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July 29, 1994

To: Members of the Executive Board

From: The Acting Secretary

Subject: Common Policy Issues of the CFA Franc Countries

Attached for consideration by the Executive Directors is a paper on common policy issues of the CFA franc countries, which has been prepared in response to the requests of Executive Directors. The paper addresses program design and policy coordination issues in the context of the adjustment programs adopted following the January 1994 devaluation of the CFA franc. Final observations appear on pages 42-45. It is proposed that this paper be discussed in a seminar in the period following the informal Board recess.

Mr. Basu (ext. 37856), Mr. Brachet (ext. 38600), Mr. François (ext. 38510), or Mr. Kouwenaar (ext. 38316) is available to answer technical or factual questions relating to this paper prior to the seminar discussion.

Att: (1)

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Common Policy Issues of the CFA Franc Countries

Prepared by the African Department and the Policy Development
and Review Department

(In consultation with other departments)

Approved by Mamoudou Touré and Jack Boorman

July 27, 1994

Contents

Contents

Contents

Page

Appendix II

Appendix III

Charts

Common Policy Issues of the CFA Franc Countries 1/

I. Introduction

Following the historic decision to devalue their currencies effective January 12, 1994, 2/ the member countries of the CFA franc zone 3/ moved rapidly to launch comprehensive adjustment programs with the support of the Fund, the World Bank, and the international donor community. The purpose of this paper is to describe the events that led up to the devaluation of the CFA franc, to analyze the factors underlying the exchange rate adjustment, and to examine policy objectives and program design with a particular emphasis on policy coordination and other common issues within the CFA franc zone. The design of the adjustment programs has necessarily been influenced by the common monetary arrangements of these countries, which have endured over many years because of a firm political commitment to monetary cooperation and regional solidarity. The policy frameworks have also taken into account the current efforts to promote regional trade and broader economic integration.

Section II describes the institutional arrangements and the economic structure of these countries. In Section III, the economic performance of the CFA franc countries since the mid-1980s is reviewed, with a focus on the internal adjustment strategy that was pursued in response to the exogenous shocks. Section IV discusses the rationale for continuing with the existing institutional arrangements of the CFA franc zone; the reasons for designing a comprehensive adjustment strategy with a devaluation of the CFA franc as its central element; and the objectives of the new strategy. This is followed by a discussion of the supporting policies, including fiscal and monetary policies, income and pricing policies, foreign trade reform,

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1/ This paper has benefitted from comments by World Bank staff.

2/ The CFA stands for "Communauté Financière Africaine" in the West African Monetary Union (WAMU) and for "Coopération Financière en Afrique Centrale" in the Central African Monetary Area (CAMA). The exchange rate of the CFA franc in terms of the French franc, which had been fixed since 1948, was changed from CFAF 1 = F 0.02 to CFAF 1 = F 0.01, representing a devaluation of 50 percent in foreign currency terms. At the same time, the Comorian franc (CF) was devalued by 33 percent to a new fixed rate of CF 1 = F 0.013. However, this paper does not deal with the Comoros, which is a member of the franc zone, but not a member of a monetary union.

3/ The CFA franc zone comprises the seven member countries of the WAMU, including Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo; the six members of the CAMA, including Cameroon, the Central African Republic, Chad, the Congo, Equatorial Guinea, and Gabon; and the Comoros. With the signing of a new Treaty on January 10, 1994, and its ratification in June, the WAMU members have established the West African Economic and Monetary Union (WAEMU); similarly, the Central African Economic and Monetary Community (CAEMC) was established on March 16, 1994.

structural reforms, social policies and safety nets, and financing and external debt issues. 1/ Section V provides a short review of issues in promoting regional economic integration. Final observations are presented in Section VI.

II. Institutional Arrangements and Economic Structure

It is useful to recall the essential features of the institutional environment and economic structure of the CFA franc countries. 2/ First, there are two monetary arrangements--the WAMU and the CAMA--each served by a common central bank--the Central Bank of West African States (BCEAO) and the Bank of Central African States (BEAC), respectively. Each central bank issues its own CFA franc; pools the external reserves of its member countries and supports currency convertibility within the framework of broadly similar monetary arrangements with France; 3/ and maintains a common fixed exchange rate vis-à-vis the French franc within an exchange system that is virtually free of restrictions on payments and transfers for current international transactions. Capital movements are relatively free but the integration of capital markets remains imperfect.

Second, the member countries of the CAMA, which are also members of the Central African Customs and Economic Union (UDEAC) established in 1966, are currently undertaking a far-reaching reform of their trade and other indirect tax regimes with the aim of eventually eliminating taxes on trade within the union. The member countries of the WAMU have been members of the broader Economic Community of West African States (ECOWAS), 4/ which was founded in 1975 with the objective of establishing a free trade area. More recently, the members of the WAMU and the CAMA have signed treaties establishing the West African Economic and Monetary Union (WAEMU) and the Central African Economic and Monetary Community (CAEMC), respectively, with a view to accelerating their economic and monetary integration. 5/

1/ The paper does not discuss actual performance under recent Fund-supported programs.

2/ For details on the monetary arrangements and a review of developments through 1989, see A Review of the CFA Franc Arrangements (SM/90/136, 7/9/90). This document is referred to as the "1990 CFAF Study" in the remainder of this paper.

3/ The BCEAO and the BEAC have overdraft facilities through separate Operations Accounts at the French Treasury.

4/ The membership of the ECOWAS includes, in addition to the WAMU countries: Cape Verde, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mauritania, Nigeria, and Sierra Leone.

5/ For simplicity, this paper will refer to monetary arrangements as (monetary) unions, although the CAMA has strictly speaking not yet reached that stage. While the objectives of both unions have recently been extended through the creation of the WAEMU and CAEMC, the paper continues to use the acronyms WAMU and CAMA.

Notwithstanding these efforts, the relative shares of intraregional exports and imports in each region's total exports and imports have remained small, largely because exports are heavily concentrated on primary products for which the main demand comes from industrial countries, 1/ and also because the least-cost sources of import supply and financing (at times of a "tied" nature) are still the industrial countries.

Third, several factors make individual countries highly vulnerable to adverse exogenous shocks, such as terms of trade deteriorations and recurring droughts. These factors include the relatively nondiversified structure of production and exports in the CFA franc countries, characterized by the dominance of agricultural and mineral products and an underdeveloped industrial base; the relatively limited labor mobility within the zone; and the high degree of openness of the zone to the rest of the world.

Fourth, the larger coastal economies of the CFA franc zone--Cameroon, Côte d'Ivoire, Gabon, and Senegal--have traditionally been viewed as locomotives of growth and prosperity in the zone, and indeed also in other neighboring countries outside the zone. In the WAMU, Côte d'Ivoire and Senegal account for 58 percent of the area's aggregate GDP, while in the CAMA, Cameroon and Gabon make up 75 percent of the area's aggregate GDP. 1/ These countries have also a relatively more diversified production base, including larger industrial sectors, than the other countries of the zone. The available data on intra-union trade shows that in both the CAMA and the WAMU, the smaller economies (especially the landlocked countries of Burkina Faso, the Central African Republic, Chad, and Mali) have higher shares of regional trade in their total trade than is typical for the larger economies. The regional trade has been supported by historically important trade routes connecting the landlocked economies to the coastal countries. Moreover, the larger economies of the zone have--to

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1/ Based on averages for the period 1989-93, the shares of intraregional exports (imports) in total exports (imports) were 14.3 percent (10.7 percent) for the WAMU and 3.8 percent (7.3 percent) for the CAMA (Appendix I, Table 9). Based on average shares of individual commodities in total exports of goods during 1989-92, coffee accounted for 9 percent of exports of the Central African Republic, Cameroon, and Côte d'Ivoire; cocoa represented 33 percent of Côte d'Ivoire's exports and 17 percent of Equatorial Guinea's exports; and cotton accounted for export shares of about 11 percent in the Central African Republic and Togo, 30-35 percent in Benin and Burkina Faso, and almost 50 percent in Chad and Mali. Phosphates accounted for 25 percent of Togo's exports and 6 percent of Senegal's exports. Senegal's other major exports--using 1989-92 data--have been fish (25 percent) and groundnuts (15 percent). Uranium accounted for 70 percent of Niger's exports. Petroleum products accounted for 7 percent of Benin's exports, over 50 percent of Cameroon's exports, and almost 80 percent of exports of the Congo and Gabon.

1/ Based on 1990-92 data (see Appendix I, Table 1).

a limited extent--absorbed migrant labor from their neighbors (e.g., Burkinabè and Malian workers in Côte d'Ivoire), and the remittances of such workers have been an important source of income for the smaller economies. Reflecting cross-border differences in domestic prices, taxation and subsidies, there has also been (unrecorded) informal trade with neighboring non-CFA franc countries (such as The Gambia, Ghana, and Nigeria), mainly in agricultural and petroleum products.

Finally, economic policy making in the CFA franc countries has been hampered by shortcomings in macroeconomic databases, in particular, in the areas of national accounts and prices, government finance, and, to a lesser extent, balance of payments statistics in a number of countries. 1/

III. The Internal Adjustment Strategy Since 1985

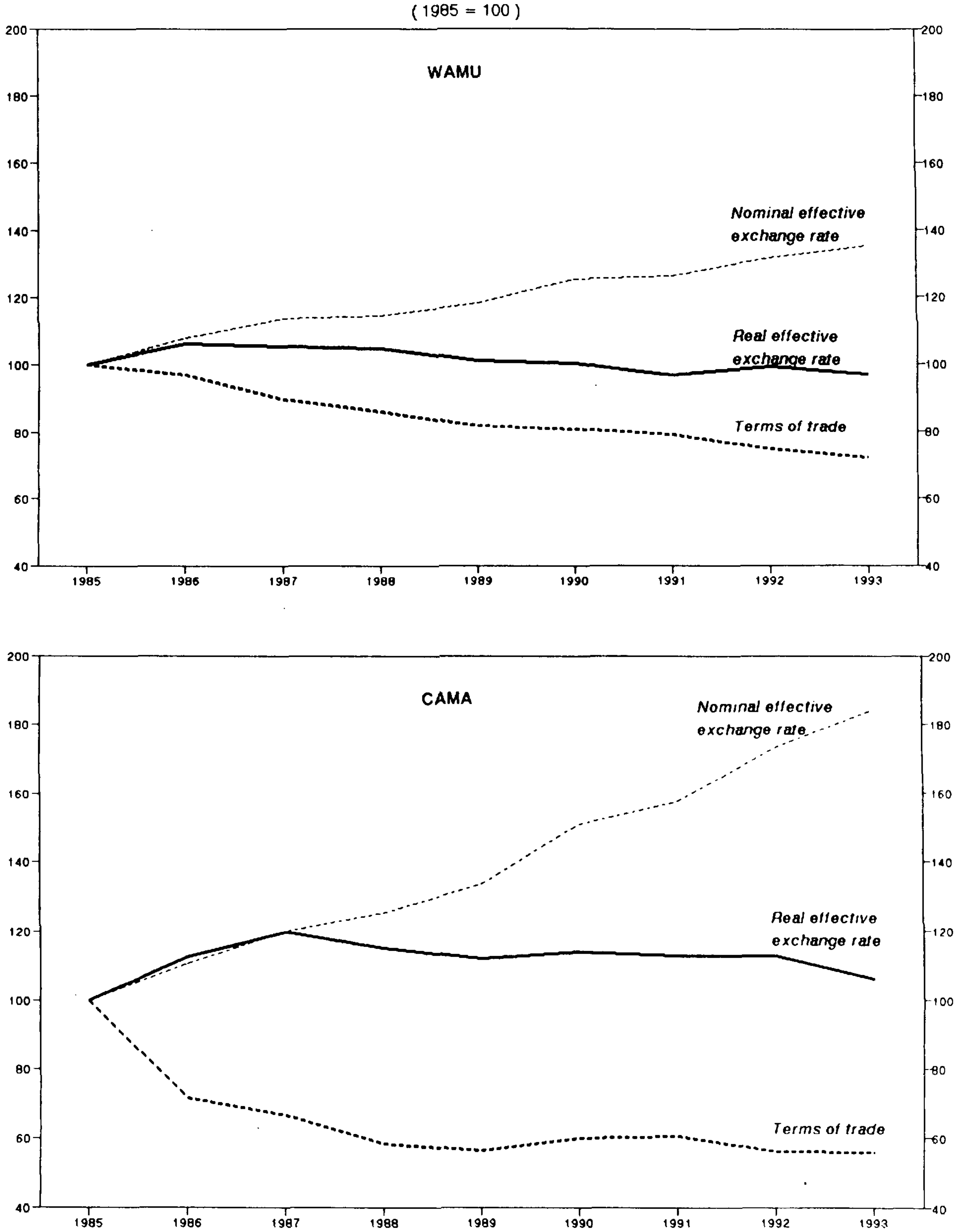
Before 1985, the CFA franc countries enjoyed for many years positive rates of real GDP growth, low inflation, and relative financial stability both internally and externally. In the period 1970-84, as a group the CFA franc countries recorded an average inflation rate of about 10 percent per year, which was much lower than the average for sub-Saharan Africa (18 percent), and an average growth rate of real GDP of 4 percent per year, or almost one and a half percentage points above the average for sub-Saharan Africa. The 1990 CFAF study noted that the greater price stability in the CFA franc zone was sustained in the 1970-84 period by a firmer control over the public sector and factors affecting the external current account, than in the rest of sub-Saharan Africa.

The year 1985 was a watershed year for the CFA franc countries, as it marked the beginning of a substantial and protracted deterioration in the external terms of trade in most cases. Between 1985 and 1993, the cumulative terms of trade loss for the zone as a whole amounted to some 35 percent. In the case of the major oil exporting countries--Cameroon, the Congo, Gabon--as well as Benin, the cumulative loss ranged between 50 percent and 65 percent, while for Côte d'Ivoire, a large exporter of cocoa and coffee, it was about 45 percent (Appendix I, Table 2 and Chart 1). The cumulative loss for other countries ranged between 10 and 35 percent except for Senegal which experienced a modest terms of trade gain, and Chad, whose terms of trade gain in the second half of the 1980s was reversed over the past four years.

1/ With the help of Fund technical assistance and training, some progress has been made in improving the statistical base, including reasonably reliable and harmonized monetary statistics (see Appendix II for an overview of the Fund's efforts in this area). Further issues of data harmonization are discussed in Section V.1.

Chart 1

CFA Franc Zone
Effective Exchange Rates
And Terms of Trade, 1986-93
(1985 = 100)



Source. Board documents

1/ Effective exchange rates are based on the Fund's Information Notice System with (for some countries) revised trading partner weights to take into account unrecorded border trade

During the period 1985-93, along with the pervasive shock of large terms of trade losses, the CFA franc countries experienced a cumulative nominal effective appreciation of their currency by 55 percent (Appendix I, Table 2). 1/ This resulted from keeping the exchange rate peg to the French franc unchanged, at a time when the currencies of trading partners in the industrial world--especially the U.S. dollar--weakened vis-à-vis the French franc and the currencies of other developing countries in the region depreciated substantially in nominal effective terms. 2/

Although the CFA franc zone was able to maintain much lower inflation rates than its partners, the real effective exchange rates (REER) appreciated markedly in several countries. Based on the Fund's INS, but with weights adjusted to include unrecorded trade with neighboring countries (such as Ghana and Nigeria), during 1985-93 there were cumulative REER appreciations of 34 percent in the case of Côte d'Ivoire, 21 percent in Cameroon, 2 percent in Benin, and 6 percent in Equatorial Guinea; and cumulative depreciations of between 5 and 40 percent in the other countries (Appendix I, Table 3, column 1). 3/ However, there are several shortcomings connected with the REER as a measure of competitiveness. First, the trade weights have only been partially corrected for unrecorded trade and do not reflect fully the extent of competition (including that on third markets) between the country and its trading partners. Second, in many CFA franc countries, the consumer price indices, on which the REER is based, are often inaccurate indicators of domestic costs, and are also deficient due to an outdated consumption basket, the urban coverage, and other inadequacies of data. 4/ Third, the REER-based measure of overvaluation does not take into account the substantial deterioration in the terms of trade and the required real depreciation to offset it. When the INS-based REERs are adjusted for the terms of trade impact, the real exchange rate overvaluation for the zone as a whole is estimated at 28 percent (Appendix I, Table 3, column 2). Fourth, in many CFA franc countries, wage costs in the formal sector had substantially increased as a result of the expansionary macroeconomic policies during the commodity booms of the late 1970s and early 1980s. Around 1990, wages in the public sector were between 8 and 14 times per capita GDP in most CFA franc countries (3-5 times in the oil producing countries) whereas wages in competing

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1/ Based on data from the Fund's Information Notice System (INS).

2/ During the same period, the nominal effective exchange rate for sub-Saharan Africa as a whole depreciated by some 70 percent, resulting in a real exchange rate depreciation of over 30 percent. Unless otherwise stated, appreciation or depreciation is expressed in foreign currency terms throughout this paper.

3/ Two alternative indices, based on WEO data for import weighted GDP deflators and consumer price indices of partner countries, respectively, suggest that the real effective appreciation for the CFA franc countries was in the range of 14-36 percent over the period 1985-93.

4/ Alternative cost indicators, such as unit labor costs, are usually not available.

developing countries were 2-3 times per capita GDP. Finally, in all non-oil CFA franc countries, the drop in commodity prices since 1985 has led to a substantial decline in profitability or losses in the main export sectors.

While the measures of real effective appreciation since 1985 and other indicators of competitiveness showed a substantial overvaluation of the CFA franc for the zone as a whole, the assessment of the required depreciation was based on a forward-looking analysis, which took into account the need to correct for terms of trade losses and to restore internal and external equilibria (see the discussion in Section IV.2).

The CFA franc countries responded to the terms of trade shock and the appreciation of the CFA franc vis-à-vis trading partners with an internal adjustment strategy. The main elements of this strategy were: (i) to maintain the fixed common peg; (ii) to reduce the fiscal deficits through increases in tax rates (often, on foreign trade) and cuts in the wage bill and public enterprise subsidies; and (iii) to restore competitiveness by reducing domestic costs and restructuring the public enterprise sector. However, the limits of the internal adjustment strategy became progressively apparent as it proved very difficult to reduce nominal wages in the public sector and to bring agricultural producer prices and costs quickly in line with world prices, and, more generally, as costs and prices in the nontradable goods sector (including many public enterprises) showed considerable downward rigidity. Moreover, with stagnating or declining government revenues in most cases, fiscal adjustment tended to be sought through (often unprogrammed) cuts in investment, nonwage maintenance outlays, and essential public services. Therefore, despite the adjustment efforts made in many countries during the 1986-93 period, and while there were large differences in the fiscal deficits among the countries, on the whole these deficits remained sizeable (Appendix I, Table 5 and Chart 2).

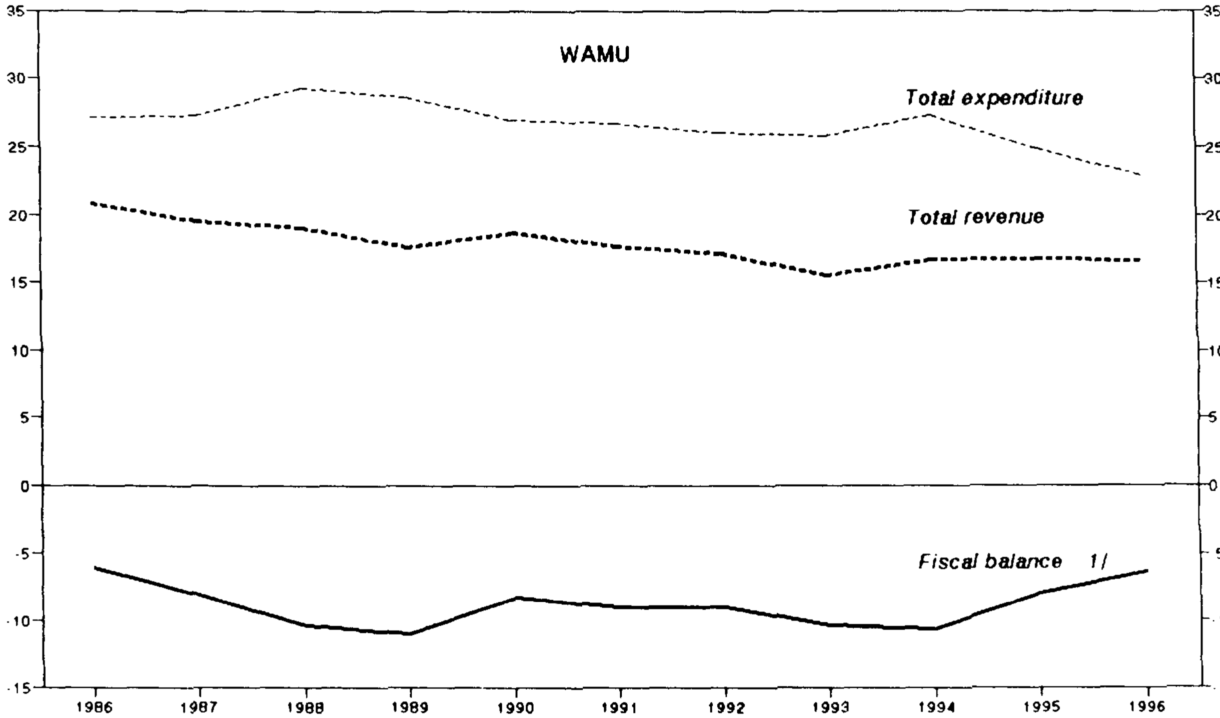
The aggregate revenue effort--as measured by the ratio of government revenue to GDP--fell from an average of 21 percent during 1986-89 to an average of 19 percent during 1990-93, and to 17 percent in 1993 (Appendix I, Table 5). Between 1986 and 1993, the revenue ratio improved only in Benin, Chad, and Equatorial Guinea. The weak revenue performance reflected the shrinking tax base due to the stagnation of economic activity and the decline in (the taxable component of) foreign trade; a deterioration in tax collections (especially by the customs authorities) because of extensive exemptions and fraud; weaknesses in tax administration; and counterproductive efforts to raise import and other tax rates. 1/ In fact, with the loss of competitiveness of the traded goods sector, the yields of the existing taxes declined. This led to the introduction of new taxes, which further eroded the yield of existing taxes.

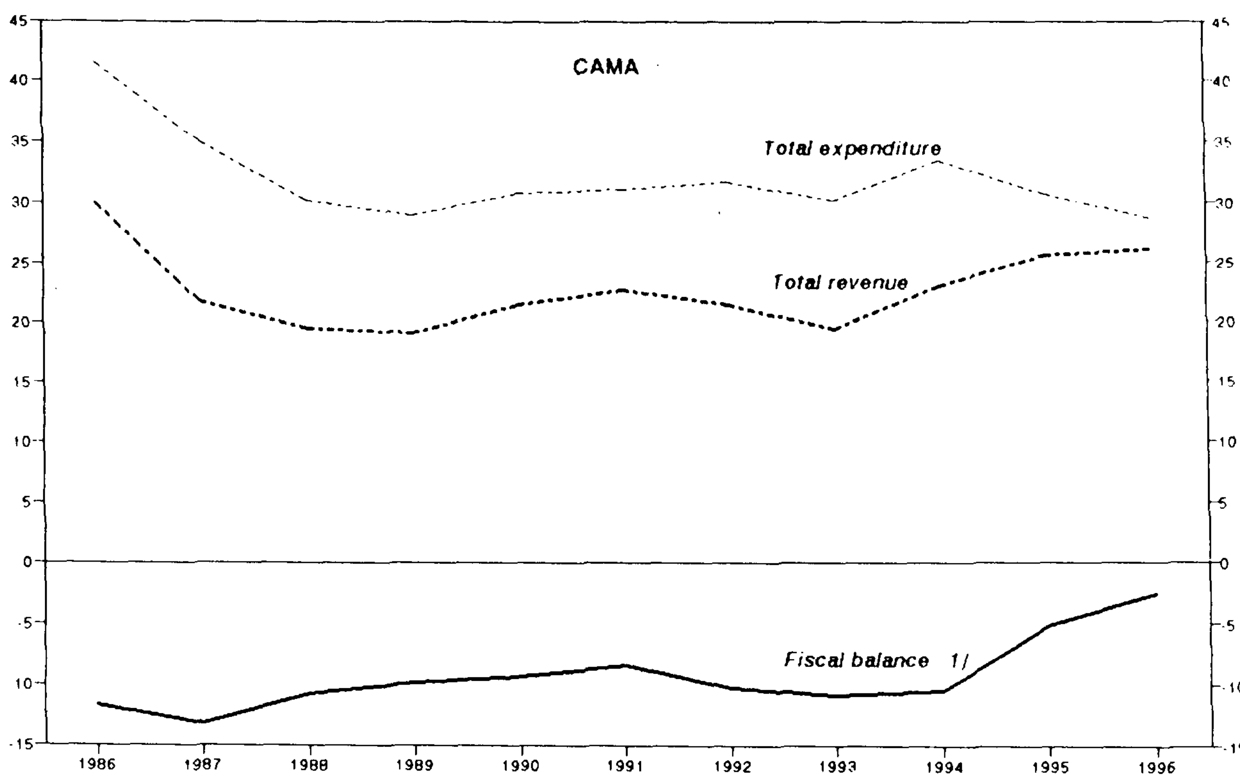
1/ In addition, the political transition process led to a drastic relaxation in tax collection efforts in several countries.

