



PRESS RELEASE

2014 Franc zone report

Drawn up by the Secretariat of the Monetary Committee of the Franc zone, which is provided by the Banque de France, in close cooperation with the three African central banks¹, the newly published 2014 Annual Report for the Franc zone presents the main economic and financial developments in member countries during the year under review and the outlook for the current year.

Against the backdrop of a slow, fragile and patchwork recovery in global economic growth, franc zone countries performed reasonably well in 2014, even compared to the rest of sub-Saharan Africa (SSA).

The West African Economic and Monetary Union (WAEMU) recorded growth of 6.5%, up significantly on the previous year. Regional growth remained largely driven by that of Côte d'Ivoire, but also improved in most of the other countries of the Union, underpinned notably by huge public infrastructure investment projects that continued to boost domestic demand. Without any major climatic events in 2014, the agricultural sector performed particularly well and accounted for almost a third of the region's growth. However, the services sector was the main driver, accounting for over half the growth in 2014, buoyed by the strength of the market services sector. The secondary sector, shored up by ongoing infrastructure projects, also made a positive contribution to growth, despite the relatively sluggish extractive sector.

The Central African Economic and Monetary Community (CAEMC) saw a marked rebound in growth in 2014 (4.7%, after 1.7% in 2013). Despite the decline in oil revenues, consumption remained buoyant, driven by the rise in private and public sector wages. Cameroon and Chad were the main motors for economic activity in the region. These two economies proved particularly resilient to the oil counter-shock despite the growing insecurity at their borders with Nigeria and the Central African Republic (CAR). The CAR and Equatorial Guinea, hit in 2013 by violent external shocks (security crisis and severe slump in oil production respectively) returned to slightly positive growth in 2014.

In the Comoros, a slowdown in economic growth was observed, falling from 3.5% in 2013 to 2.1% in 2014. Economic activity nevertheless remained buoyant, underpinned by public investment that was mainly channelled into improving the country's transport infrastructures, and by private consumption, fuelled by migrant workers' remittances.

The Franc zone continued to achieve better results in terms of inflation than the rest of Sub-Saharan Africa.

The area has an excellent long-term inflation record: between 2004 and 2010, the average annual inflation rate stood at 2.4% in the WAEMU and 2.9% in CEMAC countries, compared with 8.4% in Sub-Saharan Africa as a whole.

With the slowdown in international food and fuel prices, **inflation in the WAEMU even fell slightly,** to stand at -0.1% on average in 2014. Stripping out the most volatile components of inflation (food and energy prices), underlying inflation dynamics nonetheless remained slightly positive in the sub-region as a whole.

In the CEMAC, 2014 was marked by a slight increase in inflation due to higher consumption: annual average

¹ The Central bank of Western African States (BCEAO), the Bank of Central African States (BEAC) and the Central Bank of the Comoros.

inflation stood at 3.2%, against 2.0% the previous year, in line with the objective to contain inflation. This trend, observed in all the countries in the region except for Cameroon and the Congo reflects, overall, the recovery in domestic demand.

Lastly, **in the Comoros, annual average inflation stood at 1.4%** in 2014, after 1.6% in 2013, thanks, like elsewhere, to the easing of pressures on global oil and food prices.

Since the adjustments made in 2009 to address the crisis, the monetary policies of Franc zone central banks remain relatively accommodative.

The Monetary Policy Committee of the **BCEAO** left its rates unchanged again, with the minimum bid rate remaining at 2.50% since September 2013.

After a 25 basis point cut in November 2013, the Monetary Policy Committee of the **BEAC** cut rates by a further 30 basis points on 8 July 2014, bringing the tender rate to 2.95% and the repo rate to 4.70%. In July 2015, against the backdrop of slowing economic activity, falling inflation and disappointing growth in lending to the economy, the BEAC cut its key rates by a further 50 basis points. Since then, the tender rate has stood at 2.45% and the repo rate at 4.20%.

At end-2014, the ratio of money in circulation to foreign exchange reserves, which constitutes an intermediate target for monetary policy in the franc zone, stood at 84% in the WAEMU, 89% in the CEMAC and 92% in the Comoros. Despite falling sharply over the past few years, these levels nevertheless remained largely above the minimum threshold (20%) established in the framework of the franc zone agreements and testify to the external stability of the CFA and Comorian francs.

