

II Recent Economic Developments

During the second half of the 1980s and in the early 1990s, a prolonged deterioration of the terms of trade, a steep increase in labor costs, and the nominal appreciation of the French franc against the U.S. dollar resulted in a considerable real effective appreciation of the CFA franc (Figures 1 and 2 and Appendix II).³ These developments led to a serious decline in the competitive position of the CFA franc zone and a substantial weakening of the economic situation in the region. For the WAEMU as a

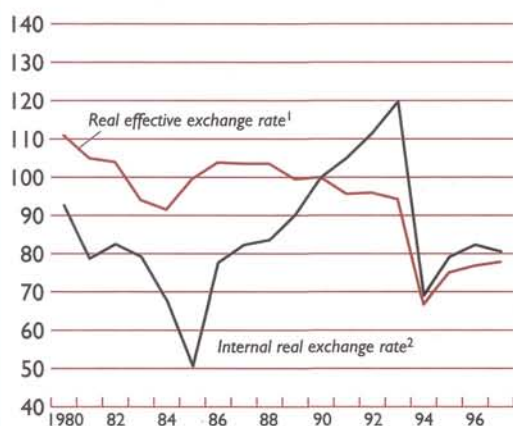
³This conclusion is based on the behavior of the internal real exchange rate, a proxy for the ratio of nontradable to tradable goods prices (Figure 1). For reasons explained in Appendix II, this concept of the real exchange rate is more relevant for small open economies than the one based on relative consumer prices.

whole during 1990–93, real GDP growth per capita was negative, and savings and investment ratios were very low (see Table 1 and Appendix IV, Tables 4–13). The deterioration in the terms of trade, together with the slow growth of export volume, resulted in a widening of the external current account deficit to an average of 11 percent of GDP in 1990–93. The shrinking of the tax base caused by the decline in real income as well as the financial difficulties of most corporate taxpayers were reflected in a drop in the ratio of government revenue to GDP, a deterioration in the overall fiscal balance, and severe constraints on government investment. Consequently, there was a significant accumulation of both domestic and external payments arrears, a large increase in the public debt, and a decline in the net foreign assets of the BCEAO.

The 50 percent devaluation of the CFA franc in January 1994 was part of a comprehensive strategy through which the countries of the CFA franc zone

Figure 1. CFA Franc: Real Effective Exchange Rates

(Period average: 1990 = 100)

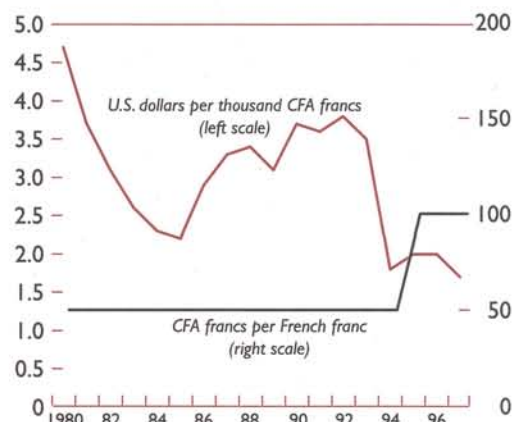


Source: IMF staff estimates.

¹Based on relative consumer prices.

²Ratio of prices of nontradable to tradable goods. For details on the definition of this variable see Appendix II.

Figure 2. CFA Franc: Nominal Exchange Rates



Source: International Financial Statistics (IFS).

Table I. WAEMU: Selected Economic Indicators

	1990-93	1994	1995	1996	Prel. 1997
		(Annual percentage change)			
Real GDP growth	0.2	3.2	5.7	6.0	5.6
Real per capita GDP growth	-3.0	-0.2	2.5	2.6	2.3
Export volume	3.6	8.8	8.6	13.0	8.8
Import volume	-1.1	-12.0	28.2	5.0	4.8
Terms of trade	-1.9	2.0	4.3	-3.1	-3.9
Inflation	0.6	29.2	12.2	3.9	3.8
		(Percent of GDP)			
Overall fiscal balance ¹	-9.1	-8.7	-6.0	-4.3	-4.3
Primary fiscal balance ^{1,2}	-3.9	-3.4	-1.2	-0.2	-0.7
Government revenue ¹	16.4	15.2	17.0	17.4	17.4
External current account	-11.2	-7.2	-9.1	-8.2	-7.6
Gross domestic savings	7.3	13.6	13.5	14.6	15.7
Gross domestic investment	12.1	14.8	16.2	16.9	18.1
Gross foreign assets, BCEAO ³	1.1	2.7	3.7	3.7	3.9
Public external debt (end of period)	85	132	113	109	103

Note: Excluding Guinea-Bissau.