Chart 2

CFA Franc Zone
Fiscal Balance, Total Revenue, And Total
Expenditure of the Central Government, 1986-96

(In percent of GDP)

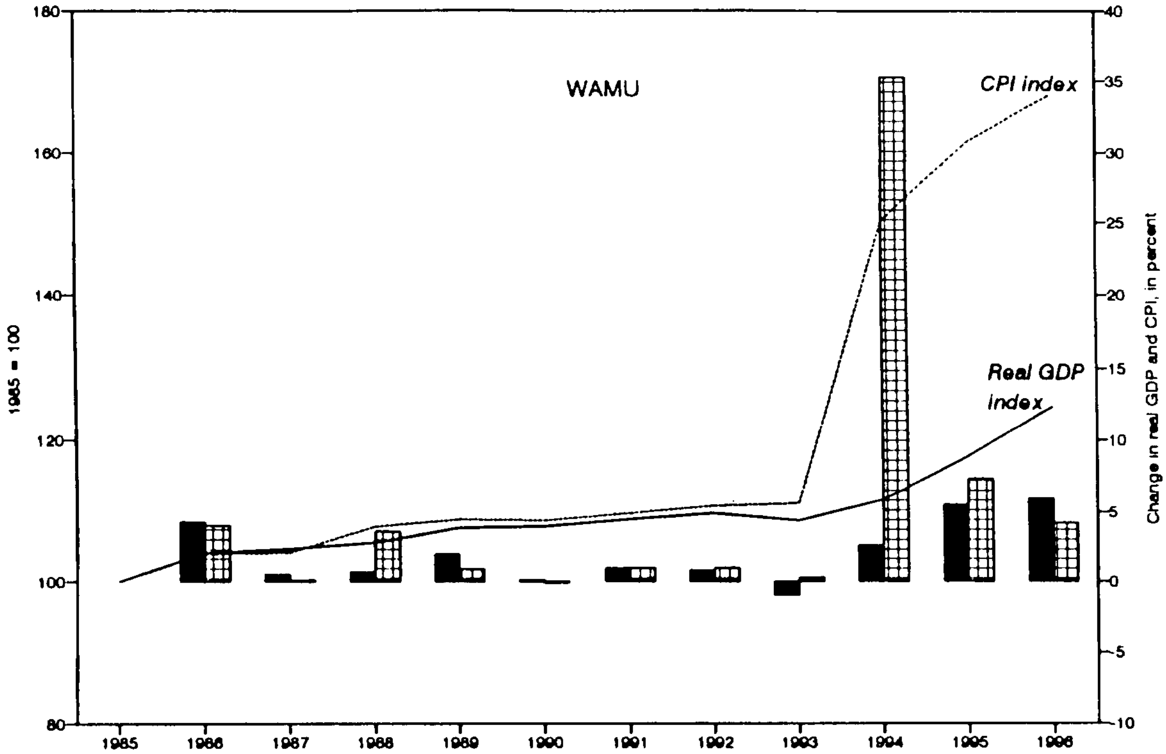


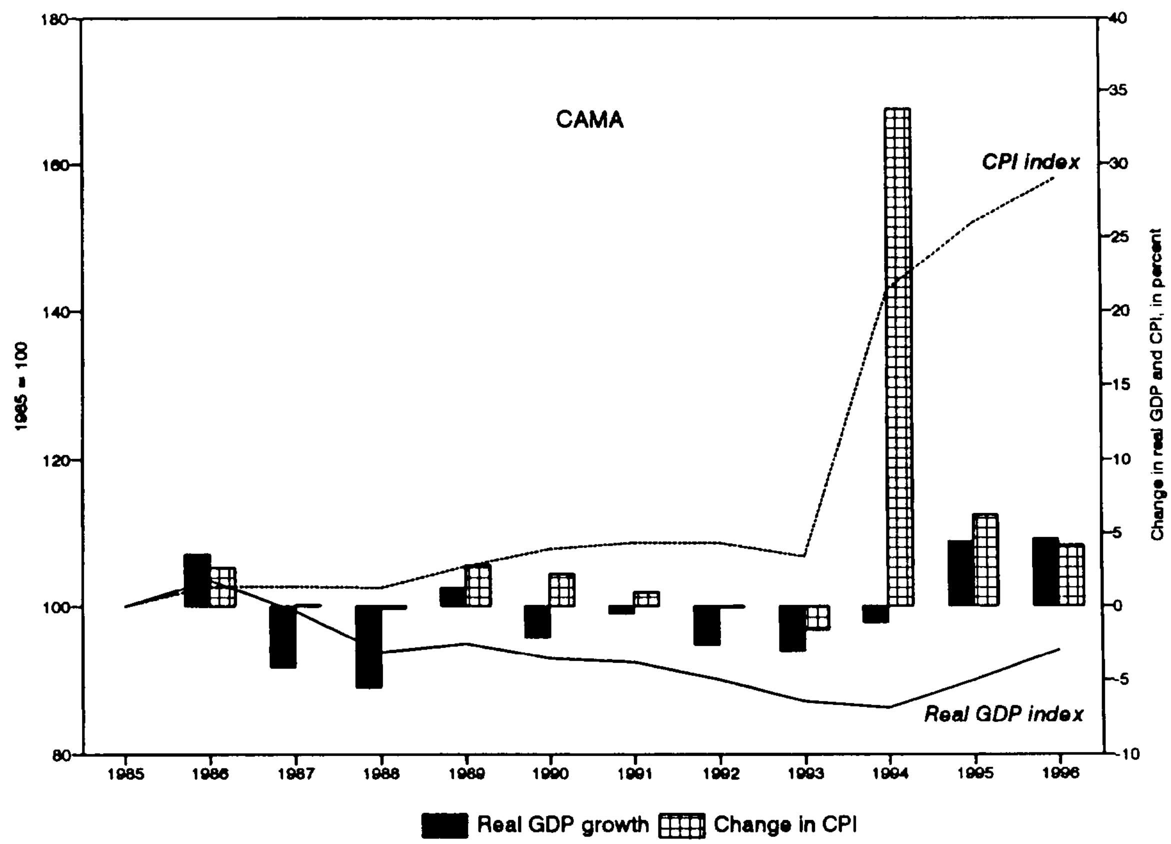


Source: Board documents
1/ On a commitment basis, excluding grants

Chart 3

CFA Franc Zone
Real GDP and CPI, 1986-96





Source: Board documents.

The ratio of aggregate government expenditure to GDP fell from an average of 31 percent during 1986-89 to an average of 28 percent in 1990-93; increases in three countries (Côte d'Ivoire, the Congo, and Equatorial Guinea) were more than offset by decreases in the other ten countries. There were two critical weaknesses in the area of expenditure policy. First, the cuts were mainly concentrated in nonwage recurrent outlays and as noted earlier, in public investment. Second, the share of the wage bill in government expenditure, as well as its ratio to GDP, rose between 1986 and 1993, reflecting increases in the average wage rate. 1/ These wage pressures tended to be emulated in public enterprises (especially the state-owned monopolies in the nontraded goods sector), thereby weakening their financial position.

Reflecting low inflation and depressed output levels, the average annual rate of increase in broad money for the CFA franc countries as a group was barely above zero percent for the 1986-93 period, with substantial declines recorded in Cameroon, Equatorial Guinea, Gabon, and Togo. The measured income velocity of money remained virtually steady at about 4.4 (Appendix I, Table 7). Interest rates on savings deposits fluctuated between 6.5 and 9 percent during the period (Appendix I, Table 10), while the interest rate on money market advances by the BCEAO fluctuated between 8 and 12 percent, above the rate in the money market in France. The tightness of monetary conditions was achieved through restraints on domestic credit expansion and the policy of the two central banks not only to hold their domestic lending rates above the French money market rate, but also to progressively increase that margin to offset the risks perceived by the market.

Under these tight monetary conditions, the margin for government recourse to central bank financing under the statutory ceiling was in most cases exhausted early in the process. Thus, during 1986-93, the CFA franc countries financed their fiscal deficits as well as the imbalances in the rest of the public sector mainly through heavy recourse to foreign borrowing and exceptional grants, and through large accumulations of domestic and external payments arrears. The accumulation of domestic arrears by the government imposed an increasing financial burden on the private and public enterprises and adversely affected their economic performance. In turn, the weakening of the financial position of domestic enterprises led to the emergence of nonperforming loans in the banking sector and to serious problems of illiquidity or insolvency of the financial institutions. In the end, the governments had to assume a large part of the obligations of banks and public enterprises.

In the event, the combination of the decline in the external terms of trade, the real exchange rate overvaluation, and the difficulties experienced by governments in achieving fiscal retrenchment led to a vicious

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1/ The weighted average ratio of the wage bill to GDP rose from 8 percent in 1986 to 9.2 percent in 1993.

circle of exceptionally poor economic performance, a shrinking of the production base, and severe financial problems throughout the CFA franc zone. Notwithstanding the virtual absence of inflation, these problems affected the credibility of the internal adjustment strategy and led to a significant erosion of confidence in the CFA franc, triggering large capital outflows from the zone.

The internal adjustment policies were accompanied by disappointing macroeconomic developments. During 1986-93, the average annual growth rate of aggregate real GDP of the CFA franc countries was virtually zero, with a positive growth rate being recorded in only three years (Appendix I, Table 4 and Chart 3). There was also a significant loss of momentum in real export growth. The annual growth rate of aggregate export volume dropped from 4 percent during 1986-89 to under 1 percent during 1990-93, and was negative (-3 percent) in 1993. The slowdown in export growth and the deterioration in the terms of trade was accompanied by a decline in import volume over the 1986-93 period (at an average annual rate of over 3 percent), which in turn had negative feedback effects on domestic production.

The productive base was weakened by a substantial decline in the investment/GDP ratio between 1986 and 1993, which for the zone as a whole fell by about 8 percentage points to some 14 percent in 1993 (Appendix I, Table 4 and Chart 4). About three quarters of the decline reflected the contraction of public investment, which dropped to about 5 percent of GDP in 1993. Investment projects were disrupted by a severe shortage of domestic counterpart funding. Furthermore, the shares of both multilateral and bilateral aid allocated to development projects declined, with increased allocations being provided for general budgetary support to make up for shortfalls in government revenues.

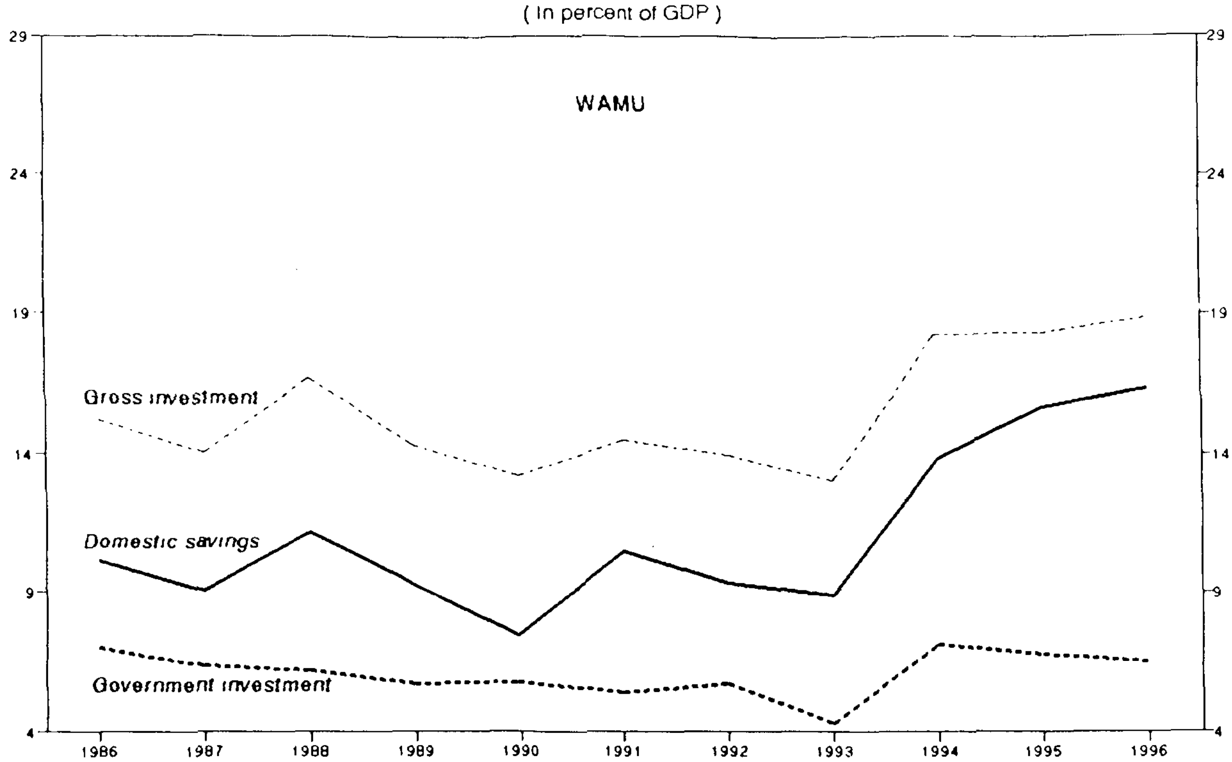
The domestic savings/GDP ratio of the CFA franc countries as a group fell from almost 15 percent in 1986 to about 12 percent in 1993 as consumption declined more slowly than GDP. This disappointing savings performance reflected primarily the declining savings ratios of Cameroon, Côte d'Ivoire, the Congo, Niger, and Togo, while savings ratios in most of the other CFA franc countries remained low, under 10 percent of GDP. Virtually all of the deterioration in overall savings performance occurred in the public sector.

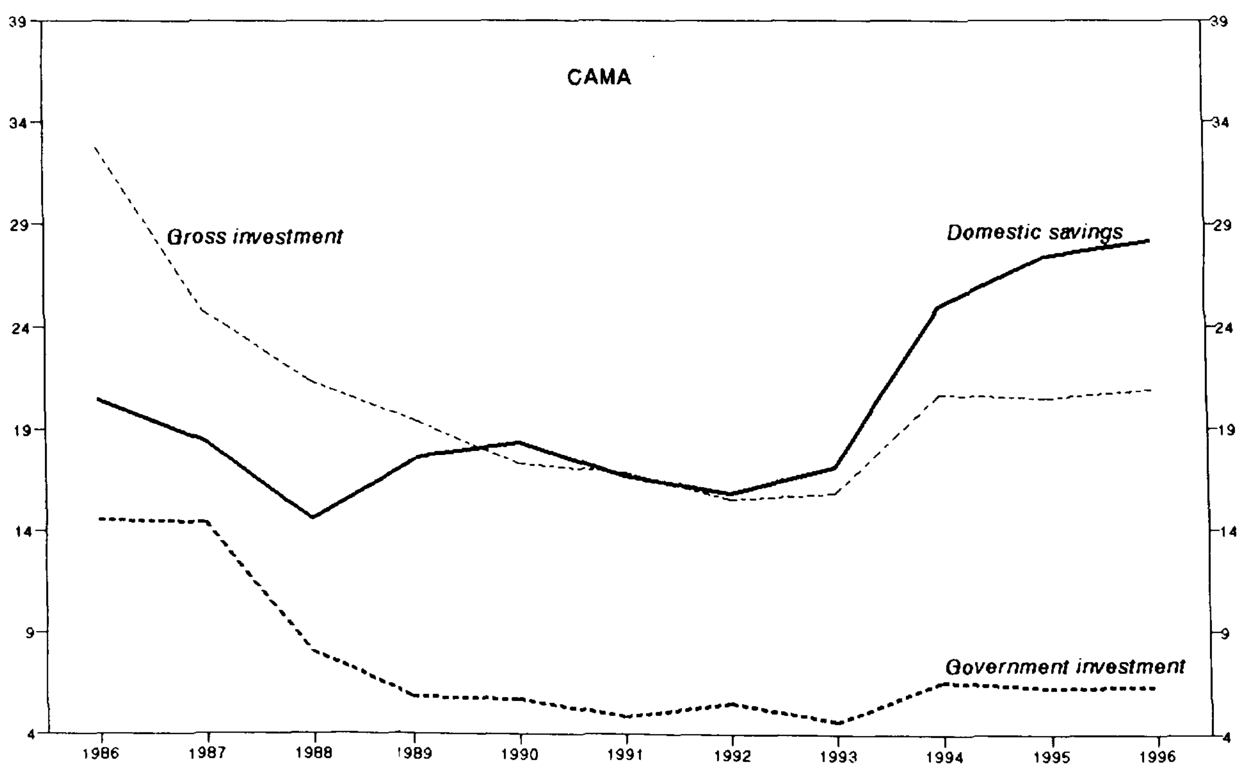
The domestic financial imbalances in the CFA franc countries were reflected in sustained and large aggregate deficits in the external current account averaging 10.6 percent of GDP annually during 1990-93 (weighted average), compared with an annual average of 12.1 percent of GDP during 1986-89 (Appendix I, Table 8 and Chart 5). Consequently, the weighted average ratio of external debt to GDP rose from 59 percent in 1986 to 68 percent in 1989 and further to 99 percent in 1993. The aggregate burden of scheduled debt service payments averaged over 34 percent of exports of

Chart 4

CFA Franc Zone
Gross Investment, Domestic Savings,
And Government Investment, 1986-96

(In percent of GDP)

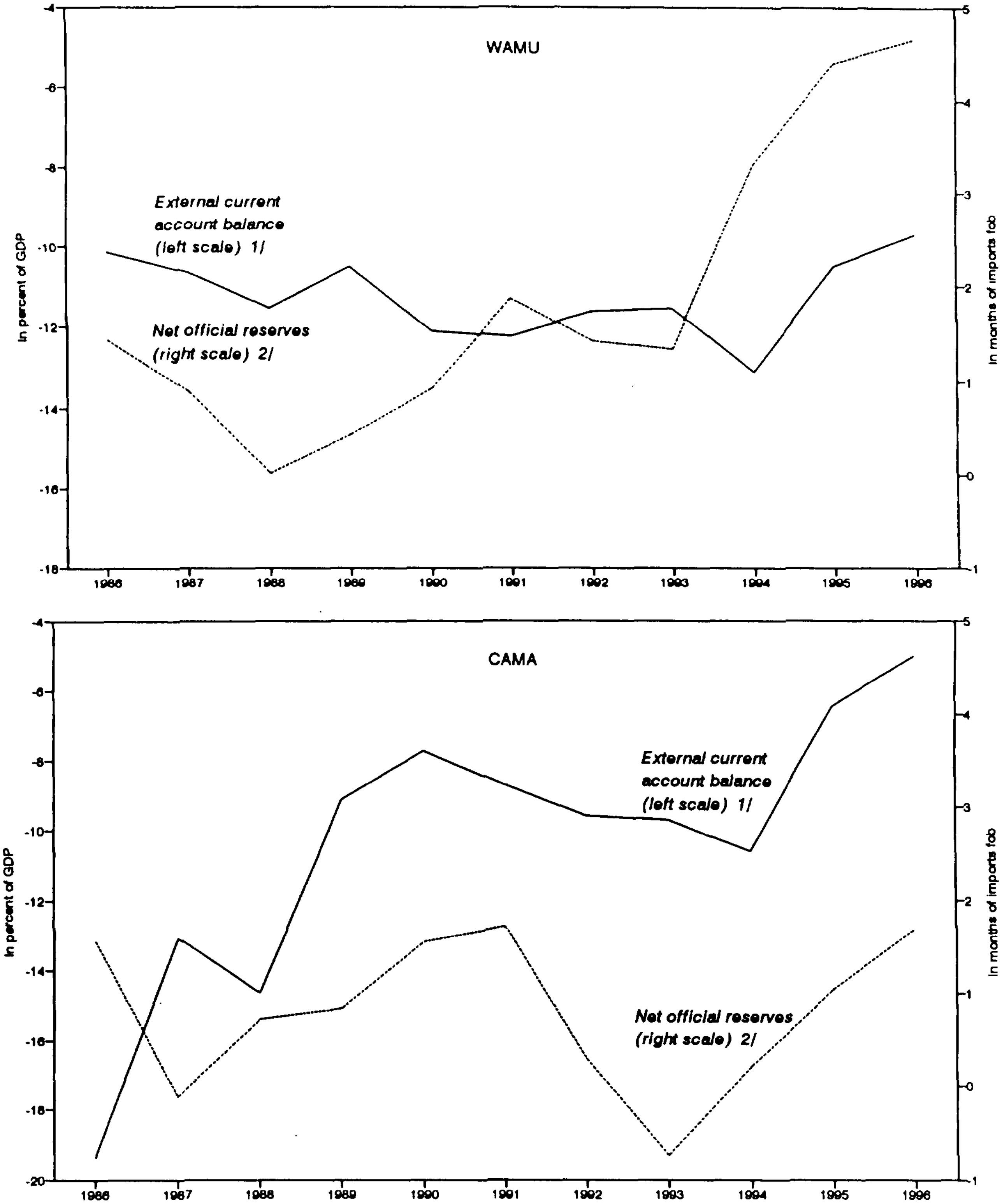




Source Board documents

Chart 5

CFA Franc Zone
External Current Account Balance
And Net Official Reserves, 1986-96



Source: Board documents.
1/ Excluding official transfers
2/ Excluding net use of Fund resources and gold; mainly operations account with the French Treasury.

goods and services during the past eight years (Chart 6). 1/ All countries experienced serious difficulties in remaining current on their debt service obligations, alternating between the accumulation of arrears and the regularization of relations with creditors through debt rescheduling in the context of Fund-supported programs. At end-1993, the ratio of external debt (including arrears) to GDP was in the range of 80-215 percent for six countries (Cameroon, Côte d'Ivoire, the Congo, Equatorial Guinea, Mali, and Togo), while for the other seven countries it was in the range of 54-80 percent. In 1993 the scheduled debt service ratio was equivalent to 40-60 percent of exports of goods and services for the first group of highly indebted countries (except Mali) and in the range of 19-32 percent for the other eight countries.

During 1986-93, the net official reserves 2/ provided coverage for about one month of imports on average in the WAMU and three weeks in the CAMA, with annual variations between zero and two months of imports. Côte d'Ivoire, Senegal, Cameroon, the Congo, and Equatorial Guinea had negative official positions during most of the period, which were offset by positive positions for the other countries and unallocated reserves at the level of each central bank (Appendix I, Table 8 and Chart 5). Notwithstanding their positive reserve positions, several zone members could not draw on them to avoid external payments arrears because governments did not have the budgetary resources or had reached the statutory ceiling on central bank financing.

IV. Common Elements of a Comprehensive Adjustment Strategy

1. Rationale for preserving the existing institutional arrangements

The fixed peg to the French franc and the financial discipline derived from the monetary arrangements have produced a long history of low inflation in the CFA franc countries with, until recent years, orderly domestic and external financial conditions. This was a key reason for continuing the peg--albeit at a new rate--to the French franc. 3/ There was a strong desire on the part of the member countries of the two monetary unions not only to preserve the two monetary arrangements, as well as a nominal anchor, but also to strengthen monetary cooperation and move on to more broad-based

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1/ The debt service ratio did not increase during the period despite the increase in the debt/GDP ratio, because many countries obtained concessional debt relief.

2/ Defined as net official reserves excluding net use of Fund resources and gold, and including the net external position in the operations account attributed to each country.

3/ Pegging to the French franc reflects the continued importance of trade and traditional links with France, and the possibility of greater transparency and credibility derived from maintaining the monetary and exchange arrangements. This was also the conclusion of the 1990 CFAF study.

regional economic integration. The evidence of this growing desire to promote regional integration is to be found in the recent initiatives to reform the common (union-wide) instruments of monetary management in both the WAMU and the CAMA (Section IV.4.b); to establish an economic and monetary union among the countries of the WAMU and the CAMA; and to rationalize and liberalize the internal and external tax regimes (Section IV.4.d).

The authorities of the two monetary unions also recognized that a stable common currency rather than thirteen separate national currencies had the potential of increasing the moneyness of their currency, reducing the risk element in holding it, and yielding information savings and facilitating transactions between members (as a result of one unit of account and all prices being quoted in one currency).

