

OVERVIEW

Against the backdrop of a global economic recovery, in 2010 sub-Saharan Africa returned to its pre-crisis sustained growth rate. With growth of 5.1%, Sub-Saharan economies were among the most dynamic worldwide, thanks in particular to the increase in commodity prices.

Key economic indicators

(%)

	Real GDP growth		Inflation (a) *		Fiscal position (% of GDP) (b)	
	2009	2010 (c)	2009	2010 (c)	2009	2010 (c)
WAEMU	3.0	4.3	0.4	1.4	-2.7	-3.0
CEMAC	1.8	4.3	4.2	1.5	1.0	6.0
Sub-Saharan Africa	2.8	5.1	10.5	7.5	-5.7	-4.2

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

(b) On a commitment basis, including grants

(c) Provisional figures

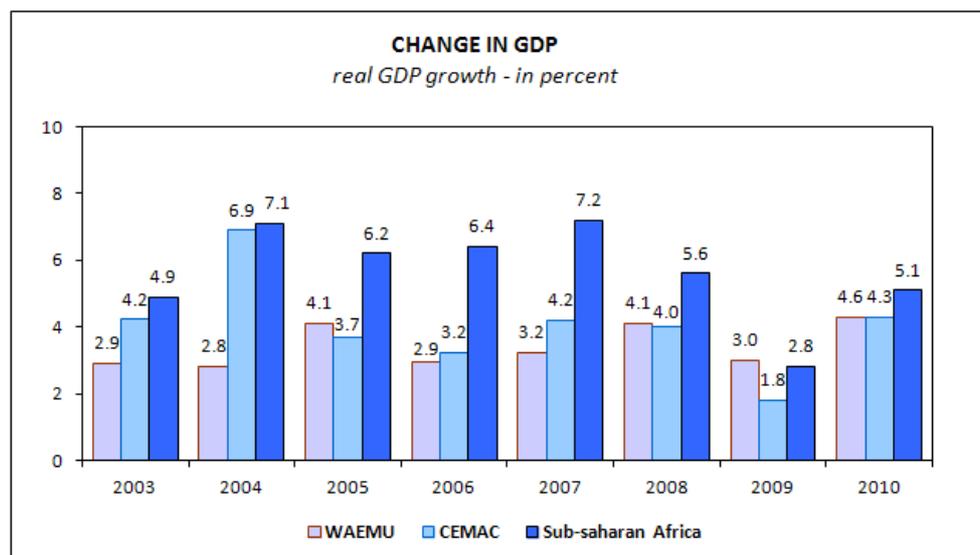
Sources: BCEAO, BEAC, IMF (Regional Economic Outlooks, April 2011, World Economic Outlook, updated July 2011)

ACTIVITY

Displaying identical trends to those observed in other countries of Sub-Saharan Africa (SSA), franc zone countries benefited from the world economic recovery, thanks to the rise in global demand and trade volumes and the improvement in the terms of trade, which was more significant for CEMAC countries than WAEMU countries.

In this context, franc zone countries recorded solid growth in 2010. This was notably the case for Niger (8.0%), Burkina Faso (7.9%) and Mali (5.8%) in the WAEMU, and Chad (15.5%), the Congo (9.5%) and Gabon (6.6%) in the CEMAC.

At the regional level, while the growth rate stood at 4.3% in the two sub-areas, it accelerated more strongly in the CEMAC (from 1.8% in 2009) than in the WAEMU (from 3.0% in 2009).



