

The CFA Franc Zone

Common Currency, Uncommon Challenges

Editors

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I N T E R N A T I O N A L M O N E T A R Y F U N D

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Contents

Foreword.	v
Acknowledgments	vii
Abbreviations.	ix
1. Overview <i>Anne-Marie Gulde</i>	1

Part I. Sustainability of Macroeconomic Policies

2. Monetary Policy in a Currency Union? The Case of CEMAC <i>Corinne Deléchat, Gustavo Ramirez, and Romain Veyrune</i>	27
3. Long-Run Determinants of Inflation in WAEMU <i>Abdoulaye Diop, Gilles Dufrénot, and Gilles Sanon</i>	54
4. Fiscal Reaction Functions in the CFA Franc Zone <i>Oumuyiwa S. Adedeji and Oral Williams</i>	77
5. Reserve Adequacy in the CFA Franc Zone <i>Corinne Deléchat and Jan Kees Martijn</i>	90

Part II. Capacity to Adjust to Changes in External Conditions

6. Economic Fundamentals and the CFA Franc Zone Real Exchange Rates <i>Yasser Abdih and Charalambos Tsangarides</i>	123
7. Competitiveness in the CFA Franc Zone <i>Gustavo Ramirez and Charalambos Tsangarides</i>	154
8. What Is Fuzzy About Clustering in West Africa? <i>Mahvash Saeed Qureshi and Charalambos Tsangarides</i>	200

Part III. Integration and Growth

9. Financial Sector Integration in WAEMU <i>Amadou Sy</i>	251
10. Banking Sector Integration and Competition in CEMAC <i>Samer Saab and Jérôme Vacher</i>	274
11. Growth and Convergence in the CFA Franc Zone <i>Catherine Pattillo, Charalambos Tsangarides, and Pierre van den Boogaerde</i>	299
12. Trade in CEMAC: Developments and Reform Opportunities <i>Jan Kees Martijn and Charalambos Tsangarides</i>	335
13. Trade in WAEMU: Developments and Reform Opportunities <i>Manuela Goretti and Hans Weisfeld</i>	364
About the Authors	393

The following conventions are used in this publication:

- In tables, a blank cell indicates “not applicable,” ellipsis points (. . .) indicate “not available,” and 0 or 0.0 indicates “zero” or “negligible.” Minor discrepancies between sums of constituent figures and totals are due to rounding.
- An en dash (–) between years or months (for example, 2005–06 or January–June) indicates the years or months covered, including the beginning and ending years or months; a slash or virgule (/) between years or months (for example, 2005/06) indicates a fiscal or financial year, as does the abbreviation FY (for example, FY2006).
- “Billion” means a thousand million; “trillion” means a thousand billion.
- “Basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to $\frac{1}{4}$ of 1 percentage point).

As used in this publication, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

Foreword

Over the past five years we have seen not only renewed interest in Africa but also much good news from the continent: improved domestic policies in conjunction with higher commodity prices have produced both the highest average growth rates in decades and some improvements in key social indicators. There may still be deep-seated problems in most countries but there is also renewed optimism about a better future for Africa.

Yet Africa is a diverse continent, and regional averages can only tell part of the story. Countries differ in language, legal traditions, the definition of property rights, educational systems, and often in economic and structural policies. Understanding how such differences affect economic performance is a challenge for macro- and development economists alike.

The exchange rate regime is a highly visible difference between African countries. The countries in sub-Saharan Africa implement a wide variety of exchange rate systems, ranging from free floats to strictly fixed quasi-currency boards. However, 14 mostly francophone countries within the long-standing, rules-based CFA franc zone system share a fixed exchange rate regime, and their economic policy decisions are taken in the context of the regional monetary arrangements.

The CFA franc arrangement is unique. There is nothing like it anywhere else in the world. It is an umbrella over two regional currencies, each pegged at a common exchange rate to the euro and guaranteed by an outside country (France). The CFA franc system does offer its members a range of advantages and opportunities, including a credible monetary anchor and the potential for wider financial and goods markets than those available to nonmember countries. Yet because the exchange rate is the unalterable linchpin of economic policies, CFA franc zone members also face unique economic policy challenges, especially when the economic environment is characterized by increasing financial volatility, structural changes, and rising capital flows.

This book has several purposes. First, the IMF is engaged in regular policy dialogue with both individual CFA franc countries and the authorities for the two monetary and economic unions. The research collected

here is intended to inform this dialogue and support the design of policies appropriate to the CFA franc regime.

A second and equally important purpose of the book is to place the policy challenges facing the CFA franc zone before a broader audience of academics and “development practitioners,” and to stimulate a wider debate than is currently the case.

Finally, given considerable interest in the costs and benefits of monetary unions—both in Africa and elsewhere—the book has an additional purpose. That is to inform policymakers in countries thinking about joining an existing or prospective union about not only the costs and benefits but also the policy consequences of a common currency.