The gains associated with pooling of official reserves have three aspects. First, an adequate level of reserves held individually by each country would have required a higher level of aggregate reserves than if the union as a whole were to continue to pool reserves, given that the inter-country correlation between shocks is less than perfect. 1/ Second, intra-union payment imbalances which are now automatically covered by internal credits would become external imbalances that would need to be financed by the use of reserves. Third, there are economies of scale with spreading the overhead costs of transactions (via the merging of financial managements for reserves).

Finally, the common central banks--with their authority to safeguard the foreign exchange cover for currency issue and to administer statutory limits on individual governments' recourse to central bank credit--have had some measure of independence in determining credit policy, which may be difficult to emulate individually in each of the countries outside the framework of the existing monetary union. The present monetary arrangements have had the advantage of preventing an excessive monetary financing of the fiscal deficits, and the related risk of inflation, although this has entailed heavy government borrowing from abroad and bank borrowing by public enterprises and, in recent years, the accumulation of domestic and external payments arrears.

2. Factors underlying the exchange rate adjustment

The need for a change in the parity of the CFA franc had become increasingly evident, but the magnitude of the required devaluation was subject to considerable analysis and debate. In the event, the size of the devaluation that was actually decided (50 percent) was based on a forward-looking analysis of the exchange rate correction required to restore internal and external equilibria over the medium term. This method took

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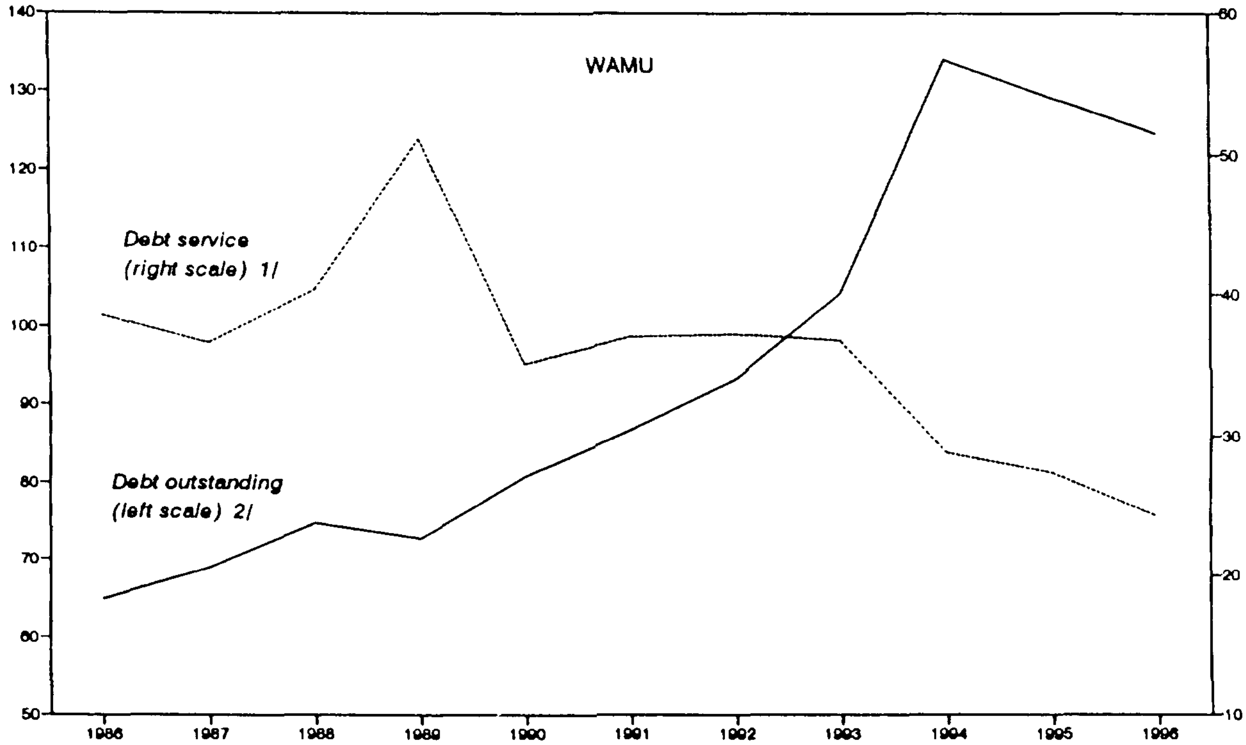
1/ The operations account agreements with France provide a further common cushion in case of external shocks.

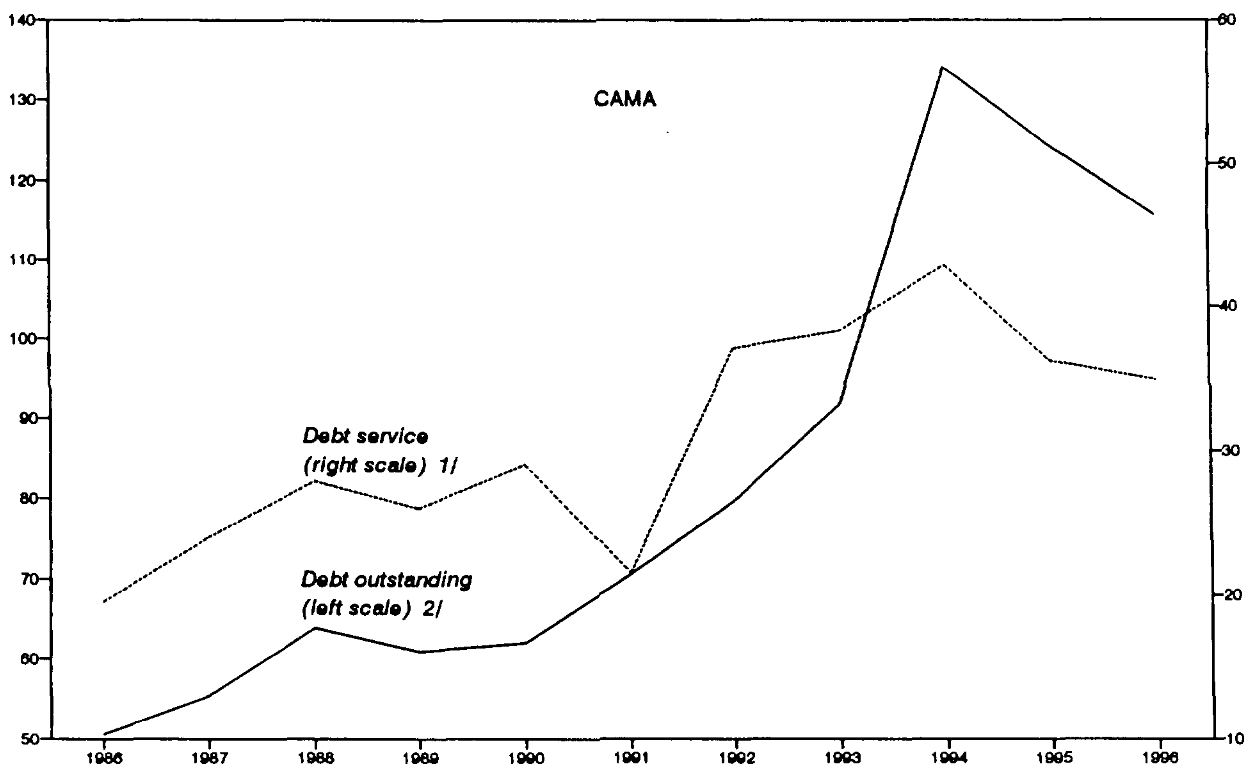
Chart 6

CFA Franc Zone

External Debt and Debt Service, 1986-96

(In percent of GDP unless indicated otherwise)





Source: Board documents.

1/ In percent of exports of goods and services.

2/ Including external arrears.

into account: (i) each country's initial fiscal and external current account imbalances (relative to a sustainable position); (ii) the estimated underutilization of output capacity; (iii) the need to lower import taxes and eliminate export subsidies; (iv) the projected autonomous growth in exports (especially oil exports) and in world commodity prices; and (v) the need to restore investment to a level compatible with sustained higher growth.

The analysis indicated that the overvaluation of the CFA franc in real terms--and the required real exchange rate depreciation in domestic currency terms--was 30-52 percent for Cameroon, Côte d'Ivoire, the Congo, and Niger; 20-26 percent for Burkina Faso, the Central African Republic, Mali, Senegal, and Togo; and 10-15 percent for the remaining countries (Appendix I, Table 3, column 4). Taking into account the extent to which a nominal devaluation was likely to be eroded in the following 12-18 months by domestic inflation--by up to one-half according to some estimates, in part related to a minimum acceptable wage increase--the nominal exchange rate correction would need to be substantially larger, i.e., in the order of 80-125 percent in domestic currency terms for the high overvaluation cases. This method was deemed more comprehensive than an overvaluation assessment based only on the real effective exchange rate (REER) appreciation, corrected for past terms of trade losses and other factors (see Section III, above). It also fitted well with projection exercises for the country programs, in which the targeted improvements in key macroeconomic variables and the necessary underlying real exchange rate depreciation would result from a comprehensive policy package (including a common nominal devaluation and supporting fiscal, monetary and incomes policies).

This assessment of the required real exchange rate correction and the possible erosion through inflation suggested a 100 percent nominal devaluation in domestic currency terms or 50 percent in foreign currency terms, that would be adequate on several grounds. It would be large enough to address the substantial fiscal and external imbalances in the larger countries (at least for Côte d'Ivoire, Cameroon, and the Congo, accounting for over half of the zone's GDP). Second, it would be sufficient to restore the profitability of the main export sectors (e.g., coffee, cocoa, cotton, and uranium). Third, it would also be sufficiently large to be seen as a once-and-for-all measure, which would reestablish the credibility of the zone and restore conditions for sustained growth and financial stability.

The assessment for the members of each monetary union also showed that a 50 percent devaluation in foreign currency terms would be adequate for both the WAMU and the CAMA, so that the possibility of a separate peg for the two unions became less relevant. Finally, the size of the devaluation and the resulting real exchange rate depreciation would largely offset the loss in competitiveness attributable to the zone's substantial terms of trade deterioration. As most of its developing country competitors--inside and outside Africa--had already adjusted their real exchange rates to similar terms of trade losses, the devaluation appeared to be a "fair" and not a "competitive" measure for the CFA franc zone.

The tailoring of the devaluation to the needs of the countries with the more overvalued currency in each of the monetary unions (Cameroon, Côte d'Ivoire, and the Congo) raises the issue of whether it was an excessive correction for the other countries. Two alternative options existed. First, even assuming the continuation of the existing monetary arrangements, the exchange rate correction might--in principle--have been tailored to the needs of the countries with less overvalued currencies, and the smaller devaluation accompanied with tighter financial policies in the larger countries (including nominal wage cuts in the public sector). The problem with this option was that there was a serious risk that such a package would not have been feasible to implement, and would have raised doubts about the credibility of the policy package as an effective solution for the larger countries, and hence also for the zone as a whole.

Second, separate currencies and exchange rates might, in principle, have been adopted by individual countries. This approach would have meant a breakdown of the present common monetary arrangements, and would have been contrary to the manifest desire and the new initiatives of all countries for advancing broad-based regional economic cooperation and integration. The costs of such an approach would have entailed--to a large extent--the loss of the systemic benefits of the common monetary arrangements noted above.

A common exchange rate correction that was larger than what might have been considered for some of the countries meant that one had to consider how the stance of their financial and incomes policies needed to be adjusted to take account of the possibly larger nominal devaluation. In principle, two possibilities existed for these countries. Either to allow higher wage increases as well as a stronger credit expansion to result in a higher inflation rate at the outset of the programs and a correspondingly less strong real depreciation in line with the estimated real exchange rate overvaluation. Or to follow the wage and inflation goals of the more overvalued members, and thereby achieve, for an initial period, a broadly similar real depreciation. The second possibility--with some room for a differentiated wage policy--was chosen for reasons of solidarity within each union and to achieve a stronger reserve improvement for the union as a whole. For the countries that might have considered a smaller devaluation, this option also offered the scope for larger real increases in government nonwage expenditure geared towards improving infrastructure, more production diversification, and somewhat higher growth than would have been possible with a lower real depreciation. At the same time, monetary policy--as reflected in the common interest rate policy and repayment of government bank credit--was to be equally tight as in the more overvalued countries, which would result in a relatively stronger improvement in reserves.

3. Macroeconomic objectives and policy instruments of the new adjustment strategy

a. Policy design issues

The monetary arrangements (the fixed peg and the operations account arrangements with France), combined with the importance of tradable goods in domestic demand and some measure of capital mobility vis-à-vis countries outside the zone, have important implications for the roles of monetary and fiscal policies at the union and country level, respectively, as well as for their assignment to policy objectives.

First, there is limited room for an independent monetary policy. Any excess demand for goods (excess supply of money) tends to be siphoned off through the balance of payments, either via a deterioration in the current account because a small price increase for nontradables translates into excess demand for tradables, or via the capital account because a drop in domestic interest rates translates into a drop in net capital inflows. This means that, ceteris paribus, 1/ there is limited room for the zone's inflation rate and interest rate to be substantially different from those in France (once allowance is made for the country risk factor). 2/

As a result, monetary policy at the union level is mainly assigned to maintaining an appropriate level of official reserves, with the inflation and interest rates as intermediate policy objectives and net domestic assets of the common central bank as the main policy instrument or operational intermediate target. 3/ Moreover, given the ongoing efforts to move toward an integrated regional money market, there will be increasingly less room for country-specific monetary policy instruments (see Section IV.4.b). Provided the rules for government access to central bank credit and sustainability of the fiscal deficit are followed, the risk of deviations from targeted inflation rates and reserves at the individual country level would not be a matter of concern.

Second, fiscal policy at the national level is assigned mainly to reaching objectives for real output and growth, as well as for the respective roles of the government and private sectors in production and investment. However, the room for national fiscal policy is constrained by the sustainability (in terms of debt service capacity) of each country's external and domestic debt: thus, the level and changes in government debt

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1/ Assuming no changes in the factors determining the equilibrium real exchange rate.

2/ The room for differences is determined only by the less than perfect substitutability between tradables and nontradables and less than perfect capital mobility, as observed for the zone.

3/ As the unions move toward fully market-determined interest rates, the remaining rates fixed by the central bank, such as the discount rate, will play only a marginal role.

will become subject to surveillance at the level of each monetary union (see Section V.1). The statutory ceiling on government borrowing from the central bank, equivalent to 20 percent of recorded government revenues, puts a further constraint on fiscal policy. When this ceiling becomes a binding constraint, fiscal policy is delinked from monetary policy, so that fiscal expansion is usually not the direct cause of a loss of reserves, but is a cause for concern because of its implications for government debt and the medium-term sustainability of the fiscal position.

Finally, the monetary arrangements of both the WAMU and the CAMA require a 20 percent foreign exchange cover 1/ for sight liabilities of the central bank, which is a key to the convertibility of the CFA franc. This safeguard, together with the statutory ceiling on government bank borrowing, provides protection against the risk of a run down of international reserves and is in effect an intermediate barrier to open-ended access to the Operations Account held with the French Treasury. The policy response to reserve losses, stemming from a drop in money demand and capital flight, would be monetary tightening and higher interest rates at the union level, combined with a tightening of fiscal policy (government bank borrowing) in each country.

b. Program targets 2/

The key objectives of the new adjustment strategy are to improve the fiscal balances and the conditions for sustainable investment and growth, while strengthening the official reserves position, preserving the convertibility and the new fixed parity of the CFA franc, and quickly restoring price stability.

In each country, program targets were set in line with the desired fiscal improvement and feasible recovery in output, while staying close to the inflation target for the union (around 35 percent for consumer prices in the first year) and providing for a reasonable contribution to the improvement in official reserves of the union. Each union's inflation

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1/ The coverage has been less than 20 percent in recent years for both unions (see Appendix I, Table 10).

2/ In the months following the devaluation, Fund-supported programs were put in place in all countries except Togo (see Appendix II). In seven countries, programs are supported by stand-by arrangements, with program targets set mostly for one year. Projections beyond that period should be treated as very preliminary. In five countries, which already had ESAF arrangements, or where the preparations for structural reforms in a medium-term context were sufficiently advanced, programs were designed within a three-year framework and supported by ESAF arrangements. For Togo, a three-year ESAF arrangement should be submitted for Executive Board approval in September.

target was derived from the feasible inflation rate of the member countries, taking into account the desired degree of real depreciation and the expected speed of transmission of the nominal devaluation to domestic prices.

The programming exercises for each country were further influenced by a certain degree of zone-wide harmonization in government wage policy (increases not exceeding 15 percent), and tariff policy (an average reduction in all cases), as well as caution in projecting money demand (a small increase in velocity in 1994), the return of flight capital, and the supply response of tradables and nontradables. Apart from the uncertainty about economic behavior in a fundamentally different economic environment, program design was complicated in many cases by inadequacies in data for the base year. In view of the uncertainties about the responses of government and private sector to the changed situation, many programs have built-in contingency measures to address unforeseen adverse fiscal developments.

Given these policies and behavioral assumptions, the balance of payments and below-the-line changes in reserves were projected for each country and aggregated to project the change for each union as a whole. If necessary, adjustments were made in an iterative process to ensure consistency with targets for each union. Finally, forecasts for demand for currency and broad money were developed for each country and used to derive targets for net domestic assets of the banking system in each country as well as for the common central bank in each union.

The inflation rate--as measured by the weighted average of increases in the consumer price indices of the thirteen countries--is targeted to rise from -0.6 percent in 1993 to around 35 percent in 1994, and then drop to 6-7 percent in 1995 and 3-4 percent in 1996, when it would be roughly in line with the inflation rate of France and other countries of the European Union (EU) (Appendix I, Table 11). The sharp rise in 1994 reflects largely the effects of the devaluation on local currency prices of tradable goods entering--directly and indirectly--into the CPI, as well as increases in administered prices and wages implemented in the aftermath of the devaluation.

The adjustment programs of the individual countries foresee some cross-country variation vis-à-vis the zone's average inflation path, particularly in the first year (1994), owing to differences in the degree of openness of the economy, 1/ the terms of trade forecasts, the reduction in trade taxes, the importance of nontradable (and imperfectly tradable) goods and services, the scope for and pace of price reforms, the supply response and extent of competition in domestic markets, and the degree of fiscal

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1/ For example, the shares of imports in consumption vary between 15 and 30 percent.

adjustment. 1/ Over time, given the common nominal exchange rate anchor, the cross-country inflation differentials are projected to diminish as a result of the elimination of internal price controls, the promotion of competition in domestic markets, the liberalization of the foreign trade regime, the progress towards regional integration of goods (and factor) markets, and the coordination of appropriately restrictive financial and incomes policies.

Over the medium term, the weighted average real GDP growth rate of the CFA franc countries is projected to switch from a 2 percent decline in 1993 to increases of 1 percent in 1994 and 5-6 percent in 1995-96 (Appendix I, Table 11), as output responds favorably to a reduction in real product wages and improvements in competitiveness. As in the case of inflation, cross-country variations vis-à-vis the average growth path are expected to be quite substantial in 1994 and then diminish over the next two years. The short-run differences in the growth performance of countries reflect differences in fiscal adjustment, the degree of underutilization of capacity prior to the devaluation, and the short-run supply response in the export and import substitution sectors. In the long run, cross-country differentials in growth rates are likely to reflect differences in infrastructure and other investment, the exploitation of natural resource endowments, and the pace of structural reforms. Over time, policies aimed at increasing the mobility of capital and labor and fostering a more competitive market environment--through freedom of entry for enterprises, cross-border harmonization of investment and business regulations, and liberalization of labor codes--could contribute to narrowing the cross-country growth differentials.

The medium-term targets for reserve accumulation are to raise the two unions' net official reserves, 2/ from the equivalent of 1.3 and -0.7 months of imports in 1993 to 4.7 and 1.7 months of imports in 1996 for the WAMU and the CAMA, respectively (Appendix I, Table 11). The need to view each union's official reserves as a guiding objective reflects the fact that the members of each monetary union pool their reserves (through the separate Operations Accounts at the French Treasury). By the same token, the likely contribution of each country to the union's aggregate reserve accumulation is consistent with each country's medium-term prospects for fiscal and external current account adjustment and for mobilizing the required foreign financing.

The weighted average external current account deficit (excluding grants) is targeted to increase by about 1 percentage point to 12 percent of GDP in 1994, but to decline over the subsequent two years to under 8 percent

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1/ Price increases for nontradables tend to be smaller, ceteris paribus, in countries where fiscal adjustment is stronger or there is a large underutilization of capacity.

2/ Excluding net use of Fund resources and gold, and including the net external position in the operations account attributed to each country.

of GDP in 1996. On the other hand, the weighted average of the targeted fiscal deficits (on a commitment basis, excluding grants) remains constant at slightly above 10.5 percent of GDP in 1994, 1/ before dropping to less than 7 percent of GDP in 1995 and under 5 percent in 1996 (Appendix I, Table 12). The cumulative three-year adjustment in the fiscal deficit (on a commitment basis) is larger than the targeted improvement in the external current account position. This reflects the need in most cases to provide room for the clearance of domestic and external payments arrears within the prospective financing constraints, as well as to reduce (or restrain) government indebtedness to the central bank to allow for both sufficient overall restraint in domestic credit policy and adequate provision of credit to the non-government sectors.

Viewed from the perspective of sectoral savings/investment imbalances, a stronger adjustment in the public sector was a way of providing more room for expansion of the nongovernment sectors, which would finance part of their increased investment by the government repayments of arrears and to some extent by increased private capital inflows. Thus, the programs aim on average at raising the investment/GDP ratio by 6 percentage points (of which 4 percentage points on account of private investment) above the 1993 level to attain an average ratio of 19 percent during 1994-96 (Appendix I, Table 4); a stronger increase, by over 9 percentage points (largely on account of the government), is envisaged in the zone-average savings/GDP ratio, which is projected to reach 21 percent in 1996 (see also Chart 4, page 8a). 2/

1/ The unchanged fiscal deficit to GDP ratio (and slight worsening of the current account) in the first year reflects (a) the lagged response of domestic tax revenue to the increase in nominal GDP, (b) the doubling of external interest payments, and (c) the large initial increase in nominal investment--largely on account of imported investment goods--combined with lagged increases in nominal GDP. Excluding relative price effects, the primary government balance of the zone in U.S. dollars is targeted to improve from a deficit of US$2 billion in 1993 to a deficit of US$850 million in 1994, and to a surplus of US$250 million by 1996. The first-year improvement, largely due to a reduction in real government wages, indicates a significant front-loading of fiscal adjustment (see Appendix I, Tables 12 and 14).

2/ The averages mask large country differences. Thus, in the oil exporting countries and Côte d'Ivoire, domestic savings exceed gross fixed investment during 1994-96 while the opposite is the case in the non-oil producing countries.

4. Supporting policies

a. Fiscal policy

Fiscal policy has a central role in each of the programs launched by the CFA franc countries. While the size of the needed fiscal adjustment differed among the countries because of initial economic imbalances, the programs have several features in common. In general, these are: (i) a rapid improvement in the fiscal balance toward a sustainable level, given foreign and domestic financing constraints; (ii) a rapid elimination (or settlement) of domestic and external payments arrears, excess bank borrowing above the statutory ceiling, and other debt in excess of a manageable level; (iii) an improvement in the tax revenue structure compatible with the targets for regional harmonization of trade and domestic taxes; (iv) a reduction in real noninterest current expenditure (in particular wages, transfers and subsidies) and reorientation in favor of social sectors and other basic infrastructure; and (v) an increase in the level and quality of investment expenditure.

To ensure a sustainable fiscal position in each country and avoid high levels of external and domestic government debt that could jeopardize the functioning of the zone, both unions have recognized the need for closely monitoring the fiscal deficits as a complement to strict control over government bank financing. Target levels for the primary balance (i.e., the fiscal balance excluding grants and interest payments) and the basic primary balance (i.e., the primary balance excluding foreign-financed investment) have been established by the WAMU in September 1993 and are under preparation in the CAMA. The targets for the primary balance have been based on the sustainability of government debt as measured by the expected path for the ratio of debt service to fiscal revenue. Fiscal program targets have generally been in line with these criteria, while allowing for the reduction of excess debt, including debt to the central bank. All programs also aim at eliminating external payments arrears, taking into account the availability of resources and the scope for debt relief (see Section IV.5). In addition, they provide for the settlement of domestic payments arrears, either in the form of cash payments or through the issuance of securities, to support renewed activity in the private sector. 1/

Several issues arise regarding the assessment of the viable level of the fiscal deficit in each member: (i) the availability of concessional foreign financing; (ii) the relative importance of domestic and foreign debt and debt service; and (iii) the relation between fiscal and external viability. First, some countries are expected to continue to have much

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1/ In a number of countries (e.g., Cameroon and the Central African Republic) the clearance of domestic arrears has to be preceded by the completion of an inventory of arrears as well as the adoption of legal steps necessary for their securitization.

higher access to grants and concessional loans than others. 1/ The sustainability of such financing would depend on the projected debt service in terms of projected fiscal revenue, assuming that adequate project selection criteria ensure efficient use of resources. As a result, deficit targets would differ across countries without putting the union's balance of payments and inflation targets at risk.

