OVERVIEW

In 2013, the economic performances of Franc Zone countries were highly contrasted and, in both areas, below expectations. In line with the performances recorded by sub-Saharan Africa (5.4%), economic growth remained buoyant in WAEMU countries (5.5%), driven by the strong economic recovery in Côte d'Ivoire and Mali. Conversely, economic growth did not exceed 1.4% in CEMAC countries, mainly on account of a drop in oil production in most member countries and a fall in economic activity in Central Africa. In the Comoros, growth picked up slightly (3.5%).

Inflation declined throughout the Franc Zone, to stand at 1.5% in WAEMU and 2.0% in CEMAC, i.e. below the community ceilings of 3%, and at 1.6% in the Comoros. It remains significantly lower than in the rest of sub-Saharan Africa (6.3%).

In 2013, the fiscal balances (on an accrual basis, excluding grants) deteriorated in most Franc Zone countries, in particular in West Africa, due to an increase in public investment, and, to a lesser extent, in Central Africa, the decline in oil revenue having been largely offset by the slowdown in public investment.

As regards foreign trade, the current account deficit of CEMAC countries worsened from 3.2% to 6.5% in 2013, on the back of the decline in oil exports, while that of WAEMU countries, despite strong growth in imports, stabilised around 6.7% of GDP, thanks to an increase in foreign aid.

In 2014, economic growth of WAEMU countries is expected to gain further momentum to reach 6.6%, while economic activity in CEMAC countries should rise to 6.1%, due to the resumption of oil production. In the Comoros, growth is expected to stand at 3.9%.

Activity

Economic activity in WAEMU countries remained buoyant in 2013, with real GDP growth standing at 5.5%, after 6.3% in 2012.

This sustained growth mainly reflects the robust growth in Côte d'Ivoire, where economic activity rose by 8.7%, pursuing its recovery in the wake of the crisis, and a rebound in growth in Guinea-Bissau and Mali. The economy benefited from good crop yields in 2013-2014 and their ripple effects on industrial and commercial activities, and from favorable developments in the construction and civil engineering sector, thanks to the increase in public infrastructure works. Economic activity continued to grow at a particularly strong pace in Benin (5.6%, after 5.4% in 2012) and Burkina Faso (6.6%, after 7.3%), while economic growth dipped slightly in Togo and Senegal, to stand at respectively 5.1% and 3.2% (against 5.8% and 3.4% in 2012) and, more significantly, in Niger (3.6%, after 11.2%), due to an overall decline in grain and uranium production.

In CEMAC countries, growth slowed sharply, with real GDP growth standing at just 1.4% in 2013, after 5.8% in 2012, due to a drop in activity in the oil sector and an overall decline in public investment, which dampened activity in the non-oil sector. This slowdown masks widely contrasted performances across CEMAC countries. As a result of a decline in oil production, economic growth slowed markedly in Chad, falling to 3.5%, and dropped by 7.9% in Equatorial Guinea. In Central Africa, the major political crisis and the armed conflicts that have shaken the country since end-2012 led to a deep recession, with economic growth shrinking by close

Key economic indicators

(%)

	Real GDP growth		Inflation a)		Fiscal position (% of GDP) b)	
	2012	2013 c)	2012	2013 c)	2012	2013 c)
WAEMU	6.3	5.5	2.4	1.5	-5.6	-6.7
CEMAC	5.8	1.4	3.8	2.0	-1.1	-1.9
Comoros	3.0	3.5	6.2	1.6	-5.5	-8.5
Sub-Saharan Africa	5.1	5.4	9.0	6.3	-3.1 d)	-6.0 d)