¹Excluding grants.

²Overall balance, excluding interest payments.

³In billions of U.S. dollars.

sought to address the problems just mentioned.⁴ It was followed by a significant turnaround in the economies of most countries in the CFA franc zone and in the WAEMU in particular. The improved competitive position of the WAEMU resulted in sharp increases in the volume of exports after 1994, reflecting primarily the response of the traditional export sector to higher producer prices (Appendix IV, Table 14). Import volumes fell sharply in 1994, reflecting import substitution in favor of agricultural and locally manufactured goods, which also contributed to a narrowing of the regional current account deficit. However, imports picked up strongly thereafter, owing to the rapid growth of real aggregate demand.

Improved profitability in the tradable goods sector, including nontraditional exports and import substitutes, led to stronger growth performance after 1994, which, together with an improvement in the aggregate financial position of governments in the region (see Appendix IV, Table 15), resulted in a large increase in the domestic saving ratio.⁵ Invest-

⁴For a more detailed discussion of the background of the 1994 devaluation, see Jean A.P. Clément and others, *Aftermath of the CFA Franc Devaluation*, IMF Occasional Paper No. 138 (Washington: International Monetary Fund, 1996).

⁵Historical relationships suggest that changes in government savings in sub-Saharan Africa tend to be offset only in part by opposite changes in private savings.

ment also rose substantially in relation to GDP, owing mainly to a rise in the *private* investment ratio. However, both total and private investment ratios remain low by the standards of all developing countries and also in comparison with other sub-Saharan African countries (Table 2).

Following the surge in domestic prices associated with the devaluation, inflation declined rapidly to an average of just under 4 percent in 1996-97, reflecting the prudent fiscal and monetary policies followed by governments and the BCEAO, respectively (Table 1). The return of confidence in price stability and the improvement in the region's external current account were reflected in a large buildup in the BCEAO's gross foreign assets, from the equivalent of 19 percent of base money in 1993 to 95 percent in 1994 (five months of imports of goods and nonfactor services). During the same period, the balance of the operations account maintained with the French treasury improved from US\$0.3 billion to US\$1.7 billion. Finally, the external debt of WAEMU countries has dropped substantially since 1994, even though it remains high in most member countries.

Data for 1997 confirm the continued favorable economic performance of WAEMU member countries. For the region as a whole, growth is estimated at 5½ percent and inflation has subsided to less than 4 percent, saving and investment ratios have contin-

Table 2. International Comparisons: Selected Indicators

	WAEMU		Sub-Saharan Africa		All Developing Countries	
	1990-93	1994-97	1990-93	1994-97	1990-93	1994-97
	<i>(Annual percentage change)</i>					
Real GDP	0.2	5.0	1.6	3.7	5.5	6.3
Real GDP per capita	-3.0	1.8	-2.3	0.8	3.4	4.3
Inflation ¹	1.0	3.8	30.0	34.6	46.6	9.0
	<i>(Percent of GDP)</i>					
Investment	13.0	16.2	17.2	17.6	26.5	28.6
Private investment	7.7	10.1	12.3	12.2	15.8	16.6
External current account ²	-11.2	-8.0	-4.5	-4.6	-2.3	-1.8

¹Last year of the period; consumer prices (annual averages).

²Excluding grants.

ued to rise, and the overall fiscal position has remained stable. In the area of monetary policy, a strong pickup in credit demand was partially offset by a decline in BCEAO credit to governments, and gross foreign assets increased further, to the equiva-

lent of 130 percent of base money. In spite of a deterioration in the terms of trade in 1996-97, the region's external current account deficit declined further as export volumes—including for nontraditional exports—continued to expand rapidly.