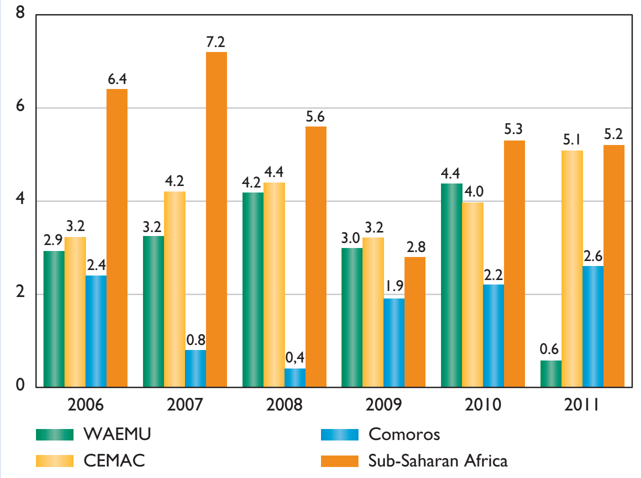
(%)

	Real GDP growth		Inflation (a)		Fiscal position (% of GDP) (b)	
	2010	2011 (c)	2010	2011 (c)	2010	2011 (c)
WAEMU	4.4	0.6	1.4	3.9	-5.4	-6.5
CEMAC	4.0	5.1	1.6	2.7	1.5	3.2
Comoros	2.2	2.6	3.8	1.8	-8.0	-6.3
Sub-Saharan Africa	5.3	5.2	7.4	8.2	-4.9 (d)	-2.4 (d)

(a) Change in consumer prices, as a yearly average
(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 2012, World Economic Outlook, updated July 2012) for Sub-Saharan Africa

Change in GDP

(real GDP growth - in percent)



Sources: Central Banks; IMF (World Economic Outlook, April 2012, updated July 2012)

In CEMAC countries, real GDP growth improved significantly, rising to 5.1% in 2011 after 4.0% in 2010. Thanks to the increase in foreign direct investment and the implementation of ambitious public investment programmes, in particular in infrastructure, growth was particularly robust in **Equatorial Guinea (7.7%), Gabon (6.8%), the Congo (5.8%) and Cameroon (4.7%).** The GDP of the non-oil sector increased by 5.9% in real terms, while the GDP of the oil sector remained stable in 2011 (after falling by 0.3% in 2010), with the rise in gas production being offset by a fall in crude oil production in volume terms.

In the Comoros, economic activity continued to recover with real GDP growing by 2.6%, after 2.2% in 2010. Economic growth was mainly underpinned by good crop yields and strong private sector domestic demand.

In Franc Zone countries as a whole, the increase in the level of potential growth nevertheless remains hampered by a number of factors, notably stubborn difficulties in certain agricultural sectors, the underdevelopment of financial sectors and inadequate infrastructure, in particular in energy production.

INFLATION

In 2011, there was a strong renewal of inflationary pressures in most Franc Zone countries.

In WAEMU, the rise in the general level of prices stood at 3.9% as an annual average in 2011, compared with 1.4 % in 2010. This increase stems from higher local and imported food prices and greater difficulties in supplying local markets with consumer products, due to the crisis in Côte d'Ivoire. Inflation nevertheless eased in the last quarter of 2011, to stand at 2.5% year-on-year at end-December.

In the CEMAC, annual average inflation rose sharply to 2.7%, after 1.6% in 2010. Inflationary pressures were more marked in the second half of the year: year-on-year inflation stood at 3.9% at end-December 2011. They were particularly strong in Cameroon, the Congo, Gabon and Equatorial Guinea, due to robust domestic demand.

In the Comoros, the increase in the general level of prices slowed, with the average annual inflation rate falling from 3.8% in 2010 to 1.8% in 2011, owing to the improved supply of subsistence crops.