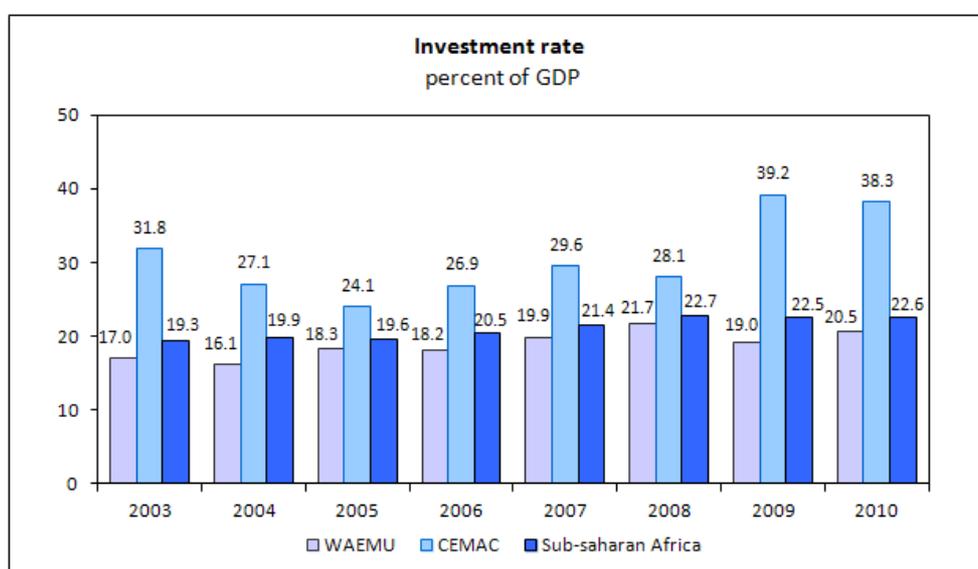
Sources : Central Banks , IMF Regional Economic Outlook April 2011 updated July 2011

In the CEMAC region, the acceleration in economic growth, which rose from 1.8% in 2009 to 4.3% in 2010, can be attributed to both the strength of the oil sector, thanks to a slight increase in oil production (up 1%), and above all to the robustness of the non-oil sector, underpinned by vigorous private and public investment. Non-oil sector growth reached 4.5% in real terms, after 2.4% in 2009.

The CEMAC's investment rate remained high at 38.3% of GDP, after 39.2% in 2009. In addition to the implementation, in most countries, of public investment programmes focusing on the rehabilitation and development of basic infrastructures, this high investment rate also reflects the continued strength of private investment, in particular in the oil sector (exploration and development).

In West Africa, the further increase in economic growth (4.3% after 3.0% in 2009) can mainly be ascribed to the good performance of agricultural sectors, both subsistence farming and cash crops, including cotton, in most countries. Activity was also supported by ongoing public investment drives in infrastructures. By contrast, extractive industries nevertheless displayed mixed trends: while, overall, gold and uranium production were up sharply, buoyed by high international prices, oil and natural gas extraction in Côte d'Ivoire declined substantially.

All economies, with the exception of Benin and Côte d'Ivoire, experienced stronger growth. In Benin, the slowdown in growth can be explained by the decline in subsistence farming, mainly affected by flooding, and lower government investment. As regards Côte d'Ivoire, which accounts for 35% of the sub-region's GDP, the slump in oil production and the political upheavals that affected economic activity at the end of the year weighed on growth, which stood at 2.4% in real terms, after 3.8 % in 2009.



Sources : Central Banks , IMF World Economic Outlook April 2011

In the Comoros, economic growth rebounded slightly, with a 2.2% rise in real GDP growth, after 1.9% in 2009. This rebound was also driven by stronger crop production and the robustness of the public works sector, against the backdrop of the sharp rise in external funding obtained from the main creditors.

In franc zone countries as a whole, the sustained increase in the level of potential growth nevertheless remains constrained 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. In West Africa, the Regional Initiative for Sustainable Energy (IREC), presented by the BCEAO in Part 4 of this year's Annual Report, sets out to remove the main obstacles to the sub-region's energy supply.

INFLATION

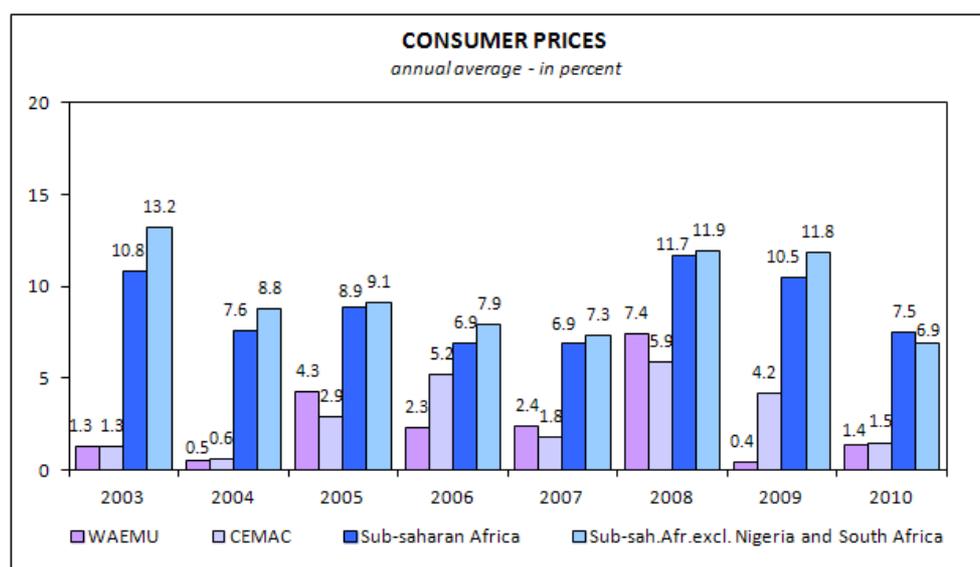
In 2010, price developments remained moderate in most franc zone countries, mainly due to abundant crop production. A slight increase in inflationary pressures, affecting in particular the CEMAC, was nevertheless observed in the second half of the year, owing to higher food and energy import prices.