Second, the distinction between domestic and foreign debt is less important since the viability of the fiscal deficit and debt-generating financing flows would depend on the future debt service on total debt, i.e., domestic and foreign debt. This is so because government borrowing in excess of a level which can be serviced bears the risk of excess bank financing and arrears, thereby endangering the functioning of the union. Therefore, pursuing a fiscal deficit target in each country which is attainable in terms of total debt and debt service capacity--taking into account access to concessional financing--would ensure fiscal viability at both the country and union level.

Third, there is the question of whether fiscal viability would be sufficient for external viability of the union, or whether monitoring of each country's external debt service relative to export revenue or reserves would also be needed. As analyzed in previous sections, the common monetary policy is assigned to preserving the common official reserves position; therefore, fiscal viability at the country level and an appropriate monetary policy at the union level would be sufficient to ensure external viability (in terms of the union's external indicators).

Revenue policies have generally aimed at improving the tax structure and reducing the reliance on trade taxation, while respecting the objectives for tax harmonization in the union. Harmonization and reduction of external tariffs are being accelerated in both unions. Following the devaluation, most members have considerably reduced external tariffs, including for petroleum products. This is expected to partly offset the revenue impact of the increase in the taxable import base, so that import tax receipts in percent of GDP are expected to remain constant or increase little. 2/ These steps are to be followed by the implementation of a common external

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1/ Differences in grants received amount to as much as 10 percent of GDP, mainly due to project grants. Most of the poorer countries also receive non-project grants on a sustainable basis, partly in the form of food aid and technical assistance.

2/ The reduction in effective import tax rates--measured by the ratio of import tax receipts over the f.o.b. import value--by some 23 percent on average (27 percent in the WAMU and 15 percent in the CAMA) is expected to have the favorable side effect of moderating the initial domestic price increase by some 5 percentage points on average. The reduced effective rate is the net result of substantially lower tariff rates, only partly offset by reduced exemptions.

tariff and a preferential intra-zone tariff, 1/ a harmonization of domestic indirect taxation, and, at a later stage, a harmonization of income taxation. To the extent that this harmonization process advances, it will necessarily limit the tax instruments at the disposal of each country for correcting individual fiscal imbalances.

The common and lower external tariff and preferential intra-zone tariff could in certain countries lead to losses in budgetary revenue which will need to be offset in part by strengthening domestic tax collection. However, the medium-term objective of eliminating intra-zone indirect tax differentials would tend to limit the scope for such offsetting. In the short term, domestic effective taxation differences are likely to remain. For example, while recent tax reforms in the WAMU countries have reduced the range of VAT rates, the normal VAT rates still vary between 14 and 20 percent (see Appendix I, Table 6). In the CAMA, harmonized turnover (TCA) and excise taxes are to become effective from January 1995; 2/ the normal TCA rate will vary between 7 and 18 percent and that of excise taxes between 0 and 100 percent.

The potential impact of reducing tax exemptions has not been easy to assess, as data was lacking for determining the share in imports of fully or partially exempted goods and the rate at which the nonexempt portion was taxed. Reducing the scope of exemptions, tax evasion, and fraud, where they are extensive and raising the tax rate where it was relatively low was expected to have a noticeable positive impact. Thus, in countries such as Niger, which have extensive exemptions and relatively low tax rates on partially tax-exempt imports, the potential for increasing revenues could be enhanced by reducing exemptions and raising the tax rate on the partially tax-exempt imports; the opposite would be true in the case of other countries such as Côte d'Ivoire where the scope of exemptions is more limited and the tax rate on partially tax-exempt imports is already high.

Although the devaluation directly raised the value of taxable imports, this valuation effect is expected to be influenced by shifts in the structure of imports induced by the relative price changes related to the devaluation and tariff reform. For example, given the relatively high price elasticity for the highly taxed category of imports (finished goods), the

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1/ The common external tariff was introduced in the CAMA in January 1994; the preferential intra-zone tariff is to be implemented during the second half of 1994 (see Section IV.4.d).

2/ This turnover tax has some VAT features and will later be replaced by a full-fledged VAT. It has two rates varying within bands across countries (3-6 percent; and 7-18 percent, according to the category of goods and services). The TCA will replace the "taxe unique" which--together with various other taxes--is the existing tax in lieu of import duties and other indirect taxes negotiated between the government in each country and each individual enterprise. The TCA is already being implemented in Cameroon, the Central African Republic, and the Congo.

share of these goods in total imports could decrease as a result of their increased price in CFA franc terms. As a result of potential shifts and the uncertainty attached to price elasticity assumptions for import demand as well as to the impact on tax evasion and fraud, the program estimates of the overall revenue impact of the devaluation are thus subject to considerable uncertainty, and hence careful revenue monitoring and improved tax administration will be essential to ensure that effective measures are in place to maintain the strength of the fiscal package.

The liberalization of marketing of agricultural exports is envisaged in all countries of the zone. This would imply that all forms of explicit and implicit subsidization or taxation be eventually eliminated, and the remaining differences between countries in producer prices would correspond to transport cost and productivity differences. Whereas many countries in the WAMU have recently eliminated export taxes, others have introduced or maintained them, e.g., Côte d'Ivoire has increased implicit export taxation of cocoa and coffee, 1/ and most CAMA countries have maintained export taxes. While export taxation can be considered as a second best way of taxing the agricultural sector, it would need to be progressively reduced and replaced by direct forms of taxation as soon as feasible, taking into account existing administrative constraints. In the meantime, export taxes should be made explicit and should not hinder producer price liberalization.

All programs aim at reducing the weight of wages and other noninterest current expenditure, so as to increase government savings and investment levels. In the WAMU, this is reflected in criteria for government wages and savings relative to fiscal receipts (see Section V.1). The reduction in real government wages is a key element of the comprehensive adjustment strategy in all countries, and accounts for almost 2 percentage points of GDP in deficit reduction in the zone in 1994. In addition, reduced real expenditure on transfers, scholarships, and subsidies for public enterprises (including export marketing agencies) further contributes to government savings. This was partly offset by temporary subsidies on a few essential consumer goods, most of which were eliminated by midyear. As a result, the higher level of government savings combined with increased availability of project-related foreign financing (in CFA franc terms) allows a substantial increase in government investment (relative to total expenditure and to GDP) in all countries. Moreover, the sectoral allocations of nonwage recurrent expenditure and public investment are programmed to give emphasis to the development of the social sectors, notably primary health care and education, and to essential infrastructure.

1/ In the case of cocoa, Côte d'Ivoire has a significant share in the world market and has an interest in containing cocoa production and encouraging farmers to diversify their exports.

b. Monetary policy

The key objective of monetary policy in both monetary unions is to achieve the common official reserves target and preserve the convertibility and fixed parity of the CFA franc. Despite important differences between the two unions, this is to be achieved increasingly and mainly through union-wide indirect monetary instruments at the level of each central bank with limited room for national monetary policies.

The principal monetary policy instruments at the level of each union are the central bank discount rate and related interest rates and the amount of refinancing or intervention in the money market. With regard to interest rates, shortly after the devaluation, the BCEAO and the BEAC increased their discount rates by 4 and 2.5 percentage points, to 14.5 and 14 percent, respectively. At the same time, the maximum lending rates and minimum rates on savings deposits were raised by several percentage points in both unions. 1/

Central bank refinancing and intervention policies will be kept in line with the official reserves target, while taking into account an expected initial increase in velocity. The monetary programs for each country envisage broad money expansion in 1994 at rates well below the projected growth rates in nominal GDP, with union-wide growth rates for the WAMU and CAMA of 32 and 21 percent, respectively (Appendix I, Table 12). 2/ Velocity is projected to decline only gradually in subsequent years (Appendix I, Table 7). This cautious approach reflects the considerable uncertainty about the demand for money in the wake of the devaluation and the initial upward correction of prices as well as the concomitant structural changes. However, since net bank credit to government is programmed to decline or increase only modestly in all countries and a settlement of arrears to the private sector is also envisaged, the monetary programs allow for sufficient room for credit to the private sector.

At the national level, the statutory ceiling for central bank credit to government remains in force, and repayment of advances in excess of the statutory ceiling is foreseen in most programs for 1994. Country-specific ceilings on credit to public enterprises have also been included in some programs, since during a period of restructuring it was considered important to prevent bank credit to public enterprises from being extended on the basis of non-commercial criteria. While strict control of central bank

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1/ The usurious rate (twice the discount rate and, in practice, not binding) was increased to 29 percent in the BCEAO and the maximum lending rate to 19 percent in the BEAC. The minimum rate on savings deposits was raised to 8 percent in the BCEAO and 9 percent in the BEAC. Most interest rates were reduced end-June/early July. (See Appendix I, Table 10.)

2/ The lower average monetary expansion for the CAMA reflects lower real GDP growth, as well as a somewhat more cautious velocity projection in these countries.

credit to the public sector is considered key to an appropriately tight monetary policy in each union, past experience has shown that it should be complemented by surveillance over government non-bank borrowing, both foreign and domestic, to avoid a future debt service problem. This is reflected in the strengthening of fiscal monitoring discussed above.

It would appear that the room for national monetary policy is becoming increasingly limited in both monetary unions. This has to be seen in the context of the comprehensive reforms recently undertaken by the BCEAO and the BEAC. 1/ In a number of steps taken since 1989, the BCEAO has set up a WAMU-wide money market in which the banks of the union operate through the intermediation and global intervention of the Central Bank. At the national level, the practice of quantitative credit controls has been eliminated after their formal abolition in 1989. A further shift toward union-wide and indirect monetary instruments took place with the reform of October 1993, which entailed a full liberalization of interest rates, the introduction of a money market auction system, 2/ the establishment of a free interbank market, and the introduction of minimum reserve requirements for commercial banks.

In the BEAC, the development of union-wide monetary policy instruments is less advanced than in the BCEAO. A money market was not put in place until July 1994 and central bank credit has thus far been allocated through country-specific refinancing ceilings, which have until recently been translated by national agencies into bank-by-bank refinancing ceilings, and, in turn, into credit ceilings by sector. 3/ Given the institutional setup, monetary and credit policy has been largely conducted at the national level, with national targets for reserves and credit as well as national instruments. However, reforms toward an integrated money market and market-determined interest rates and credit allocation are now under way. In early July, the BEAC's direct intervention in credit allocation was abandoned, following the introduction of a union-wide central bank auction system as well as an interbank money market with freely negotiated interest rates. At the same time, the BEAC introduced legal reserve requirements for commercial banks to be implemented during the second half of 1994.

1/ See Appendix IV for details; Appendix II lists recent technical assistance on monetary and banking matters provided by the Fund to the BCEAO and the BEAC.

2/ The money market auction in the BCEAO is not yet functioning with a market-clearing interest rate; although banks have experienced a sharp increase in liquidity after the devaluation, the Central Bank has kept the interest rate artificially high (through about end-June), while accepting only a fraction of the funds on offer.

3/ Like the BCEAO, the BEAC has experienced a sharp increase in bank liquidity since the devaluation. In the absence of a money market, the Central Bank has so far been accepting deposits offered by the banks and remunerating them at a rate which is over 3 percentage points above the French money market rate.

Given these reforms, it appears that for attaining each union's official reserves objective, union-wide monetary policy instruments, combined with strict control over public sector credit at the country level, will eventually become sufficient. 1/ Other national monetary policy instruments, such as reserve ratios for banks, would be of limited use for several reasons. First, they could easily be circumvented through inter and intrabank lending across countries in the same union. Second, union-wide official reserves and credit targets would replace national targets, while union-wide competition between banks, together with appropriate banking supervision, would ensure a market-based credit allocation between countries and sectors. Third, monetary policy--as past experience in the zone has shown--would not be suited for pursuing national development objectives, which would rather be the object of national fiscal policies and, possibly, a regional policy at the union level.

The possibility of large private capital inflows to the countries of the WAMU and the CAMA 2/ raises the question about the possible need for a national policy response aimed at avoiding an undesirable expansion of domestic demand. Although such flows may be unevenly distributed across countries of a union, it would appear that the appropriate policy response would be at the union level. While fiscal tightening by a member facing large private capital inflows would be effective in taking steam off its economy, it would not seem appropriate for this country to deviate from its desired fiscal path based on the sustainability of its government debt. As the capital inflows would, in principle, be beneficial to the union as a whole, the appropriate action would be--depending on the durability of the inflows and the possibility of a simultaneous increase in real money demand--to increase union-wide required reserve ratios or absorption of liquidity by the Central Bank in the union-wide money market.

Notwithstanding recent reforms, the monetary policy framework in both unions is still relatively weak and the indirect instruments put in place are not yet fully operational. In the WAMU, the money market interest rate is not fully market-clearing and the BCEAO has been inclined to continue setting both the interest rate and the quantity of its intervention. In the CAMA, interest rate liberalization is at an even earlier stage. In addition, both central banks will need to develop a range of indirect monetary policy instruments (such as central bank and Treasury paper) which will allow them to intervene flexibly in the financial markets. Both unions

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1/ This discussion assumes that the financial markets of WAMU and CAMA are not fully integrated so that each monetary union has a certain monetary policy independence vis-à-vis the other. The August 1993 suspension of central bank repurchases of CFA franc bank notes held outside each monetary union has weakened such integration (see Section IV.4.d.).

2/ Since the devaluation, the CFA franc countries have experienced important private inflows resulting in improvements in bank liquidity as well as in the overall operations account position by CFAF 600 billion in five months (see Appendix I, Table 10).

also need to accelerate financial market development, as well as to expedite the restructuring of banks and other financial institutions, with a view to enabling a smooth transmission of monetary policy measures to the economy.

c. Income and pricing policies

In general, policies in all CFA franc countries aim at reducing the government's role in price and wage determination, while moderating public sector wage increases. Although the required fiscal adjustment and reductions in the real wage and the real exchange rate differed considerably between countries and, in principle, left room for some differentiation in wage increases, the zone members have opted for broadly similar wage increases in the public sector. The 1994 increases in the basic salary of civil servants have been contained in general within a band of 5-15 percent (with no wage increase in Cameroon), while the increases in allowances have been kept below those in the basic wage. 1/ This strategy was adopted because it would provide a signal to public sector employees about the uniformity of treatment across countries and thereby help to ensure successful implementation. In a few cases, such as Burkina Faso, Côte d'Ivoire, Niger, and Senegal, the wage increase was differentiated according to salary level with larger increases for low-salary groups, while in Côte d'Ivoire and Mali nonwage benefits were frozen.

Wages in public enterprises are expected in most cases to follow civil service wages. In most programs, this is not made an explicit policy commitment, since existing institutional arrangements often provide for a close link between civil service and public enterprise wages. The impact of civil service wages on private sector wages is thought to be weaker. Most programs envisage that wages would become more market-determined and specify measures to make the presently highly segmented labor markets more flexible, including flexible rules for hiring and firing, abolition of indexation agreements, and free negotiation of wages. In cases where institutional factors rather than labor market considerations are likely to influence private wage setting, the government is expected to encourage the same moderation as in the public sector. Public and private sector wage restraint--expected to result in an increase in the output price/wage ratio in the tradable and nontradable sectors of about 55 and 15 percent, respectively--is considered key in improving the supply response and capacity utilization in both sectors.

Almost half the countries have increased the legal minimum wage (by 10 percent in four countries, by 46 percent in Benin (from a very low

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1/ In Niger, Senegal, the Central African Republic, Chad, and the Congo, the wage measure took partly the form of rescinding recent wage cuts while providing for moderate increases in certain cases (see Appendix I, Table 13).

level), and by 14 percent in Equatorial Guinea), but this minimum is often not enforced, in particular in the relatively large informal sectors in these countries (see Appendix I, Table 13).

As regards pricing policies, most countries already had a fairly liberalized price regime before the devaluation. In a number of cases, the devaluation was initially accompanied by global price control. This was replaced within weeks by selective price controls for key commodities, to be phased out over the remainder of the program year in most cases. 1/

Agricultural producer prices for next year's crop of export commodities have been increased considerably in all countries, at rates generally ranging from 30 to 100 percent, aimed in general at restoring production incentives (see Appendix I, Table 13). A less-than-full pass-through of the devaluation in several cases has allowed absorbing the losses of marketing agencies and eliminating the need for direct or indirect subsidization by the government. In some countries, the effective producer prices for the current crop year (1993/94) have been increased through the payment of a premium on the crop already purchased at the old producer prices. In a few countries (e.g., the Central African Republic for coffee), the announced producer prices are only indicative and traders are free to make transactions at any price; in others (e.g., Cameroon for robusta coffee and cocoa), the present producer prices are minimum prices, while market-determined prices are foreseen beginning with the 1994/95 crop year. 2/ All programs envisage a reduction in the role of government marketing agencies and eventual freeing of both producer prices and export marketing. 3/ The remaining differences in producer prices between zone members would mainly reflect differences in marketing arrangements, quality, and, to some extent, transport costs. While the devaluation has allowed an elimination of export subsidies, in some cases an export tax was reintroduced (on cocoa and coffee in Côte d'Ivoire) or maintained (on timber in most CAMA countries), pending the design of alternative income taxation and with a view to diversifying production.

1/ By end-1994, price controls are expected to remain only for petroleum products, medicines, a few basic food items, and certain public utilities and transportation.

2/ This will imply that in the main coffee exporting countries, producer prices for coffee are likely to be raised well above those for cocoa, in line with the current level of world prices.

3/ To the extent that in a transition period state marketing boards continue to act as a buffer between world prices and producer prices, their financial situation must be closely monitored to avoid that increased revenues related to favorable world prices would lead to a weakening of financial discipline on the part of the government. This may require that part of the larger-than-anticipated receipts would not be spent and deposited with the banking system.

Prices of petroleum products were raised at rates up to 55 percent, i.e., substantially less than the devaluation rate in local currency terms. This was made possible by a parallel reduction and/or rationalization of petroleum taxation 1/ and a relative compression of transport and other margins. The effective taxation of petroleum products was considerably reduced in most countries for several reasons: (i) initial taxation rates were fairly high by international standards; (ii) mitigating energy price increases would help contain costs of production; and (iii) for zone members close to Nigeria, the incentive for smuggling needed to be reduced. In addition, in many countries the petroleum pricing and taxation systems were simplified soon after the devaluation, and most programs envisage further measures to ensure that domestic petroleum prices would more closely reflect world price fluctuations. In some cases, consideration is also being given to privatizing and liberalizing the marketing of petroleum products.

With regard to administered tariffs for public utilities, in most cases the rates were increased soon after the devaluation to cover the higher costs of imports. Most programs envisage further tariff adjustments in line with cost developments (see Appendix I, Table 13).

d. Foreign trade reform

Overall, economic integration in both unions is still at an early stage, although there has been progress in reducing and harmonizing external tariffs. In early 1994, the treaties establishing the WAEMU and CAEMC were signed, and both unions are now accelerating implementation of measures. Harmonization of trade and domestic taxation over a period of 3-5 years is an objective for both the WAEMU and the CAEMC. Given that the bulk of foreign trade is with non-CFA franc countries, the sequence of trade policy harmonization measures is envisaged in the two unions as follows: (i) adoption of a common external tariff, below the prevailing average tariff; (ii) removal of intra-zone barriers, starting with the commitment not to introduce new tariffs or nontariff barriers; and (iii) harmonization of domestic indirect taxation.

In most WAMU countries, recent reforms have introduced simplified tariff systems, as a result of which cross-country differences in the number of tariffs and in the minimum and maximum rates have narrowed (Appendix I, Table 6). After the devaluation, member countries of the WAMU eliminated most remaining quantitative restrictions and tariff exemptions; a number of quantitative restrictions remain in Côte d'Ivoire, Niger and Senegal, but are programmed to be eliminated over a one- to three-year period. In most countries, the system of administrative prices for customs valuation was replaced by an import valuation based on c.i.f. values. In all countries, import taxes on a few essential goods, such as rice, wheat, medicines, and kerosene, were temporarily reduced. Export taxes have been eliminated

1/ In several countries this took place in the context of a wider tariff reform.

except for selected cash crops, and governments are completing their withdrawal from commodity marketing. A common external tariff is under preparation and--given progress toward harmonization under recent reforms--is expected to be put in place in 1996, following the implementation of a transitional scheme for some countries to address the problem of uneven impacts on trade tax revenues. Similarly, the objective of removing all intra-zone trade barriers is expected to be reached in approximately five years, beginning with the introduction of a preferential rate of 50 percent of the common external tariff, 1/ and members' obligation not to introduce any new intra-zone trade barriers.

In the CAMA, the comprehensive reform adopted in the context of the UDEAC in June 1993 has four main components: (i) introduction of a common external tariff (CET) with four rates (5-10-20-30 percent) from January 1994, 2/ including a 10 percent rate for previously exempted raw materials; (ii) introduction of a preferential intra-zone rate at 20 percent of the CET (0 percent for the lowest rate) in the second half of 1994, to be reduced in stages to zero percent by January 1998; (iii) elimination over three years of quantitative restrictions, to be replaced, if necessary, by a country-specific temporary surtax (up to a maximum of 30 percent and for not more than three years); and (iv) harmonization of investment codes in line with the new tariff regime. Once the new tariff regime is in place, the maximum and average tariff rates and the intra-zone trade barriers in the CAMA will have been reduced considerably. In addition to the reform, immediately after the devaluation, most CAMA members temporarily reduced import and sales taxes for selected essential goods. Export taxes were abolished, except for timber in most countries, a statistical tax in Chad, and taxes on coffee and cotton in the Central African Republic.

In both unions, a major issue arising from the trade reforms is their possibly unequal impact on tax revenue across countries, given intercountry differences in average import tax rates, openness, overall tax revenue potential, and the extent of exemptions. For example, the effective tax rates on imports 3/ varied from 8 percent to 39 percent of the value of recorded imports f.o.b. and the share of import tax receipts in GDP from 1.6 to 6.9 percent (Appendix I, Table 6). The common external tariff and the preferential intra-zone tariff could lead to losses in budgetary revenue for some countries. The adverse revenue impact of the reduction in rates per se could be significant in some of the smaller landlocked WAMU countries where import tax rates are relatively high and import tax receipts represent

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1/ The preferential rate will replace the "Taxe de Coopération Régionale," which was intended to offset revenue losses due to reduction of intra-zone tariffs, but became inoperative. The new preferential rate is to be reduced in stages to zero after three years.

2/ The original proposal had foreseen 35 and 50 percent for the highest two categories, but after the devaluation all countries except Equatorial Guinea adopted the lower rates of 20 and 30 percent.

3/ Including the statistical tax, VAT, and other taxes levied on imports.

a large share of total tax revenue. This problem is being addressed by eliminating remaining exemptions, improving revenue collection and reducing tax fraud, as well as by accelerating domestic tax reform, while allowing for differential domestic indirect taxes (see Section IV.4.a).

The impact of the CFA franc devaluation and the accompanying rationalization and liberalization of the trade regime will have consequences for regional trade--through formal and informal channels--with neighboring countries outside the zone. These cross-border effects will depend upon the differentials in the tariffs and trade and exchange systems in the neighboring countries relative to those in the CFA franc zone. The two neighboring countries that could provide interesting insights into these cross-border effects are The Gambia and Nigeria, because the former has a relatively more open and less regulated foreign trade system than its nearest CFA franc neighbor (Senegal), and the latter (Nigeria) has a more burdensome system than its CFA franc neighbors (Benin, Cameroon, Chad, Niger, and Togo).

Prior to the recent devaluation-based policy reforms, border trade between Senegal and The Gambia consisted of exports of groundnuts and, more importantly, re-exports of imported goods from The Gambia in exchange for CFA francs. To the extent that higher--subsidized--producer prices in Senegal provided an incentive for Gambian farmers to sell their groundnuts across the border, the devaluation-induced realignment of Senegal's groundnut producer prices with world market prices would remove the incentive for this border trade. Part of the previously exported groundnuts of The Gambia will thus tend to be absorbed by the domestic groundnut processing industry where rehabilitation efforts are under way. As regards The Gambia's re-exports, in the past there were two factors driving the border trade and smuggling: first, higher import taxes and more restrictive customs regulations in Senegal; and second, even after adjusting for these distortions, the Gambian traders were reported to be more efficient in re-exporting third country imports into the subregion. Since August 1993, however, re-exports from The Gambia have been constrained by the suspension of the repurchase of CFA franc bank notes and, subsequently, by the tightening of Senegal's border controls as part of an anti-fraud campaign. Re-exports from The Gambia into Senegal and other member countries of the zone are likely to be further adversely affected, in so far as the CFA franc devaluation and the accompanying trade reforms have reduced the price and trade distortions in the CFA franc zone, improved the competitiveness of the countries of the zone, reduced real incomes, and made third country imports more expensive. 1/

1/ Should the recent drop in The Gambia's re-exports persist, efforts to adjust internally will have to be sustained because imports destined for re-exports contribute significantly to The Gambia's net export earnings and tax revenue. The governments of Senegal and The Gambia have recently agreed to cooperate in combatting fraud and encouraging legal trade.