The Franc zone continued to record persistent fiscal deficits in 2014

The public finance profile of the **WAEMU** was marked by a widening of the overall budget deficit (on an accrual basis, including grants) in 2014, in particular in Mali, Niger, Benin and Guinea Bissau. For the **WAEMU** as a whole, the deficit stood at 3.4% of GDP in 2014 after 3.1% in 2013. This partly reflects ongoing infrastructure investment programmes, in particular in Burkina Faso, Côte d'Ivoire, Mali and Niger, but also insufficient control over current expenditure.

Conversely, the public finances of **CEMAC** countries improved slightly, with the overall budget deficit (on an accrual basis, including grants) falling from 1.4% of GDP in 2013 to 1.0% in 2014. This can primarily be attributed to the decrease in budgetary expenditures, notably public investment, while the decline in total oil revenues, following the collapse in oil prices in the second half of the year, was largely offset by an increase in non-oil revenues.

Lastly, in the **Comoros**, the implementation of the budget in 2014 resulted in a further deterioration of the underlying budget balance stemming from an increase in total expenditure (8.4%), in particular in current expenditure, which was only partially offset by the rise in revenues.

Against the backdrop of slow, fragile and patchwork recovery in global economic growth, the growth forecasts for 2015 are mixed and the geopolitical risks remain high, but the mechanisms of the Franc zone play a key stabilising role

Growth forecasts in the **WAEMU** prepared by the BCEAO nevertheless generally remain favourable, with GDP growth projected at 6.7% in 2015, after 6.5% in 2014, underpinned by robust activity in all sectors.

However, owing to further falls in oil prices, the situation has become more complicated for **CEMAC oil exporting countries, except for the Central African Republic (CAR)**. The decline in oil revenues, on which a number of CEMAC countries are highly dependent, has a strong dampening effect on fiscal and external revenues that, once the reserves were depleted, forced them to radically reduce spending. According to BEAC forecasts, growth in economic activity is expected to slow down significantly in 2015, to 2.8%, after 4.7% in 2014. Moreover, the indirect effects of the deterioration of the terms of trade on the non-oil sector may be

underestimated given that CEMAC countries could be forced to further reduce budget spending, especially investment spending, thus contributing to a slowdown in domestic demand.

Furthermore, many downside risks to the outlook remain. Ongoing falls in commodity or oil prices, stemming from the protracted slowdown of advanced or large emerging countries, could weaken domestic demand and the external accounts of exporting countries. Tighter overall financing conditions due to the recovery in growth in advanced countries and the gradual normalisation of monetary policies will also affect the countries in the area that were able to take advantage of the favourable financing conditions on international markets. Finally, other sources of risk, including climatic and health risks, very high geopolitical risks in the Sahel region and risks related to the political transition in some countries, could also weigh on activity.

In the longer term, the resilience of Franc zone countries' growth to the terms-of-trade shock is contingent on continued strong, broad-based, sustainable and inclusive internal growth dynamics. While the improvement in fundamentals over the past decade has made it possible to ease the consequences of the terms-of-trade shock over the past two years, the protracted nature and increasing magnitude of this shock make it vital to step up the effectiveness of fiscal policies: better tax revenue mobilisation, optimisation of expenditure with a view to fostering long-term growth, in particular by prioritising human and physical capital formation, and reducing inefficient spending, notably fuel subsidies.

The diversification of Franc zone economies and their supply remains constrained by ingrained structural weaknesses that also call for a stepping-up of structural reforms to improve the business environment, make the legal and judicial system fairer and more efficient, enhance the regulation of the financial system, ensure the sustainable management of natural resources, and strengthen health and education systems and social safety nets. Lastly, these reforms must aim to lay the foundations for inclusive growth, i.e. more specifically a more job-rich growth, in particular in the formal economy. Such growth should make it possible to capitalise on demographic dynamics and reduce unemployment and underemployment, which are particularly high among young adults.

