Economic growth in sub-Saharan Africa declined to 1.3% in 2016, the lowest rate seen in two decades and well below the pace of demographic growth. The aggregate slowdown nonetheless masks considerable heterogeneity across the region. The majority of oil-exporting nations slipped into recession, with resource-intensive countries in general experiencing a challenging year. In contrast, net oil importers and those less dependent on raw materials exports continued to grow at a sustained pace, in many cases buoyed by active public investment policies and robust private consumption.

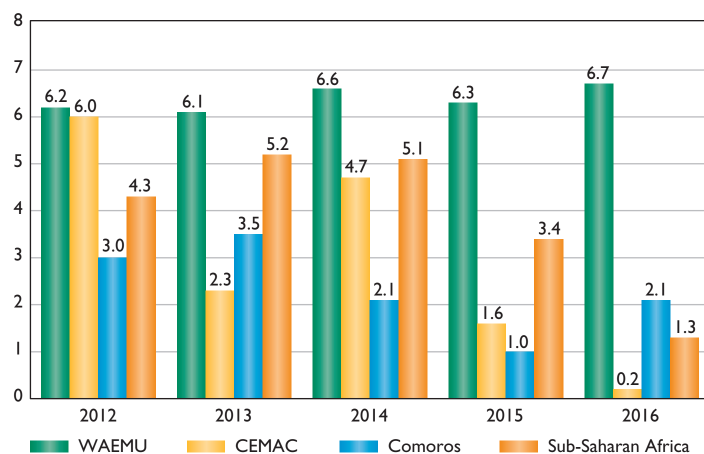
According to figures from the Central Bank of West African States (BCEAO), the Bank of Central African States (BEAC) and the Comoros Central Bank, economic growth in the Franc Zone stood at 3.6% in 2016, well above the rate for sub-Saharan Africa. Due to the marked differences in the structure of their exports, the West African Economic and Monetary Union (WAEMU) and the Central African Economic and Monetary Community (CEMAC) illustrate the contrasting performances between sub-Saharan countries. **In the CEMAC, for the second year running, economic activity was severely affected by low hydrocarbon prices, and by mediocre performances in the non-oil sector** which was broadly hit by the decline in domestic demand. Ongoing security tensions, particularly in the border area between Chad, Cameroon and the Central African Republic, also weighed heavily on the economic environment, As a result, growth in the sub-region slowed to 0.2% over the year, down from 1.6% in 2015. The Central African Republic, which is in the process of reconstruction, and Cameroon, which has the biggest productive base in the CEMAC, both posted the highest rates of growth, at 5.1% and 4.7% respectively. In contrast, Equatorial Guinea remained stuck in recession, while the economic downturn also spread to the Republic of Congo and Chad. **In the WAEMU, economic growth picked up pace in 2016,** rising to an average of 6.7%, compared with 6.3% in 2015. Economic activity continued to be underpinned by strong domestic consumption (household and government consumption) and by continued large public investment programmes, which notably boosted construction and transport. As in 2015, the Côte d'Ivoire and Senegal both posted the highest rates of growth in the Union, at 8.8% and 6.7% respectively. **In the Comoros, economic activity accelerated slightly in 2016,** with real GDP expanding by 2.1%, up from 1% growth in 2015.

Inflation rates in the Franc Zone remained well below the average for sub-Saharan Africa (11.4%), owing to the pegging of the CFA franc to the euro. The divergence in rates in fact increased over the year, with inflation rising sharply in non-Franc Zone countries such as Angola and Nigeria due to a sharp depreciation in their currencies. In the WAEMU, falls in food and fuel prices pushed inflation down to a very low rate of 0.3% in 2016, compared with 1.0% in 2015. In the CEMAC, inflation also declined to 1.2% (versus 2.2% in 2015) as a result of the marked slowdown in domestic demand and the downward trend in local food prices and in the cost of communications. In the Comoros, inflation firmed slightly, rising from 1.3% in 2015 to 1.8% in 2016.