In the cases of Benin, Cameroon, Chad, Niger, and Togo, the distortions in Nigeria--as reflected in the subsidization of petroleum products and the trade taxes and restrictions on import substitutes--have been the driving forces of border trade. Nigeria's petroleum products have long been sold illegally across the border because of low subsidized prices in Nigeria. However, Nigeria's decision in late 1993 to partially reduce the oil subsidy, coupled with the lowering of petroleum taxes in CFA franc countries, has narrowed the cross-border price differentials and dampened the incentives for this trade. The CFA franc devaluation combined with the appreciation of the Nigerian naira has also reduced the incentive for the countries of the zone to import light manufactured (consumer) products from Nigeria, because the zone's producers (particularly in Cameroon, Côte d'Ivoire, and Senegal) have become more competitive. In this case too, the initial real income effects of the devaluation may tend to temporarily reduce the zone's demand for Nigeria's non-oil exports. On the other hand, as regards the (non-oil) re-exports from the CFA franc countries into Nigeria, the lowering of trade taxes in CFA franc countries and the appreciation of the naira has increased the profitability of such trade and there is already clear evidence of a reversal of trade flows between Nigeria and its neighbors.

The August 1993 suspension by the BCEAO and the BEAC of the repurchase of CFA franc bank notes held outside the two monetary unions was motivated by the desire to stem illegal capital flight from the zone as well as cross-border trade outside customs channels in some cases. Since the CFA franc has been a popular medium of exchange in the cross-border trade with neighboring countries and a vehicle for capital flight from Nigeria, the suspension of repurchases together with the rationalization of the trade regime is now reducing the use of the CFA franc in such trade and thereby redirecting informal trade into official channels. 1/

e. Structural reforms

While the depth and nature of the structural problems have varied among the CFA franc countries, there are some key common areas in need of fundamental reform. These include: (i) the public enterprise sector; (ii) the banking and financial sectors; (iii) the civil service; (iv) the legal and regulatory framework; and (v) social sector policies. While in the short run there is scope for individual countries to pursue a different pace of structural reforms, there are constraints because of the impact on the budget, the close, albeit still incomplete, integration of financial markets in the CFA franc zone, and the scope for cross-border trade between neighboring countries. Nevertheless, countries have made very uneven progress in structural reform, and several members of the zone have not yet been able to formulate a program in a medium-term context. In all these

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1/ In Benin and Togo, however, the suspension of repurchases has adversely affected total border trade including trade through customs channels.

areas, the World Bank is playing a central role in advising on the design and implementation of reforms, which is also a condition for its own lending. 1/

i. Public enterprise reform

The public enterprise sector has been a central source of macroeconomic imbalances, external debt problems, and impediments to economic growth in the CFA franc countries. The weak financial position of public enterprises has been mirrored in the government budget (in the form of transfers and subsidies), domestic and external payments arrears, and unsustainable domestic and external borrowing. Inter-enterprise arrears or arrears to the government (including tax arrears) have been widespread. The external debt service obligations of public enterprises have often been taken over by the government. Losses of public enterprises have been financed through the banking system and domestic arrears accumulation, thereby crowding out the private sector and contributing directly and indirectly to the financial difficulties of the banks. The monopoly situation and special preferences afforded to public enterprises have also contributed to inefficiencies and to the increase in domestic costs and loss of competitiveness. At the same time, inflexible producer prices and marketing arrangements have caused losses for the state export marketing agencies.

To tackle these problems, all programs that were formulated after the devaluation of the CFA franc included some elements of public enterprise reform, although the comprehensiveness differed greatly depending on the progress made in the past, including under Fund-supported programs, and the status of preparatory work. In some countries, such as Burkina Faso, the Central African Republic, and Côte d'Ivoire, the World Bank supported these reforms through technical assistance. These reforms represent in most cases a continuation or resumption of past, and often interrupted, efforts. The implementation is expected to be facilitated by the positive financial impact of the devaluation of the CFA franc and the accompanying policy of wage restraint, in particular for enterprises involved in export and import substitution activities but even more so in the nontradable goods sector. Some reforms focus on regularizing the financial situation of the enterprises, including through the settlement of inter-enterprise arrears, establishing financial accounts with external audits, and making enterprises subject to normal taxation and payment of external debt service. In several instances, public enterprises are also made subject to the same wage and hiring policy as that applied in the civil service as well as to strict ceilings on access to bank credit. Finally, for those countries which already had designed reform plans for the public enterprise sector, upfront and phased actions on restructuring, performance contracts and privatization have been included in the programs.

1/ See Appendix III for recent World Bank technical and financial support to the CFA franc countries.

ii. Financial and banking sector reform

Financial sector reform has progressed unevenly with more progress in the WAMU region than in the CAMA. Financial sector reform in each country addresses the financial difficulties of financial institutions, including savings banks and pension funds which were closely related to the problems of public enterprises. Following up on previous reform programs undertaken since 1989, the programs provided for audits of accounts, recapitalization, settlement of arrears under the budget, breaking up of monopolies and privatization and liquidation of banks, strengthening of bank supervision, and full implementation of prudential ratios. At the same time, efforts were also made to collect nonperforming assets.

iii. Civil service reform.

Since the containment of the civil service wage bill is a major element of fiscal adjustment in all CFA franc countries, reform of the civil service, including retrenchment and streamlining, is also an important instrument of most programs, often in the context of financial and technical assistance from the World Bank. The preparatory work for retrenchment, increasing the efficiency of the civil service, and rationalizing the remuneration system was not well advanced in all instances. Partly reflecting the different stage of preparation of reforms, there are large differentiations in civil service employment policy. Thus, the program targets vary from a freeze or a slight net increase in employment to a reduction of 10 percent per annum in the number of civil servants. The health and education sectors are often sheltered from employment cuts, or there are provisions for increases in these sectors in line with the general emphasis on human development (see Section IV.4.a). Reductions in employment usually take the form of voluntary departure schemes, with provision for severance payments for redundant staff. The World Bank is giving technical assistance for reform of the civil service in several countries including Burkina Faso, the Central African Republic, Gabon, and Niger.

iv. Legal and regulatory framework

To permit adjustment to take place in the economy, including a shift from the nontradables to the tradables sector, most programs envisage a further liberalization of domestic economic activity and foreign trade. They include reductions and harmonization of import taxes and removal of remaining quantitative restrictions (see Section IV.4.d); introduction of new labor codes providing for greater mobility of labor; decentralization and greater flexibility of collective labor agreements; opening of import and domestic distribution to competition; and implementation of revised investment codes with increased incentives for foreign and domestic private investment. Nevertheless, the degree of liberalization of the economic system still varies across CFA franc countries, with differences in the goods subject to administered prices and quantitative import restrictions.

v. Social policies and safety nets

Social policies are an integral part of the adjustment program adopted in the wake of the devaluation. The immediate impact of the devaluation was an increase in import prices of essential commodities with an unfavorable effect on the most vulnerable groups. Therefore, measures were taken to reduce the impact on the price level and shelter these groups. The initial social conditions made it critical to take into account the social impact of the reform program. Of the 13 CFA franc countries, 11 countries are classified as low-income countries. Between 1985 and 1993, average real per capita income in the zone has declined by about 30 percent, with considerably sharper declines in certain countries. The CFA franc countries are in the lowest range of social indicators--e.g., the lowest quintile of the human development index of the UNDP--and their social indicators have deteriorated for several years.

All CFA franc countries adopted social policies that aimed at moderating the impact of price adjustments. As the adjustment programs were put in place quickly following the devaluation, it was recognized that more time would be needed to design well-targeted social safety nets. The lack of reliable data on vulnerable groups and the limited administrative capacity were other constraining factors. All programs aimed at limiting price increases--through temporary subsidies and tax reductions--for essential goods, consumed mainly or proportionally more, by the poor, in particular rice, sugar, flour, kerosene, and generic drugs. Shortly after the devaluation, some countries imposed global price controls, to avoid panic and excessive profit margins on stocks; however, these controls, which were not effective in all instances, were soon removed and replaced by more selective price controls on only a few commodities. Several programs envisage that more permanent safety nets will be put in place at a later stage.

Various other social measures aim at protecting low-income groups, including improving private sector procurement of essential generic drugs so as to avoid large price increases, minimum wage increases of about 10 percent for agriculture and industry in a few countries, higher percentage wage increases for low-wage public-sector workers, and smaller increases in tariffs for the lowest brackets of electricity and water users. In addition, most countries have budgetary allocations for social funds which aim at creating employment through public works, public housing, and the promotion of small businesses, although nearly everywhere governments have been slow to put them into place. Finally, all programs envisage increased real expenditure for primary health and education, in some cases with quantified targets. The World Bank is providing technical assistance to some countries, including Côte d'Ivoire.

5. Financing and external debt issues

The successful implementation of the structural adjustment programs (including social policies) hinges critically on the availability of adequate and timely external financial assistance. In general, external financing needs to ensure that domestic credit to government leaves room for expansion of private sector activity. More specifically, the need to promote public investment implies a need for an increase in project assistance after years of interrupted investment programs.

A priority under the programs is the clearance of external payments arrears--totalling US$10 billion, which amounted to more than one-quarter of total external debt at end-1993--so as to facilitate a resumption of normal relationships with external creditors. The clearance of arrears is programmed to occur through rescheduling, cash payments, and other regularization, mostly during 1994. The rescheduling of external arrears as well as current debt service obligations is constrained by a relatively large share (45 percent) of nonreschedulable obligations in the form of debt service and arrears owed to multilateral organizations or related to post-cutoff date and short-term debt to official bilateral creditors.

A closely coordinated effort has taken place to mobilize the necessary financing, including through the involvement of the Fund staff in directly briefing official (bilateral and multilateral) creditors, and in Paris Club and special donor meetings organized under the aegis of the Special Program of Assistance for sub-Saharan Africa (SPA). In this regard, particular emphasis has been attached to the provision of financing on appropriately concessional terms, since 11 of the 13 countries (all countries except the Congo and Gabon) were IDA-eligible and ESAF-eligible by the end of February 1994. 1/ Because of the typically very large amount of outstanding arrears at the outset of the programs, the financing gaps are particularly high in the first year of the adjustment program, totalling almost US$10 billion (Appendix I, Table 14). Reflecting the efforts of bilateral and multilateral creditors, the total financing gaps are for over one half to be financed by debt relief, for one quarter by multilateral creditors, and for the remainder by bilateral creditors.

In the CFA franc countries, the approach to resolving the problems of external indebtedness has had two key elements. First, the large share in total debt of nonreschedulable debt left little choice in terms of aiming for a substantial improvement in the public sector balance, both the primary fiscal balance and the financial balance of public enterprises. This should reduce the net foreign financing requirement closer to a level compatible with sustainable ratios of debt to GDP and debt service to fiscal revenue. Second, the adjustment efforts would need to be supported by an appropriate solution to the existing debt through debt relief as well as through external assistance on more concessional terms. This is important because a substantial reduction of the debt service burden as well as a strengthening of budgetary debt servicing capacity are necessary to allow those countries to resume saving generation and strengthen growth prospects.

1/ The Congo became IDA-eligible in June 1994.

The process of strengthening the primary fiscal balance is expected to be facilitated by a more efficient use of foreign assistance, through better management of public expenditure and, in particular, more careful selection of investment projects. The multilateral surveillance procedures and the related indicators of "budgetary convergence" developed by the WAMU and envisaged for the CAMA--as discussed in the next section--are important first steps toward fiscal viability.

At the same time, the instruments put in place by the Paris Club 1/ to provide debt relief with "enhanced concessions" in a majority of cases hold out the hope that efforts to achieve fiscal viability will be supported--at the end of three to four years of adjustment--by appropriate stock of debt operations. As shown in Appendix I, Table 14, the estimated debt relief from Paris Club and other bilateral creditors 2/ accounts for half of the zone's total financing gap for 1994-96, and about 40 percent of this relief is for debt service in arrears. Of the total stock of arrears at end-1993 (US$10 billion), about one-fourth will be paid in cash, one-third is being rescheduled through Paris Club agreements, and the remainder (over US$5 billion) will be regularized in negotiations with private creditors. 3/

In the coming years, the potentially nonreschedulable component of debt will rise, with the increase in financing inflows, particularly from multilaterals, and the declining importance of pre-cutoff date debt (excluding that previously rescheduled on concessional terms) owed to official bilateral creditors. To minimize the impact of this trend on future debt service, the CFA franc countries will need to rely mainly on grants and loans on highly concessional terms. The adjustment programs have stressed restraint in foreign borrowing, requiring the virtual avoidance of nonconcessional borrowing.

1/ See Appendix V for an overview of recent Paris Club reschedulings for the CFA franc countries.

2/ In early 1994, France granted debt cancellation to the CFA franc countries in an amount equivalent to over US$3 billion.

3/ The reduction of debt (largely in arrears) vis-à-vis commercial banks and other private creditors is a key element in the programs of Côte d'Ivoire, Cameroon, and the Congo. The governments of these countries are committed to engage in discussions with private banks and other creditors in order to conclude as soon as possible a debt restructuring agreement encompassing all outstanding obligations to these creditors, on terms that are compatible with the specific circumstances of these creditors and the country's external payments capacity.

V. Issues in Regional Coordination of Economic Policies

A number of policy issues need to be addressed as the members of the two unions proceed with regional economic and monetary integration and improvements in the institutional framework to promote intra-zone and regional trade. 1/

1. Fiscal deficit harmonization

To avoid unsustainable fiscal deficits and, more generally, excessively high levels of government debt that could jeopardize the functioning of the zone, both WAMU and CAMA envisage strengthening the monitoring of the fiscal position deficits. For this purpose, norms are being developed for the level and composition of the fiscal position as well as multilateral surveillance procedures to help countries converge to these norms. Thus, criteria have been put in place on an indicative basis in the WAMU (since September 1993) and are under preparation in the CAMA. A balanced composition of the fiscal position is to be monitored by norms for the government wage bill, government savings, and debt service, each relative to fiscal revenue. 2/ The overall deficit would be monitored by the primary balance (i.e., the fiscal balance excluding grants and interest payments) and the basic primary balance (i.e., the primary balance excluding foreign-financed investment). In addition, norms for non-accumulation of domestic and external payments arrears would apply. In the WAMU, five fiscal convergence criteria are in place, but are still indicative: $\leq$ 50 percent for wage bill/fiscal revenue, $\geq$ 20 percent for government investment financed by own savings/fiscal revenue, $\geq$ 15 percent (surplus) for basic primary balance/fiscal revenue, and zero accumulation of external and domestic payments arrears. In the CAMA, the criteria envisaged in the

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1/ Given the common peg to the French franc and the limited restrictions on intra-zone transactions, the two unions have the potential for converging toward one monetary and economic union. However, the integration process is taking place at a different speed and in a different institutional environment in each union. Therefore, this paper has not addressed issues of zone-wide integration. Progress at the level of each union toward rationalization and harmonization of domestic systems and regulatory frameworks would facilitate trade between the two and lay the ground for further monetary and economic integration.

2/ The norms are defined in terms of fiscal revenue (including, in principle, all revenue from the petroleum sector) because the projected path of the latter determines, in present value terms, the room for government expenditure.

Treaty but not yet in place relate to the primary deficit, public investment, debt, and debt service in terms of fiscal revenue, as well as to the growth of the wage bill and government current expenditure. 1/

For the seven countries of the WAMU (all of which, except Togo, have adopted Fund-supported programs), the performance on the indicators of "budgetary convergence" is expected to include the following (Appendix I, Table 15). The target of the wage bill not exceeding one-half of fiscal revenue will be achieved by all countries, with the weighted average ratio dropping from over 70 percent in 1993 to 41 percent in 1996. The weighted average ratio of the basic primary balance to fiscal revenue is targeted to switch from a deficit of about 15 percent in 1993 to almost balance in 1994, and surpluses of 14 percent in 1995 and 20 percent in 1996; the 1996 ratios are projected to be well above the 15 percent norm in all countries except Niger. This improvement would permit the governments of the member countries to eliminate their payments arrears and resume the normal servicing of their domestic and external debts. The overall improvement in the basic primary balance is expected to be achieved gradually by all countries over the three years 1994-96, notwithstanding a transitory deterioration in 1994 in Benin, Burkina Faso, and Mali. With regard to investments financed by domestic resources, of the six program countries, only Senegal will be able to achieve a ratio higher than 20 percent of fiscal revenue, and the average for all WAMU countries is projected to increase only a little, from 12 percent in 1993 to 13 percent by 1996. Moreover, all the programs call for the settlement of external arrears in 1994, as well as the elimination of all identified amounts of domestic arrears within a maximum period of three years (taking into account the expectation that, in the majority of cases, an exhaustive survey of domestic arrears must be completed).

Regarding the indicator for the primary balance, over the 1993-96 period, strong improvements to a surplus are projected for Côte d'Ivoire and Senegal, and to a much lower deficit for Burkina Faso, Mali, and Niger; in Benin, the deficit is projected to worsen vis-à-vis the 1993 level owing to a drastic increase in real government investment, largely financed from abroad. The WAMU average for the ratio of the primary deficit to fiscal revenue is projected to drop from 42 percent in 1993 to 17 percent in 1996.

1/ In the WAMU, the fiscal convergence criteria are envisaged to become normative as soon as the process of harmonization of the fiscal accounts has been completed. The harmonization aims at including in the table on government financial operations (TOFE) all local, regional, and other administrative government bodies as well as all social security, amortization (foreign debt service) and price equalization and stabilization funds (all public enterprises or public agencies of a commercial nature are to be excluded). In the CAEMC Treaty, a similar harmonization of the TOFE is envisaged, but no procedures have yet been defined.

For the six CAMA countries (all of which adopted Fund-supported programs), the performance on the budgetary convergence indicators 1/ is similar to that of the WAMU countries except for stronger improvements in the basic primary and primary balances. The ratio of the wage bill to fiscal revenue drops substantially in all countries, and below the norm of 50 percent in 1995 for all countries except Chad. As a result, the CAMA average decreases from 71 percent in 1993 to 30 percent in 1996. The basic primary balance to fiscal revenue is projected to switch from a deficit of 16 percent in 1993 to surpluses of 19 percent in 1994, 33 percent in 1995, and 40 percent in 1996, with the 1996 ratios projected to be well above 15 percent for five countries (all except Chad). The ratio of investment financed by domestic resources is projected to decline by two percentage points to 9 percent of fiscal revenue during the 1993-96 period, remaining below a possible target of 20 percent. All programs also aim at the settlement of external arrears in 1994, and the elimination of domestic arrears in the same year except for Chad and Gabon, where repayment is spread over three years.

Finally, like in the WAMU, the primary balance in each CAMA country is projected to improve strongly during the 1993-96 period, with increasing surpluses for Cameroon and Gabon, and sharply declining deficits for the other countries. The CAMA average for the ratio of the primary deficit to fiscal revenue is projected to switch from a deficit of 38 percent in 1993 to a surplus of 15 percent in 1996.

To facilitate the realization of these objectives, multilateral surveillance along the lines outlined above--especially in the budgetary area--will have to become effective. Such surveillance will need to be strengthened by: (i) the harmonization of public finance statistics, as recommended in the Fund's technical assistance reports of 1992 and 1993; (ii) improvements in the system of indicators to enable quarterly monitoring; and (iii) the development of a common framework for the finance laws and the public accounts. Eventually, there will also be a need to develop a regional system of surveillance for domestic and external public debt of both the government and the public enterprises.

More generally, as the countries of the CFA franc zone proceed with regional integration, the issue of data harmonization needs to be addressed. At present, there is a serious problem of data inconsistency across sectors

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1/ Although these indicators are still under preparation in the CAMA, the projections under the programs are shown here for purposes of comparison.

and among countries, which will require a strong commitment by the authorities to make improvements in this area and, second, a continued provision of technical assistance and training by the Fund. 1/

2. Tax harmonization

In view of the unequal dependence of countries on trade and other sources of tax revenue and the expectation of progress in both tariff and more broadbased tax harmonization, consideration will need to be given to possible ways to compensate for a net loss of tax revenue in individual cases. One option would be to define some redistribution of a part of the proceeds from the common external tariff. Another option would be to create a compensation and development fund, as foreseen by the WAEMU Treaty. Third, the reduced reliance on external trade taxes would require more attention in all countries to a strengthening of the design, coverage and collection of domestic indirect and direct taxes (as foreseen in the CAMA through the introduction of the reformed turnover tax), including a modern and easy to administer agricultural income tax.

3. Monetary targets and balance of payments need

The question of whether Fund-supported programs can be monitored on the basis of country-specific targets for official reserves and net domestic assets (NDA) may arise after the transition to a union-wide monetary policy (without credit ceilings at bank/country level) has been completed. At that stage, country-specific targets for official reserves and NDA are no longer possible, and assurance of a sufficiently tight monetary policy would have to be sought at the level of the union. Although in an accounting sense the union's common reserves can be apportioned to each member, individual members cannot hold reserves and each member's access to the common reserves is solely dependent on the availability of local currency resources to the government 2/ and the private sector. This availability is inter alia determined by the union-wide monetary and credit policy, which leaves little room for instruments to target reserves at the country-level. This being said, both the union-wide monetary policy and each country's broad medium-term macroeconomic policy framework are critical elements in determining the balance of payments for each country, as well as its need for regularizing external payments arrears, its contribution to the movement in the union's reserves, and its need for exceptional financing.

1/ A number of recent programs have included improvements in data production and reporting as structural benchmarks and performance criteria (e.g., bi-yearly balance of payments statistics in Cameroon and monthly government financial operations tables in Burkina Faso). See Appendix II for a list of recent technical assistance efforts by the Fund.

2/ In the CFA monetary unions--like in other monetary unions and a few other countries--as mentioned above, government access to central bank credit is constrained by statutory limits.

The union-wide pooling of official reserves, whereby country-specific reserve positions are indeterminate, has implications for the determination of balance of payments need in the use of the Fund's general resources. While the balance of payments need of a member in this context can still be determined on the basis of the existence of an overall balance of payments deficit, such need could not be determined on the basis of a member having low reserves. On the other hand, in determining whether a member has protracted balance of payments problems under the ESAF Trust Instrument, its reserve position is only one among many criteria to be considered.

In this context, the relation between external and government financing needs requires clarification. It has been argued that in the CFA franc countries Fund resources have, unlike in other countries, been used to finance a fiscal gap, not a balance of payments gap. This distinction is, however, not correct. The identified need for exceptional financing reflects the financing need of the economy as a whole. In any country, the use of Fund resources would contribute to meeting this financing need; it is difficult to attribute this financing to the needs of the government or non-government sectors because the architecture of a Fund-supported program includes macroeconomic targets, which would be different from a situation without Fund financing and which together would allow for appropriate reductions in external and internal imbalances. 1/

Furthermore, although in an accounting sense exceptional financing (including from the Fund) is channelled through the government or the monetary authorities, 2/ this exceptional financing is not necessarily providing financing for the budget or allowing a higher budget deficit than would have been possible without such financing. This is because the targets for the deficit and net bank credit to the government are typically set in such a way as to allow sufficient room for the financing needs of the private sector, as well as to ensure consistency with the medium-term macroeconomic framework, independent of the amount of expected Fund financing.

1/ The fact that the use of Fund resources per se would relieve the constraint on gross official reserves would imply that net foreign assets could be lower, and NDA higher, than would have been possible without Fund financing, indicating that the use of Fund resources could contribute to meeting the financing need of the economy as a whole. However, since this should be seen in the context of the complete medium-term macroeconomic framework, there is in principle no easy way to determine whether NDA would be higher or lower than would have been the case without Fund financing.

2/ In the CFA franc countries, a Fund purchase or disbursement takes the form of a liability of the government to the Central Bank with a counterpart deposit with the Central Bank.

4. Exchange system

The new adjustment strategy offers the opportunity to the CFA franc countries to formally accept the obligations of Article VIII of the Fund's Articles of Agreement. Although these countries still avail themselves of the transitional arrangements under Article XIV, Section 2, they do not maintain any exchange restrictions under this article. Moreover, their exchange systems are virtually free of restrictions on the making of payments and transfers for current international transactions. 1/ A move to Article VIII status would be a reaffirmation by these countries of their firm intention to maintain exchange systems that are free of restrictions on the making of payments and transfers for current international transactions.