In reading the contributions in this volume I am heartened to realize that most offer cautious optimism about the CFA franc zone—though subject to a significant forward-looking agenda. I agree with policymakers in the region who emphasize that recently much has been done to expand the links between member country economies and promote more flexibility in the system, but I—like the authors of this book—see at least an equal amount still to be done. Some of the issues—such as removing obstacles within the zones—are becoming more urgent with increasing globalization and rapid economic change in some CFA franc countries. The authors therefore rightly remind policymakers that the stability benefits that arise from the CFA franc zone system can only be preserved if reforms are advanced.

I would hope that institutional reforms already initiated in countries throughout the CFA franc zone are harbingers of more and deeper reform efforts. We at the IMF, and undoubtedly also those in the academic community, are ready to accompany our member countries as they move forward.

Benedicte Vibe Christensen
Acting Director
African Department
International Monetary Fund

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Abbreviations

ACP	Africa, Caribbean, and Pacific
AGOA	African Growth and Opportunity Act
ASYCUDA	Automated System for Customs Data
BCEAC	Central Bank of Equatorial African States and Cameroon (Banque Centrale des Etats de l'Afrique Equatoriale et du Cameroun)
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest (Central Bank of West African States)
BEAC	Banque des États de l'Afrique Centrale (Bank of Central African States)
BOAD	West African Development Bank (Banque Ouest Africaine de Développement)
BRVM	Bourse Régionale des Valeurs Mobilières
CEMAC	Central African Economic and Monetary Community (Communauté Économique et Monétaire de l'Afrique Centrale)
CET	Common external tariff
CIMA	Conférence Interafricaine du Marché des Assurances
CIPRES	Conférence Interafricaine de la Prévoyance Sociale
CMA	Common Monetary Area
COBAC	Commission Bancaire de l'Afrique Centrale
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer price index
CRCA	Commission Régionale de Contrôle des Assurances
CREPMF	Conseil Régional de l'Épargne Publique et de Marchés Financiers
EBA	Everything But Arms
ECCAS	Economic Community of Central African States
ECCU	Eastern Caribbean Currency Union
ECOFIN	Economic and Financial Affairs (Council of the European Union)
ECOWAS	Economic Community of West African States

EMLFR	European marginal lending facility rate
EMU	European Economic and Monetary Union
EPA	Economic Partnership Agreement
EREER	Equilibrium real effective exchange rate
EU	European Union
EURIBOR	Euro interbank offered rate
FDI	Foreign direct investment
FEER	Fundamental equilibrium exchange rate
FFG	Funds for Future Generations
GATT	General Agreement on Tariffs and Trade
GCR	<i>Global Competitiveness Report</i>
GDP	Gross domestic product
GSP	Generalized System of Preferences
HDI	Human Development Index
HIPC	Heavily Indebted Poor Countries
<i>IFS</i>	<i>International Financial Statistics</i>
INS	Information Notice System
LMI	Lower- and middle-income
MDRI	Multilateral Debt Relief Initiative
MFI	Microfinance institution
MFN	Most favored nation
NCC	National Competitiveness Council
NDA	Net domestic asset
NEER	Nominal effective exchange rate
NFA	Net foreign asset
NPL	Nonperforming loan
OCA	Optimum currency area
OECD	Organization for Economic Cooperation and Development
OHADA	Organization for the Harmonization of Business Law in Africa (Organisation pour l'Harmonisation du Droit des Affaires en Afrique)
OSF	Oil Stabilization Fund
PPP	Purchasing power parity
REER	Real effective exchange rate
REP	Regional Economic Plan
RIA	Regional integration agreement
ROA	Return on assets
ROE	Return on equity
RTGS	Real-time gross settlement
SADC	Southern African Development Community

SICAV	Société d'Investissement à Capital Variable
SME	Small and medium-sized enterprise
SSA	Sub-Saharan Africa
SSATP	Sub-Saharan Africa Transport Policy
SYSCOA	West African Accounting System (Système Comptable Ouest Africain)
SYSCOHADA	OHADA Accounting System (Système Comptable de l'OHADA)
TDP	<i>Taxe Dégressive de Protection</i>
TFP	Total factor productivity
TI	Transparency International
UDEAC	Customs and Economic Union of Central Africa (Union Douanière des Etats de l'Afrique Centrale)
ULC	Unit labor cost
UN COMTRADE	United Nations Commodity Trade Statistics database
VAT	Value-added tax
WAEMU	West African Economic and Monetary Union
WAMU	West African Monetary Union
WAMZ	West African Monetary Zone
WCY	<i>World Competitiveness Yearbook</i>
WEO	<i>World Economic Outlook</i>
WGI	World Governance Indicators
WTO	World Trade Organization

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