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# PRESS RELEASE

# 2006 Report for the Franc Area

The 2006 annual report for the Franc Area has just been published. Drawn up by the Secretariat of the Monetary Committee of the Franc Area, which is provided by the Banque de France, this report presents the economic and financial developments in the Franc Area countries during the year under review[1].

***Despite a favourable international environment, economic growth in Franc Area countries slowed***

In 2006, African Franc Area countries as a whole saw a slowdown in their growth rate (3.1% compared to 3.9% in 2005). The Franc Area as a whole (and each one of its two main sub-regions) put in a weaker performance than Sub-Saharan Africa, which recorded a 5.5% growth rate. The persisting socio-political uncertainty in Côte d'Ivoire over the past six years continued to affect the growth potential of the Franc Area.

***WAEMU performances were hampered by the situation in Côte d'Ivoire and the slowdown in Senegal***

In the WAEMU, the decline in the growth rate (from 4.1% in 2005 to 3.0% in 2006) can be attributed to a combination of factors: the delicate socio-political environment in certain countries, the high prices of oil (of which the WAEMU is a net importer) and the difficulties encountered by several agricultural sectors (cotton, cashew nuts, groundnuts), as well as disruptions in the supply of electricity and the serious problems in the chemicals and phosphates sectors in Senegal. Nevertheless, growth dynamics remained relatively sustained in Mali, Niger and Burkina Faso. The external accounts of the WAEMU improved: the current account deficit fell back to 4.2% of GDP and the trade balance posted a surplus mainly as a result of the rise in oil sales in Côte d'Ivoire. The current transfers surplus increased further on the back , in particular, of higher remittances from migrant workers.

***Growth slowed in the CAEMC on account of a fall in oil production***

The economic slowdown in CAEMC countries, with GDP growth sliding from 3.7% in 2005 to 3.2%, mainly reflects the fall in oil production, which was down by 3.9%. Equatorial Guinea remained the largest oil-producing country of the sub-region, with an annual production of 17.2 million tonnes, ahead of Congo (13.3), Gabon (11.9), Chad (7.9) and Cameroon (4.4). In 2006, the CAEMC's reliance on the oil industry increased further, with the latter accounting for 44% of GDP, 83% of exports and 71% of tax revenues. As regards the external accounts, the current account surplus of CAEMC countries posted a further rise in 2006 (1.6% of GDP compared with 1.3% in 2005) mainly as a result of the sharp rise in oil prices.

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[1] The Franc Area is composed of 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, Congo, Gabon, Equatorial Guinea and Chad. The Franc Area also includes the Comoros. The Franc Area report is drawn up on the basis of data gathered from the three Central Banks and the two banking Commissions of the area.

In 2006, economic growth in the Comoros recorded a slight decline (2.4% in 2006 compared with 2.8% in 2005) due to a fall in exports of the main cash-generating products and persisting socio-political uncertainty.

*(NB: The 2006 report contains a series of boxes, prepared by the three central banks of the Area, on the structural developments in foreign trade of the African Franc Area countries over the past 10 years.)*

***Inflation posted a significant decline in the WAEMU and a rise in the CAEMC***

In the WAEMU, prices posted an average increase of 2.3% compared with 4.3% in 2005. This slowdown is attributable to the rise in local crop and cereal production in 2005-2006; it was partly offset by the increase in the prices of fuel and transport. In the CAEMC, inflation rose to 5.3% from 2.9% in 2005. This increase resulted, to varying degrees depending on the country, from the rise in hydrocarbon prices and the insufficient supply of local crop and cereal. In addition, the monetary and fiscal environment (with ample bank liquidity and oil surpluses fuelling domestic demand) is conducive to the build-up of inflationary pressures. In the Comoros, the good performance of local crop production did not enable inflation to be reduced (3.4% in 2006, compared with 3.2% in 2005).

***The inflation rate in the Franc Area was still considerably lower than that of the rest of Sub-Saharan Africa***

In 2006, African Franc Area countries continued to post better results than Sub-Saharan Africa (11.8%). The Franc Area's performance in terms of inflation is well established: between 1997 and 2006, the average annual inflation rate stood at 2.3% in the WAEMU and 2.4% in CAEMC countries, compared with 12% for the whole of Sub-Saharan Africa.

This lower inflation can primarily be attributed to the nominal pegging of the CFA and Comorian francs to the euro. Franc Area countries thus 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, notably energy imports, from the rest of the world.

***A fiscal position still fragile in the WAEMU; an improvement largely ascribable to oil revenues in the CAEMC***

In the WAEMU, the government deficit dipped from 2.8% of GDP in 2005 to 2.5% in 2006. This reduction is due to enhanced tax recovery, albeit strongly offset by a pronounced increase in public spending, in particular (like in CAEMC) by often record levels of transfers/subsidies to sectors experiencing difficulties. Some countries continued to experience cash flow pressures, which led to the accumulation of further external payment arrears (Côte d'Ivoire, Guinea-Bissau, Togo).

The budget surplus of CAEMC countries increased further, jumping from 8.7% of GDP in 2005 to 11.7% in 2006. This improvement is chiefly due to the surge in oil revenues, which grew by 47.7%.

***On the whole, structural reforms were still slow***

Structural reforms (privatisations, transparency of public funds, restructuring of the banking system, sustainable management of natural resources, etc.) are a means for the authorities of strengthening the growth potential of the domestic economies. Despite the progress recorded in some sectors and some countries, these reforms were, on the whole, still slow in 2006, even though there is a general consensus on the need to improve the business environment in order to encourage local and foreign investors and to enhance the Franc Area's ranking on the global scene. In addition, despite a few advances, the regional integration and convergence process is still insufficient.