In addition, it would be important for the BCEAO and the BEAC to terminate the suspension of the repurchase of CFA franc bank notes held outside their respective regions, beginning with the repurchase of bank notes held by each other. While payments and transfers for current international transactions remain possible through authorized intermediaries by using other means of payment (e.g., bank transfers, travelers' checks, etc.), the suspension of the repurchase is not an exchange restriction subject to Fund jurisdiction. Nevertheless, a reintroduction of the repurchase would be welcome for several reasons. It would have a positive effect on intra-zone and cross-border trade; and, more importantly, it would be a strong indication of the zone's determination and capacity to sustain the new parity and preserve--in a fundamental way--the convertibility of its currency and the mechanisms of monetary cooperation.

5. Regulatory and judicial environment

In addition to a sound macroeconomic policy framework, the strategy for fostering economic growth and the achievement of financial viability will need to include the establishment of a regulatory and judicial environment that is conducive to the development of the private sector, savings, investment, and efficient resource allocation. In the light of these objectives, the regulatory regimes should be rationalized in a number of areas, including pricing policy, competition policy, nontariff barriers, agricultural marketing, labor and investment codes, commercial codes, property rights, the management of public services, the operations of public enterprises, financial services, the codes governing businesses and insurance activities, a proper legal framework for banks' rehabilitation (adequate bankruptcy laws and procedures for recovery of loans), and the economic data base. Some efforts have already been made to improve the

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1/ The staff is currently investigating whether any of the existing or recently introduced limits on transfers and payments for current international transactions might constitute exchange restrictions subject to approval under Article VIII. Available information suggests, however, that all bona fide requests for allowances in excess of the limits are being granted in both the WAMU and the CAMA.

regulatory environment, and the recently adopted adjustment programs include further steps in that direction. Some of the important regional initiatives launched in recent years include the preparation of plans for developing financial markets, codes for business and insurance activities, social security, and the development and monitoring of an economic data base. Nevertheless, progress in these areas needs to be accelerated to meet the needs of the zone and normal international standards.

VI. Final Observations

Between 1985 and 1993, the CFA franc countries experienced a large deterioration in their terms of trade, as well as a substantial nominal effective appreciation vis-à-vis the currencies of their trading partners. In light of these two main factors, the unchanged parity to the French franc placed a heavy burden on domestic policies--mainly restrictive fiscal, credit, and wage policies--to achieve the necessary adjustment. In addition, the task of adjustment for most countries was complicated by large initial imbalances in the public enterprise sector and a range of difficult structural problems.

During this period, fiscal adjustment was impeded by several factors. The government revenue base was not only weakened by the terms of trade loss, the nominal appreciation, and the accompanying deterioration in the financial position of the tradables sector, but also by widespread tax exemptions, inadequacies in tax administration, and tax evasion. On the expenditure side, the civil service wage bill continued to absorb a large share of government receipts, while expenditure adjustments were concentrated on investment, maintenance, and essential public services. Notwithstanding these adjustments in expenditure, large overall fiscal deficits remained and led to heavy reliance on central bank credit (often in excess of the statutory ceiling), further buildup of foreign debt, and accumulation of domestic and external payments arrears.

The adjustment of imbalances in public enterprises and the private, formal sector was hindered by slow progress in addressing structural problems, pressures for wage increases, the prevalence of state monopolies and price controls, and, more generally, high production costs. In these circumstances, public enterprises were often unable to service their foreign debt, and became a financial burden on both the government budget and the domestic banking system.

The domestic banking systems of the CFA franc countries had to contend increasingly with nonperforming loans, while the public sector's heavy reliance on bank credit constrained private sector access to bank financing. Although important steps were made to strengthen bank supervision, rationalize interest rate structures, eliminate direct credit allocation, and restructure and privatize commercial banks, lasting progress was limited by resource constraints on the part of the governments and, more importantly, the lack of clear prospects of economic and financial recovery in key economic sectors.

As a result of these imbalances, attaining viable fiscal and external positions over the medium-term, including a regularization of domestic and external payments arrears, would have required exceptionally strong tax efforts as well as drastic reductions in public sector wages and producer prices. Such a strategy, as in the past, would have been constrained by domestic wage and employment rigidities, and the likely continued contraction in investment and essential public services would have further weakened the base for economic growth without yielding a sustainable fiscal position.

Against this background, the January 1994 devaluation of the CFA franc was the central element of a new and comprehensive adjustment strategy aimed at both substantially raising the economic growth rate and laying the basis for achieving fiscal and external viability. As the nominal devaluation was designed to restore competitiveness and facilitate adjustment to a severe terms of trade loss, the adjustment programs undertaken by the CFA franc countries are focused on achieving a rapid decline in inflation after an initial surge in prices. The main policy instruments for containing inflationary pressures are the tight restraint on fiscal and credit policies, the modest limits to be observed for public sector wage increases and for wage awards in other sectors, and the upfront signal of a higher discount rate. At the margin, reductions in import and domestic indirect taxes and the progressive elimination of nontariff barriers are expected to facilitate the task of containing inflationary pressures.

The adjustment programs of the CFA franc countries are appropriately ambitious, but there are risks on a variety of fronts. First, the authorities may be unable to maintain the programmed restraints on wage policy. This risk will be heightened if there are slippages in financial policies and in achieving the inflation targets. The best insurance against this risk of unprogrammed wage pressure is a two-pronged effort, which should include a tightening of fiscal and credit policies when there are signs that the inflation objectives are not being attained, and a close dialogue with trade unions to develop a consensus on how wage restraint can help combat inflation and promote employment. The attitude of trade unions has been generally constructive in the wake of the devaluation, but there have been a few cases where government wage policy has been challenged.

A second risk relates to possible shortfalls in government revenues relative to the program targets. Although the revenue targets have been prudent, they call for a strengthened revenue mobilization effort following the poor performance registered in recent years. This will require strict implementation of the programmed measures, including improvements in tax and customs administration, as well as an early reduction of tax exemptions which are substantial in many cases. However, this assumes that the recovery of economic activity and imports is not unduly delayed by unforeseen factors. For this reason, governments should be ready to take any further appropriate measures to ensure the attainment of the overall fiscal targets, while safeguarding essential investment and other outlays.

A third risk is unforeseen delays in key areas of structural reform. Delays in the restructuring of public enterprises (including adjusting prices of their goods and services) could not only slow the process of fiscal adjustment and continue to pose risks for the banking system, but could also impede the expansion of private sector activities. Furthermore, delays in the elimination of price controls and the abolition of public monopolies could slow the development of the private sector and the progress toward regional economic integration. For the banking system, the risk of reverting to state-directed interventions and subsidized lending operations must be avoided, while the strengthened procedures for bank supervision would need to be strictly adhered to.

There are also social costs and risks to structural reforms and adjustment. The retrenchment in public enterprises and the civil service will need to be accompanied by severance payments and training schemes. Similarly, the devaluation-induced price increases, the adjustment in administered prices, and the introduction of user fees in public services will need to be coupled with well-targeted measures to attenuate the adverse effects on the most vulnerable groups. Without such measures, the governments would risk endangering the social consensus on the new adjustment strategy that remains fragile in the aftermath of the devaluation.

Finally, the terms of trade may turn out worse than foreseen. The reform strategy in the cash crop sector aims at liberalizing and privatizing domestic crop marketing, ensuring a closer and more direct link between world market prices and domestic producer prices, replacing export taxes progressively by income taxes, and increasing productivity in the parastatals. This strategy should facilitate a timely adjustment to future terms of trade shocks.

Notwithstanding the poor growth performance since 1985, over the past four and a half decades, the monetary arrangements of the CFA franc zone have produced for its members considerable gains in terms of price stability, growth, and the development of a regional solidarity; this has occurred despite the limited realization of the potential for regional trade and economies of scale. In the face of the protracted financial imbalances and the disappointing growth performance of recent years, the devaluation-based comprehensive adjustment strategy offers not only the opportunity to restore fiscal and external viability and sustained economic growth in each country, but also lays the foundation for accelerating the process of economic and monetary integration and for more fully reaping the potential benefits of the existing monetary unions. The potential for intra-zone trade will be enhanced by a further liberalization of economic activity in each member country, as well as by the stepped up efforts in both unions to establish a common external tariff, remove intra-zone trade barriers, and harmonize domestic tax systems.

Progress on the path toward a full economic and monetary union implies an increased need for member countries to coordinate their domestic fiscal and monetary policies, and, to some extent, to surrender control over national policy instruments. Regarding monetary policy, the recent reforms and envisaged steps toward developing regional money markets and indirect monetary policy instruments will reduce the relevance of national monetary and credit targets. It is important that the monetary authorities in both unions quickly establish the conditions for a full market determination of interest rates at the union level, while developing an appropriate market-oriented response to the recent surge in liquidity of the banks.

As regards fiscal policy, both the WAMU and the CAMA have recently taken steps designed to strengthen the monitoring of each member's fiscal position. The envisaged multilateral surveillance, based on convergence criteria for the overall balance and composition of fiscal operations (including for the wage bill), aims at safeguarding the sustainability of each member government's debt. These criteria and the objective of regional tax harmonization will progressively reduce national governments' room for manoeuvre, and hence the burden of fiscal adjustment will fall increasingly on nonwage public expenditure. Fiscal convergence is, however, a necessary complement to union-wide monetary policy, and a key instrument to avoid an unsustainable level of public debt which would jeopardize the external viability of the unions.

In the context of regional policy coordination, the authorities of both monetary unions will need to strengthen their ongoing efforts to improve the macroeconomic data base, with a view to facilitating multilateral surveillance and a timely response to changes in the economic environment.

Table 1. CFA Franc Zone: Selected Structural Indicators, 1990–92

(Period average in percent of GDP, unless otherwise stated)

	Average per capita GDP (in U.S. dollars)	Share in zone's GDP	Exports 1/	Imports 1/	Agriculture 2/	Gross investment	Foreign savings 3/	National savings
WAMU								
Benin	401	4	15	25	37	14	5	9
Burkina Faso	280	6	11	24	41	22	4	18
Cote d'Ivoire	776	20	29	18	34	10	13	–3
Mali	308	5	13	14	43	22	4	19
Niger	299	5	12	15	37	8	2	6
Senegal	803	12	15	20	21	13	4	9
Togo	458	3	31	36	33 4/	21	5	16
Total WAMU 5/	497	54	20	20	33	14	7	7
CAMA								
Cameroon	948	23	16	14	25 4/	13	9	4
Central African Republic	415	3	10	21	43	11	5	5
Chad	218	2	15	21	39	8	7	1
Congo	1197	6	41	20	13 4/	17	13	3
Equatorial Guinea	501	0	23	38	54	28	10	17
Gabon	4791	11	42	15	8 4/	27	–3	29
Total CAMA 5/	908	46	25	16	21	17	6	10
Total WAMU/CAMA 5/	625	100	23	18	28	15	7	8

Source: IMF, World Economic Outlook.

1/ Merchandise, f.o.b.
2/ Includes agriculture, livestock, forestry, and fishing.
3/ As measured by the current account deficit including official transfers.
4/ 1990–91 average.
5/ GDP–weighted average.

Table 2. CFA Franc Zone: Terms of Trade, Nominal and Real Effective Exchange Rates, and Consumer Price Index, 1986–96

	Terms of Trade			Nominal Effective Exchange Rate 1/		Real Effective Exchange Rate 1/		Consumer Price Index		
	1986–89	1990–93	1994–96	1986–89	1990–93	1986–89	1990–93	1986–89	1990–93	1994–96
	(Cumulative change during the period, in percent)									
WAMU										
Benin	−55.6	−21.1	−2.1	3.9	24.2	0.7	1.0	12.3	5.8	44.1
Burkina Faso	0.1	−19.9	14.3	2.9	6.3	−9.6	−2.8	4.2	8.5	49.9
Cote d'Ivoire	−35.3	−15.5	2.8	23.9	20.0	29.0	3.7	23.4	6.0	52.1
Mali	−7.8	−13.1	−0.9	0.3	4.3	−19.0	−5.3	−9.1	−3.5	56.6
Niger	−7.3	−12.8	−12.0	32.2	1.6	−25.1	−20.7	−7.9	−5.2	50.9
Senegal	5.3	0.9	3.0	23.2	7.3	−13.1	−13.1	3.1	−2.9	53.7
Togo	−15.0	−20.0	...	25.1	52.9	−5.9	6.7	3.1	2.2	...
Weighted Average 2/	−18.1	−11.8	1.5	18.4	14.3	1.3	−3.9	8.8	2.1	51.8
Simple Average	−16.3	−13.6	−0.3	15.7	15.9	−6.8	−4.5	4.0	1.5	50.6
CAMA										
Cameroon	−52.4	−0.8	3.1	46.0	37.3	32.7	−8.5	9.1	−3.5	45.9
Central African Republic	−10.1	−1.4	4.4	26.2	37.5	−2.9	−5.2	−8.1	−6.9	41.7
Chad	13.1	−14.0	3.0	9.2	8.5	−19.9	−10.0	−13.8	−1.5	56.5
Congo	−55.1	3.8	−14.7	0.6	2.4	0.2	−5.4	12.3	8.1	48.3
Equatorial Guinea	−26.0	−11.0	4.1	23.8	46.0	−17.4	28.3	−22.0	4.4	47.9
Gabon	−47.0	−4.9	−2.0	34.5	62.7	−5.5	0.2	3.9	10.1	51.3
Weighted Average 2/	−44.0	−1.4	−0.0	33.5	37.9	12.1	−5.2	5.4	1.4	48.1
Simple Average	−30.3	−4.1	−0.1	22.7	31.3	−2.3	−0.4	−3.0	1.7	48.6
All countries										
Weighted Average 2/	−29.4	−7.4	0.9	24.6	23.9	5.8	−4.4	7.4	1.8	50.2
Simple Average	−22.8	−9.3	−0.2	18.9	22.8	−4.7	−2.6	0.7	1.6	49.7

Source: Board documents.

1/ As reported in staff reports and based on the Information Notice System with revised trading partner weights to reflect unrecorded border trade.
2/ Weights are based on 1994 GDP in U.S. dollars.

Table 3. CFA Franc Zone: Estimates of Real Effective Exchange Rate Overvaluation (REER) 1/

	Share in Zone's GDP 1990-92	Cumulative REER Appreciation 1985-93: INS Method 2/ (1)	Cumulative REER Appreciation 1985-93: INS Method Adjusted for Terms of Trade Change 3/ (2)	Terms of Trade Fall (-) 1985-93 (3)	Degree of Overvaluation vis-à-vis Equilibrium Real Exchange Rate 4/ (4)
			(In percent)		
Group A	54				
Cameroon	23	21	66	-53	37
Côte d'Ivoire	20	34	86	-45	31
Niger	5	-40	-32	-19	52
Congo	6	-5	51	-53	36
Group B	28				
Senegal	12	-25	-27	6	26
Togo	3	--	30	-32	24
Central African Republic	3	-8	-2	-11	21
Mali	5	-23	-15	-20	21
Burkina Faso	6	-12	-1	-19	20
Group C	18				
Benin	4	2	47	-65	14
Chad	2	-28	-27	-3	13
Equatorial Guinea	--	6	33	-34	13
Gabon	11	-5	57	-50	11
Zone	100	1	28	-35	28
WAMU	54	-3	16	-28	29
CAMA	46	6	39	-44	28

Sources: Board documents; and staff estimates.

1/ In foreign currency terms. The degree of overvaluation or appreciation in foreign currency terms is equivalent to the required depreciation in domestic currency terms to correct for the overvaluation. For example, a 30 percent appreciation of the CFAF in French franc terms, requires a -30/130 = -23 percent depreciation in French franc terms or a 30 percent depreciation in domestic currency terms.

2/ As reported in recent staff reports and based on the Information Notice System. Calculated from CPIs and bilateral nominal exchange rates vis-à-vis trading partners; weights have been revised to take into account unrecorded border trade with Ghana and Nigeria.

3/ The adjustment for terms of trade changes is equivalent to the real exchange rate depreciation necessary to offset the adverse impact of a terms of trade drop on the external resource balance. The approach is based on estimated price elasticities for import demand and export supply for each country.

4/ The equilibrium real exchange rate has been determined by simulating the effects of policy changes on the state of the economy in 1993; this method derives the real exchange rate change resulting from a policy package which would bring the resource balance, fiscal balance, and output to their sustainable levels for a targeted reduction in protection and for projected medium-term terms of trade changes.

Table 4. CFA Franc Zone: Growth in Real GDP and Export Growth and Investment and Domestic Savings Ratios, 1986–96

	GDP at constant prices			Export Volume			Investment			Domestic Savings		
	1986–89	1990–93	1994–96	1986–89	1990–93	1994–96	1986–89	1990–93	1994–96	1986–89	1990–93	1994–96
	(Annual average growth, in percent)						(Average share in GDP, in percent)					
WAMU												
Benin	0.1	4.0	4.3	−2.8	9.7	13.3	13.5	13.6	19.3	3.6	4.6	6.6
Burkina Faso	4.0	1.7	5.8	2.3	10.1	11.4	21.6	21.3	29.1	1.2	2.1	7.9
Cote d'Ivoire	−0.4	−1.0	4.3	2.8	0.3	5.3	12.3	9.9	14.1	16.6	14.9	26.2
Mali	5.4	1.3	4.1	7.6	7.3	8.0	21.1	22.3	26.9	2.9	5.7	7.4
Niger	2.1	−1.0	4.1	0.7	−0.4	1.2	12.7	7.1	13.8	9.4	3.5	4.5
Senegal 1/	3.0	1.6	4.4	2.5	−5.8	7.5	13.1	13.4	17.0	7.5	7.5	11.8
Togo	3.0	−5.8	...	3.0	−10.4	...	24.6	16.2	...	14.7	6.3	...
Weighted Average 2/	1.9	0.2	4.6	2.9	0.9	7.0	15.1	13.5	18.0	9.9	8.8	15.0
Simple Average	2.5	0.2	5.1	2.9	1.7	7.4	17.0	14.8	19.5	8.0	6.4	10.5
CAMA												
Cameroon	−3.4	−6.3	2.8	4.7	−1.9	0.4	23.5	11.8	13.9	20.0	10.3	18.9
Central African Republic	1.4	−1.5	5.2	−2.2	−3.4	14.2	13.1	11.4	14.6	1.1	−2.0	6.5
Chad	10.2	1.4	5.2	7.3	−3.7	19.2	9.7	11.1	14.3	−14.4	−11.3	−7.1
Congo	−0.7	0.9	2.7	13.1	−3.1	6.8	20.4	18.0	33.8	16.6	17.6	34.8
Equatorial Guinea	0.8	5.4	7.0	−8.5	7.4	12.3	18.3	30.2	21.6	−2.0	0.1	24.4
Gabon	−1.6	2.7	0.8	4.1	6.6	0.5	34.1	25.5	29.9	26.0	39.5	49.7
Weighted Average 2/	−1.3	−2.1	2.6	5.1	0.4	3.4	24.5	16.3	20.6	17.8	17.0	26.8
Simple Average	1.3	0.5	4.0	3.3	1.1	9.3	19.8	18.0	21.3	7.9	9.0	21.2
All countries												
Weighted Average 2/	0.5	−0.8	3.8	3.9	0.7	5.4	19.1	14.7	19.1	13.2	12.3	20.0
Simple Average	1.9	0.3	4.6	3.1	1.6	8.3	18.3	16.3	20.4	7.9	7.6	15.4

Source: Board documents.

1/ Figures before 1992 correspond to the fiscal year ending June 30 of the next calendar year.
2/ Weights are based on 1994 GDP in U.S. dollars.

Table 5. CFA Franc Zone: Fiscal Balance, Total Revenue, and Total Expenditure of Central Government, 1986–96

	Fiscal Balance 1/			Total Revenue			Total Expenditure		
	1986–89	1990–93	1994–96	1986–89	1990–93	1994–96	1986–89	1990–93	1994–96
WAMU									
Benin	−10.2	−7.5	−9.3	11.5	11.6	13.0	21.6	19.0	22.3
Burkina Faso	−11.9	−7.9	−11.1	13.2	13.1	11.6	25.0	20.8	22.7
Cote d'Ivoire	−10.8	−14.1	−8.8	25.8	22.0	21.6	36.5	36.1	30.4
Mali	−10.8	−10.4	−12.5	15.9	15.2	14.1	26.6	25.6	26.5
Niger	−9.7	−9.5	−12.1	10.8	8.7	10.2	20.4	18.2	22.2
Senegal	−3.4	−2.1	−2.3	17.7	17.8	15.7	20.9	19.8	18.1
Togo	−7.3	−8.6	...	24.7	16.9	...	32.0	25.5	...
Weighted Average 2/	−8.9	−9.2	−8.4	19.3	17.3	16.6	28.1	26.5	25.0
Simple Average	−9.1	−8.6	−9.7	17.1	15.0	14.5	26.1	23.6	24.2
CAMA									
Cameroon	−7.3	−8.2	−4.2	19.0	16.6	16.7	26.3	24.8	20.9
Central African Republic	−13.8	−14.8	−10.7	12.1	10.1	11.9	25.8	24.8	22.6
Chad	−22.1	−17.7	−16.6	7.9	9.3	9.8	30.0	27.1	26.4
Congo	−12.4	−16.2	−14.0	24.1	24.5	28.4	36.4	40.6	42.5
Equatorial Guinea 3/	−2.5	−4.0	3.7	18.9	20.9	23.9	21.4	24.9	20.2
Gabon 4/	−15.3	−7.0	−3.0	34.0	33.4	44.1	49.4	40.4	47.0
Weighted Average 2/	−11.4	−9.7	−6.0	22.6	21.3	24.9	33.9	30.9	30.9
Simple Average	−12.2	−11.3	−7.5	19.3	19.1	22.5	31.6	30.4	29.9
All countries									
Weighted Average 2/	−9.9	−9.4	−7.4	20.7	19.0	20.1	30.6	28.4	27.5
Simple Average	−10.6	−9.8	−8.7	18.1	16.9	18.2	28.6	26.7	26.9

Source: Board documents.

1/ On a commitment basis, excluding grants.
2/ Weights are based on 1994 GDP in U.S. dollars.
3/ Foreign-financed project expenditure is excluded from the fiscal balance and total expenditure.
4/ In percent of non-oil GDP.

Table 6. CFA Franc Zone: Selected Tax Indicators, 1990–92

(In percent of GDP, unless stated otherwise)

	Total revenue	Tax revenue	Import tax	Selected tax rates in percent 1/ VAT rate (normal) 2/	Min./max. import tariff	Import tax/ imports fob 1990–92	Corporate income tax
WAMU							
Benin	11.0	8.8	4.5	18.0	5; 20	18.5	38
Burkina Faso	13.2	10.6	5.2	15.0	11; 57	22.8	45
Cote d'Ivoire	22.6	18.9	6.0	20.0	0; 35	34.4	35
Mali	15.7	10.9	5.7	15.0	6; 36	39.0	35
Niger	9.0	7.2	2.5	17.0	11; 36 3/	15.6	45
Senegal	18.6	14.9	6.4	20.0	10; 45	32.7	35
Togo	20.1	14.8	6.9	14.0	5; 35	19.2	40
Average WAMU 4/	17.9	14.4	5.6	17.0	0; 57	26.0	39
CAMA							
Cameroon	15.4	8.9	2.5	15.0 5/	5; 30	18.0	35
Central African Republic	10.7	9.8	2.5	10.0 6/	5; 30	11.7	55
Chad	9.3	6.8	1.6	15.0	5; 30	7.5	45
Congo	24.3	10.4	4.4	12.0	5; 30	22.7	49
Equatorial Guinea	21.0	14.0	6.2	7.0	5; 50	13.5	25
Gabon	22.6	11.9	4.2	12.0	5; 30	28.2	40
Average CAMA 4/	17.7	9.8	3.1	11.8	5; 30	19.6	42
Average WAMU/CAMA 4/	17.9	12.3	4.5	14.6	5; 50	25.4	40

Sources: Board documents; and staff estimates.

1/ As of end–January 1994.
2/ A turnover tax in the CAMA countries, to be replaced by a value added tax.
3/ To be implemented in September, 1994.
4/ Weighted average for total revenue, tax revenue, and import tax; unweighted average for tax rates.
5/ After July 1, 1994.
6/ From April 1, 1994.