An overview of the report in English is available at:

https://www.banque-france.fr/fileadmin/user_upload/banque_de_france/Eurosysteme_et_international/zonefr/2014/ZF2014-EN-Overview.pdf

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ANNEX

Main economic indicators

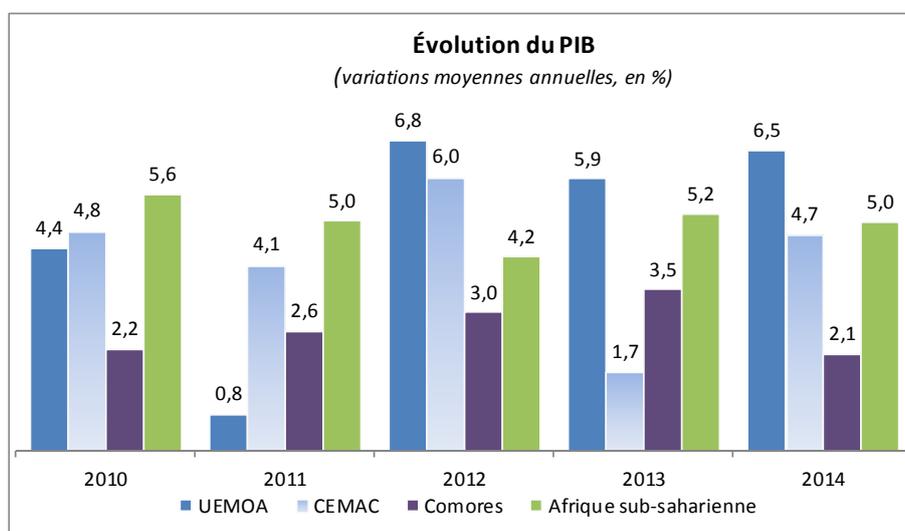
	Real GDP growth		Inflation ^{a)}		Fiscal position (% of GDP) ^{b)}	
	2013	2014 ^{c)}	2013	2014 ^{c)}	2013	2014 ^{c)}
WAEMU	5.9	6.5	1.5	- 0.1	- 3.1	- 3.4
CEMAC	1.7	4.7	2.0	3.2	- 1.4	- 1.0
Comoros	3.5	2.1	1.6	1.4	- 0.9	- 0.6
Sub-Saharan Africa	5.2	5.0	6.5	6.3	- 3.0	- 3.3

a) Change in consumer prices, on a yearly average basis.

b) Including grants.

c) Provisional data

Sources: BCEAO, BEAC, BCC, IMF (Regional Economic Outlook, April 2015, World Economic Outlook, updated July 2015) for Sub-Saharan Africa.



Sources : Banques centrales ; FMI (Perspectives de l'économie mondiale, juillet 2015)

GDP growth

(average annual change - %)

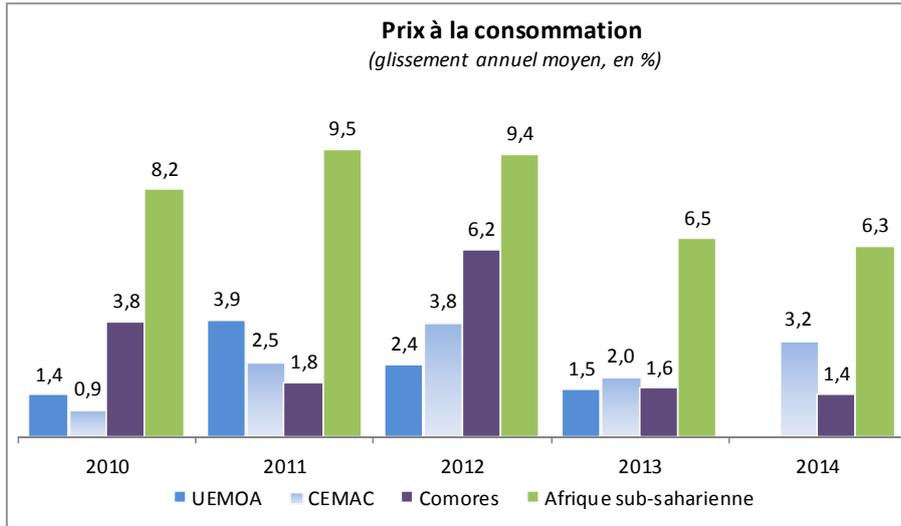
WAEMU

CEMAC

Comoros

Sub-Saharan Africa

Sources: Central banks; IMF (World Economic Outlook, July 2015)



Sources : Banques centrales ; FMI (Perspectives de l'économie mondiale, juillet 2015)

Consumer prices

(year-on-year change - %)

WAEMU

CEMAC

Comoros

Sub-Saharan Africa

Sources: Central banks; IMF (World Economic Outlook, July 2015).