

Press Release

2007 Franc Zone Report

The 2007 Annual Report for the franc zone 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 franc zone countries during the year under review¹.

In the context of a favourable international environment, the growth rate in the franc zone picked up slightly

In 2007, franc zone African countries as a whole saw a slight increase in their growth rate (3.5%, against 3.1% in 2006). The franc zone (and each one of its two main sub-regions) put in a weaker performance than that of Sub-Saharan Africa. The ongoing socio-political tensions in Côte d'Ivoire over the past seven years continue to affect the growth potential of the franc zone.

The performance of WAEMU countries was hampered by the decline in activity in certain agricultural and mining sectors

In 2007, economic growth in WAEMU countries stabilised at 3%, compared with 3.1% in 2006. The high level of oil prices (WAEMU is a net oil importer) and the difficulties in a number of agricultural sectors (cotton, groundnuts, etc.), as well as the difficult socio-political situation in some countries, continued to hamper growth. Activity was also affected by disruptions to the electricity supply and the decline in production in the mining sectors of a number of countries (gold in Mali, uranium in Niger and oil in Côte d'Ivoire). Economic growth nevertheless accelerated in Benin, thanks to the recovery in cotton production and in Senegal, to the upturn in phosphate industry in particular. The external accounts of WAEMU countries deteriorated: the current account deficit widened from 4.1% of GDP to 6.1% in 2007, and the trade balance moved from a surplus in 2006 to a deficit in 2007.

GDP growth recovered in CAEMC countries, mainly underpinned by the non-oil sector

Growth in CAEMC countries picked up (4.0%, compared with 3.1% in 2006) despite the further decline in oil production (-4.4%, after -3.9% in 2006). Equatorial Guinea remained the largest oil-producing country of the sub-region with an annual production of 17.5 million tonnes, ahead of Gabon (12.1), Congo (11.0), Chad (7.3) and Cameroon (4.3). Although economic growth in CAEMC countries was mainly underpinned by the non-oil sector, thanks to the strength of industrial activity and services (transport, telecommunications, etc.), CAEMC remained heavily reliant on the oil industry, which accounted for 42% of GDP, 79% of exports and 67% of budget receipts in 2007. As regards the external accounts, the current account deficit of CAEMC countries stood at 0.7% of GDP, compared with a surplus of 3.4% in 2006, which can largely be attributed to the fall in the trade surplus.

¹ The franc zone comprises 14 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 African Republic, Chad, Congo, Gabon and Equatorial Guinea. Lastly, the franc zone also includes the Comoros. The franc zone report is based on data collected from the three central banks and the two banking commissions of this zone.

(NB: the 2007 annual report contains two boxes on foreign direct investment in WAEMU and CAEMC drafted by the BCEAO and the BEAC respectively).

A significant slowdown in the Comoros, which were affected by a political and banking crisis

In 2007, the Comoros recorded a marked slowdown, with real GDP rising by only 0.8% (compared with 2.6% in 2006). This situation can be ascribed to the political crisis in Anjouan, which disrupted the international aid process, and the limitations on domestic loans extended by the only commercial bank in the country, following litigation.

Relatively moderate price developments in the franc zone

In WAEMU countries, inflation stabilised at 2.4%, after 2.3% in 2006. Following good harvests in 2006-2007, it slowed markedly in the first nine months of 2007. However, it then picked up in the last quarter due to rises in the price of certain imported food products. In CAEMC countries, inflation declined significantly, from 5.3% in 2006 to 1.6% in 2007. This stems mainly from the improved supply of cereals and subsistence crops, and the only partial pass-through of the strong rise in oil prices into domestic prices. In the Comoros, inflation increased to 4.5% in 2007, compared with 3.4% in 2006. These inflationary pressures can mainly be ascribed to the serious shortages of some commodities, in particular imported food products.