Public finances deteriorated across the Franc Zone. In the WAEMU, the fiscal deficit widened to 4.4% of GDP (on an accrual basis, including grants) from 4.1% in 2015, due to higher capital expenditure linked to the ongoing public investment projects, and increased current expenditure, largely due to higher interest payments. In the CEMAC,

GDP growth

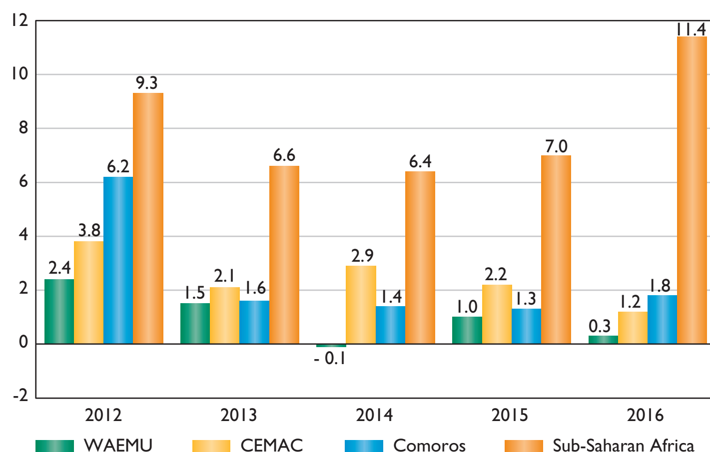
(year-on-year percentage change)



Sources: Central banks; IMF, World Economic Outlook, *July 2017.*

Consumer prices

(annual average - %)



Sources: Central banks; IMF, World Economic Outlook, *July 2017.*

the slump in oil and non-oil revenues stemming from lower oil prices and the economic slowdown, took a heavy toll on public finances. The fiscal deficit increased to 7.6% of GDP (on an accrual basis, including grants), from 3.6% in 2015, despite cuts to public spending and in particular to investment. In the Comoros, public finances continued to deteriorate, hit by falls in external grants and notably a sharp drop in income from customs duties, combined with an 18% rise in public spending. As a result, the fiscal deficit (on an accrual basis, including grants) surged to 7.7% of GDP, up from 3.1% in 2015.

Public debt levels rose across the entire Franc Zone, with some countries seeing particularly marked increases. The latest studies conducted by the IMF and World Bank on debt sustainability indicate only a moderate risk of debt distress in WAEMU countries, and a low risk in the case of Senegal. That said, recent developments are not without risks, as the public debt-to-GDP ratio in the region has risen from 36.6% in 2012 to 46% in 2016, despite average economic growth of over 6% in the same period. One particular cause for concern is the growing share of sovereign debt in commercial bank balance sheets. In the CEMAC, the IMF and World Bank regard the risk of debt distress as high in Cameroon, Chad and the Central African Republic. In the Republic of Congo, meanwhile, public debt is already well above the community ceiling of 70% of GDP.

The BCEAO tightened its monetary policy at the end of 2016. The ongoing decline in bank liquidity, caused notably by increased government borrowing in the regional financial market, led to a sharp jump in central bank refinancing against government debt securities. In response to this worrying development, the BCEAO decided to raise its marginal lending facility rate by 100 basis points in December 2016, restricting access to the marginal lending window and leading to a widening of the policy interest rate corridor. **The BEAC maintained its accommodative policy stance in 2016, to cushion the exogenous shock to the economy.** Reserve requirements, which had remained unchanged since 2009, were lowered by 50% in April 2016, to help counter the decline in bank liquidity.