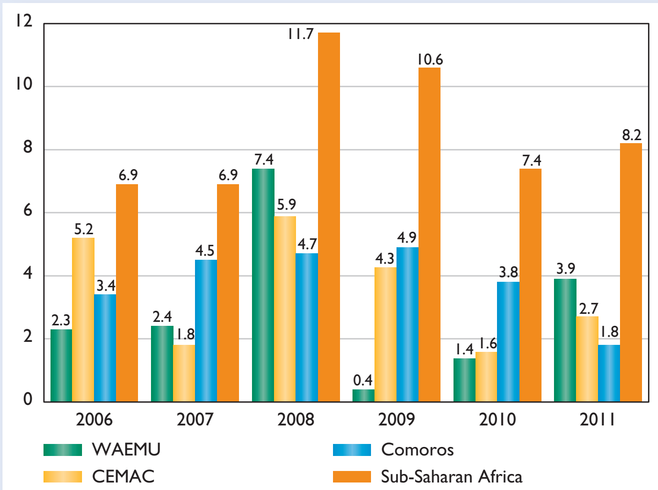
Thanks to the stabilising effects of the euro peg, the Franc Zone continued to achieve better results in terms of fighting inflation than the rest of SSA. In 2011, the inflation differential between SSA (8.2%) and the Franc Zone stood at 4.3 percentage points in favour the WAEMU and 5.5 percentage points in favour of the CEMAC. **The Franc Zone countries have an excellent long-term record of price stability:** between 2001 and 2011, the average annual inflation rate stood at **2.8% in the WAEMU** and **3.3% in CEMAC countries,** compared with 9.7% for SSA as a whole. The nominal pegging of the CFA and Comorian francs to the euro helps to contain the cost of their imports from the rest of the world.

MONETARY POLICY

Since the adjustments made in 2009 to address the crisis, the monetary policies of Franc Zone central banks remain accommodative. Nevertheless, to date, the easing of credit

Consumer prices

(annual average - in percent)



Sources: Central Banks; IMF(World Economic Outlook, April 2012, updated July 2012) institutions' refinancing conditions has only had a limited impact due to the banking system's overall excess liquidity.

For its part, the BCEAO continued its weekly liquidity-providing operations and organised fixed-rate tenders with full allotment at a maturity of one month. The Monetary Policy Committee of the BCEAO also decided in June 2012 to cut its key rates by 25 basis points, which had remained unchanged since June 2009, to take account of the slowdown in inflation observed since the last quarter of 2011.

In Central Africa, after lowering its key rates by 150 basis points between 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 central bank is closely monitoring the renewed inflationary pressures observed since the second half of 2011 given that the rise the index remains over the 3% target.

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 twice the amount of reserve requirements and 100% of this amount in the WAEMU. **This situation calls for increased vigilance in the context of the recent rise in inflationary pressures.**

PUBLIC FINANCES

A salient feature of 2011 was the significant difference in budget balance developments between CEMAC and WAEMU countries. In the WAEMU, the fiscal deficit widened, limiting the leeway that is essential in the event of an economic downturn. In the CEMAC, however, the budget surplus was consolidated.

In the WAEMU, the only moderate rise in revenues (3.0%) together with a pronounced increase in government spending (8.0%), in particular current spending (10.6%), resulted in a worsening of the fiscal deficit. The overall budget deficit (on an accrual basis excluding grants) widened to 6.5% of GDP in 2011, compared with 5.4% the previous year.

Thanks to the sharp rise in oil revenues (26.0%), the CEMAC consolidated its budget surplus (on an accrual basis excl. grants), which rose from 1.5% of GDP in 2010 to 3.2% in 2011. This was achieved despite the sharp increase in government spending (12.7%), and in particular investment spending (17.8%).

In the Comoros, the underlying budget deficit stood at 2.2% of GDP in 2010, compared with a surplus of 1.1% of GDP in 2011, thanks to the sharp increase in revenues (20.5%), owing to exceptional transactions. Government expenditure, for its part, rose by 7%.

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 advances, to be followed by a steady reduction over ten years of the advances to governments, as of 31 December 2012.

Overall, the fiscal consolidation efforts undertaken must be resolutely pursued in order to ensure a return to balanced public finances and the leeway essential to implementing contracyclical policies in the event of a further external shock. In this respect, better containing current spending via, in particular, the reduction in subsidies to the energy sector (electricity, oil products)**, will be crucial to restoring public finances to balance in the medium term and safeguarding priority investment spending.** The recent and partial shift in fiscal spending to bolster investment remains the best way to ensure a sustained increase in growth potential in the Franc Zone.

Structural reforms (privatisations, transparency in the management 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. These reforms nevertheless were, on the whole, still too slow in 2011, despite the general consensus on the need to improve the business environment in order to encourage local and foreign investors and enhance the Franc Zone's global ranking.

External accounts

The marked improvement in the terms of trade was beneficial to CEMAC and WAEMU countries. This was particularly the case for Central African countries, given the sustained increase in oil prices. In WAEMU, a net importer of oil products, the negative impact of higher hydrocarbon prices was offset by the rise in the price of the main agricultural export products (cotton in particular) and some minerals (notably gold), leading to a slight improvement in the terms of trade.

In the WAEMU, the current account deficit narrowed from 4.9% of GDP in 2010 to 2.1% in 2011, thanks largely to the fact that it recorded a trade surplus. The import bill stabilised due mainly to the slowdown in economic activity in Côte d'Ivoire, while sales of the main export products, of mining and agricultural origin, significantly improved.