The inflation rate in the franc zone remained considerably lower than in the rest of Sub-Saharan Africa

In 2007, the franc zone continued to achieve better results in terms of fighting inflation (7.2%)² than Sub-Saharan Africa. The franc zone has an excellent long-term record of keeping inflation under control: from 1997 to 2007, the average annual inflation rate stood at 2.4% in WAEMU and 2.7% in CAEMC, compared with around 11% for Sub-Saharan Africa.

This lower inflation can primarily be attributed to the nominal pegging of the CFA and Comorian francs to the euro. Indeed, franc zone countries benefit from the low level of inflation in the euro area, which curbs the rise in the price of imports from this anchor area, and from the stability of their currency, which helps to contain the cost of their imports from the rest of the world. In recent years, given the depreciation of the dollar, this anchoring to the euro has contributed to dampening the inflationary impact of the sharp rise in oil and food prices.

(NB: the 2007 annual report contains a box on the impact of the rise in food prices on the franc zone)

The fiscal position remained fragile in WAEMU, and generally under control in CAEMC

In WAEMU countries, the government deficit declined slightly from 2.9% of GDP in 2006 to 2.0% in 2007. This improvement can be attributed to the ongoing improvements in the rate of tax recovery and the collection of exceptional receipts, which were nevertheless partially offset by a pronounced increase in public spending. Some countries continued to experience cash flow pressures, which led to the accumulation of further external payment arrears, in particular in Côte d'Ivoire, Guinea Bissau and Togo.

In a context characterised by lower oil revenues, public finances in CAEMC countries remained broadly

² Excluding Zimbabwe, which is experiencing hyperinflation.

under control. The general government surplus declined from 11.7% of GDP in 2006 to 9.0% in 2007.

In 2007 and 2008, the public finances of many franc zone countries were adversely affected by temporary measures taken to offset the rise in oil and food prices (subsidies, VAT exemptions, the lowering of customs duties, etc.).

On the whole, implementation of structural reforms remained slow

Structural reforms such as privatisations, transparency of public funds, restructuring of the banking system, sustainable management of natural resources, etc. are a means available to the authorities for strengthening the growth potential of their economies. Some countries have made progress in 2007 in terms of privatisation and restructuring of state-owned enterprises, as well as governance and fiscal transparency. But these reforms were still slow. And this, in spite of the general consensus on the need to improve the business environment in order to attract local and foreign investors, enhance the diversification of the productive base and boost the franc zone's ranking on the world stage (*see the study by the BEAC in this annual report: "Economic diversification in central Africa: overview and lessons learnt"*).

Debt relief and new borrowing

In 2006, six franc zone countries (Senegal, Niger, Mali, Benin, Burkina Faso and Cameroon) benefited from the Multilateral Debt Relief Initiative (MDRI) implemented by the G8 in 2005. Overall, debt relief under the MDRI and HIPC (Highly Indebted Poor Countries) Initiatives amounted to, for these six countries, around USD 18 billion (current dollars). These initiatives should make additional funds available in order to enable them to progress towards the Millennium Development Goals (MDGs), which moreover requires substantial investment outlays. These countries will have to show caution in managing their public finances and external accounts in order to avoid a new cycle of external borrowing.

Stronger growth is expected for 2008, in an environment of heightened inflationary pressures

In WAEMU countries, the renewal of relations with the international financial community by Côte d'Ivoire, Guinea Bissau and Togo suggest that growth should be stronger in 2008 than 2007. According to the BCEAO, growth is expected to rise moderately to stand at 4.2%. This outlook nevertheless remains subject to uncertainty, in particular, as to the impact of inflation on domestic consumption and public finances. Inflation could come out at 5.4% due to continued high oil prices and the rise in imported food prices.

According to the BEAC, economic activity in CAEMC countries should strengthen in 2008, with a growth rate of around 5.8%. Growth is expected to be underpinned by the further development of the oil sector and the continued robustness of the non-oil sector. Inflationary pressures are expected to increase significantly, with consumer price inflation reaching 4.2%, for reasons similar to those identified in WAEMU countries.

In the Comoros, economic growth forecasts for 2008 suggest that real GDP growth will remain weak (0.5%), due to the general shortages of energy products.