Table 7. CFA Franc Zone: Growth in Broad Money
and Velocity, 1986–96

	Growth in Broad Money (in percent)			Velocity of Money		
	1986–89	1990–93	1994–96	1986–89	1990–93	1994–96
	(Annual average)					
WAMU						
Benin	3.7	27.1	20.6	5.5	5.2	4.5
Burkina Faso	15.9	3.7	17.6	4.4	4.5	4.5
Cote d'Ivoire	−1.1	−1.5	19.4	3.4	3.3	3.9
Mali	2.9	5.3	25.3	4.4	4.7	4.2
Niger	6.5	−3.2	14.4	5.3	5.1	5.6
Senegal	6.3	−2.3	20.2	4.0	4.5	5.2
Togo	1.8	−5.2	...	2.2	2.3	...
Weighted Average 1/	3.9	1.6	20.0	4.0	4.1	4.4
Simple Average	5.3	3.8	20.5	4.2	4.2	4.4
CAMA						
Cameroon	−8.1	−3.4	20.2	5.9	5.2	6.3
Central African Republic	3.3	−1.6	18.8	5.4	5.9	5.9
Chad	−0.4	−4.7	19.0	4.0	5.4	6.0
Congo	0.9	4.4	11.8	4.7	4.0	4.4
Equatorial Guinea	−20.1	−4.6	20.0	5.8	12.8	12.6
Gabon	−6.8	−2.5	16.5	3.4	4.3	4.7
Weighted Average 1/	−5.5	−2.1	18.1	4.9	4.9	5.7
Simple Average	−4.9	−1.5	17.8	4.9	6.3	6.7
All countries						
Weighted Average 1/	−0.0	0.1	19.2	4.4	4.4	4.9
Simple Average	0.6	1.4	19.2	4.5	5.2	5.4

Source: Board documents.

1/ Weights are based on 1994 GDP in U.S. dollars.

Table 8. CFA Franc Zone: External Current Account, External Debt, External Debt Service, and Net Official Reserves, 1986–96

	External Current Account Balance (in percent of GDP) 1/			External Debt (in percent of GDP)			External Debt Service (in percent of GDP) 2/			Net Official Reserves 3/ (in months of imports fob)		
	1986–89	1990–93	1994–96	1986–89	1990–93	1994–96	1986–89	1990–93	1994–96	1986–89	1990–93	1994–96
						(Annual average)						
WAMU												
Benin	−6.4	−7.5	−12.6	50.8	68.9	103.3	48.7	22.3	16.2	−2.3	4.2	7.6
Burkina Faso	−14.0	−14.7	−18.0	32.5	39.7	85.3	49.4	18.9	16.5	6.8	6.5	10.0
Cote d'Ivoire	−9.0	−13.9	−7.8	84.2	143.5	176.4	48.4	59.2	39.0	−4.4	−9.4	−5.4
Mali	−17.1	−14.3	−16.5	91.6	88.8	131.3	28.5	19.4	17.2	0.6	5.8	10.2
Niger	−10.0	−8.5	−13.8	53.3	55.7	98.8	47.8	37.0	32.5	6.1	8.1	9.7
Senegal	−10.3	−9.2	−8.8	66.9	55.5	90.4	30.8	22.6	18.6	−2.1	−2.0	−1.3
Togo	−13.1	−11.1	...	76.3	78.4	...	31.4	25.3	...	7.7	8.3	...
Weighted Average 4/	−10.7	−11.9	−10.9	70.3	91.3	128.9	41.6	36.4	26.9	−0.2	−0.5	2.1
Simple Average	−11.4	−11.3	−12.6	65.1	75.8	116.6	40.7	29.2	23.5	1.8	3.1	5.7
Total WAMU 5/	...	...	...	...	...	...	...	...	...	0.7	1.4	4.1
CAMA												
Cameroon	−8.7	−9.3	−5.5	35.6	66.0	111.9	17.8	38.9	50.8	−1.5	−4.2	−6.6
Central African Republic	−17.1	−17.2	−13.9	51.9	58.3	86.5	24.0	22.9	23.7	5.8	6.5	9.5
Chad	−29.3	−22.6	−25.8	30.9	49.9	88.3	7.8	12.9	16.3	2.9	4.4	4.2
Congo	−18.9	−16.7	−19.9	160.0	181.1	308.1	53.7	38.1	34.8	−2.1	−0.4	−0.2
Equatorial Guinea	−40.9	−42.2	−5.2	156.3	147.9	135.1	40.3	45.7	28.2	−0.3	−1.8	1.1
Gabon	−16.6	0.8	−0.1	59.3	59.2	90.0	27.2	21.6	25.4	0.6	2.2	2.2
Weighted Average 4/	−14.1	−8.9	−7.3	57.7	76.1	124.6	24.4	31.5	38.0	−0.4	−0.8	−0.8
Simple Average	−21.9	−17.9	−11.7	82.3	93.7	136.7	28.5	30.0	29.9	0.9	1.1	1.7
Total CAMA 5/	...	...	...	...	...	...	...	...	...	0.8	0.7	1.0
All countries												
Weighted Average 4/	−12.1	−10.6	−9.4	65.0	84.9	127.1	34.3	34.3	31.6	−0.3	−0.6	1.1
Simple Average	−16.2	−14.3	−12.2	73.0	84.1	125.9	35.1	29.6	26.5	1.4	2.2	3.9
Total 5/	...	...	...	...	...	...	...	...	...	0.7	1.1	3.0

Source: Board documents.

1/ Excluding official transfers.
2/ In percent of exports of goods and services.
3/ Excluding the net use of Fund resources and gold; including the negative position in the operations account.
4/ Weights are based on 1994 GDP in U.S. dollars for external current account balance, external debt, and external debt service; and based on imports fob for net official reserves.
5/ Including unallocated reserves held at the Central Bank.

Table 9. CFA Franc Zone: Intra-Zone Trade, 1989-93

(In percent of total trade)

	Exports	Imports	Total Trade
CFA Franc Zone	8.7	9.5	9.1
WAMU	14.3	10.7	12.2
Benin	9.6	5.4	6.0
Burkina Faso	5.0	29.2	20.5
Côte d'Ivoire	16.9	2.3	10.7
Mali	3.9	28.7	22.7
Niger	3.1	10.4	7.8
Senegal	16.7	10.1	12.4
Togo	9.0	9.8	9.6
CAMA	3.8	7.3	5.2
Cameroon	7.6	2.7	5.5
Central African Republic	0.6	8.8	6.4
Chad	0.5	11.1	7.7
Congo	0.1	4.2	1.6
Equatorial Guinea	--	37.4	27.1
Gabon	3.0	11.7	5.6

Source: IMF, Direction of Trade Statistics Yearbook.

Table 10. CFA Franc Zone: Interest Rate Structure, 1986-94 1/

		1986	1987	1988	1989	1990	1991	1992	1993	1/19/94	6/94	Early 7/94
Discount rate	WAMU	8.5	8.5	9.5	11.0	11.0	11.0	12.5	10.5	14.5	12.0	12.0
	CAMA	8.0	8.0	9.5	10.0	11.0	10.75	12.0	11.5	14.0	14.0	... 2/
Preferential discount rate 3/	WAMU	6.0	6.0	7.5	...	...	...	...	...	...	...	...
	CAMA	5.0	5.0	6.5	6.5	...	...	...	...	...	...	...
Rate of Treasury advances	WAMU	6.0	6.0	7.5	9.975	9.975	9.725	9.0	9.7 4/	7.8 4/	7.8 4/	...
	CAMA	...	...	4.5	4.5	5.5	7.5	9.5	11.0	11.0	11.0	11.0
Penalty rate	WAMU	...	...	...	...	...	...	...	...	...	...	...
	CAMA 5/	16.00	16.0	16.0	16.0	16.0	16.0	16.0	19.0	22.0	22.0	20.0
Rate of "prise en pension"	WAMU	8.5	8.5	9.5	11.0	11.0	11.0	12.5	8.75	12.75	10.25	10.25
	CAMA	...	...	...	...	...	...	...	...	...	...	14.0 2/
Money market rate 6/	WAMU	8.125	9.375	9.625	10.975	10.975	10.85	12.1	7.562	9.25	9.25	8.0
	CAMA	...	...	...	...	...	...	...	...	...	...	12.5
Minimum rate on savings deposits below CFAF 5 million	WAMU	6.5	6.5	7.0	7.5	7.0	7.0	8.5	4.5	8.0	8.0	5.0
	CAMA 7/	...	...	...	...	7.5	7.5	7.5	7.75	9.0	9.0	8.0
Maximum lending rate	WAMU 8/	13.5	13.5	14.5	16.0	16.0	16.0	17.5	21.0	29.0	29.0	24.0
	CAMA	13.0	12.0	14.0	16.38	16.88	18.25	17.5	17.5	19.0	19.0	17.0
Memorandum items												
French money market overnight rate (period average)		7.7	8.0	7.5	9.1	9.9	9.5	10.4	8.8	6.5	5.4	...
Balance Operations Account (in billions of CFAF) 9/												
	WAMU	115.9	53.6	-64.8	-20.5	36.8	137.9	86.0	86.8	135.1 10/	491.7 11/	
	CAMA	127.6	-36.9	-21.1	15.6	110.7	108.8	-8.9	-78.6	-180.4 10/	58.8 11/	
Gross foreign assets/short-term liabilities Central Bank (in percent)	WAMU	21	12	--	8	11	20	16	16	30 12/	...	...
	CAMA	38	15	21	18	21	30	14	15	33	...	...

Sources: BCEAO and BEAC.

Notes

1/ Annual interest rate, end-of-period, except indicated otherwise.

2/ Early July 1994, the discount rate in the BEAC was replaced by two rates, the auction rate and the rate for the "prise en pension," set at 1.5 percent above the auction rate.

3/ Abolished in 1989 in the BCEAO and in 1990 in the BEAC.

4/ One percent below the rate for money market advances; in practice, the rate remains fixed for several quarters.

5/ The penalty rate applies to 2-30 days within discount ceilings and with signatures not acceptable for rediscounting.

6/ Before October 1989, rate on month-to-month advances by the BCEAO. The money market in the BCEAO was introduced in October 1989; it has functioned with an auction system since October 1993. A money market became operational in the BEAC in early July 1994.

7/ The minimum rate varied across countries before 1990.

8/ Since 1993, the usurious rate is twice the discount rate in the BCEAO.

9/ Data from French Treasury from 1989 onward. Before 1989, data from BCEAO and BEAC.

10/ Position on January 11, 1994 at new exchange rate of F1 = CFAF 100.

11/ Position at end-June 1994.

12/ End-January 1994.

Table 11. CFA Franc Zone: Program Targets for Real GDP, Inflation, and Net Official Reserves, 1993–96

	Real GDP Growth (in percent)				Inflation (CPI, in percent)				Net Official Reserves (in months of imports, fob) 1/			
	1993	1994	1995	1996	1993	1994	1995	1996	1993	1994	1995	1996
WAMU												
Benin	3.6	2.2	5.0	5.7	0.1	26.0	11.0	3.0	5.3	7.3	7.8	7.6
Burkina Faso	0.4	3.3	6.4	7.7	1.8	31.2	7.5	6.3	7.4	9.4	10.4	10.3
Cote d'Ivoire	−1.1	0.8	5.7	6.4	0.8	35.4	6.4	5.6	−10.8	−7.1	−5.2	−3.9
Mali	−0.8	2.4	4.9	5.1	−0.6	40.1	8.0	3.5	7.0	8.9	10.7	11.0
Niger	1.4	3.9	4.2	4.2	0.4	36.7	7.3	2.9	9.8	9.6	9.8	9.7
Senegal	−0.8	2.7	5.0	5.5	−0.7	39.1	7.8	2.5	−3.2	−2.0	−1.1	−0.7
Togo	−13.5	...	...	...	−3.0	...	...	...	7.9	...	...	...
Weighted Average 2/	−0.9	2.6	5.5	5.9	0.1	35.7	7.3	4.2	−0.9	1.2	2.4	2.9
Simple Average	−1.5	3.9	5.6	5.7	−0.2	34.9	7.5	3.8	3.4	4.8	5.9	6.3
Total 3/	...	...	...	...	...	...	...	...	1.3	3.3	4.4	4.7
CAMA												
Cameroon	−6.8	−2.4	6.0	5.0	−4.4	32.1	6.2	4.0	−6.2	−8.9	−6.4	−4.6
Central African Republic	−3.0	5.5	5.0	5.0	−2.1	35.0	3.0	1.9	9.2	10.5	9.4	8.8
Chad	−3.7	1.4	6.9	7.5	2.1	43.3	5.6	3.4	2.5	3.6	4.2	5.0
Congo	−1.5	−2.4	3.3	7.5	1.6	40.3	3.5	2.1	−0.5	−0.3	−0.0	−0.3
Equatorial Guinea	7.1	8.9	5.3	6.7	1.6	35.2	6.2	3.0	−2.3	−1.2	1.2	3.2
Gabon	2.6	−0.8	1.4	1.7	1.2	31.7	8.5	5.9	−0.1	1.5	2.2	2.9
Weighted Average 2/	−3.1	−1.1	4.4	4.5	−1.6	33.8	6.3	4.1	−2.3	−1.7	−0.7	0.1
Simple Average	−0.9	1.7	4.7	5.6	−0.0	36.3	5.5	3.4	0.4	0.9	1.8	2.5
Total 3/	...	...	...	...	...	...	...	...	−0.7	0.2	1.0	1.7
All countries												
Weighted Average 2/	−1.8	1.0	5.0	5.3	−0.6	34.9	6.9	4.2	−1.4	0.2	1.3	1.9
Simple Average	−1.2	2.9	5.2	5.6	−0.1	35.5	6.6	3.6	2.0	3.0	4.0	4.6
Total 3/	...	...	...	...	...	...	...	...	0.5	2.3	3.2	3.6

Sources: Board documents; staff estimates.

1/ Excluding the net use of Fund resources and gold; including the negative position in the operations account.
2/ Weights are based on 1994 GDP in U.S. dollars for real GDP growth and CPI, imports fob for net official reserves.
3/ Including unallocated reserves held at the Central Bank.

Table 12. CFA Franc Zone: Program Targets for Fiscal Balance, External Current Account Balance, and Growth in Broad Money, 1993–96

	Fiscal Balance 1/ (in percent of GDP)				External Current Account Balance 2/ (in percent of GDP)				Growth in Broad Money (in percent)			
	1993	1994	1995	1996	1993	1994	1995	1996	1993	1994	1995	1996
WAMU												
Benin	−4.7	−10.8	−8.9	−8.1	−9.8	−14.4	−12.0	−11.5	−2.3	29.5	17.4	15.4
Burkina Faso	−9.2	−16.2	−10.6	−6.5	−16.0	−21.5	−17.6	−14.8	9.1	20.5	17.4	15.1
Cote d'Ivoire	−16.2	−10.9	−8.6	−6.9	−12.4	−8.6	−7.2	−7.6	−1.0	35.1	12.4	12.1
Mali	−9.6	−15.1	−12.4	−10.0	−13.8	−20.4	−15.6	−13.4	8.3	36.8	24.9	15.2
Niger	−8.6	−14.4	−11.4	−10.5	−7.5	−16.3	−13.1	−12.1	1.5	25.0	11.5	7.4
Senegal	−3.8	−3.6	−2.1	−1.2	−9.7	−10.7	−8.3	−7.4	−14.9	34.2	16.7	10.8
Togo	−15.2	...	...	...	−10.4	...	...	...	−14.9	...	...	...
Weighted Average 3/	−10.5	−10.7	−8.1	−6.4	−11.6	−12.9	−10.3	−9.6	−2.8	32.1	16.0	12.9
Simple Average	−9.6	−12.2	−9.3	−7.6	−11.4	−15.1	−11.9	−10.6	−2.0	30.2	17.6	14.2
CAMA												
Cameroon	−8.4	−6.9	−3.8	−1.8	−9.7	−8.1	−4.6	−3.8	−14.9	21.2	18.6	20.7
Central African Republic	−11.9	−13.7	−10.3	−8.1	−11.2	−15.1	−14.1	−12.4	5.7	25.7	16.4	14.5
Chad	−17.1	−18.9	−16.5	−14.3	−22.5	−29.5	−26.2	−21.7	−3.9	26.2	16.4	14.7
Congo	−22.6	−18.6	−15.3	−8.1	−19.8	−28.2	−17.8	−13.7	−4.6	12.5	10.1	13.0
Equatorial Guinea	−8.2	1.7	3.4	6.0	−27.2	−10.2	−4.2	−1.3	3.0	38.9	13.9	9.2
Gabon	−8.8	−11.0	0.1	2.0	−1.9	−2.7	0.9	1.6	−4.6	19.8	17.7	12.2
Weighted Average 3/	−10.8	−10.4	−5.1	−2.5	−9.7	−10.6	−6.4	−5.0	−8.8	20.6	17.1	16.6
Simple Average	−12.8	−11.2	−7.1	−4.1	−15.4	−15.6	−11.0	−8.6	−3.2	24.1	15.5	14.0
All countries												
Weighted Average 3/	−10.6	−10.6	−6.8	−4.8	−10.8	−11.9	−8.7	−7.6	−5.3	27.2	16.5	14.5
Simple Average	−11.1	−11.8	−8.3	−6.0	−13.2	−15.4	−11.5	−9.7	−2.6	27.4	16.7	14.1

Source: Board documents.

1/ On a commitment basis, excluding grants.
2/ Excluding official transfers.
3/ Weights are based on 1994 GDP in U.S. dollars.

Table 13. CFA Franc Zone: Income and Pricing Policies, 1994

	Government Wage Increase on 4/1/94	Minimum Wage	Labor Market	Temporary Global Price Control for:	1994/95 Producer Prices in CFAF/Kg (% Increase)	Retail Price for Super in CFAF/Liter (% Increase)	Other Administered Price Increases
Benin	+ 10% 1/	+ 46%	--	--	Cotton 140 (+40%)	175 (+0%)	Electricity and water + 15%
Burkina Faso	+ 6-11%	+10%	More flexible labor code by July 1994	< 4 months	Cotton 120 (50%) Rice 105 (+24%)	395 (+40%)	Water ± 20% Electricity 10-25%
Côte d'Ivoire	+ 5%-15% (from end-February)	+ 10%	New labor code by June 1994	< 1 month (for 34 goods)	Cocoa 290 (+45%) Coffee 350 (+106%) Cotton 105 (+50%)	400 (+15%)	Water +15% Electricity +19%
Mali	+10%	+10%	Labor code revised in 1992	--	Cotton 115 (+35%)	390 (+30%)	Water, electricity, telephone +10-20%
Niger	1993 13% wage reduction lifted; +8% in addition	No increase	Revision of labor code (1994-95)	--	Free	385(+46%)	Water and electricity adjusted after April 1994
Senegal	1993 15% wage reduction lifted; +10% in addition	+10%	More flexible labor legislation by end-1994	--	Groundnut 100 (+43%) Cotton 110 (+30%) Rice 90 (+6%)	455 (+30%)	Utilities +22-30%
Togo	No increase	No increase	Revised labor code by end-1994		Cocoa 300 (+ 33%) Coffee 350 (75%) Cotton 145 (61%)	230 (+12%)	--
Cameroon	No increase	No increase	New labor code regulations by June 1994	< 1 month	Cocoa 300 (+100%) Coffee 270 (+100%) 2/ Cotton 130 (+53%)	251 (+29%)	--
Central African Republic	1993 15% wage reduction lifted	No increase	--	< 1 month	Coffee 120 (+200%) 3/ 4/ Cotton 120 (+50%)	395 (+8%)	Water + 5% Electricity + 15%
Chad	1992 10% wage reduction lifted	No increase	Liberalize rules for labor management	--	Cotton 120 (+50%)	390 (+34%)	Electricity +20%
Congo	1993 20-30% reduction lifted	No increase	New labor code under preparation	--	Cocoa 393 (+150%) 4/ Coffee 372 (+110%) 2/ 4/	400 (+36%)	Electricity, water, transportation +20%

Table 13 (concluded). CFA Franc Zone: Income and Price Policies, 1994

	Government Wage Increase on 4/1/94	Minimum Wage	Labor Market	Temporary Global Price Control for	1994/95 Producer Prices in CFAF/Kg (% Increase)	Retail Price for Super in CFAF/Liter (% Increase)	Other Administered Price Increases
Equatorial Guinea	+14% 5/	+14%	--	--	Cocoa 400 (+70%) Coffee 96 (+60%) 6/	470 (+34%)	Electricity +40% Telephone +70%
Gabon	+10%	--	--	< 1 month	Cocoa 300 (0%) 7/ Coffee 150 (0%) 7/	330 (0%)	--

Source: Data provided by the authorities; and Board documents.

1/ To be implemented from early September 1994.
2/ Robusta coffee.
3/ Robusta coffee; berries.
4/ Prices are indicative only.
5/ 14 percent effective June 1.
6/ Non-decorticated coffee.
7/ To be revised for the 1994/95 crop season.

Table 14. CFA Franc Zone: External Financing Requirements, 1993–96

(In millions of U.S. dollars)

	Total 1/				Of which: Four larger countries 2/			
	1993	1994	1995	1996	1993	1994	1995	1996
Total financing requirements	3,562	12,143	5,961	5,407	1,304	8,677	3,500	3,216
Current account balance (excluding grants and interest obligations)	2,149	1,131	350	324	347	−380	−986	−929
External debt obligations	1,869	10,110	4,834	4,663	1,283	8,558	4,048	3,911
Interest	2,511	2,102	2,197	2,186	2,193	1,794	1,889	1,883
Amortization	2,442	2,400	2,638	2,477	1,930	1,899	2,159	2,028
Fund repayments	183	156	161	125	142	98	97	50
Other amortization	2,259	2,244	2,477	2,352	1,788	1,801	2,062	1,977
Repayment of arrears (− accumulation) 3/	−3,084	5,608	--	--	−2,840	4,864	--	--
Changes in reserves (+ increase)	−456	902	776	420	−326	500	437	234
Ordinary financing flows	3,258	2,404	2,395	2,741	1,238	674	681	991
Grants	1,415	1,098	1,040	1,059	28	43	19	19
Loans	1,722	1,337	1,344	1,375	1,006	658	666	684
Other (including private; − outflow)	122	−31	11	307	204	−27	−3	288
Estimated financing gap	304	9,739	3,566	2,666	66	8,003	2,819	2,225
Estimated debt relief	212	5,210	1,654	1,236	59	4,408	1,511	1,111
Financing gap before identified support	92	4,529	1,912	1,430	7	3,595	1,308	1,114
Identified exceptional financing	87	3,037	1,139	896	0	2,104	877	784
Fund 4/	39	575	275	131	0	354	172	131
Other multilaterals	0	1,737	508	459	0	1,308	405	393
Bilaterals	13	725	356	306	0	442	300	260
Residual financing gap	5	1,492	773	534	7	1,491	431	330
Memorandum items:								
Cash payment of debt service	1,657	4,900	3,180	3,427	1,224	4,150	2,537	2,800
Net transfers from abroad	1,546	2,064	1,115	495	−209	146	−545	−924
Budget primary balance (− surplus)	1,996	853	161	−256	928	−84	−632	−925
Net domestic financing (− repayment)	728	−756	−474	−469	620	−510	−294	−285
Net transfers from abroad to the government (− payment)	1,268	1,609	635	213	308	426	−337	−641

Source: Board documents.

1/ Excluding Togo, which does not yet have an arrangement with the Fund.
2/ Cameroon, Congo, Côte d'Ivoire, and Gabon.
3/ Excluding regularization of arrears to commercial banks and other private creditors, mainly for the four larger countries.
4/ Excludes possible financing under successor arrangements, which have not yet been approved by the Board.