In the CEMAC, the current account deficit, which emerged in 2009, contracted slightly in 2011, to stand at 4.4% of GDP in 2011, against 4.8% in 2010. Oil and gas exports were particularly robust (up 20.5% and 39% respectively), due, in large part, to higher prices. This led to a further rise in the trade surplus, which was partly offset by the decline in the services and income balances, driven by the boom in the oil sector.

In the Comoros, 2011 was characterised by a deterioration in the current account deficit from 7.4% in 2010 to 9.4% of GDP, due to the widening of the trade deficit.

Overall, thanks mainly to higher foreign direct investment flows, the balance of payments positions of the WAEMU, the CEMAC and the Comoros continued to record substantial surpluses, contributing to consolidating official foreign exchange reserves. The reserves of central banks of Franc Zone countries represented around five months of imports of goods and services in the WAEMU and the CEMAC and six and a half months in the Comoros at end-December 2011. The ratio of money in circulation to external assets largely exceeded the minimum threshold (20%) established in the framework of the Franc Zone agreements and stood at 109.1% in the WAEMU, 98.7% in the CEMAC and 94.5% in the Comoros.

Current account balance

	Current account balance (% of GDP)		Change in the terms of trade (%)	
	2010	2011 (a)	2010	2011 (a)
WAEMU	- 4.9	- 2.1	- 4.5 (b)	+ 1.3 (b)
CEMAC	- 4.8	- 4.4	+ 27.2	+ 17.9
Comoros	- 7.4	- 9.4	+ 5.5	- 5.2
Sub-Saharan Africa (b)	- 2.3	- 1.0	+ 10.5	+ 8.8

(a) : Provisional figures
Changes in the terms of trade: (+) = improvement
Sources: Central Banks, (b) IMF

Outlook

In an uncertain environment, characterised by high commodity price volatility and doubts surrounding economic and financial developments in industrialised countries, the Franc Zone mechanisms continued to play an essential stabilising role and act as a financial safety net. Indeed, the requirement to repatriate export revenues and the pooling of foreign exchange reserves help to bolster the credibility and stability of the exchange rate regime. The euro peg, implemented via the monetary cooperation arrangements with France, contributes to the strong price stability record. Franc Zone institutions also provide a favourable framework for regional integration and economic development.

In 2012, global growth is expected to slow; according to the IMF,[1] it should stand at 3.5% after 3.9% in 2011. In emerging and developing countries, growth is slated to reach 5.6%, after 6.2% a year earlier, while it should remain strong in SSA at 5.4%, against 5.2% in 2011. In industrialised economies, growth is likely to be lower than in 2011, with real GDP growth of 1.4 %, after 1.6% the previous year.

Ongoing high commodity prices, in particular oil, should enable Franc Zone countries to achieve growth similar to that of the African continent.

In the WAEMU, growth should rebound sharply in 2012. Real GDP should rise to 5.3%, thanks

1 World Economic Outlook (updated July 2012).

to the strong recovery expected in Côte d'Ivoire (8.0%) and Niger (11.3%). These forecasts are nevertheless subject to uncertainty, due to developments in the political crisis in Mali and climatic factors in Sahelian countries. In the other countries, economic activity should benefit from the strong expansion of the mining and agricultural sectors. The budget deficit (on an accrual basis, excluding grants) is expected to increase to stand at 7.2% of GDP, mainly due to the rise in current expenditure. The current account deficit should reach 4.1% of GDP, compared with 2.1% in 2011, due to the higher import bill. Lastly, inflationary pressures are expected to ease considerably in 2012, with annual inflation set to average 2.5 %, after 3.9% in 2011.

CEMAC countries should see a further acceleration in economic growth, with an expected rise in real GDP of 5.7% in 2012, after 5.1% in 2011. Growth is likely to be mainly driven by the hydrocarbon sector, which should benefit from a recovery in oil production, in particular in the Cameroon, Gabon and Equatorial Guinea. The non-oil sector is expected to grow less rapidly than in 2011, due to the slowdown in secondary and tertiary sectors. The current account deficit should shrink to 3.0% of GDP after 4.4% in 2011. The fiscal surplus (on an accrual basis, excluding grants) should increase from 3.2% of GDP in 2011 to 4.4% in 2012, thanks in particular to the further rise in oil-related revenues. The average annual Inflation rate is expected to stand at 3.2% (compared with 2.7% in 2011), due to buoyant domestic demand.

In the Comoros, real GDP growth should come out at around 2.5% in 2012, close to the level observed in 2011 (2.6%), thanks notably to the strength of the agricultural sector.