An overview of the report is available at:
www.banque-france.fr/fr/eurosys/zonefr/page2.htm

For further details:

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

APPENDIX³

Key economic indicators

(%)

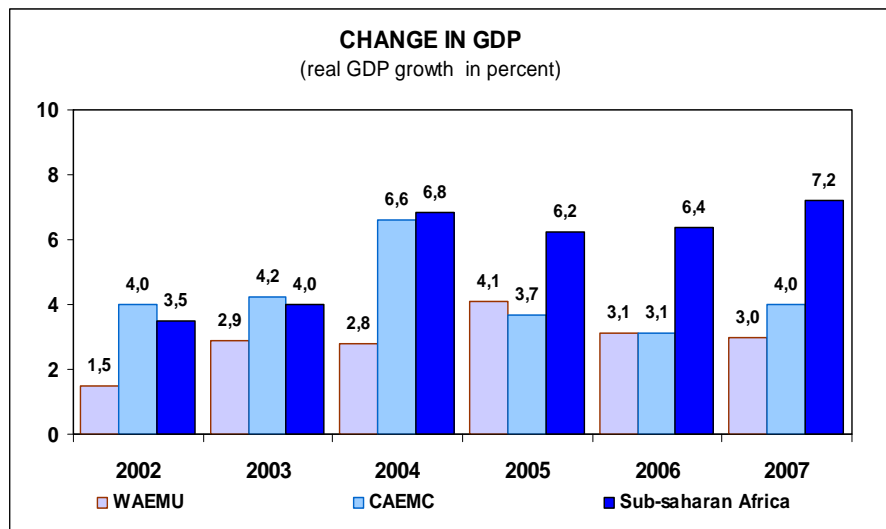
	GDP growth		Inflation*		Fiscal position (% of GDP) **	
	2006	2007 ^(a)	2006	2007 ^(a)	2006	2007 ^(a)
WAEMU	3.1	3.0	2.3	2.4	- 2.9	- 2.0
CAEMC	3.1	4.0	5.2	1.6	11.7	9.0
Sub-Saharan Africa	6.4	7.2	7.3	7.2	5.1	0.8

* Change in consumer prices, as a yearly average

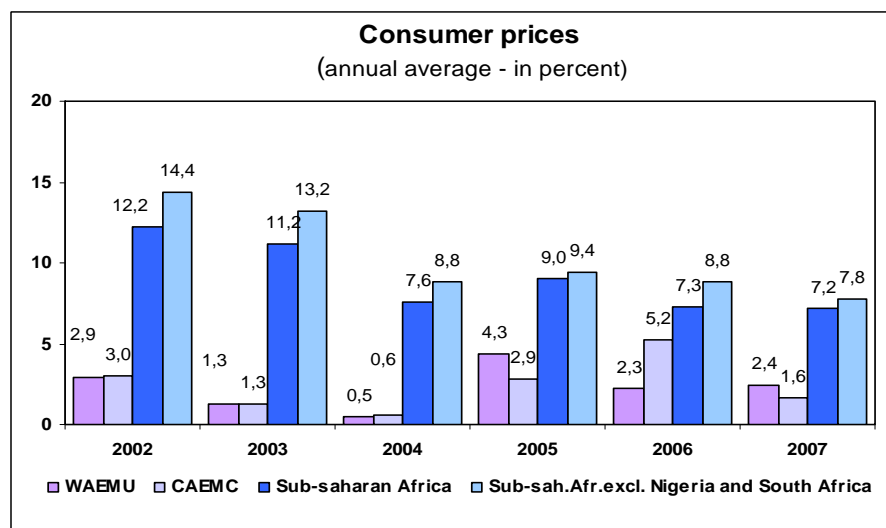
** On an accrual basis, incl. grants (excluding MDRI)

^(a) estimations

Sources: IMF, BCEAO, BEAC



Sources: Central banks, IMF



Sources : Central banks, IMF. SSA data excluding Zimbabwe.

³ Based on data available at end-July 2008 (sources: IMF, BCEAO, BEAC).