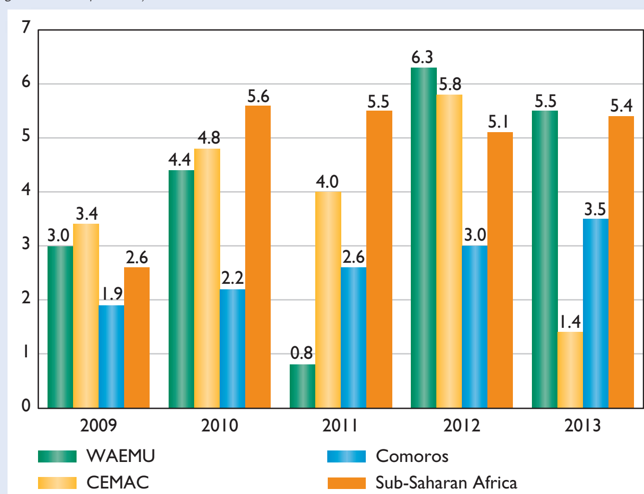
a) Change in consumer prices, on a yearly average basis.
b) On an accrual basis, excluding grants.
c) Provisional figures.
d) Overall fiscal balance, excluding grants (source: IMF).
Sources: BCEAO, BEAC, BCC, IMF (Regional Economic Outlook, April 2014, World Economic Outlook, updated July 2014) for sub-Saharan Africa.

to 38% in one year. Conversely, the economic performances of the other member countries remained favourable: economic growth rose to 5.3% in Cameroon and 5.6% in Gabon, while it stabilised at 3.9% in Congo.

In the Comoros, economic growth picked up slightly, with real GDP growth climbing to 3.5%, after 3.0% in 2012. Growth was mainly driven by strong private domestic demand and major public investments aimed, in particular, at improving the country's transport and energy infrastructures.

Change in GDP

(real GDP growth – in percent)



Sources: Central Banks; IMF (World Economic Outlook, April 2014, updated July 2014).

For the Franc Zone countries taken as a whole, **long-lasting improvements in their pace of economic growth are still being hampered by structural weaknesses, notably a relatively undiversified economic activity and an insufficiently attractive business environment.** The industrial and service sectors must take over from the mining, logging and agro-industrial sectors in order to reduce the Franc Zone's vulnerability to commodity price volatility and to enable it to cope with the gradual depletion of non-renewable natural resources.

The business environment should be improved by the authorities' focus on public investment programmes, in particular in energy and transport infrastructures, which represent major bottlenecks for economic activity in many countries. Speeding up structural reforms (managing public finances more efficiently and transparently, privatisations, improving the judicial system, regulating the financial system, ensuring the sustainable management of natural resources, improving health and education systems and strengthening social safety nets, etc.) is also crucial to increase the Franc Zone's growth potential, and hence its attractiveness to international investors. A major objective of these reforms is to create the conditions for a more inclusive economic growth with a high employment content (including formal employment), and therefore likely to reduce unemployment and underemployment, which are particularly high among young adults.

MONETARY POLICY

Since the adjustments made in 2009 in response to the crisis, **the monetary policies pursued by the central banks of Franc Zone countries have remained accommodative, as part of the objective of maintaining the currency's external stability.**

However, the easing of credit institutions' refinancing conditions has so far only had a limited effect on interest rates in the real economy due to the sluggishness of interbank markets, partly caused by the banking systems' overall excess liquidity, particularly in CEMAC. This excess liquidity, present in a number of African countries, reflects the structural constraints that weigh both on the supply and the demand for private sector credit.

The uncertainties linked to the assessment of clients' creditworthiness and to an often relatively unfavourable legal environment, are conducive to low-risk investments in bank portfolios. The banking systems' excess liquidity is evidenced by the persistence of substantial excess reserves, which represent more than 166% of reserve requirements in CEMAC and 82% in WAEMU.

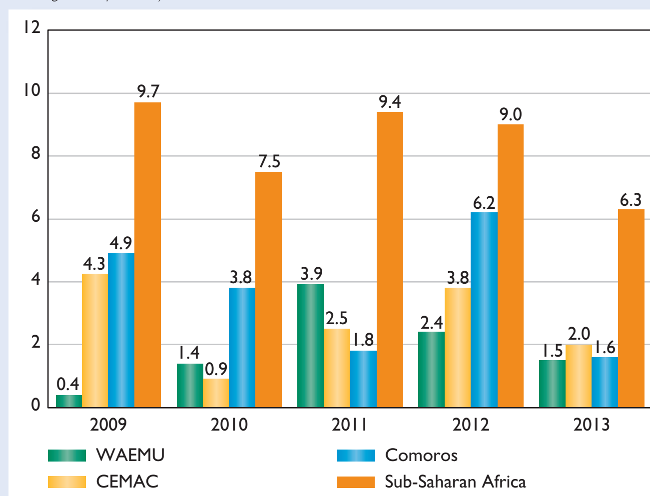
However, **WAEMU countries** recorded a steady decline in banking system liquidity net of central bank refinancing, which was in deficit in 2013, but this decrease masks large disparities across banks and member countries. It reflects the negative impact of