In West Africa, the rise in the general level of prices stood at 1.4% as an annual average, after 0.4% in 2009, remaining below the maximum community level of 3%. This slight resurgence in inflationary pressures is mainly due to the rise in the price of imported food products and fuel in most countries.

In the CEMAC, CPI inflation slowed markedly in 2010 to 1.5%, after 4.2% in 2009. This mainly stems from domestic factors, linked notably to the improved supply of subsistence crops.

In the Comoros, inflationary pressures receded somewhat, due to the fall, in annual average terms, in the price of imported food and petroleum products. The average annual inflation rate declined from 4.9 % in 2009 to 3.8 %.

In 2010, thanks to the stabilising effects of the exchange-rate system and the euro peg, the franc zone continued to achieve better results in terms of fighting inflation than Sub-Saharan Africa (7.5%). The inflation differential between SSA and the franc zone stood at over 6.1 percentage points in favour the WAEMU and 6 percentage points in favour of the CEMAC. **The franc zone countries have an excellent long-term record of keeping inflation under control:** between 2004 and 2010, the average annual inflation rate stood at 2.7 % in the WAEMU and 3.2% in CEMAC countries, compared with 8.6 % for the whole of Sub-Saharan Africa. 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.



Sources : Central banks , IMF World Economic Outlook April 2011 updated July 2011

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

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 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, as of the second half of 2009, fixed-rate tenders with full allotment at a maturity of one month. Its main policy rates, cut by 50 basis points in June 2009, have remained unchanged since then.

In Central Africa, after lowering its key rates by 150 basis points between 2008 and July 2010 to counter 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 rise in inflationary pressures that has been observed since end-2010.

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 100% of this amount in the WAEMU. **This calls for increased vigilance in the recent context of heightened inflationary pressures.** Thus, the BEAC continued to accept at its counters all bank placements in the framework of liquidity-absorbing operations, whereas the BCEAO strived to improve the functioning of the interbank market, notably by harmonising minimum reserve ratios since end-2010.

In the Comoros, money supply grew strongly by over 19%, reflecting the rapid growth in domestic credit and *the rise in net capital inflows*. As a result, monetary policy was tightened, bringing *minimum reserve requirements to 30% in July 2010*.

PUBLIC FINANCES

A salient feature of 2010 was the improvement in the budget balances of most member countries. This allows them to increase their leeway, which is essential in the event of an economic downturn.

In the WAEMU, the moderate increase in public expenditures and the improvement in tax revenues brought down the deficit (on a commitment basis excluding grants) from 6.7% of GDP in 2009 to 5.6% in 2010.

In the CEMAC, the sharp rise in oil revenues together with restrained fiscal spending allowed countries to consolidate their public finances. Following the emergence in 2009 of a fiscal deficit (on a commitment basis, excluding grants) of 0.6% of GDP, largely due to the implementation of public investment projects, 2010 saw a return to positive territory with a surplus of 1.7% of GDP.

In the Comoros, the fiscal deficit (on a commitment basis, excluding grants) narrowed from 9.2% of GDP in 2009 to 7.7% in 2010. This slight improvement reflects above all a satisfactory increase in fiscal revenues and relatively stable public spending, against a favourable backdrop marked by a strong rise in foreign grants.