Table 15. CFA Franc Zone: Indicators of Budgetary Convergence, 1993–96

	Wage bill				Investment financed by internal resources				Basic primary balance			
	1993	1994	1995	1996	1993	1994	1995	1996	1993	1994	1995	1996
	(In percent of fiscal revenue)											
WAMU												
Benin	58.2	48.1	45.3	43.1	2.8	6.6	5.9	5.4	15.8	−1.0	13.9	19.8
Burkina Faso	70.8	52.7	47.8	43.5	12.8	30.3 1/	18.1 1/	7.1	−18.7	−26.3 2/	0.2 2/	21.0
Cote d'Ivoire	75.0	52.1	46.5	42.2	10.1	12.5	12.4	13.1	−11.2	18.9	24.0	26.8
Mali	48.7	39.1	34.5	30.1	10.5	11.7	13.3	13.9	−1.6	−5.6	10.9	20.6
Niger	90.2	63.2	49.8	45.0	4.4	5.0	4.3	4.1	−42.6	−41.9	−8.3	3.2
Senegal 3/	60.1	46.7	43.4	38.6	19.5	21.3	21.0	20.9	−3.7	12.8	19.8	16.5
Togo	125.0	...	...	...	19.5	...	...	...	−119.5	...	...	...
Weighted Average 4/	71.1	52.1	45.8	41.4	12.0	14.7	13.4	12.5	−15.4	−0.2	14.3	19.7
Simple Average	75.4	55.7	47.3	43.0	11.4	13.0	11.3	9.7	−25.9	−15.1	7.6	16.4
CAMA 5/												
Cameroon	72.7	40.7	31.3	26.4	6.4	8.9	7.2	6.9	0.4	28.6	41.2	49.2
Central African Republic	95.8	50.4	39.9	34.5	21.7	17.8	14.0	12.2	−62.5	0.0	24.4	33.0
Chad	110.2	67.0	61.2	56.7	6.3	10.7	14.0	18.5	−121.4	−52.8	−28.2	−21.2
Congo	97.4	52.7	46.5	39.2	9.1	7.7	7.1	6.2	−63.6	1.9	11.5	27.9
Equatorial Guinea	34.8	23.6	19.2	16.8	9.6	9.8	12.4	13.8	−4.5	55.8	58.5	63.7
Gabon	42.5	32.4	26.8	26.4	17.8	13.7	10.5	11.3	7.6	26.4	42.4	43.0
Weighted Average 4/	70.5	41.8	33.9	30.1	10.9	10.8	9.0	9.1	−16.1	18.6	33.2	40.0
Simple Average	75.6	44.5	37.5	33.3	11.8	11.4	10.9	11.5	−40.6	10.0	25.0	32.6
All countries												
Weighted Average 4/	70.8	47.7	40.8	36.6	11.5	13.0	11.5	11.1	−15.7	7.7	22.3	28.3
Simple Average	75.5	50.5	42.8	38.5	11.6	12.3	11.1	10.5	−32.7	−3.5	15.6	23.9

Source: Board documents.

1/ Including restructuring operations in 1994–95. If these are excluded, the figures are 10 percent in 1994 and 8.5 percent in 1995.
2/ Including restructuring operations in 1994–95. If these are excluded, the figures are −6 percent in 1994 and +9.8 percent in 1995.
3/ The figures for Senegal for 1995–96 are provisional projections.
4/ Weights are based on 1994 GDP in U.S. dollars.
5/ All petroleum revenues are included in fiscal revenue.

Table 15. (Concluded) CFA Franc Zone: Indicators of Budgetary Convergence, 1993–96

	Change in domestic arrears				Change in external arrears				Primary balance			
	1993	1994	1995	1996	1993	1994	1995	1996	1993	1994	1995	1996
	(In billions of CFAF)								(In percent of fiscal revenue)			
WAMU												
Benin	-5.7	-9.5	-5.1	-7.4	1.6	-3.2	--	--	-20.5	-62.8	-51.6	-45.8
Burkina Faso	1.6	-10.8	-17.4	-17.4	6.9	-26.7	--	--	-82.4	-133.5	-83.5	-48.5
Cote d'Ivoire	-15.3	-53.5	-43.1	-46.9	355.5	-630.2	--	--	-17.8	7.3	13.3	16.2
Mali	3.6	-8.6	-7.4	0.0	5.0	-19.4	--	--	-71.4	-113.4	-89.3	-66.2
Niger	6.3	-34.8	0.0	0.0	12.5	-101.8	--	--	-101.6	-137.4	-88.7	-76.4
Senegal 1/	12.0	-32.0	-15.0	0.0	37.3	-174.2	--	--	-13.7	-1.0	5.7	3.0
Togo	28.0	...	...	...	19.9	...	...	...	-126.6	...	...	...
Total WAMU	30.5	-156.2	-98.2	-88.4	438.7	-991.5	--	--	...	...	...	...
Weighted Average 2/	-0.8	-32.5	-22.4	-20.2	140.7	-282.9	...	...	-41.6	-43.1	-25.4	-17.2
Simple Average	4.4	-22.3	-14.0	-12.6	62.7	-141.6	...	...	-62.0	-75.3	-49.7	-37.5
CAMA 3/												
Cameroon	119.2	-520.5	0.0	0.0	204.9	-709.7	--	--	-9.6	15.6	28.4	34.8
Central African Republic	23.8	-77.2	0.0	0.0	8.6	-64.7	--	--	-145.8	-108.3	-57.5	-34.9
Chad	15.9	-12.5	-15.0	-8.5	8.0	-32.1	--	--	-258.7	-210.2	-169.7	-150.2
Congo	53.0	0.0	0.0	0.0	128.8	-1146.0	--	--	-63.6	-19.5	-8.0	10.7
Equatorial Guinea	-1.8	-0.2	-0.1	0.0	6.3	-27.7	--	--	-170.5	-93.5	-72.3	-54.6
Gabon	40.0	-30.0	-30.0	-30.0	119.0	-692.1	--	--	0.6	8.7	28.9	30.2
Total CAMA	250.1	-640.4	-45.1	-38.5	475.6	-2672.3	--	--	...	...	...	...
Weighted Average 2/	76.6	-263.9	-9.2	-8.8	146.4	-664.1	...	...	-38.0	-12.7	6.2	14.5
Simple Average	41.7	-106.7	-7.5	-6.4	79.3	-445.4	...	...	-107.9	-67.9	-41.7	-27.3
All countries												
Total	280.6	-796.6	-143.3	-126.9	914.3	-3663.8	0.0	0.0	...	...	...	...
Weighted Average 2/	32.0	-130.7	-16.8	-15.3	143.1	-444.7	...	...	-40.0	-30.2	-12.0	-3.7
Simple Average	21.6	-61.3	-11.0	-9.8	70.3	-281.8	...	...	-83.2	-71.9	-46.0	-32.8

Source: Board documents.

1/ Figures for Senegal for 1995–96 are provisional projections.
2/ Weights are based on 1994 GDP in U.S. dollars.
3/ All petroleum revenues are included in fiscal revenue.

Table 1. Fund-Supported Programs in CFA Franc Countries
as of June 30, 1994

Country	Nature of Arrangement		Date of Arrangement	Date of Expiration	Amount Approved		Expected Drawings in 1994 in millions of SDRs	
					In millions of SDRs	In % of Quota	1/	Of which: Disbursed as of 6/30/94
WAMU								
Benin	3-year	ESAF	01/25/93	01/24/96	51.9	114.5	18.1	9.1
Burkina Faso	3-year	ESAF	03/31/93	03/30/96	48.6	110.0	17.7	8.8
Côte d'Ivoire	3-year	ESAF	03/11/94	03/10/97	333.5	140.0	119.1	59.6
Mali	3-year	ESAF	08/28/92	08/27/95	79.2	115.1	29.5	14.7
Niger	12-month 2/	SBA	03/04/94	03/03/95	18.6	38.5	16.7	11.1
Senegal	12-month 2/	SBA	03/02/94	03/01/95	47.6	40.0	45.6	30.9
Togo	--	--	--	--	--	--	...	...
Subtotal					579.4	93.7	246.7	134.2
CAMA								
Cameroon	18-month 2/	SBA	03/14/94	09/13/95	81.1	60.0	55.5	21.9
Central African Republic	12-month 2/	SBA	03/28/94	03/27/95	16.5	40.0	14.5	10.7
Chad	12-month 2/	SBA	03/23/94	03/22/95	16.5	40.0	14.0	10.3
Congo	12-month	SBA	05/27/94	05/26/95	23.2	40.0	19.6	12.5
Equatorial Guinea	3-year	ESAF	02/03/93	02/02/96	12.9	53.0	3.7	1.8
Gabon	12-month	SBA	03/30/94	03/29/95	38.6	35.0	33.1	5.5
Subtotal					188.7	46.0	140.4	62.7
Total					768.2	74.7	387.1	196.9

Source: Treasurer's Department.

1/ Programmed disbursements under existing arrangements.
2/ The SBAs for Niger, Senegal, Cameroon, the Central African Republic, and Chad are expected to be converted into arrangements under the ESAF.

Table 2. Fund Technical Assistance in CFA Franc Countries

Country	MAE Task	MAE Date	FAD Task	FAD Date	STA Task	STA Date
WAMU						
Benin			Review progress of tax reforms	5/1991		
Burkina Faso			Preparation of a unified investment budget	1990	National accounts methodology	1990
			Seminars for accountants for VAT	1992		
			Improving tax administration and review of VAT	1992		
			Tax policy and administration	1993		
			Budget planning and control	1993		
Cote d'Ivoire	External debt	1983-1987	Tax system	1981	Money and banking statistics	1990
			Public finance	1985		
			Tax policy	1986		
			Budgetary procedures	1990		
			Tax administration	1991		
Mali			Public finance and organizational issues	2/1988-6/1991	BOP statistics	10/1990-11/1990
					Multitopic	7/1991
			Evaluation of tax reform efforts	3/1990	BOP statistics	5-6/1992 and 4-5/1993
			Improve fiscal performance	11/1992		
			Reform of tax department	9/1993-9/1994		
Niger	External debt data management	7/1990-1/1993	Assess implementation of tax measures recommended	9/1990	BOP statistics	1/1992-2/1992
			Improve revenue collection and enlarge tax base	11/1993-12/1993		
Senegal			Tax advisor	6/1986-11/1989	Compilation of BOP	7/1992
			Budgeting and treasury accounting	3/1988		
			Fiscal reform and taxation of petroleum products	2/1989		
			Harmonization of indirect tax in WAMU	12/1993		
Togo						
BCEAO	Monetary policy	1992,1993,1994				
	Bank supervision	1989,1990,1991, 1992,1993				
	Bank restructuring	5/1993,1/1994				
	Monetary policy review	6/1994				

Table 2 (concluded). Fund Technical Assistance in CFA Franc Countries

Country	MAE Task	MAE Date	FAD Task	FAD Date	STA Task	STA Date
CAMA						
Cameroon			Evaluation of measures proposed by 91/92 budget	5/1991	Money and banking statistics	4/1991
			Evaluation of measures taken in 91/92 budget	4/1992	Government finance statistics	7/1993
			Prepare the UDEAC indirect tax reform	1/1994		
Central African Republic			Customs administration	2/1990		
			Curtail customs duty exemptions	7/1991		
			Improve tax administration	2/1993		
			Implement UDEAC indirect tax reform	6/1994		
Chad			Preparation of a tax reform program	1988 and 1989		
			Review of implementation of tax reform program	1990 and 1991		
Congo					Money and banking statistics	4/1991
					Money and banking (BEAC)	11/1992
Equatorial Guinea			Reorganization of tax department and personnel training	1992-94		
Gabon			Tax administration and introduction of VAT	11/1993	Money and banking	1987,1988,1991
BEAC	Foreign Exchange	1990				
	Bank supervision	1991,1992,1993, 1994				
	Monetary operations	5/1992				
	Bank restructuring	6/1993				
	Monetary policy workshop	2/1994				

Sources: Staff reports.

World Bank Support for CFA Franc Countries

Table 1. Expected World Bank Quick-Disbursing Support for CFA Franc Countries, 1994 (as of end-June, 1994)

(In millions of U.S. dollars)

	1994				
	SALs and SECALs 1/	Economic Recovery Credits	Total 2/	Of which: 2/ Approved	Disbursed
Benin	40 3/	--	40	--	--
Burkina Faso	58	25	83	45	20
Côte d'Ivoire	335	100	435	285	190
Mali	42	25	67	47	47
Niger	20	25	45	35	20
Senegal	61	25	86	25	25
Togo	19	30	49	4	--
Subtotal WAMU	575	230	805	441	302
			(100%)	(55%)	(38%)
Cameroon	139	75	214	176	101
Central African Republic	18	10	28	18	18
Chad	10	20	30	20	8
Congo	25	100	125	100	--
Equatorial Guinea	--	--	--	--	--
Gabon	--	30	30	30	--
Subtotal CAMA	193	235	427	344	127
			(100%)	(81%)	(30%)
Total WAMU/CAMA	768	465	1,233	785	429
			(100%)	(64%)	(35%)

1/ Includes "Fifth Dimension" for countries which recently moved to IDA-only eligibility.
2/ Percentage of total in parentheses.
3/ Includes Private Sector Development Project US$15 million in 1994.

World Bank Group Technical Assistance in CFA Franc Countries

Since fiscal year 1990, the World Bank group has provided support for improving economic management under the following technical assistance operations.

Benin

The fiscal year 1994 Economic Management Project (US$5.2 million equivalent) focuses on investment programming, budgeting, and national accounts. In the context of the project, the Ministry of Planning will be reorganized around the main missions of economic analysis, public investment programming and monitoring, and supervision of the remaining public enterprises. The project will also include a restructuring of the debt agency.

Burkina Faso

The fiscal year 1992 Public Institutional Development Project (US$15 million equivalent) provides support for capacity-building in budgetary management, civil service reform, statistical information, and business law reform. The fiscal year 1993 Private Sector Assistance Project (US$7 million) focuses on institutional support for banking, public enterprise, and private sector reforms.

Côte d'Ivoire

The fiscal year 1992 Privatization Support Project (US$15 million equivalent) provides critical institutional and technical support to the Government's privatization program, which is a key component of Côte d'Ivoire's medium-term macroeconomic adjustment program. The project also provides assistance to acquaint the authorities with up-to-date debt reduction and restructuring options. The fiscal year 1993 Economic Management Project (US$17 million equivalent) provides support for improving macroeconomic management, including parapublic enterprise reform, a revamping of the statistical apparatus, civil service reform, and legal and judiciary reform. The fiscal year 1993 Human Resources Development Management Project (US$6.7 million equivalent) is designed to increase the capacity of social sector ministries which account for a large share in government recurrent expenditure, to better prepare and execute their budgets, and to better manage the related human resources.

Mali

The fiscal year 1991 Structural Adjustment Loan I (US$70 million) has a technical assistance component which aims at strengthening the institutional capacity to implement the economic reform agenda.

Niger

The Public Institutional Development Project (under preparation, about US$10 million) aims at strengthening economic management (budgetary process, resource mobilization), civil service reform, and the legal/regulatory framework for business activities.

Senegal

The fiscal year 1988 Development Management Project (US$17 million) supports institutions responsible for macroeconomic management and the civil service. Key activities include consolidating public investment programming, strengthening debt management and statistical systems, and improving civil service efficiency through organizational audits of selected ministries.

Cameroon

The fiscal year 1990 Economic Management Project (US$9 million), recently concluded, aimed at improving the Government's macroeconomic management, public investment programming, debt servicing and statistical information as well as restructuring key government agencies and the public enterprise sector.

Central African Republic

The fiscal year 1989 Economic Management Project (US$13.2 million equivalent) provides assistance in (i) public investment programming and monitoring; (ii) reform of management of the civil service; (iii) revenue collection improvement; and (iv) public enterprise reform.

Chad

The fiscal year 1988 Economic and Financial Management Project (US$12.8 million equivalent), aims at strengthening government institutions and coordination mechanisms. After its recent restructuring, the project focuses on revenue enhancement (including for customs duties and petroleum taxes), strengthening expenditure control and treasury management, and support for the formulation of medium-term reform programs.

Gabon

The fiscal year 1990 Economic Management Project (US$5 million), recently concluded, provided support to the Government's structural adjustment program by strengthening the ministries in key areas of economic management. Civil service reform and small- and medium-scale enterprise development were the core elements.

Recent Monetary Reforms in the BCEAO and the BEAC

1. Recent monetary reforms in the BCEAO

The BCEAO undertook a major reform in 1989 when crop credit was brought under the global credit ceiling for each country, the discount rates were unified, selective interest rates and sectoral credit controls were progressively abolished, and the central bank operated money market was reorganized. Banking supervision was strengthened through the creation of a supranational banking commission in 1990, and the adoption of new banking laws and prudential rules in 1991. In 1992 the prior approval requirement for credits by banks was replaced by a classification system relying on objective criteria for central bank refinancing.

In October 1993, the BCEAO introduced a new system of monetary management aiming at a shift toward indirect instruments of monetary policy. The main elements of the reform are: (a) a weekly money market auction of loanable funds organized, and with intervention, by the BCEAO; (b) the introduction of minimum reserve requirements; (c) the liberalization of interest rates; and (d) the development of an interbank market with freely negotiated interest rates. Money market auctions are open to the zone's banks and financial institutions, as well as national treasuries, which submit offers and bids for loanable funds in tranches with a specified interest rate for each. Bidders have to submit rediscountable paper. 1/ The BCEAO intervenes with an amount determined by its monetary and credit policy objectives and determines the equilibrium market-clearing interest rate, at which all transactions are settled, taking into account a 0.5 percent per year central bank commission fee. The effective operation of the money market does, at this stage, not yet imply a market-determined rate. 2/ Since the introduction of the auctions on October 18, 1993, interest rates dropped from 9.5 percent to 7.5 percent in early January 1994; they subsequently increased to 9.25 percent after the devaluation and remained unchanged until June. Parallel to the money market, the mechanisms of rediscount and "prise en pension" remain in place. The former serves as a penalty rate while with the latter the BCEAO provides temporary liquidity at a rate between the discount rate and the money market rate. The money market is complemented by an emerging interbank market, which is now actively encouraged by the Central Bank and has interest rates

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1/ A national treasury can bid only up to the amount of its holding of eligible paper ("obligations cautionnées") that has been rated by the Central Bank ("accord de classement").

2/ The BCEAO regulation leaves open the possibility of a less than full adjustment of the interest rate with a proportional quantity adjustment of all demands or supplies. For example, in the present situation of excess bank liquidity, only a small part of each bank's supply is accepted, with remaining excess liquidity being kept in the form of nonremunerated deposits with the BCEAO.

close to the money market rate. The money market is expected to evolve over time so that auctions are limited to an injection or absorption of liquidity by the Central Bank. With the introduction of the money and interbank markets, individual bank credit ceilings have disappeared.

The minimum reserve requirements have been set at 1.5 percent of the sum of time deposits and short-term credit (excluding crop credit). Although at present uniform, the ratios can be set at different levels in different countries according to the perceived need for sterilizing banks' liquidity. 1/ Admissible reserves are deposits (nonremunerated) with the Central Bank, as well as government securities issued in the context of the securitization of government debt to the BCEAO. 2/

Interest rates applied by commercial banks have been fully liberalized, except for the usurious lending rate (twice the discount rate) and a minimum rate on passbook savings deposits, while the interest rates on time deposits and certificates ("bons de caisse") of deposit, with a maturity of less than one year and in amounts below a ceiling set by the Central Bank, are indexed to the money market rate. The recent reform has laid the basis for a region-wide monetary and credit policy, based on indirect instruments. The amount of money market intervention, and--to a lesser extent--the minimum reserve requirements and discount rate, are the main instruments used to reach the official reserve and inflation objectives for the union.

2. Recent monetary reforms in the BEAC

The Central African Monetary Area (CAMA) is in general much less advanced in monetary integration than the WAMU and is characterized by important decision-making power at the national level. The CAMA took important steps toward uniformization of banking conditions in October 1990. At that time, it adopted a common base discount rate and a rate for borrowing by the Treasury, with a time schedule for stepwise increases of the latter to the level of the former. It also intended to adopt common penalty rates for treasuries and banks, an objective still pending implementation. All interest rates were liberalized with only a common maximum lending rate and a common minimum rate on time and savings deposits. Since early 1993, a common institution for banking supervision (COBAC) is operational with prudential ratios and minimum capital requirements that are similar across the union.

1/ Higher reserve requirements raising the cost of loans may not be very effective in curbing credit in one country, as credit users would take bank loans in another member country.

2/ Central Bank credit to liquidated banks has been consolidated and taken over by the member governments. The resulting government liabilities to the Central Bank are expected to be transformed into negotiable securities guaranteed by the Central Bank in the second half of 1994.

Despite efforts to establish uniformity in banking conditions, lending and deposit rates of banks have continued to vary between members and central bank refinancing ceilings have continued to be set by country (and within each country by banks). However, the Central Bank's intervention in credit allocation was abandoned early July 1994, following the introduction of the money market.

After the signature in mid-March 1994 of the Treaty establishing an economic and monetary community (CAEMC), a reform of the BEAC in line with the principles of a monetary union is under preparation. Effective July 1, 1994, the BEAC has taken some steps toward a more market-determined credit allocation by instituting, first, a union-wide weekly central bank auction, held initially at the level of individual member countries and open to the union's banks and financial institutions; and, second, an interbank market in which interest rates are freely negotiated. The auction system is expected to remain initially somewhat rudimentary; it will rely on the BEAC's decision to accept or not banks' bids in accordance with their proximity to an "appropriate" rate, determined by the BEAC. A temporary demand for funds not met at the auction will be honored under the repurchase agreement ("prise en pension") at a rate somewhat above the auction rate ("taux d'appel d'offre"). To improve indirect monetary control further, the BEAC has also introduced legal reserve requirements. Rates are currently at zero, but the BEAC has proposed to set them at one percent for sight deposits and half a percent for time and savings deposits, effective September 1, 1994.

Recent Paris Club Debt Reschedulings for the CFA Franc Countries

			Consolidation Period				Type of Debt Consolidated 2/				
Country 1/	Date of Agreement	Amount Consolidated (US$M)	Start Date	End Date	Length (Months)	Fund Arrangement (Period)	Current Maturities	Previously Rescheduled Debt	Terms 3/	Clause 4/	Comments 5/
Benin III	06/21/93	25	08/01/93	12/31/95	29	ESAF (1993-96)	PI	I	Enhanced concessions	Stock	Enhanced PRD excluded; Toronto PRD on LMIC terms
Burkina Faso II	05/07/93	36	04/01/93	12/31/95	33	ESAF (1993-96)	PIAL	--	Enhanced concessions	Yes/Stock	Toronto PRD excluded
Cameroon III	03/25/94	1,259	04/01/94	09/30/95	18	SBA (1994-95)	PIAL	PIAL	Enhanced concessions	Yes/Stock	Arrears re-scheduled on LMIC terms
Central African Republic VI	04/12/94	32	04/01/94	03/31/95	12	SBA (1994-95)	PIAL	PIAL	Enhanced concessions	Yes/Stock	Toronto PRD re-scheduled standard terms
Chad I 6/	10/24/89	38	10/01/89	12/31/90	15	SAF III (1990)	PIAL	--	Toronto terms	No	Few creditors
Congo III	06/30/94	1,227	07/01/94	05/31/95	11	SBA (1994-95)	PIAL	PIAL	Standard LMIC	Yes	PCOD arrears deferred within consolidation period
Côte d'Ivoire V	03/23/94	1,849	03/01/94	03/31/97	36	ESAF (1994-97)	PIAL	PIAL	Enhanced concessions	Yes/Stock	PCOD arrears deferred within consolidation period
Equatorial Guinea III 7/	04/02/92	32	01/01/92	12/31/92	12	SAF II (1991-92)	PIAL	PIAL	Enhanced concessions	No	Mini rescheduling
Gabon VI	04/15/94	1,360	04/01/94	03/31/95	12	SBA (1994-95)	PIAL	PIAL	Graduated LMIC	Yes	Excluded 1991 PRD. PCOD arrears deferred
Mali III	10/29/92	21	10/01/92	08/31/95	35	ESAF (1992-95)	PIA	Partial PIA	Enhanced concessions	Yes/Stock	

Recent Paris Club Debt Reschedulings for the CFA Franc Countries (concluded)

Country 1/	Date of Agreement	Amount Consolidated (US$M)	Consolidation Period: Start Date	End Date	Length (Months)	Fund Arrangement (Period)	Type of Debt Consolidated 2/: Current Maturities	Previously Rescheduled Debt	Terms 3/	Clause 4/	Comments 5/
Niger VIII	03/04/94	160	01/01/94	03/31/95	15	SBA (1994-95)	PIAL	PIAL	Enhanced concessions	Yes/Stock	Toronto PRD standard terms
Senegal X	03/03/94	240	01/01/94	03/31/95	15	SBA (1994-95)	PIAL	PIAL	Enhanced concessions	Yes/Stock	Toronto PRD standard terms; PCOD arrears deferred within consolidation period
Togo IX	06/19/92	52	07/01/92	06/30/93	12	ESAF III (1992-93)	--	PI	Enhanced concessions	Yes/Stock	Toronto PRD excluded

Source: Agreed Minutes of Paris Club debt reschedulings.

1/ The roman numeral indicates the rank number of the last Paris Club rescheduling obtained by the country.
2/ Refers to medium- and long-term debt; P = Principal; I = Interest; A = Arrears; L = Late Interest.
3/ Enhanced concessions (received by most low-income countries since 1991) include three options which have in common that the net present value of the debt service on commercial debt is reduced by 50 percent; and one option which provides for longer maturities but no reductions in the net present value.
4/ The goodwill clause provides for the possibility of a new (flow) rescheduling after the current consolidation period ("Yes") or for a consideration of the stock of debt after a period of three years ("Stock").
5/ PRD = Previously Rescheduled Debt; LMIC = Lower Middle-Income Countries; PCOD = pre-cutoff date.
6/ Chad is currently seeking rescheduling on a bilateral basis.
7/ Equatorial Guinea is currently seeking a new rescheduling from its Paris Club creditors.