autonomous factors on banks' cash holdings, in particular an increase in currency circulation and net bank transfers outside WAEMU. In this context, the BCEAO raised the volume of its liquidity injections by close to 50% in 2013. The Monetary Policy Committee (MPC) of the BCEAO also lowered its main key rates twice, in March and September 2013, to take account of the slowdown in inflation. The central bank's tender rate thus returned to 2.50%, following a cumulative decline of 50 basis points.

In CEMAC countries, against a backdrop of lower inflation observed since the last quarter of 2012, the MPC of the BEAC cut its main key rate by 50 basis points to 3.50% in July 2013, then to 3.25% on 31 October. On 8 July 2014, key rates were again lowered by 30 basis points. The main key rate of the BEAC now stands at 2.95%, but liquidity injections are still very limited.

Consumer prices

(annual average – in percent)



Sources: Central Banks; IMF(World Economic Outlook, April 2014).

The ratios of currency in circulation to foreign exchange reserves, which is an intermediate objective of monetary policy, remained well above the minimum threshold established under the Franc Zone agreements (20.0%). They stood at 90.4% in WAEMU, 97.9% in CEMAC and 88.3% in the Comoros. These rates are a guarantee of the external stability of the CFA and Comorian francs.

Inflation

The year 2013 was characterised by slower price increases in the three areas within the Franc Zone, and more generally in sub-Saharan Africa, in a context of stable or falling commodity prices, in particular food prices, heightened by an appreciation in effective exchange rates.

In WAEMU countries, the average annual growth of consumer prices returned to 1.5% in 2013 from 2.4% in 2012. In addition to external factors, this easing of inflationary pressures is also due to the decline in local foodstuff prices as a result of the rise in grain production in 2012-2013.

In CEMAC countries, inflation declined, with the annual average growth of consumer prices falling from 3.8% in 2012 to 2.0% in 2013, below the community ceiling of 3.0%. This deceleration reflects the slowdown in domestic demand, in particular public investment, as well as satisfactory harvests. Price moderation was also driven by the steps taken, notably in Cameroon and Gabon, to deal with the high cost of living.

In the Comoros, consumer price inflation fell sharply, shrinking from 6.2% in 2012 to 1.6% in 2013. This drop in inflation resulted from a decrease in imported commodity prices, heightened by an appreciation of the Comorian franc against the dollar, but also from an improvement in local foodstuff production.

Thanks to the stabilising effects of the euro peg, the Franc Zone continued to record better results in terms of fighting inflation than the rest of sub-Saharan Africa. In 2013, the inflation differential between sub-Saharan Africa (6.3%) and the Franc Zone stood at 4.8 percentage points in favour of WAEMU and 4.3 points in favour of CEMAC.

The Franc Zone countries have an excellent long-term record of price stability: between 2003 and 2013, the annual inflation rate averaged 2.5% in WAEMU and CEMAC, against 8.7% in sub-Saharan Africa. The nominal pegging of the CFA and Comorian francs to the euro helps to contain inflationary pressures, notably by curbing the cost of imports from the rest of the world.

PUBLIC FINANCES

The year 2013 was characterised by a worsening of fiscal balances in most Franc Zone countries. In West Africa, this deterioration stems essentially from governments' focus on speeding up public investment programmes, while in CEMAC, the drop in oil revenues, resulting from the decline in production, was partially offset by a slowdown in public investment.

In WAEMU countries, the budget outturn was marked by an increase in fiscal revenues (up 7.0% compared to 2012), but lower than that of expenditure (13.0%), with capital expenditure posting a sharp rise (40.6%), in a context of well-contained current expenditure. The budget deficit (on an accrual basis excluding grants) widened from 5.6% of GDP in 2012 to 6.7% in 2013.