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 government. 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 they start to issue debt on the regional market

All in all, while the fiscal consolidation efforts undertaken must ensure a return to balanced public finances and sufficient leeway to implement contracyclical policies in the event of external shocks, caution is required when employing such strategies in order to avoid constraining growth and to safeguard priority investment spending. In this respect, 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 and ongoing economic convergence in the medium- to long-term. Overall, the regional convergence process is insufficient in the franc zone despite the encouraging results seen in 2010: four countries Benin, Gabon, Mali and Niger met the four first-level criteria ¹ at end-2010, compared with just two in 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 2010, 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 foreign direct investment and to enhance the franc zone's position in the global arena.

EXTERNAL ACCOUNTS

Current account balance				
	Current account balance (% of GDP)		Change in the terms of trade (%)	
	2009	2010 (a)	2009	2010 (a)
WAEMU	-3.7	-3.9	14.0 (b)	+7.2 (b)
CEMAC	-6.9	-4.7	-34.5	+30.0
Sub-Saharan Africa (b)	-2.4	-2.4	-3.9	+7.3

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

The 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 the

¹ Fiscal position, inflation rate, debt outstanding as a percentage of GDP, change in payment arrears.

WAEMU, a net importer of oil products, the negative impact of higher hydrocarbon prices was offset by the appreciation of the main agricultural export products and some minerals, leading to a slight improvement in the terms of trade.

In the CEMAC, the current account deficit, which emerged in 2009, contracted significantly in 2010, from 6.4% to 4.7% of GDP. Oil exports increased by a substantial 37.6% due, in large part, to price increases. This resulted in a remarkable rise in the trade surplus.

In the WAEMU, the current account deficit widened slightly from 3.7% of GDP in 2009 to 3.9% in 2010, mainly as a result of higher energy costs and the rise in the balance of services deficit.

In Comoros, 2010 was characterised by a deterioration in the current account deficit from 7.9% to 9.9% of GDP, due to the widening of the trade deficit.

On account of the rise in foreign direct investment flows and the impact of debt cancellation under HIPC and MDRI initiatives, the balance of payments positions of the CEMAC, the WAEMU and the Comoros continued to show substantial surpluses, thus contributing to consolidating official foreign exchange reserves. The reserves of central banks of franc zone countries represented around six months of imports of goods and services in the WAEMU and the Comoros and 5.4 months in the CEMAC at end-2010. 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 112.9% in the WAEMU, 100.2% in the CEMAC and 98.3% in the Comoros.

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. 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 2011, global growth is expected to slow and should stand at 4.3% according to the IMF², after 5.1% in 2010. In emerging and developing countries growth is slated to reach 6.6%, after 7.4% a year earlier, while it should remain strong in SSA at 5.5%. A more marked slowdown is expected in advanced countries, where real GDP growth should come to 2.2%, compared with 3.0% the previous year.

Underpinned by higher commodity prices, in particular oil, the franc zone growth path should be similar to that of the African continent.

In the CEMAC, growth in extractive industries should remain solid, in the case of both the

² See World Economic Outlook (updated July 2011).

hydrocarbons sector, notably in the Congo and Equatorial Guinea, and the mining sector (manganese, gold, diamonds, etc.). Thanks also to the strength of the non-oil sector, underpinned by a high investment rate, real GDP growth should stand at around 5.2% in 2011 according to BEAC forecasts. This acceleration in economic growth should result in a net increase in the budget surplus (on a commitment basis excl. grants), which is expected to reach over 8% of GDP in 2011, while the current account should record a slight surplus (0.4% of GDP). While upward pressure on prices remain contained, they are likely to strengthen, with inflation reaching 2.1% over the year.

In the WAEMU, however, growth is expected to slow down. Real GDP growth is forecast to be just 1.0%, i.e. 3.3 percentage points down on 2010. This deceleration appears mainly attributable to the impact of the crisis in Côte d'Ivoire, which affected all the country's economic sectors and should result in negative growth of 6.3%, according to BCEAO forecasts. In other countries, growth, despite being affected by the Côte d'Ivoire crisis to varying degrees, should remain strong thanks to ongoing agricultural development initiatives, notably in subsistence farming, to the strength of the extractive sector and the boom in the services sector. The budget deficit (on a commitment basis, excluding grants) is expected to widen to 6.7% of GDP, mainly due to the rise in current expenditure. The current account deficit should reach 5.7% of GDP, compared with 3.9% in 2010, due to the higher import bill. Lastly, heightened inflationary pressures are expected in 2011, with annual inflation set to average 3.5%.

In the Comoros, real GDP growth should be slightly over 2%, driven by higher subsistence and cash crop production and stronger FDI inflows. The average annual inflation rate should reach 4%.