***Debt relief and further borrowing***

In 2006, six Franc Area countries (Senegal, Niger, Mali, Benin, Burkina Faso and Cameroon) benefited from the Multilateral Debt Relief Initiative (MDRI) decided by the G8 in 2005. This initiative should make additional funds available in order to enable them to progress towards the achievement of the Millenium Development Goals (MDGs), which 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 borrowing. Particular caution needs to be shown as regards bond issuance: the regional public debt market has been growing substantially and this may benefit the economy in many ways (*see, in part 4 of this report, the study* "*the development of public debt markets in Sub-Saharan Africa: the case of WAEMU*"); however, this development may be an incentive to conduct an expansionary fiscal policy and thus result in excess borrowing.

***In 2007, an improvement is expected both in terms of prices and growth***

According to the BCEAO, economic activity in the WAEMU should grow at a relatively moderate pace (4%). Several important sectors (cash crops, energy, chemicals) experience difficulties that weigh on the activity and need to undergo restructuring, sometimes already underway. Despite major advances, investors are still displaying a wait-and-see attitude on account of the socio-political situation in some countries.  Lastly, despite the drop in the price of cereals, the inflation rate could remain above 2%.

According to the BEAC, economic activity in CAEMC countries should expand significantly in 2007, with the growth rate coming close to 5%. Growth is expected to be mainly underpinned by the robustness of the non-oil sector. Inflationary pressures are expected to decline and the increase in consumer prices should reach 3.8%.

In the Comoros, the achievement of the forecasted 3% growth rate is conditional upon the easing of socio-political tensions and the resumption of relations with international financial institutions.

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

*For further information:*

Communication Directorate, Press Office (00 33 (0)1 42 92 39 00).

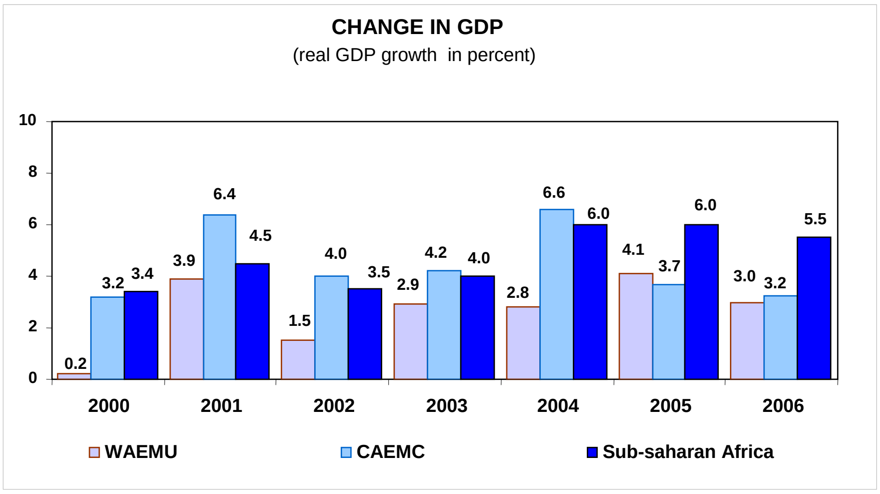
# *APPENDIX*[2]

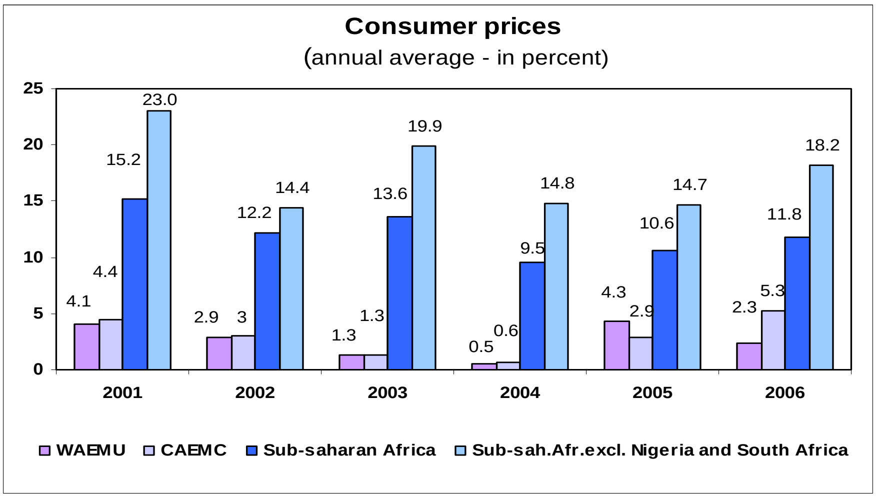
**Key economic indicators**

*(%)*

| | GDP growth (%) | | Inflation (%) * | | Fiscal position (% of GDP) ** | |
|---|---|---|---|---|---|---|
| | 2005 | 2006 | 2005 | 2006 | 2005 | 2006 |
| WAEMU | 4.1 | 3.0 | 4.3 | 2.3 | – 2.8 | – 2.5 |
| CAEMC | 3.7 | 3.2 | 2.9 | 5.3 | 8.8 | 11.7 |
| Sub-Saharan Africa | 6.0 | 5.5 | 10.6 | 11.8 | 1.5 | 4.1 |

* Change in consumer prices, as a yearly average
** On an accrual basis, including grants (but excluding MDRI)
Sources: IMF BCEAO, BEAC.




[2] On the basis of the latest data available at end-July 2007 (Sources : BCEAO, BEAC, IMF)