In CEMAC countries, the budget deficit (on an accrual basis, including grants) worsened slightly from 0.7% of GDP in 2012 to 1.0% in 2013, while the deficit excluding grants stabilised at 1% of GDP. The fall in fiscal revenues caused by the decline in oil revenues (down by 9.2%) and public grants (down by over 45%), was largely offset by a decrease of over 10% in public investment, in particular in infrastructure.

In the Comoros, the year 2013 was marked by a significant increase in the budget deficit, from 5.6% of GDP in 2012 to 8.6% in 2013. The drop in fiscal revenues (–18.6%), boosted by a number of exceptional operations in 2012, was more pronounced than that in expenditure (–2.0%), which was somewhat dampened by a sharp rise in capital expenditure.

Overall, the widening of deficits calls for greater fiscal consolidation efforts to constitute the leeway needed to implement contracyclical policies in the event of a further external shock. In this respect, while shifting fiscal spending towards investment can contribute to achieving a long-term increase in the Franc Zone's growth potential, it must go hand in hand with an improvement in tax revenue mobilisation, which remains low in many countries, and greater control, or in some cases a reassessment, of the least productive sources of current spending, in particular energy subsidies. The return on public investment programmes also depends to a large extent on how projects are selected and managed and on the efficient coordination of national, and even regional, authorities to ensure their speedy implementation.

The monetary authorities of WAEMU countries and, since 2013, those of CEMAC countries have set about eliminating all direct advances of central banks to the governments, which has resulted in the gradual development of regional public debt markets. This transition to market financing, mainly through regional banking systems, is a genuine opportunity for developing and integrating the financial sector at the regional level and for modernising the operational framework of monetary policies. **However, the development of regional financial markets, together with the further regional integration of banking systems, in particular the holding of government securities by non-resident institutions, carries growing risks of financial contagion within the monetary unions, which should be carefully monitored.**

EXTERNAL ACCOUNTS

In a context of stable or falling prices for major export commodities, the year 2013 was marked by a worsening of current account deficits in CEMAC and in the Comoros and a stabilisation of that in WAEMU, which benefited from large government transfers.

In WAEMU, the current account deficit stabilised at around 6.7% of GDP in 2013. This stability masks a deterioration in the trade deficit as a result of a sharp increase in the oil bill and in the cost of capital goods needed for carrying out public investments, offset by a significant improvement in the current transfers surplus thanks to a pronounced rise in

Current account balance

	Current account balance (% of GDP)		Change in the terms of trade (%)	
	2012	2013 a)	2012	2013 a)
WAEMU	-6.6	-6.7	-2.8	-2.2
CEMAC	-3.2	-6.5	3.6	-2.0
Comoros	-7.2	-10.7	9.1	-20.7
Sub-Saharan Africa	-2.7	-3.8	-1.5	-2.7

a) Provisional figures.
Changes in the terms of trade: (+) = improvement.
Sources: Central Banks, IMF (for sub-Saharan Africa).

official transfers, mostly towards Mali. The current account deficit excluding official transfers widened from 7.7% of GDP in 2012 to 9.5% in 2013.

In CEMAC, the current account deficit, which appeared in 2009, widened significantly in 2013, from 3.2% of GDP in 2012 to 6.5%. The trade surplus deteriorated, mainly on account of a decrease in oil exports, while imports edged down due to the slowdown in public investment.

In the Comoros, the current account deficit rose from 7.2% of GDP in 2012 to 10.7% in 2013, mainly due to a marked drop in official current transfers, following the exceptionally high levels observed in 2012.

The balance of payments positions of the CEMAC countries and the Comoros, which had recorded a surplus in 2012, posted a deficit in 2013, resulting in a slight decrease in official foreign exchange reserves. In WAEMU countries, the overall balance also showed a slight deficit (–0.7% of GDP). **However, according to the IMF, the central bank reserves of the Franc Zone countries were still at satisfactory levels** and represented about 5 months of imports of goods and services in WAEMU, 5.5 months in CEMAC and 5.6 months in the Comoros at end-December 2013.