Weak oil prices had a positive impact on the current account balance in the WAEMU and the Comoros, but a significant negative impact in the CEMAC. The WAEMU's current account deficit narrowed to 5.0% of GDP in 2016, from 5.9% in 2015. However, due to the sharp drop in the financial account surplus, linked to the near-50% drop in portfolio investments, regional foreign exchange reserves shrank: net external assets were only sufficient to cover 4.2 months of goods and services imports at end-2016, compared with 5.1 months a year earlier. In the CEMAC, after deteriorating sharply to 15.0% of GDP in 2015, the current account deficit remained more or less stable at 15.1% in 2016. As a result, the region drew down a large share of the external assets built up during the upward cycle in oil prices, and at end-2016 only had sufficient to cover 2.2 months of goods and services imports, down from 3.8 months a year earlier. In the Comoros, the current account deficit widened dramatically, from 0.4% of GDP in 2015 to 7.8% in 2016, due to an increase in the services deficit and a decline in the surplus of current transfers. External assets were sufficient to cover 6.8 months of goods and services imports at end-2016, compared with 8.2 months a year earlier.

Ratios of external assets to money in circulation deteriorated, but at end-2016 were still firmly above

the 20% minimum threshold established in the monetary cooperation agreements: 68.2% in the WAEMU (down from 80.2% at end-2015), 59.1% in the CEMAC (down from 77.1% at end-2015) and 55% in the Comoros (down from 69.8% at end-2015).

In July 2017, the IMF made a slight upward revision to its 2017 growth forecast for sub-Saharan Africa. It now expects a modest rebound in growth to 2.7%, but this is still well below the trend for the last two decades and weak in relation to demographic growth. Inflation is expected to remain high at 10.7%.

Growth should also accelerate in the Franc Zone in 2017. According to the BCEAO, the WAEMU should continue to grow at a sustained pace of 6.9% in 2017. This positive outlook is nonetheless subject to downside risks: risk of a decline in the price of the commodities exported by the Union, notably that of cocoa, risk of a deterioration in security conditions in the Sahel countries, or in the economic and financial situation in Nigeria which is one of the Zone's main partners. Inflation is expected to remain subdued at 1%. According to the BEAC, economic growth should recover slightly in the CEMAC in 2017, reaching 0.8%, despite a renewed decline in oil production. This growth momentum, coupled with the fiscal adjustments and reforms implemented by member states, notably under the programmes adopted or under discussion with the IMF, should result in a narrowing of the fiscal and current account deficits, and help to keep foreign currency reserves stable. Inflation should increase marginally to 1.6%. In the Comoros, the central bank projects growth of 3% for 2017, driven by further improvements in the energy sector and a rise in public investment. This outlook is nonetheless based on highly ambitious fiscal assumptions, given what has been achieved so far since the start of the year. Inflation should remain contained.

Although the economic outlook varies markedly across the Franc Zone, all countries have seen a significant deterioration in public finances. None of them met the basic fiscal balance convergence criteria in 2016 (compared with six countries in 2015 and 2014), and, although 13 managed to meet the public debt criteria, internal and external debt levels are still rising rapidly both in the CEMAC and the WAEMU. In addition, all CEMAC countries accumulated either domestic or external payment arrears in 2016, owing to budget and cash flow difficulties stemming from the deterioration in the Franc Zone macroeconomic environment. Efforts therefore need to be made to clean up public finances. A key factor for securing sustainable financing for growth will be the increased mobilisation of domestic resources. The Addis Ababa action agenda, approved in 2015 by the UN General Assembly, notably sets out goals and timelines in this area for developing countries. In the Franc Zone, domestic tax revenues remain low, and well below the thresholds set in the convergence criteria. Progress therefore needs to be made in improving tax collection and on the stability of tax systems, as well as on bringing the informal sector into the tax base and clamping down on fraud. An increase in taxation will also mean establishing a social contract between the state and the taxpayer: in return for paying taxes, individuals need to see that public spending is more efficient, more transparent and more evenly distributed. Increasing the mobilisation and use of domestic resources therefore fits into the broader effort to improve the management of public finances, which is a key element of the structural reforms being implemented by Franc Zone countries.