Within the European Union, euro area countries, and in particular France, are major trading and investment partners for the Franc Zone. Trade in goods and services with the euro area accounted for around 25% of foreign trade of WAEMU and CEMAC in 2013, trade with France representing respectively 8.0% and 10.0% of total trade.

INTEGRATION OF ECONOMIC AND MONETARY UNIONS

In order to complete the founding monetary unions of the Franc Zone, UEMOA and CEMAC were set up in the 1990s so as to achieve, via the creation of unified sub-regional economic areas based on the progressive construction of a single market, greater convergence of economic policies and harmonised legal environments.

Thanks to the economies of scale generated by the single market and to heightened competition, these gradual processes are likely to bring about substantial growth gains in Central Africa, as in West Africa, of around 1 to 2%.[1] Since 2012, strengthening the integration of the economic and monetary unions has become a key issue on the agenda of the meetings of the Ministers and Governors of the Franc Zone, in particular as regards infrastructure, agricultural policies, and trade.

With a view to ensuring the economic convergence of member countries, multilateral surveillance frameworks have been set up under the Convergence, Stability, Growth and Solidarity Pact implemented since 1999 in WAEMU and since 2001 in CEMAC. In order to improve their efficiency and adjust them to the changing macroeconomic conditions in both areas, the draft reforms of these frameworks were discussed at the meetings of the Finance Ministers of the Franc Zone on 2 and 3 October 2014.

In line with these priorities, and to ensure the coordinated management of risks associated with the deepening of regional integration, strengthening institutions and regional financial solidarity is crucial for promoting sustainable development and economic cohesion in the two economic and monetary unions.

OUTLOOK

In an international environment marked by a slower and weaker recovery than expected, characterised by a high degree of uncertainty about economic and financial developments and the growth potential in developed countries, as well as in emerging countries, and by significant risks of financial instability, the mechanisms of the Franc Zone not only play an essential stabilising role but also constitute a financial safety net. The euro peg, under the monetary cooperation agreements with France, has contributed to the area's good record in terms of currency and price stability. **In this context, respect of the Franc Zone's rules, in particular regarding the pooling of foreign exchange reserves at the Franc Zone issuing banks, remains an essential factor.**

According to the IMF,[2] the international environment in 2014 should be marked by a slight acceleration in global economic growth,

1 *Report* "Évaluation des gains attendus de l'intégration économique régionale dans les pays africains de la Zone franc", *FERDI, August 2012.*
2 *See World Economic Outlook – Update July 2014.*

of around 3.4%, after 3.2% in 2013. Economic growth is expected to recover in developed countries, from 1.3% in 2013 to 1.8%, and stabilise at around 4.6% in emerging and developing countries. In sub-Saharan Africa, it should remain strong, reaching 5.4% in 2014, as in 2013.

In a context of more vigorous growth in international trade (4.0% in 2014) and thanks to favourable developments in mining and agriculture, the Franc Zone's economic performance is expected to surpass that of the African continent. Foreign trade of both WAEMU and CEMAC should be boosted by the Economic Partnership Agreements (EPAs) with the European Union, adopted in February 2014 in West Africa, and in the process of being finalised in Central Africa.

In WAEMU countries, economic growth is expected to rise, with real GDP growth climbing from 5.5% in 2013 to 6.6%. This acceleration shall be driven by a recovery in the primary sector and the buoyant growth in the secondary sector, in particular in construction and civil engineering, owing notably to public investment programmes. Against the backdrop of a moderate recovery in foodstuff production and lower food prices, inflation is expected to remain low, at around 1.3% in 2014.

In CEMAC countries, 2014 should be marked by a significant recovery in economic activity, with real GDP growth surging to 6.1% from 1.4% in 2013. This acceleration shall be driven by a rebound in oil production in most oil-producing countries, in particular Chad and Congo, and a more vigorous non-oil sector. Economic activity is expected to stabilise in the Central African Republic (0.4%), while the recession in Equatorial Guinea should ease considerably (–2.2%). In a context of increasing domestic demand, average annual inflation should rise to 3.0%.

In the Comoros, growth is expected to pick up slightly, with real GDP growth edging up to 3.9% from 3.5% in 2013. Public investment, coupled with large migrant remittances, should continue to support economic activity.